



FORM 10-K

FORD MOTOR CO – F

Filed: February 28, 2007 (period: December 31, 2006)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

(Mark One)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered (a)</u>
Common Stock, par value \$.01 per share	New York Stock Exchange
7.50% Notes Due June 10, 2043	New York Stock Exchange
Ford Motor Company Capital Trust II 6.50% Cumulative Convertible Trust Preferred Securities, liquidation preference \$50 per share	New York Stock Exchange

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes 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

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 No

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

Indicate by check mark whether the registrant is 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 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

As of June 30, 2006, Ford had outstanding 1,809,771,835 shares of Common Stock and 70,852,076 shares of Class B Stock. Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date (\$6.30 per share), the aggregate market value of such Common Stock was \$11,401,562,561. Although there is no quoted market for our Class B Stock, shares of Class B Stock may be converted at any time into an equal number of shares of Common Stock for the purpose of effecting the sale or other disposition of such shares of Common Stock. The shares of Common Stock and Class B Stock outstanding at June 30, 2006 included shares owned by persons who may be deemed to be "affiliates" of Ford. We do not believe, however, that any such person should be considered to be an affiliate. For information concerning ownership of outstanding Common Stock and Class B Stock, see the Proxy Statement for Ford's Annual Meeting of Stockholders currently scheduled to be held on May 10, 2007 (our "Proxy Statement"), which is incorporated by reference under various Items of this Report as indicated below.

As of February 12, 2007, Ford had outstanding 1,821,686,422 shares of Common Stock and 70,852,076 shares of Class B Stock. Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date (\$8.65 per share), the aggregate market value of such Common Stock was \$15,757,587,550.

DOCUMENTS INCORPORATED BY REFERENCE

<u>Document</u>	<u>Where Incorporated</u>
Proxy Statement*	Part III (Items 10, 11, 12, 13 and 14)

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

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Exhibit 10-U-1	Amended and Restated Agreement between Ford Motor Company and Ford Motor Credit
Exhibit 10-AA-1	Company dated as of December 12, 2006
Exhibit 10-BB	Description of Settlement of Special 2006-2008 Senior Executive Retention Program
Exhibit 10-CC-1	Arrangement between Ford Motor Company and Mark Fields dated February 7, 2007
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Exhibit 10-EE	Description of Special Terms and Conditions for Stock Options Granted to Alan Mulally
Exhibit 12	Description of President and CEO Compensation Arrangements
Exhibit 21	Credit Agreement dated as of December 15, 2006
Exhibit 23	Calculation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
Exhibit 24	List of Subsidiaries of Ford as of February 21, 2007
Exhibit 31.1	Consent of Independent Registered Public Accounting Firm
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PART I

ITEM 1. *Business*

Ford Motor Company (referred to herein as “Ford”, the “Company”, “we”, “our” or “us”) was incorporated in Delaware 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 combined. We and our subsidiaries also engage in other businesses, including financing vehicles.

In addition to the information about Ford and its subsidiaries contained in this Annual Report on Form 10–K for the year ended December 31, 2006 (“2006 Form 10–K Report” or “Report”), extensive information about our Company can be found throughout our website located at www.ford.com, including information about our management team, our brands and products, and our corporate governance principles.

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

Upon accessing our website and clicking on the “Corporate Governance” link, viewers will see a list of corporate governance documents and may click on the desired document. In addition, printed versions of our Corporate Governance Principles, our Code of Ethics for Senior Financial Personnel, our Standards of Corporate Conduct and the Charters for each of our Board Committees may be obtained free of charge by writing to our Shareholder Relations Department, Ford Motor Company, One American Road, P.O. Box 1899, Dearborn, Michigan 48126–1899.

In addition to the Company information discussed above that is provided on our website, all of our recent periodic report filings with the Securities and Exchange Commission (“SEC”) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our website. This includes recent Annual Reports on Form 10–K, Quarterly Reports on Form 10–Q, and Current Reports on Form 8–K, as well as any amendments to those Reports. Also, recent Section 16 filings made with the SEC by the Company or any of its executive officers or directors with respect to our Common Stock are made available free of charge through our website. The periodic reports and amendments and the Section 16 filings are made available through our website as soon as reasonably practicable after such report or amendment is electronically filed with the SEC.

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

- “Investor Information”
- “Company Reports”
- “U.S. S.E.C. EDGAR”
- “Click here to continue on to view SEC Filings”

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

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

*ITEM 1. Business (continued)***OVERVIEW**

Segments. We review and present our business results in two sectors: Automotive and Financial Services. Within these sectors, our business is divided into reportable segments based upon the organizational structure that we use to evaluate performance and make decisions on resource allocation, as well as availability and materiality of separate financial results consistent with that structure.

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

Business Sector	Reportable Segments	Description
<i>Automotive:</i>	Ford North America	Primarily includes the sale of Ford, Lincoln and Mercury brand vehicles and related service parts in North America (the United States, Canada and Mexico), together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford South America	Primarily includes the sale of Ford-brand vehicles and related service parts in South America, together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford Europe	Primarily includes the sale of Ford-brand vehicles and related service parts in Europe, Turkey and Russia, together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Premier Automotive Group	Primarily includes the sale of Premier Automotive Group ("PAG") brand vehicles (i.e., Volvo, Jaguar, Land Rover and Aston Martin) and related service parts throughout the world (including North and South America, Asia Pacific and Africa), together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford Asia Pacific and Africa/Mazda	Primarily includes the sale of Ford-brand vehicles and related service parts in the Asia Pacific region and South Africa, together with the associated costs to design, develop, manufacture and service these vehicles and parts, and our share of the results of Mazda Motor Corporation (of which we own approximately 33.4%) and certain of our Mazda-related investments.
<i>Financial Services:</i>	Ford Motor Credit Company	Primarily includes vehicle-related financing, leasing, and insurance.

We provide financial information (such as revenues, income, and assets) for each of these business sectors and reportable segments in three areas of this Report: (1) "Item 6. Selected Financial Data," (2) "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and (3) Note 24 of the Notes to the Financial Statements located at the end of this Report. Financial information relating to certain geographic areas also is included in these Notes.

ITEM 1. Business (continued)

AUTOMOTIVE SECTOR

General

We sell cars and trucks throughout the world. In 2006, we sold approximately 6,597,000 vehicles at wholesale throughout the world. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional discussion of wholesale unit volumes. Our vehicle brands include Ford, Mercury, Lincoln, Volvo, Land Rover, Jaguar and Aston Martin.

Substantially all of our cars, trucks and parts are marketed through retail dealers in North America, and through distributors and dealers outside of North America, the substantial majority of which are independently owned. At December 31, 2006, the approximate number of dealers and distributors worldwide distributing our vehicle brands was as follows:

Brand	Number of Dealerships at December 31, 2006*
Ford	9,480
Mercury	1,971
Lincoln	1,515
Volvo	2,352
Land Rover	1,376
Jaguar	871
Aston Martin	125

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

In addition to the products we sell to our dealers for retail sale, we also sell cars and trucks to our dealers for sale to fleet customers, including daily rental car companies, commercial fleet customers, leasing companies and governments. Sales to all of our fleet customers in the United States in the aggregate have represented between 23% and 31% of our total U.S. car and truck sales for the last five years. We do not depend on any single customer or small group of customers to the extent that the loss of such customer or group of customers would have a material adverse effect on our business.

In addition to producing and selling cars and trucks, we also provide retail customers with a wide range of after-the-sale vehicle services and products through our dealer network and other channels, in areas such as maintenance and light repair, heavy repair, collision, vehicle accessories and extended service warranty. In North America, we market these products and services under several brands, including Genuine Ford and Lincoln–Mercury Parts and ServiceSM, 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 in determining whether and when to replace an existing vehicle. The decision whether and when to make a vehicle purchase may be affected significantly by slowing economic growth, geo-political events, and other factors (including the cost of purchasing and operating cars and trucks and the availability and cost of credit and fuel). Accordingly, the number of cars and trucks sold (commonly referred to as “industry demand”) may vary substantially from year to year. The automotive industry is also a highly competitive, cyclical business that has a wide and growing variety of product offerings from a growing number of increasingly global manufacturers.

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

ITEM 1. Business (continued)

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

- wholesale unit volumes;
- the mix of vehicles and options sold;
- the margin of profit on each vehicle sold;
- the level of “incentives” (e.g., price discounts) and other marketing costs;
- the costs for customer warranty claims and additional service actions; and
- the costs for safety, emission and fuel economy technology and equipment.

Further, because we (like other manufacturers) have a high proportion of costs that are relatively fixed (including labor costs), small changes in wholesale unit volumes may significantly affect overall profitability.

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

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

Seasonality. We generally record the sale of a vehicle (and recognize sales proceeds in revenue) when it is produced and shipped to our customer (i.e., our dealer or distributor). See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional discussion of revenue recognition practices. We manage our vehicle production schedule based on a number of factors, including dealer stock levels (i.e., the number of units held in inventory by our dealers and distributors for sale to retail and fleet customers) and retail sales (i.e., units sold by our dealers and distributors to their customers at retail). We experience some fluctuation in the business of a seasonal nature. Generally, North American production is higher in the first half of the year to meet demand in the spring and summer, which are usually the strongest sales months of the year. Third quarter production is typically the lowest of the year, generally reflecting the annual two–week vacation shutdown of our manufacturing facilities during this quarter. As a result, operating results for the third quarter typically are less favorable than those of other quarters.

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

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

Intellectual Property. We own or hold licenses to use numerous patents, copyrights and trademarks on a global basis. Our policy is to protect our competitive position by, among other methods, filing U.S. and international patent applications to protect technology and improvements that we consider important to the development of our business. We have generated a large number of patents related to the operation of our business, and expect this portfolio to continue to grow as we actively pursue additional technological innovation. We currently have approximately 13,000 active patents and pending patent applications globally, with an average age for patents in our active patent portfolio of just over 5 years. In addition to this intellectual property, we also rely on our proprietary knowledge and ongoing technological innovation to develop and maintain our competitive position. While we believe that these patents, patent applications and know–how, in the aggregate, are important to the conduct of our business and we obtain licenses to use certain intellectual property owned by others, none is individually considered material to our business. We also own numerous trademarks and service marks that contribute to the identity and recognition of our company and its products and services globally. Certain of these marks are integral to the conduct of our business, a loss of any of which could have a material adverse effect on our business.

ITEM 1. Business (continued)

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

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

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

For additional information with respect to costs for warranty and additional service actions, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates” and Note 27 of the Notes to the Financial Statements.

United States

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

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

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

We classify cars by small, medium, large and premium segments, and trucks by compact pickup, bus/van (including minivans), full-size pickup, sport utility vehicles and medium/heavy segments. However, with the introduction of crossover vehicles, the distinction between traditional cars and trucks has become more difficult to draw, and these vehicles are not consistently classified as either cars or trucks across vehicle manufacturers. In the tables above and below, we have classified crossover vehicles as sport utility vehicles. In addition, we have classified as “premium” all of our luxury cars, regardless of size; premium sport utility vehicles and crossovers are included in “trucks.” Annually, we conduct a comprehensive review of many factors to determine the appropriate classification of vehicle segments and the vehicles within those segments, and this review occasionally results in a change of classification for certain vehicles.

ITEM 1. Business (continued)

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

	U.S. Industry Vehicle Mix of Sales by Segment				
	Years Ended December 31,				
	2006	2005	2004	2003	2002
CARS					
Small	19.8%	17.9%	16.9%	17.3%	18.3%
Medium	12.4	12.3	13.1	14.4	15.2
Large	7.4	7.4	6.8	6.6	7.2
Premium	7.5	7.8	7.7	7.7	7.4
Total U.S. Industry Car Sales	<u>47.1</u>	<u>45.4</u>	<u>44.5</u>	<u>46.0</u>	<u>48.1</u>
TRUCKS					
Compact Pickup	3.5%	3.9%	4.0%	4.4%	4.6%
Bus/Van	7.8	8.1	8.5	8.2	8.5
Full-Size Pickup	13.3	14.6	14.7	14.0	13.1
Sport Utility Vehicles	25.2	25.6	26.1	25.7	24.3
Medium/Heavy	3.1	2.4	2.2	1.7	1.4
Total U.S. Industry Truck Sales	<u>52.9</u>	<u>54.6</u>	<u>55.5</u>	<u>54.0</u>	<u>51.9</u>
Total U.S. Industry Vehicle Sales	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

	Ford Vehicle Mix of Sales by Segment in U.S.				
	Years Ended December 31,				
	2006	2005	2004	2003	2002
CARS					
Small	11.8%	10.9%	10.2%	11.4%	12.5%
Medium	12.1	7.7	8.7	10.4	11.9
Large	7.7	8.3	5.0	4.8	4.4
Premium	6.4	6.3	7.1	7.5	8.3
Total Ford U.S. Car Sales	<u>38.0</u>	<u>33.2</u>	<u>31.0</u>	<u>34.1</u>	<u>37.1</u>
TRUCKS					
Compact Pickup	3.2%	3.8%	4.7%	6.0%	6.3%
Bus/Van	8.0	8.4	8.8	8.4	9.1
Full-Size Pickup	27.7	28.8	28.2	24.3	22.5
Sport Utility Vehicles	22.5	25.3	26.9	27.0	24.8
Medium/Heavy	0.6	0.5	0.4	0.2	0.2
Total Ford U.S. Truck Sales	<u>62.0</u>	<u>66.8</u>	<u>69.0</u>	<u>65.9</u>	<u>62.9</u>
Total Ford U.S. Vehicle Sales	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

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

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ITEM 1. Business (continued)

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

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

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

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

(a) All U.S. sales data are based on publicly available information from the media and trade publications.

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

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

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

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

Fleet sales increased in 2006, reflecting industry strength in the commercial and government segments. Sales to daily rental car companies were constant in 2006 compared with 2005. In 2007, sales to daily rental car companies should

decrease significantly, reflecting the discontinuance of the Ford Taurus sedan and Freestar minivan models in 2006, and our strategy to concentrate on more profitable retail sales.

ITEM 1. Business (continued)

Europe

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

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

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

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

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

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

Within this regulation, the Commission also has adopted sweeping changes to the repair industry. Dealers can no longer be required by the manufacturer to perform repair work themselves. Instead, dealers may subcontract the work to independent repair shops that meet reasonable criteria set by the manufacturer. These authorized repair facilities may perform warranty and recall work, in addition to other repair and maintenance work. While a manufacturer may continue to require the use of its parts in warranty and recall work, the repair facility may use parts made by others that are of comparable quality for all other repair work. We have negotiated and implemented Dealer, Authorized Repairer and Spare Part Supply contracts on a country-by-country level and, therefore, the Block Exemption Regulation now applies with respect to all of our dealers.

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

ITEM 1. Business (continued)

Other Markets

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

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

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

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

We have an ownership interest in Mazda Motor Corporation (“Mazda”) of approximately 33.4%, and account for Mazda on an equity basis. Mazda’s market share in the Asia Pacific region was 2.9% in 2006. Our principal competition in the Asia Pacific region has been the Japanese manufacturers. We anticipate that the ongoing relaxation of import restrictions (including duty reductions) will continue to intensify competition in the region.

We began operations in India in 1999, launching an all–new small car (the Ikon) designed specifically for that market. In 2003, we launched the Endeavor, Ford’s first SUV in India, and we also launched the Fusion crossover in late 2004 and the Fiesta in late 2005. Our operations in India also sell components to other Ford affiliates.

We also are in the process of increasing our presence in China. Changan Ford Mazda Automobile Corporation, Ltd. (“CFMA”) is a joint venture between Ford (35% partner), Mazda (15% partner), and the Chongqing Changan Automobile Co., Ltd. (“Changan”) (50% partner). CFMA’s first assembly plant, located in Chongqing, became operational and began producing the Ford Fiesta in January 2003, and the Ford Mondeo later that year. The Ford Focus was launched in 2005, and the Mazda3 and Volvo S40 were launched in 2006. We also announced in 2003 that more than \$1 billion would be invested over the next several years to expand manufacturing capacity, introduce new products and expand distribution channels in the Chinese automotive market. This investment will initially support the addition of new products and expansion of production capacity at CFMA’s Chongqing plant from 50,000 units per year to about 200,000 units per year. It will also support the establishment of a second assembly plant and a new engine plant located in Nanjing. We began construction of these new facilities in 2005, with expected completion in 2007. Initial capacity at the new assembly facility is expected to be about 160,000 units annually. In addition, we have a 30% interest in Jiangling Motors Corporation, Ltd., which has operations in Nanchang and assembles light commercial vehicles, including the Ford Transit, for distribution in China. We also import Jaguar, Volvo, Land Rover, and select Ford vehicles into China. We continue to operate a purchasing office in China to procure components for operations outside of China. For additional discussion of our joint ventures in China, see “Item 2. Properties.”

ITEM 1. Business (continued)

FINANCIAL SERVICES SECTOR

Ford Motor Credit Company

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

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

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

Ford Credit does business in all 50 states of the United States and in all provinces in Canada through automotive dealer financing branches and regional business centers. In 2007, Ford Credit will begin consolidating its branches in the United States and Canada into its regional business centers. Outside of the United States, FCE Bank plc (“FCE”) is Ford Credit’s largest operation. FCE’s primary business is to support the sale of our vehicles in Europe through our dealer network. FCE offers a variety of retail, leasing and wholesale finance plans in most countries in which it operates; FCE does business in the United Kingdom, Germany and most other European countries. Ford Credit, through its subsidiaries, also operates in the Asia Pacific and Latin American regions. In addition, FCE, through its Worldwide Trade Financing division, provides financing to dealers in countries where typically we have no established local presence.

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

	Years Ended December 31,		
	2006	2005	2004
United States			
Financing share — Ford, Lincoln and Mercury			
Retail installment and lease	44%	37%	45%
Wholesale	80	81	84
Europe			
Financing share — Ford			
Retail installment and lease	27%	28%	29%
Wholesale	95	96	97

The increase in Ford Credit’s retail financing share in the United States in 2006 compared with 2005 primarily reflected the impact of our marketing programs that emphasized the use of Ford Credit financing and the non–recurrence in 2006 of our marketing program that offered employee pricing to all customers in 2005. For a detailed discussion of Ford Credit’s receivables, credit losses, allowance for credit losses, loss–to–receivables ratios, funding sources and funding strategies, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” For a discussion of how Ford Credit manages its financial market risks, see “Item 7A. Quantitative and Qualitative Disclosures about Market Risk.”

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

ITEM 1. Business (continued)

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

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

GOVERNMENTAL STANDARDS

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

Mobile Source Emissions Control

U.S. Requirements — Federal Emissions Standards. The federal Clean Air Act imposes stringent limits on the amount of regulated pollutants that lawfully may be emitted by new motor vehicles and engines produced for sale in the United States. The current ("Tier 2") emissions standards promulgated by the U.S. Environmental Protection Agency ("EPA") require light-duty trucks and certain heavy-duty passenger-carrying trucks to meet the same emissions standards as passenger cars by the 2007 model year. The Tier 2 emissions standards also extend emissions durability requirements to 120,000 or 150,000 miles (depending on the specific standards to which the vehicle is certified). These standards present compliance challenges and make it more costly and difficult to utilize light-duty diesel technology, which in turn restricts our ability to improve fuel economy for purposes of satisfying Corporate Average Fuel Economy ("CAFE") standards.

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

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

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

ITEM 1. Business (continued)

Since 1990, the California program has included requirements for manufacturers to produce and deliver for sale zero-emission vehicles ("ZEVs"), which produce no emission of regulated pollutants. Typically, the only vehicles capable of meeting these requirements are battery-powered vehicles, which have had narrow consumer appeal due to their limited range, reduced functionality, and high cost. This ZEV mandate initially required that a specified percentage of each manufacturer's vehicles produced for sale in California be ZEVs.

In 2003, CARB adopted amendments to the ZEV mandate that shifted the near-term focus of the regulation away from battery-electric vehicles to advanced-technology vehicles (e.g., hybrid electric vehicles or natural gas vehicles) with extremely low tailpipe emissions. The rules also give some credit for so-called "partial zero-emission vehicles" ("PZEVs"), which can be internal combustion engine vehicles certified to very low tailpipe emissions and zero evaporative emissions. In addition, the rules provide a compliance path pursuant to which the auto industry would need to produce specified numbers of zero-emission fuel cell vehicles. In the aggregate, the rules call for production by the industry of 250 zero-emission fuel cell vehicles by the 2008 model year, 2,500 more in the 2009-2011 model-year period, and 25,000 more in the 2012-2014 model-year period.

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

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

U.S. Requirements — Warranty, Recall, and On-Board Diagnostics. Under the Clean Air Act, the EPA and CARB may require manufacturers to recall and repair non-conforming vehicles (which may be identified by testing or analysis done by the manufacturer, the EPA or CARB), or we may voluntarily stop shipment of or recall non-conforming vehicles. The costs of related repairs or inspections associated with such recalls, or a stop shipment order, could be substantial. CARB is in the process of revising its program for emissions defect and warranty reporting and associated field actions (which includes recall actions). When complete, the new rules are likely to impose additional testing requirements and require manufacturers to conduct more frequent emissions-related field actions, resulting in added costs.

Both CARB and the EPA also have adopted on-board diagnostic ("OBD") regulations, which require a vehicle to monitor its emissions control system and notify the vehicle operator (via the "check engine" light) of any malfunction. These regulations have become extremely complicated, and creation of a compliant system requires substantial engineering resources. CARB's OBD rules for vehicles under 14,000 pounds gross vehicle weight include a variety of requirements that phase in between the 2006 and 2010 model years. CARB also has adopted engine manufacturer diagnostic requirements for heavy-duty gasoline and diesel engines that apply to the 2007 to 2009 model years, and additional OBD requirements for vehicles over 14,000 pounds gross vehicle weight in model years 2010 and beyond.

ITEM 1. Business (continued)

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

European Requirements. European Union ("EU") directives and related legislation limit the amount of regulated pollutants that may be emitted by new motor vehicles and engines sold in the EU. In 1998, the EU adopted a new directive on emissions from passenger cars and light commercial trucks. More stringent emissions standards applied to new car certifications beginning January 1, 2000 and to new car registrations beginning January 1, 2001 ("Stage III Standards"). A second level of even more stringent emissions standards were applied to new car certifications beginning January 1, 2005 and to new car registrations beginning January 1, 2006 ("Stage IV Standards"). The comparable light commercial truck Stage III Standards and Stage IV Standards come into effect one year later than the passenger car requirements. This directive on emissions also introduced OBD requirements, more stringent evaporative emissions requirements, and in-service compliance testing and recall provisions for emissions-related defects that occur in the first five years or 80,000 kilometers of vehicle life (extended to 100,000 kilometers in 2005). Failure of in-service compliance tests could lead to vehicle recalls with substantial costs for related inspections or repairs. The Stage IV Standards for diesel engines have proven technologically difficult and precluded manufacturers from offering some products in time to be eligible for government incentive programs. The EU commenced a program in 2004 to determine the specifics for further changes to vehicle emissions standards, and in 2005 the European Commission published a proposed law for Stage V emissions. Specific mandated targets or limits are yet to be determined. To date, the law has not yet been finalized.

Other National Requirements. Many countries, in an effort to address air quality concerns, are adopting previous versions of European or United Nations Economic Commission for Europe mobile source emissions regulations. Some countries have adopted more advanced regulations based on the most recent version of European or U.S. regulations; for example, China has adopted the most recent European standards to be implemented in the 2008–2010 timeframe. Korea and Taiwan have adopted very stringent U.S.-based standards for gasoline vehicles, and European-based standards for diesel vehicles. Because fleet average requirements do not apply, some vehicle emissions control systems may have to be redesigned to meet the requirements in these markets. Furthermore, not all of these countries have adopted appropriate fuel quality standards to accompany the stringent emissions standards adopted. This could lead to compliance problems, particularly if OBD or in-use surveillance requirements are implemented. Japan has unique standards and test procedures, and is considering more stringent standards for implementation in 2009. This may require unique emissions control systems be designed for the Japanese market.

Stationary Source Emissions Control

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

The Clean Air Act also requires the EPA to periodically review and update its National Ambient Air Quality Standards ("NAAQS"), and to designate whether counties or other local areas are in compliance with the new standards. If an area or county does not meet the new standards ("non-attainment areas"), the state must revise its implementation plans to achieve attainment. In 2006, the EPA issued a final rule revising the NAAQS for particulate matter. For fine particulate matter (i.e., particles 2.5 micrometers in diameter or less), the EPA has issued a new standard that is considerably more stringent than its predecessor. The EPA estimates that the new standard will put approximately 124 counties into non-attainment status for fine particulate matter. With respect to coarse particulate matter (i.e., particles between 2.5 and 10 micrometers in diameter), the EPA has retained the existing standard after considering an alternative program that would have focused on urban and industrial sources. Various parties have filed petitions for review of the final particulate-matter rules in the United States Court of Appeals for the District of Columbia Circuit, in most cases seeking more stringent standards that would create even more new non-attainment areas.

ITEM 1. Business (continued)

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

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

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

Motor Vehicle Safety

U.S. Requirements. The National Traffic and Motor Vehicle Safety Act of 1966 (the "Safety Act") regulates motor vehicles and motor vehicle equipment in the United States in two primary ways. First, the Safety Act prohibits the sale in the United States of any new vehicle or equipment that does not conform to applicable motor vehicle safety standards established by the National Highway Traffic Safety Administration ("NHTSA"). Meeting or exceeding many safety standards is costly, because the standards tend to conflict with the need to reduce vehicle weight in order to meet emissions and fuel economy standards. Second, the Safety Act requires that defects related to motor vehicle safety be remedied through safety recall campaigns. A manufacturer is obligated to recall vehicles if it determines that the vehicles do not comply with a safety standard. Should we or NHTSA determine that either a safety defect or a noncompliance exists with respect to certain of our vehicles, the cost of such recall campaigns could be substantial. There were pending before NHTSA five investigations relating to alleged safety defects or potential compliance issues in our vehicles as of January 22, 2007.

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

The Transportation Recall Enhancement, Accountability, and Documentation Act (the "TREAD Act") was signed into law in November 2000. The TREAD Act required NHTSA to establish several new regulations, including reporting requirements for motor vehicle manufacturers on foreign recalls and certain information received by the manufacturer that may assist the agency in the early identification of safety defects. Various groups have challenged the categorical determination by NHTSA that certain areas of data, including warranty claim information, field reports, and consumer complaint information, were granted a presumption of confidentiality under the TREAD Act early warning reporting requirements. Since that time, the United States District Court for the District of Columbia has ruled that, while NHTSA had the authority to make these categorical determinations, it did not provide adequate public notice and opportunity to comment in so doing. NHTSA has decided to address this issue in further rulemaking. Resolution of this litigation may result in the publication of information (such as injury accident information) that manufacturers have been submitting to NHTSA under the TREAD Act's early warning reporting rules.

ITEM 1. Business (continued)

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

Motor Vehicle Fuel Economy

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

Federal law established a passenger car CAFE standard of 27.5 miles per gallon for 1985 and later model years, which NHTSA believes it has the authority to amend to a level it determines to be the maximum feasible level. By rule, NHTSA has set light-truck CAFE standards of 21.6 miles per gallon for model year 2006, and 22.2 miles per gallon for model year 2007. In August 2005, NHTSA issued a Notice of Proposed Rulemaking seeking to change the structure of the light-truck fuel economy standards for the model year 2008 and beyond. After taking public comment, NHTSA released the final rule in 2006. The final rule relies on a continuous mathematical function relating fuel economy targets to vehicle size. In model year 2011 and beyond, the truck CAFE standards will apply for the first time to certain classes of heavier passenger vehicles (SUVs and passenger vans with a gross vehicle weight between 8,500 and 10,000 pounds, or with a gross vehicle weight below 8,500 pounds and a curb weight above 6,000 pounds).

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

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

Pressure to increase CAFE standards stems in part from concerns about the impact of carbon dioxide and other greenhouse gas emissions on the global climate. In 1999, a petition was filed with the EPA requesting that it regulate carbon dioxide emissions from motor vehicles under the Clean Air Act. This would be the equivalent to imposing fuel economy standards, since the amount of carbon dioxide emitted by a vehicle is directly proportional to the amount of fuel consumed. The petitioners later filed suit in an effort to compel a formal response from the EPA. In August 2003, the EPA denied the petition on the grounds that the Clean Air Act does not authorize the EPA to regulate greenhouse gas emissions, and only NHTSA is authorized to regulate fuel economy under the CAFE law. A number of states, cities, and environmental groups filed for review of the EPA’s decision in the United States Court of Appeals for the District of Columbia Circuit. A coalition of states and industry trade groups, including the Alliance, intervened in support of the EPA’s

ITEM 1. Business (continued)

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

U.S. Requirements — California and Other State Standards. In July 2002, California enacted Assembly Bill 1493 ("AB 1493"), a law mandating that CARB promulgate greenhouse gas standards for light-duty vehicles beginning with model year 2009. In September 2004, CARB adopted California greenhouse gas emissions regulations applicable to 2009–2016 model-year cars and trucks, effectively imposing more stringent fuel economy standards than those set by NHTSA. These regulations impose standards that are equivalent to a CAFE standard of more than 43 miles per gallon for passenger cars and small trucks, and approximately 27 miles per gallon for large light trucks and medium-duty passenger vehicles by model year 2016. The Alliance and individual companies (including Ford) submitted comments opposing the rules and addressing errors in CARB's underlying economic and technical analyses. In December 2004, the Alliance filed suit in federal district court in Fresno, California. In addition to the Alliance, plaintiffs in the case include several automobile dealers, two other individual automobile manufacturers, and another automotive trade association. The suit challenges the regulation on several bases, including that it is preempted by the federal CAFE law. The discovery phase for this litigation is largely completed, and trial is currently expected toward the end of 2007.

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

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

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

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

ITEM 1. Business (continued)

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

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

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

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

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

European Chemicals Policy

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

Pollution Control Costs

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

*ITEM 1. Business (continued)***EMPLOYMENT DATA**

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

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

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

Substantially all of the hourly employees in our Automotive operations in the United States are represented by unions and covered by collective bargaining agreements. Approximately 99% of these unionized hourly employees in our Automotive sector are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (“UAW” or “United Automobile Workers”). Approximately two percent of our U.S. salaried employees are represented by unions. Most hourly employees and many non–management salaried employees of our subsidiaries outside of the United States also are represented by unions.

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

	<u>2006</u>	<u>2005</u>
Earnings	\$ 32.38	\$ 31.64
Benefits	<u>38.13</u>	<u>33.26</u>
Total	<u>\$ 70.51</u>	<u>\$ 64.90</u>

We have entered into collective bargaining agreements with the UAW, and the National Automobile, Aerospace, Transportation and General Workers Union of Canada (“CAW” or “Canadian Automobile Workers”). Among other things, our agreements with the UAW and CAW provide for guaranteed wage and benefit levels throughout the term of the respective agreements, and provide for significant employment security. As a practical matter, these agreements may restrict our ability to eliminate product lines, close plants, and divest businesses during the terms of the agreements. Our agreement with the UAW expires on September 14, 2007, and our agreement with the CAW expires on September 16, 2008. Historically, negotiation of new collective bargaining agreements with the UAW and CAW have typically resulted in increases in wages and benefits, including retirement benefits; some of these increases typically have been provided to salaried employees as well.

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

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

ITEM 1. Business (continued)

ENGINEERING, RESEARCH AND DEVELOPMENT

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

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

ITEM 1A. Risk Factors

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

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

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

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

ITEM 1A. Risk Factors (continued)

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

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

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

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

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

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

ITEM 1A. Risk Factors (continued)

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

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

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

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

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

Our U.S. defined benefit pension plans are subject to Title IV of the Employee Retirement Income Security Act of 1974 ("ERISA"). Under Title IV of ERISA, the Pension Benefit Guaranty Corporation ("PBGC") has the authority under certain circumstances or upon the occurrence of certain events to terminate an underfunded pension plan. One of those circumstances is the occurrence of an event that unreasonably increases the risk of unreasonably large losses to the PBGC. Although we believe that it is not likely that the PBGC will terminate any of our plans, in the event that our U.S. pension plans were to be terminated at a time when the liabilities of the plans exceeded the assets of the plans, we would incur a liability to the PBGC that could be equal to the entire amount of the underfunding.

ITEM 1A. Risk Factors (continued)

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

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

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

Increased safety, emissions (e.g., CO₂), fuel economy or other (e.g., pension funding) regulation resulting in higher costs, cash expenditures, and/or sales restrictions. The worldwide automotive industry is governed by a substantial number of governmental regulations, which often differ by state, region and country. In the United States and Europe, for example, governmental regulation has arisen primarily out of concern for the environment, greater vehicle safety and a desire for improved fuel economy. Many governments regulate local product content and/or impose import requirements as a means of creating jobs, protecting domestic producers and influencing their balance of payments. The cost of complying with these requirements can be substantial.

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

ITEM 1A. Risk Factors (continued)

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

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

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

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

Substantial levels of Automotive indebtedness adversely affecting our financial condition or preventing us from fulfilling our debt obligations (which may grow because we are able to incur substantially more debt, including additional secured debt). As a result of our recent financing actions and our other debt, we are a highly leveraged company. Our significant Automotive debt service obligations could have important consequences, including the following: our high level of indebtedness could make it difficult for us to satisfy our obligations with respect to our outstanding indebtedness; our ability to obtain additional financing for working capital, capital expenditures, acquisitions, if any, or general corporate purposes may be impaired; we must use a substantial portion of our cash flow from operations to pay interest on our indebtedness, which will reduce the funds available to us for operations and other purposes; and our high level of indebtedness makes us more vulnerable to economic downturns and adverse developments in our business. The more leveraged we become, the more we become exposed to the risks described herein. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” and Note 15 of the Notes to the Financial Statements for additional information regarding our indebtedness.

ITEM 1A. Risk Factors (continued)

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

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

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

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

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

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

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

ITEM 1A. Risk Factors (continued)

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

ITEM 1B. Unresolved Staff Comments

None to report.

ITEM 2. Properties

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

We own substantially all of our U.S. manufacturing and assembly facilities, although many of these properties have been pledged to secure indebtedness. Our facilities are situated in various sections of the country and include assembly plants, engine plants, casting plants, metal stamping plants, transmission plants, and other component plants. Most of our distribution centers are leased (we own approximately 42% of the total square footage). A substantial amount of our warehousing is provided by third-party providers under service contracts. Because the facilities provided pursuant to third-party service contracts need not be dedicated exclusively or even primarily to our use, these spaces are not included in the number of distribution centers/warehouses listed in the table below. All of the warehouses that we operate are leased, although many of our manufacturing and assembly facilities contain some warehousing space. Substantially all of our sales offices are leased space. Approximately 92% of the total square footage of our engineering centers and our supplementary research and development space is owned by us.

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

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

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

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

ITEM 2. Properties (continued)

Included in the number of plants shown above are several plants that are not operated directly by us, but rather by consolidated joint ventures that operate plants that support our Automotive sector. Following are the most significant of these consolidated joint ventures and the number of plants they own:

- *AutoAlliance International (“AAI”)* — a 50/50 joint venture with Mazda (of which we own approximately 33.4%), which operates as its principal business an automobile vehicle assembly plant in Flat Rock, Michigan. AAI currently produces the Mazda6 and Ford Mustang models. Ford supplies all of the hourly and substantially all of the salaried labor requirements to AAI, and AAI reimburses Ford for the full cost of that labor.
- *Ford Otosan* — a joint venture in Turkey between Ford (41% partner), the Koc Group of Turkey (41% partner) and public investors (18%) that is our single source supplier of the Ford Transit Connect vehicle and our sole distributor of Ford vehicles in Turkey. In addition, Ford Otosan makes the Ford Transit series and the Cargo truck for the Turkish and export markets, and certain engines and transmissions, most of which are under license. This joint venture owns and operates two plants and a parts distribution depot in Turkey.
- *Getrag Ford Transmissions GmbH* — a 50/50 joint venture with Getrag Deutsche Venture GmbH and Co. KG, a German company, to which we transferred our European manual transmission operations in Halewood, England; Cologne, Germany; and Bordeaux, France. In 2004, Volvo Car Corporation (“Volvo Cars”) transferred its manual transmission operations from its Köping, Sweden plant to this joint venture. The Getrag joint venture produces manual transmissions for our operations in Europe (Ford Europe and PAG). Ford currently supplies most of the hourly and salaried labor requirements of the operations transferred to this Getrag joint venture. Ford employees who worked at the manual transmission operations transferred at the time of formation of the joint venture are assigned to the joint venture by Ford. In the event of surplus labor at the joint venture, Ford employees assigned to the joint venture may return to Ford. Employees hired in the future to work in these operations will be employed directly by the joint venture. Getrag Ford Transmissions GmbH reimburses Ford for the full cost of the hourly and salaried labor supplied by Ford. This joint venture operates three plants.
- *Getrag All Wheel Drive AB* — a joint venture in Sweden between Getrag Dana Holding GmbH (“Getrag/Dana”) (60% partner) and Volvo Cars (40% partner). In January 2004, Volvo Cars transferred to this joint venture its plant in Köping, Sweden. The joint venture produces all-wheel drive components. As noted above, the manual transmission operations at the Köping plant were transferred to Getrag Ford Transmissions GmbH. The hourly and salaried employees at the plant have become employees of the joint venture.
- *Tekfor Cologne GmbH (“Tekfor”)* — a 50/50 joint venture of Ford-Werke GmbH (“Ford-Werke”) and Neumayer Tekfor GmbH, a German company, to which joint venture Ford-Werke transferred the operations of the Ford forge in Cologne. The joint venture produces forged components, primarily for transmissions and chassis, for use in Ford vehicles and for sale to third parties. Those Ford employees who worked at the Cologne Forge Plant at the time of the formation of the joint venture are assigned to Tekfor by Ford and remain Ford employees. In the event of surplus labor at the joint venture, Ford employees assigned to Tekfor may return to Ford. New workers at the joint venture will be hired as employees of the joint venture. Tekfor reimburses Ford for the full cost of Ford employees assigned to the joint venture. This joint venture operates one plant.
- *Pininfarina Sverige, AB* — a joint venture between Volvo Cars (40% partner) and Pininfarina, S.p.A. (“Pininfarina”) (60% partner). In September 2003, Volvo Cars and Pininfarina established this joint venture for the engineering and manufacture of niche vehicles, starting with a new, small convertible (Volvo C70), which is distributed by Volvo. The joint venture began production of the new car at the Uddevalla Plant in Sweden, which was transferred from Volvo Cars to the joint venture in December 2005, and is the joint venture’s only plant.
- *Ford Vietnam Limited* — a joint venture between Ford (75% partner) and Song Cong Diesel (25% partner). Ford Vietnam assembles and distributes several Ford vehicles in Vietnam, including Escape, Everest, Focus, Mondeo, Ranger and Transit models. This joint venture operates one plant.
- *Ford Lio Ho Motor Company Ltd. (“FLH”)* — a joint venture in Taiwan among Ford (70% partner), the Lio Ho Group (25% partner) and individual shareholders (5% ownership in aggregate) that assembles a variety of Ford and Mazda vehicles sourced from Ford as well as Mazda and Suzuki. In addition to domestic assembly, FLH also has

ITEM 2. Properties (continued)

local product development capability to modify vehicle designs for local needs, and imports Ford-brand built-up vehicles from Europe and the United States. This joint venture operates one plant.

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

- *AutoAlliance (Thailand) ("AAT")* — a joint venture among Ford (50%), Mazda (45%) and a Thai affiliate of Mazda's (5%), which owns and operates a manufacturing plant in Rayong, Thailand. AAT produces the Ford Everest, Ford Ranger and Mazda B-Series pickup trucks for the Thai market and for export to over 100 countries worldwide (other than North America), in both built-up and kit form.
- *Blue Diamond Truck, S de RL de CV* — a joint venture between Ford (49% partner) and International Truck and Engine Corporation (51% partner), a subsidiary of Navistar International Corporation ("Navistar"). Blue Diamond Truck develops and manufactures selected medium and light commercial trucks in Mexico and sells the vehicles to Ford and Navistar for their own independent distribution. Blue Diamond Truck manufactures Ford F-650/750 medium-duty commercial trucks that are sold in the United States and Canada; Navistar medium-duty commercial trucks that are sold in Mexico; and a low-cab-forward, light-/medium-duty commercial truck for each of Ford and Navistar.
- *Tenedora Nemak, S.A. de C.V.* — a joint venture between Ford (15% partner) and a subsidiary of Mexican conglomerate Alfa S.A. de C.V. (85% partner), which owns and operates, among other facilities, our former Canadian castings operations, and supplies engine blocks and heads to several of our engine plants. Ford supplies a portion of the hourly labor requirements for the Canadian plants, for which it is fully reimbursed by the joint venture.
- *Changan Ford Mazda Automobile Corporation, Ltd. ("CFMA")* — a joint venture between Ford (35% partner), Mazda (15% partner) and the Chongqing Changan Automobile Co., Ltd. ("Changan") (50% partner). Through its facility in the Chinese city of Chongqing, CFMA produces and distributes in China the Ford Fiesta, Mondeo and Focus, the Mazda3 and the Volvo S40. In 2005, CFMA received approval from the Chinese government for the establishment of a new vehicle manufacturing plant in the Chinese city of Nanjing, which is now under construction.
- *Changan Ford Mazda Engine Company, Ltd. ("CFME")* — a joint venture between Ford (25% partner), Mazda (25% partner) and the Chongqing Changan Automobile Co., Ltd (50% partner). CFME is located in the City of Nanjing, and will produce the Ford New I4 and Mazda BZ engines in support of the assembly of Ford- and Mazda-branded vehicles manufactured in China.
- *Jiangling Motors Corporation, Ltd. ("JMC")* — a publicly-traded company in China with Ford (30% shareholder) and Jiangxi Jiangling Holdings, Ltd. (41% shareholder) as its controlling shareholders. Jiangxi Jiangling Holdings, Ltd. is a 50/50 joint venture between Chongqing Changan Automobile Co., Ltd. and Jiangling Motors Company Group. The public investors of JMC own 29% of its outstanding shares. JMC assembles the Ford Transit van and other non-Ford-technology-based vehicles for distribution in China.
- *Ford Malaysia Sdn. Bhd.* — a joint venture between Ford (49% partner) and Tractors Malaysia, a publicly-traded subsidiary of Sime Darby (51% partner). Ford Malaysia distributes Ford vehicles assembled by its wholly-owned subsidiary Associated Motor Industries Malaysia, Sdn. Bhd., an assembly company, including Econovan, Escape, Everest, Laser and Ranger models.

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

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

ITEM 3. Legal Proceedings

OVERVIEW

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

Following is a discussion of our significant pending legal proceedings:

ASBESTOS MATTERS

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

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

The extent of our financial exposure to asbestos litigation remains very difficult to estimate. The majority of our asbestos cases do not specify a dollar amount for damages, and in many of the other cases the dollar amount specified is the jurisdictional minimum. The vast majority of these cases involve multiple defendants, with the number in some cases exceeding one hundred. Many of these cases also involve multiple plaintiffs, and we are often unable to tell from the pleadings which of the plaintiffs are making claims against us (as opposed to other defendants). Our annual payout and related defense costs in asbestos cases had been increasing between 1999 and 2003, and began to decline in 2004 and 2005. In 2006, these costs again decreased; however, they may become substantial in the future.

ENVIRONMENTAL MATTERS

General. We have received notices under various federal and state environmental laws that we (along with others) may be a potentially responsible party for the costs associated with remediating numerous hazardous substance storage, recycling or disposal sites in many states and, in some instances, for natural resource damages. We also may have been a generator of hazardous substances at a number of other sites. The amount of any such costs or damages for which we may be held responsible could be substantial. The contingent losses that we expect to incur in connection with many of these sites have been accrued and those losses are reflected in our financial statements in accordance with generally accepted accounting principles. However, for many sites, the remediation costs and other damages for which we ultimately may be responsible are not reasonably estimable because of uncertainties with respect to factors such as our

ITEM 3. Legal Proceedings (continued)

connection to the site or to materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation). As a result, we are unable to determine or reasonably estimate the amount of costs or other damages for which we are potentially responsible in connection with these sites, although that total could be substantial.

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

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

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

CLASS ACTIONS

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

Explorer Class Actions. An Illinois state court certified a statewide class of purchasers and lessees of 1991–2001 Ford Explorers equipped with Firestone ATX or Wilderness tires who have not experienced any problems with either the tires or the vehicles (*Rowan v. Ford Motor Company*). The complaint alleges that Explorers are unstable and that the Firestone tires are defective. Plaintiffs claim that the value of the vehicles was diminished because of the alleged defects and seek unspecified actual and compensatory damages and other relief. No trial date is currently scheduled.

A California state court certified a statewide class of purchasers and lessees of 1990–2000 Ford Explorers (*Gray v. Ford Motor Company* and four coordinated cases). The complaint alleges that Explorers are unstable and that Ford concealed information about them. Plaintiffs seek relief similar to that sought in *Rowan*. Trial is scheduled for April 2007.

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

ITEM 3. Legal Proceedings (continued)

Paint Class Actions. A state court in Madison County, Illinois certified a nationwide class of owners of 1989–96 model year vehicles that have experienced paint peeling. Plaintiffs contend that their vehicles' paint is defective in that there was a substantial risk of topcoat or clearcoat delamination, and that Ford failed to disclose that risk. Plaintiffs seek unspecified compensatory damages (in an amount to cover the cost of repainting their vehicles and to compensate for alleged diminution in value), punitive damages, attorneys' fees and interest. No trial date is currently scheduled.

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

OTHER MATTERS

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

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

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

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

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

Not required.

ITEM 4A. Executive Officers of Ford

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

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

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

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

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

ITEM 4A. Executive Officers of Ford (continued)

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

- Prior to joining Ford in September 2006, Mr. Mulally served as executive vice president of The Boeing Company, and president and chief executive officer of Boeing Commercial Airplanes. Mr. Mulally also was a member of Boeing's Executive Council, and served as Boeing's senior executive in the Pacific Northwest. He was named Boeing's president of Commercial Airplanes in September 1998; the responsibility of chief executive officer for the business unit was added in March 2001.
- Mr. Leitch served as the Deputy Assistant and Deputy Counsel to President George W. Bush from December 2002 to March 2005. From June 2001 until December 2002, he served as Chief Counsel for the Federal Aviation Administration, overseeing a staff of 290 in Washington and the agency's 11 regional offices. Prior to June 2001, Mr. Leitch was a partner at Hogan & Hartson LLP in Washington DC, where his practice focused on appellate litigation in state and federal court.
- Mr. Ojakli served as Principal Deputy for Legislative Affairs for President George W. Bush from December 2002 to 2003, and was Deputy Assistant to the President from 2001 to 2002. Prior to that, from 1998 to 2000, he was the Policy Director and Chief of Staff to the Senate Republican Conference Secretary.

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

PART II

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

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

The table below shows the high and low sales prices for our Common Stock and the dividends we paid per share of Common and Class B Stock for each quarterly period in 2005 and 2006:

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

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

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

As of February 9, 2007, stockholders of record of Ford included 172,480 holders of Common Stock (which number does not include 1,425 former holders of old Ford Common Stock who have not yet tendered their shares pursuant to our recapitalization, known as the Value Enhancement Plan, which became effective on August 9, 2000) and 103 holders of Class B Stock.

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

During the fourth quarter of 2006, we purchased shares of our Common Stock as follows:

Period	Total Number of Shares Purchased*	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
Oct. 1, 2006 through Oct. 31, 2006	1,731,686	\$ 8.21	0	No publicly announced repurchase program in place
Nov. 1, 2006 through Nov. 30, 2006	1,691,819	\$ 8.61	0	No publicly announced repurchase program in place
Dec. 1, 2006 through Dec. 31, 2006	<u>2,124,176</u>	<u>\$ 7.32</u>	<u>0</u>	No publicly announced repurchase program in place
Total	<u>5,547,681</u>	<u>\$ 7.99</u>	<u>0</u>	

* We currently do not have a publicly announced repurchase program in place. Of the 5,547,681 shares purchased, 5,532,458 shares were purchased from the Ford Motor Company Savings and Stock Investment Plan for Salaried Employees ("SSIP") and the Tax Efficient Savings Plan for Hourly Employees ("TESPHE"). Shares are generally purchased from SSIP and TESPHE when participants in those plans elect to sell units in the Ford Stock Fund upon retirement, upon termination of employment with the Company, related to an in-service distribution, or to fund a loan against an existing account balance in the Ford Stock Fund. Shares are not purchased from these plans when a participant transfers account balances out of the Ford Stock Fund and into another investment option under the plans. For the full year 2006, we purchased 23,766,410 shares on such basis from participants in SSIP and TESPHE. The remaining shares were acquired from our employees or directors in accordance with our various compensation plans as a result of share withholdings to pay income taxes with respect to: (i) the lapse of restrictions on restricted stock, (ii) the issuance of unrestricted stock, including issuances as a result of the conversion of restricted stock equivalents, or (iii) to pay the exercise price and related income taxes with respect to certain exercises of stock options.

ITEM 6. Selected Financial Data

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

	2006	2005	2004	2003	2002
SUMMARY OF OPERATIONS					
Total Company					
Sales and revenues	\$ 160,123	\$ 176,896	\$ 172,316	\$ 166,095	\$ 167,000
Income/(loss) before income taxes	\$ (15,051)	\$ 1,079	\$ 4,109	\$ 914	\$ 4,036
Provision/(credit) for income taxes	(2,646)	(845)	643	(46)	1,459
Minority interests in net income of subsidiaries	210	280	282	314	367
Income/(loss) from continuing operations	(12,615)	1,644	3,184	646	2,210
Income/(loss) from discontinued operations	2	47	(146)	(143)	(333)
Cumulative effects of change in accounting principle	—	(251)	—	(264)	(1,002)
Net income/(loss)	<u>\$ (12,613)</u>	<u>\$ 1,440</u>	<u>\$ 3,038</u>	<u>\$ 239</u>	<u>\$ 875</u>
Automotive Sector					
Sales	\$ 143,307	\$ 153,474	\$ 147,119	\$ 139,433	\$ 134,706
Operating income/(loss)	(17,921)	(4,188)	(200)	(1,035)	(507)
Income/(loss) before income taxes	(17,017)	(3,874)	(178)	(1,387)	(957)
Financial Services Sector					
Revenues	\$ 16,816	\$ 23,422	\$ 25,197	\$ 26,662	\$ 32,294
Income/(loss) before income taxes	1,966	4,953	4,287	2,301	4,993
Total Company Data Per Share of Common and Class B Stock					
Basic:					
Income/(loss) from continuing operations	\$ (6.72)	\$ 0.89	\$ 1.74	\$ 0.35	\$ 1.21
Income/(loss) from discontinued operations	—	0.03	(0.08)	(0.08)	(0.19)
Cumulative effects of change in accounting principle	—	(0.14)	—	(0.14)	(0.55)
Net income/(loss)	<u>\$ (6.72)</u>	<u>\$ 0.78</u>	<u>\$ 1.66</u>	<u>\$ 0.13</u>	<u>\$ 0.47</u>
Diluted:					
Income/(loss) from continuing operations	\$ (6.72)	\$ 0.87	\$ 1.59	\$ 0.35	\$ 1.14
Income/(loss) from discontinued/hold-for-sale operations	—	0.02	(0.07)	(0.08)	(0.16)
Cumulative effects of change in accounting principle	—	(0.12)	—	(0.14)	(0.47)
Net income/(loss)	<u>\$ (6.72)</u>	<u>\$ 0.77</u>	<u>\$ 1.52</u>	<u>\$ 0.13</u>	<u>\$ 0.51</u>
Cash dividends	\$ 0.25	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.40
Common stock price range (NYSE Composite)					
High	\$ 9.48	\$ 14.75	\$ 17.34	\$ 17.33	\$ 18.23
Low	6.06	7.57	12.61	6.58	6.90
Average number of shares of Common and Class B Stock outstanding (in millions)	1,879	1,846	1,830	1,832	1,819
SECTOR BALANCE SHEET DATA AT YEAR-END					
Assets					
Automotive Sector	\$ 122,634	\$ 113,825	\$ 113,251	\$ 111,208	\$ 100,140
Financial Services Sector	169,050	162,194	189,188	195,509	187,576
Intersector elimination	(1,467)	(83)	(2,753)	(3,356)	(5,865)
Total assets	<u>\$ 290,217</u>	<u>\$ 275,936</u>	<u>\$ 299,686</u>	<u>\$ 303,361</u>	<u>\$ 281,851</u>
Long-term Debt					
Automotive Sector	\$ 28,514	\$ 16,900	\$ 17,250	\$ 18,758	\$ 13,363
Financial Services Sector	115,859	103,080	112,080	123,655	121,304
Total long-term debt	<u>\$ 144,373</u>	<u>\$ 119,980</u>	<u>\$ 129,330</u>	<u>\$ 142,413</u>	<u>\$ 134,667</u>

Stockholders' Equity

<u><u>\$ (3,465)</u></u>	<u><u>\$ 13,442</u></u>	<u><u>\$ 17,437</u></u>	<u><u>\$ 13,459</u></u>	<u><u>\$ 7,633</u></u>
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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Generation of Revenue, Income and Cash

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

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

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

Transactions between our Automotive and Financial Services sectors occur in the ordinary course of business. For example, Ford Credit receives interest supplements and other support cost payments from the Automotive sector in connection with special vehicle financing and leasing programs that it sponsors. Ford Credit records these payments as revenue, and the Automotive sector makes the related cash payments, over the expected life of the related finance receivable or operating lease. See Note 1 of the Notes to the Financial Statements for a more detailed discussion of transactions and payments between our Automotive and Financial Services sectors. Our Automotive sector records the estimated costs of marketing incentives, including dealer and retail customer cash payments (e.g., rebates) and costs of special financing and leasing programs, as a reduction to revenue. These reductions to revenue are accrued at the later of the date the related vehicle sales to the dealer are recorded or at the date the incentive program is both approved and communicated.

Key Economic Factors and Trends Affecting the Automotive Industry

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

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

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

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

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

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

Although we have taken measures to have employees and retirees bear a higher portion of the costs of their health care benefits, we expect our health care costs to continue to increase. For 2007, our trend assumptions for U.S. health care costs include an initial trend rate of six percent, gradually declining to a steady state trend rate of five percent reached in 2011. These assumptions include the effect of actions we are taking and expect to take to offset health care inflation, including eligibility management, employee education and wellness programs, competitive sourcing, and employee cost sharing.

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

Currency Exchange Rate Volatility. The U.S. dollar has depreciated against most major currencies since 2002. This created downward margin pressure on auto manufacturers that have U.S. dollar revenue with foreign currency cost. Because we produce vehicles in Europe (e.g., Jaguar, Land Rover, Aston Martin and Volvo models) for sale in the United States and produce components in Europe (e.g., engines) for use in some of our North American vehicles, we experienced margin pressure. Although this pressure was offset partially by gains on foreign exchange derivatives, this offset declines over time due to the expiration of favorable hedges previously put in place. We, like many other automotive manufacturers with sales in the United States, are not always able to price for depreciation of the U.S. dollar due to the extremely competitive pricing environment in the United States.

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

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

CO₂ Emissions Standards for Medium and Heavy Trucks. New, more stringent U.S. regulatory requirements for truck emissions took effect on January 1, 2007, which increased the cost of engines used in medium and heavy trucks. These standards did not apply to vehicles purchased prior to the implementation of the new regulations. As a result, sales of medium and heavy trucks were elevated in 2006 as buyers pulled ahead orders that they would otherwise have made at a later date. This may result in a deterioration of the sales pace for medium and heavy trucks in 2007.

Trends and Strategies

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

- Restructuring the Company to be profitable at lower volumes and with a changed vehicle mix;
- Accelerating product development and reducing manufacturing complexity;
- Obtaining and maintaining adequate liquidity to fund the first two priorities; and
- Working together through teamwork and accountability.

Restructuring the Company

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

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

Personnel reductions

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

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

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

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

Capacity alignment

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

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

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

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

* Based on a two-shift operating pattern

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

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

- Atlanta Assembly Plant (idled in 2006);
- Batavia Transmission Plant (to be idled in 2008);
- Essex Engine Plant (to be idled in 2007);
- Maumee Stamping Plant (to be idled in 2008);
- Norfolk Assembly Plant (to be idled in 2007);
- St. Louis Assembly Plant (idled in 2006);
- Twin Cities Assembly Plant (to be idled in 2008);
- Windsor Casting Plant (to be idled in 2007); and
- Wixom Assembly Plant (to be idled in 2007).

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

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

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

Accelerating Product Development and Reducing Manufacturing Complexity

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

- *Ford North America*: the all-new Ford Edge and Lincoln MKX crossover models, substantially new versions of the Ford Expedition and Lincoln Navigator models, new models of our segment-leading Ford Super Duty trucks, and new versions of the Lincoln MKZ sedan and Ford Escape and Mercury Mariner compact sport utility vehicles and hybrids;
- *Ford Europe*: the award-winning Ford S-MAX crossover vehicle (named "Car of the Year 2007" in Europe), Galaxy minivan, and Transit truck (named "International Van of the Year 2007" in Europe); and
- *PAG*: Jaguar XKR coupe, Land Rover/Freelander/LR2 SUVs, Volvo S80 sedan and Volvo C30 coupe.

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

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

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

Obtaining and Maintaining Adequate Liquidity

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

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

Working Together through Teamwork and Accountability

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

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

Financial Impact and Assumptions

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

- Sales volume and mix of products stabilizing in North America, with U.S. market share in the 14% to 15% range for Ford, Lincoln and Mercury brands, and lower fleet sales as a percentage of total sales. This in part reflects cessation in 2006 of production of the Ford Taurus sedan in Atlanta and Ford Freestar and Mercury Monterey minivans in Oakville, Ontario. In addition, we expect growth in sales volumes outside the United States.
- Cumulative reduction in annual operating costs for our Ford North America segment of about \$5 billion by the end of 2008 compared with 2005, largely reflecting the personnel and capacity reductions discussed above, and continuing cost improvements in 2009.

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

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

RESULTS OF OPERATIONS

FULL-YEAR 2006 RESULTS OF OPERATIONS

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

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

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

- (a) See Note 18 of the Notes to the Financial Statements for disclosure regarding 2006 effective tax rate.
- (b) Primarily related to Ford Europe's consolidated 41%-owned affiliate, Ford Otosan; the decrease in 2006 primarily reflected the impact on deferred tax balances of tax law changes in Turkey. The pre-tax results for Ford Otosan were \$509 million in 2006, \$503 million in 2005, and \$452 million in 2004. See "Item 2. Properties" for additional discussion of Ford Otosan.
- (c) See Note 27 of the Notes to the Financial Statements.

Included in *Income/(loss) before income taxes* are items we do not consider indicative of our ongoing operating activities ("special items"). The following table details 2006, 2005, and 2004 special items by segment or business unit (in millions):

	2006	2005	2004
Automotive Sector			
Ford North America			
Jobs Bank Benefits and personnel-reduction programs (a)	\$ (4,760)	\$ (401)	\$ —
Pension curtailment charges	(2,741)	—	—
Fixed asset impairment charges	(2,200)	—	—
U.S. plant idlings (primarily fixed-asset write-offs)	(281)	—	—
Visteon-related charges (primarily valuation allowance against employee-related receivables) (b)	—	(468)	(600)
Fuel-cell technology charges	—	(116)	(182)
Divestiture of non-core business (Beanstalk Group, LLC)	—	(59)	—
Changes in state non-income tax law	—	85	—
Total Ford North America	(9,982)	(959)	(782)
Ford South America			
Legal settlement relating to social welfare tax liability	110	—	—
Ford Europe			
Personnel-reduction programs	(84)	(510)	(49)
Premier Automotive Group ("PAG")			
Jaguar and Land Rover fixed asset impairment charges	(1,600)	(1,300)	—
Personnel-reduction programs/Other	(378)	(245)	(110)
Ford Asia Pacific and Africa/Mazda			
Personnel-reduction programs	(103)	(33)	—
Mazda pension transfer	115	—	—
Divestiture of non-core business (certain Australia dealerships)	—	14	(81)
Other Automotive			
Divestiture of non-core businesses (primarily related to Kwik-Fit Group Limited)	—	152	17
Total Automotive Sector	(11,922)	(2,881)	(1,005)
Financial Services Sector			
Divestiture of non-core business (The Hertz Corporation ("Hertz"))	—	1,499	—
Property clean-up settlement	—	—	45

Total

\$ (11,922)

\$ (1,382)

\$ (960)

-
- (a) See Note 17 of the Notes to the Financial Statements for definition and discussion of Jobs Bank Benefits.
(b) See Notes 19 and 23 of the Notes to the Financial Statements for discussion of Visteon-related charges.

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

AUTOMOTIVE SECTOR RESULTS OF OPERATIONS

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

2006 Compared with 2005

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

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

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

	Sales (in billions)				Wholesales (a) (in thousands)			
	2006	2005	2006 Over/(Under) 2005	%	2006	2005	2006 Over/(Under) 2005	%
The Americas								
Ford North America	\$ 69.4	\$ 80.6	\$ (11.2)	(14)%	3,051	3,410	(359)	(11)%
Ford South America	5.7	4.4	1.3	30	381	335	46	14
Total The Americas	75.1	85.0	(9.9)	(12)	3,432	3,745	(313)	(8)
Ford Europe and PAG								
Ford Europe	30.4	29.9	0.5	2	1,846	1,753	93	5
PAG	30.0	30.3	(0.3)	(1)	730	764	(34)	(4)
Total Ford Europe and PAG	60.4	60.2	0.2	—	2,576	2,517	59	2
Ford Asia Pacific and Africa/Mazda								
Ford Asia Pacific and Africa (b)	6.5	7.7	(1.2)	(15)	517	473	44	9
Mazda and Associated Operations (c)	1.3	0.6	0.7	—	72	32	40	—
Total Ford Asia Pacific and Africa/Mazda	7.8	8.3	(0.5)	(6)	589	505	84	17
Total	<u>\$ 143.3</u>	<u>\$ 153.5</u>	<u>\$ (10.2)</u>	(7)%	<u>6,597</u>	<u>6,767</u>	<u>(170)</u>	(3)%

(a) Wholesale unit volumes generally are reported on a where-sold basis, and include all Ford-badged units and units manufactured by Ford that are sold to other manufacturers, as well as units distributed for other manufacturers. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes. For a discussion of our revenue recognition policy for these sales, see Note 2 of the Notes to the Financial Statements.

(b) Included in wholesale unit volumes of Ford Asia Pacific and Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 159,000 and 87,000 units in 2006 and 2005, respectively.

“Sales” above does not include revenue from these units.

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

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

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

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

- (a) Dealer-owned stocks represent our estimate of vehicles shipped to our customers (dealers) and not yet sold by the dealers to their retail customers, as well as some vehicles reflected in our inventory.
- (b) Includes only Ford and, in certain markets (primarily U.S.), Lincoln and Mercury brands.
- (c) South America market share is based on vehicle retail sales for our six major markets (Argentina, Brazil, Chile, Colombia, Ecuador, and Venezuela).
- (d) European 2006 market share is based, in part, on estimated vehicle registrations for our 19 major European markets. See "Item 1. Business" for discussion of these markets.
- (e) Asia Pacific and Africa 2006 market share is based on estimated vehicle retail sales for our 12 major markets (Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand, and Vietnam).
- (f) Dealer-owned stocks for Asia Pacific and Africa include primarily Ford-brand vehicles as well as a small number of units distributed for other manufacturers.

Overall Automotive Sector

The decline in earnings reflected the effect of Jobs Bank Benefits charges and higher personnel-reduction program charges for our Ford North America segment, unfavorable volume and mix (mainly lower market share, adverse product mix in Ford North America, and lower dealer stock levels), pension curtailment charges, impairment charges related to our long-lived assets in Ford North America and Jaguar and Land Rover operations, and unfavorable net pricing. These adverse factors were offset partially by favorable cost changes. Our efforts to restructure the Ford North America business resulted in the Jobs Bank Benefits and personnel-reduction program charges, and the related pension curtailment charges.

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

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

Explanation of Cost Changes	2006 Better/(Worse) Than 2005
Manufacturing and engineering	\$ 1.0
Pension and Other Postretirement Employee Benefits ("OPEB")	0.5
Overhead	0.4
Net product	0.1
Depreciation and amortization	(0.1)
Warranty-related	(0.1)

accruals related to unfavorable prior model-year performance and the non-recurrence in 2006 of favorable reserve adjustments, offset partially by favorable coverage performance in Ford North America.
Primarily increased advertising costs.

Advertising & Sales Promotions		(0.3)
Total	43	<u>\$ 1.5</u>

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

The Americas

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

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

Ford Europe and PAG

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

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

Ford Asia Pacific and Africa/Mazda

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

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

Other Automotive

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

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

2005 Compared with 2004

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

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

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

	Sales (in billions)				Wholesales (a) (in thousands)			
	2005	2004	2005 Over/(Under) 2004	%	2005	2004	2005 Over/(Under) 2004	%
The Americas								
Ford North America	\$ 80.6	\$ 83.0	\$ (2.4)	(3)%	3,410	3,613	(203)	(6)%
Ford South America	4.4	3.0	1.4	46	335	291	44	15
Total The Americas	85.0	86.0	(1.0)	(1)	3,745	3,904	(159)	(4)
Ford Europe and PAG								
Ford Europe	29.9	26.5	3.4	13	1,753	1,736	17	1
PAG	30.3	27.6	2.7	10	764	773	(9)	(1)
Total Ford Europe and PAG	60.2	54.1	6.1	11	2,517	2,509	8	—
Ford Asia Pacific and Africa/Mazda								
Ford Asia Pacific and Africa (b)	7.7	7.0	0.7	10	473	429	44	10
Mazda and Associated Operations (c)	0.6	—	0.6	—	32	—	32	—
Total Ford Asia Pacific and Africa/Mazda	8.3	7.0	1.3	19	505	429	76	18
Total	<u>\$ 153.5</u>	<u>\$ 147.1</u>	<u>\$ 6.4</u>	4%	<u>6,767</u>	<u>6,842</u>	<u>(75)</u>	(1)%

- (a) Wholesale unit volumes generally are reported on a where-sold basis, and include all Ford-badged units and units manufactured by Ford that are sold to other manufacturers, as well as units distributed for other manufacturers. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes. For a discussion of our revenue recognition policy for such sales, see Note 2 of the Notes to the Financial Statements.
- (b) Included in wholesales of Ford Asia Pacific and Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 87,000 and 66,000 units in 2005 and 2004, respectively. "Sales" above does not include revenue from these units.
- (c) Reflects sales of Mazda6 by our consolidated subsidiary, AAI, beginning with the consolidation of AAI in the third quarter of 2005. See Note 13 of the Notes to the Financial Statements.

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

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

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

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

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

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

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

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

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

Overall Automotive Sector

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

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

The Americas

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

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

Ford Europe and PAG

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

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

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

Ford Asia Pacific and Africa/Mazda

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

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

Other Automotive

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

FINANCIAL SERVICES SECTOR RESULTS OF OPERATIONS

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

2006 Compared with 2005

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

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

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

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

Ford Credit

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

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

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

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

- *Securitized off–balance sheet basis.* Includes receivables sold in securitization transactions that are not reflected on Ford Credit's balance sheet;
- *Managed basis.* Includes on–balance sheet and securitized off–balance sheet receivables and leases that Ford Credit continues to service; and
- *Serviced basis.* Includes managed receivables and leases and receivables sold in whole–loan sale transactions where Ford Credit retains no interest in the sold receivables, but which it continues to service.

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

Ford Credit's receivable levels are shown in the table below (in billions):

	December 31,	
	2006	2005
On–Balance Sheet		
Finance receivables		
Retail installment	\$ 70.4	\$ 65.7
Wholesale	35.2	39.6
Other	<u>3.8</u>	<u>4.6</u>
Total finance receivables, net	109.4	109.9
Net investment in operating leases	<u>25.9</u>	<u>22.2</u>
Total on–balance sheet*	<u>\$ 135.3</u>	<u>\$ 132.1</u>
Memo: Allowance for credit losses included above	\$ 1.1	\$ 1.6
Securitized Off–Balance Sheet		
Finance receivables		
Retail installment	\$ 12.2	\$ 18.0
Wholesale	—	—
Other	—	—
Total finance receivables	<u>12.2</u>	<u>18.0</u>
Net investment in operating leases	—	—
Total securitized off–balance sheet	<u>\$ 12.2</u>	<u>\$ 18.0</u>
Managed		
Finance receivables		
Retail installment	\$ 82.6	\$ 83.7
Wholesale	35.2	39.6
Other	<u>3.8</u>	<u>4.6</u>
Total finance receivables, net	121.6	127.9
Net investment in operating leases	<u>25.9</u>	<u>22.2</u>
Total managed	<u>\$ 147.5</u>	<u>\$ 150.1</u>
Serviced	<u>\$ 149.5</u>	<u>\$ 153.0</u>

* At December 31, 2006 and 2005, includes finance receivables of \$56.5 billion and \$44.7 billion, respectively, that have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. In addition, at December 31, 2006 and 2005, includes net investment in operating leases of \$17.3 billion and \$6.5 billion, respectively, that have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. These underlying securitized assets are available only for payment of the debt or other obligations issued or arising in the securitization transactions; they are not available to pay Ford Credit's other obligations or the claims of Ford Credit's other creditors.

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

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

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

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

* Reacquired receivables reflect the amount of receivables that resulted from the accounting consolidation of Ford Credit's FCAR Owner Trust retail securitization program ("FCAR") in the second quarter of 2003.

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

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

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

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

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

Other Financial Services

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

2005 Compared with 2004

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

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

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

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

Ford Credit

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

Hertz

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

Other Financial Services

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

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

LIQUIDITY AND CAPITAL RESOURCES**Automotive Sector**

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

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

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

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

In managing our business, we classify changes in Automotive gross cash into two categories: operating-related, and other (which includes the impact of certain special items, contributions to funded pension plans, the net effect of the change in our VEBA on gross cash, capital transactions with the Financial Services sector, acquisitions and divestitures, dividends paid to shareholders, changes in Automotive debt, and other — primarily financing-related). Our key metrics are operating-related cash flow, which best represents the ability of our Automotive operations to generate cash, and Automotive gross cash. We believe the cash flow analysis reflected in the table below, which differs from a cash flow statement presented in accordance with generally accepted accounting principles in the United States ("GAAP"), is useful to investors because it includes cash flow elements that we consider to be related to our operating activities (e.g., capital spending) that are not included in *Cash flows from operating activities of continuing operations*, the most directly comparable GAAP financial measure.

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

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

	2006	2005	2004
Gross cash at end of period	\$ 33.9	\$ 25.1	\$ 23.6
Gross cash at beginning of period	25.1	23.6	25.9
Total change in gross cash	<u>\$ 8.8</u>	<u>\$ 1.5</u>	<u>\$ (2.3)</u>

Operating-related cash flows

Automotive income/(loss) before income taxes	\$ (17.0)	\$ (3.9)	\$ (0.2)
Special items	11.9	2.9	1.0
Capital expenditures	(6.8)	(7.1)	(6.3)
Depreciation and special tools amortization	7.1	6.9	6.4
Changes in receivables, inventory and trade payables (a)	(2.0)	1.3	(1.1)
Other (b)	<u>1.2</u>	<u>(1.4)</u>	<u>1.4</u>
Total operating-related cash flows	(5.6)	(1.3)	1.2

Other changes in cash

Cash impact of personnel-reduction programs and Jobs Bank Benefits accrual	(1.2)	(0.4)	—
Contributions to funded pension plans	(0.8)	(2.5)	(2.2)
Net effect of VEBA on gross cash	3.4	(0.2)	(2.8)
Capital transactions with Financial Services sector (c)	1.4	2.3	4.2
Acquisitions and divestitures	0.2	5.3	0.4
Dividends paid to shareholders	(0.5)	(0.7)	(0.7)
Net proceeds from/(payments on) Automotive sector debt	11.7	(0.5)	(2.4)
Other (d)	<u>0.2</u>	<u>(0.5)</u>	<u>—</u>
Total change in gross cash	<u>\$ 8.8</u>	<u>\$ 1.5</u>	<u>\$ (2.3)</u>

- (a) In 2006, working capital changes reflected the impact of lower production volumes on accounts payable, the effect on inventory of several new product launches at year end, and changes in our value-added tax receivables collection process in Europe.
- (b) Primarily expense and payment timing differences for items such as pension and OPEB, marketing, and warranty.
- (c) Primarily dividends received from Ford Credit, excluding proceeds from Financial Services sector divestitures paid to the Automotive sector. Beginning in 2007, Ford Credit will suspend its regular dividend payments.
- (d) In 2006, primarily proceeds from tax refunds (an inflow of about \$300 million), the net issuance of Ford Common Stock under employee savings plans (an inflow of about \$200 million), and dividends to minority shareholders of consolidated subsidiaries (an outflow of about \$200 million).

Shown in the table 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):

	2006	2005	2004
Cash flows from operating activities of continuing operations	\$ (4.2)	\$ 5.4	\$ 7.0
Items included in operating-related cash flows			
Capital expenditures	(6.8)	(7.1)	(6.3)
Net transactions between Automotive and Financial Services sectors*	(0.5)	(0.4)	1.3
Items not included in operating-related cash flows			
Cash impact of Jobs Bank Benefits and separation programs	1.2	0.4	—
Net (sales)/purchases of trading securities	6.8	0.6	(5.6)
Pension contributions	0.8	2.5	2.2
VEBA cash flows — (net reimbursement for benefits paid)/contributions to VEBA	(2.9)	(2.8)	2.8
Other	<u>—</u>	<u>0.1</u>	<u>(0.2)</u>
Operating-related cash flows	<u>\$ (5.6)</u>	<u>\$ (1.3)</u>	<u>\$ 1.2</u>

* Primarily payables and receivables between the sectors in the normal course of business.

Debt and Net Cash. At December 31, 2006, our Automotive sector had total debt of \$30 billion, compared with \$17.9 billion a year ago. The increase in debt primarily reflected \$4.95 billion of unsecured convertible debt and \$7 billion of secured bank financing that we completed in December 2006. For more information on the nearly \$12 billion of new financing, see Note 15 of the Notes to the Financial Statements.

At December 31, 2006, our Automotive sector had net cash (defined as gross cash less total debt) of \$3.9 billion, compared with \$7.2 billion at the end of 2005.

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

The weighted-average maturity of our total automotive debt is approximately 17 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, 2011, and about \$15 billion matures or has a put option by December 31, 2016. For additional information on debt, see Note 15 of the Notes to the Financial Statements.

Credit Facilities. At December 31, 2006, we had \$13 billion of contractually-committed credit facilities with financial institutions, including \$11.5 billion pursuant to a senior secured credit facility established in December 2006, \$1.1 billion of global Automotive unsecured credit facilities, and \$400 million of local credit facilities available to foreign affiliates. At December 31, 2006, \$12.5 billion of these facilities were available for use. For further discussion of our committed credit facilities, see Note 15 of the Notes to the Financial Statements. This new secured credit facility, together with the \$12 billion of funds raised in December 2006 discussed above, was obtained primarily to fund the cash outflows discussed below.

During the period 2007 through 2009, we expect cumulative Automotive operating-related cash outflows of about \$10 billion, and cumulative cash expenditures for restructuring actions of about \$7 billion. More than half of this \$17 billion cash outflow is expected to occur in 2007. This cash outflow primarily reflects substantial operating losses in our Automotive sector through 2008, and cash expenditures incurred in connection with personnel separations. It also reflects our expectation to continue to invest in new products throughout this period at about the same level as we have during the past few years, or approximately \$7 billion annually.

In the period 2007 through 2009, we expect other non-operating related net Automotive cash inflows of about \$2 billion, reflecting the use of about \$3 billion in long-term VEBA assets, proceeds from receipt of government tax refunds and affiliate tax payments, and proceeds from planned divestitures of Automobile Protection Corporation and all or part of Aston Martin, offset partially by pension contributions and reductions of other Automotive debt.

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

In 2006, we made \$800 million of cash contributions to our funded pension plans. During 2007, we expect to contribute from available Automotive cash and cash equivalents \$2.2 billion to our worldwide pension plans, including 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 2007.

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's funding strategy is to maintain a high level of liquidity by having a substantial cash balance and committed funding capacity, allowing it to meet its short-term funding obligations. As a result of lower credit ratings, its unsecured funding costs have increased over time. While Ford Credit continues to access the unsecured debt market, it has increased its use of securitization funding as it is presently more cost effective than unsecured funding and allows it access to a broad investor base. Ford Credit plans to meet a significant portion of its 2007 funding requirements through securitizations, and will continue to expand and diversify its asset-backed funding by asset class and region. 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. Ford Credit will continue to pursue such arrangements in the future. Over time, Ford Credit may need to reduce further the amount of receivables and operating leases it purchases and originates. A significant reduction in Ford Credit's managed receivables would reduce its ongoing profits, and could adversely affect its ability to support the sale of our vehicles.

Debt and Cash. Ford Credit's total debt plus securitized off-balance sheet funding was \$150.9 billion at December 31, 2006, about \$900 million higher compared with a year ago. At December 31, 2006, Ford Credit's cash, cash equivalents and marketable securities (excluding marketable securities related to insurance activities) totaled \$21.8 billion (including \$3.7 billion to be used only to support on-balance sheet securitizations), compared with \$17.9 billion at year-end 2005. In the normal course of its funding activities, Ford Credit may generate more proceeds

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

than are necessary for its immediate funding needs. These excess amounts are maintained primarily as highly liquid investments, which provide liquidity for Ford Credit's short-term funding 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 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.

Ford Credit's funding sources include primarily securitizations and 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. During 2006, 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), the stability of the market for asset-backed securities, 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: 2006 — 48%, 2005 — 38%, 2004 — 26%.

Ford Credit obtains short-term funding from the sale of floating rate demand notes under its Ford Interest Advantage program. At December 31, 2006, the principal amount outstanding of such notes was \$5.6 billion. In addition, Ford Credit issues unsecured commercial paper in the United States, Europe and other international markets, with sales mostly to qualified institutional investors. Ford Credit does not hold reserves specifically to fund the payment of any of its 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 short-term funding obligations.

The following table illustrates Ford Credit's public and private term funding transactions for 2005 and 2006 and its planned issuances for 2007 (in billions):

	2007 Forecast	2006	2005
Public Term Funding Transactions			
Unsecured	\$ 3 – 5	\$ 9	\$ 9
Securitized	<u>7 – 15</u>	<u>14</u>	<u>12</u>
Total public term funding transactions	<u>\$ 10 – 20</u>	<u>\$ 23</u>	<u>\$ 21</u>
Private Term Funding Transactions *	\$ 25 – 35	\$ 29	\$ 18

* Includes securitizations, term debt, and whole-loan sales; excludes Ford Credit's on-balance sheet asset-backed commercial paper programs and proceeds from revolving transactions.

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 London Interbank Offered Rate ("LIBOR") or other comparable benchmark rates. Ford Credit's unsecured commercial paper and floating rate demand notes funding costs are based on spreads over LIBOR. Ford Credit's securitized funding spreads (which are based on the creditworthiness of the underlying securitized asset and enhancements) have not been volatile, while its unsecured long-term spreads have been volatile over the last three years. During 2006, Ford Credit's spreads on the fixed rate notes offered in its U.S. public retail securitizations ranged between six and eleven basis points over the relevant benchmark rates, while its unsecured long-term debt funding spreads as measured by the five-year credit default swap market have fluctuated between 270 and 585 basis points above LIBOR.

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

Credit Facilities and Committed Liquidity Programs. For additional funding and to maintain liquidity, at December 31, 2006 Ford Credit and its majority-owned subsidiaries, including FCE, had \$3.8 billion of contractually-committed unsecured credit facilities with financial institutions, of which \$2.6 billion were available for use. In addition, at December 31, 2006, banks provided \$18.9 billion of contractually-committed liquidity facilities exclusively to support Ford Credit's two on-balance sheet asset-backed commercial paper programs. Ford Credit also has entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits ("conduits") and other financial institutions pursuant to which such parties are contractually committed, at Ford Credit's option, to purchase from Ford Credit eligible retail or wholesale assets or to make advances under asset-backed securities backed by wholesale assets for proceeds of up to approximately \$29.1 billion. At December 31, 2006, \$9.7 billion of these commitments were in use. In addition, Ford Credit has a multi-year committed liquidity program for the purchase of up to \$6 billion of unrated asset-backed securities that at its option can be supported with various retail, wholesale, or leased assets. Ford Credit's ability to obtain funding under this program is subject to having a sufficient amount of assets available to issue the securities. For further discussion of these facilities and programs, see Note 15 of the Notes to the Financial Statements.

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

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

$$\text{Managed Leverage} = \frac{\text{Total Debt} + \text{Securitized Off-Balance Sheet Receivables} - \text{Retained Interest in Securitized Off-Balance Sheet Receivables} - \text{Cash and Cash Equivalents and Marketable Securities}^* - \text{Fair Value Hedge Accounting Adjustments on Total Debt}}{\text{Equity} + \text{Minority Interest} - \text{Fair Value Hedge Accounting Adjustments on Equity}}$$

* Excluding marketable securities related to insurance activities.

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

	December 31,		
	2006	2005	2004
Total debt	\$139.7	\$133.4	\$142.4
Total stockholder's equity	11.8	11.4	12.8
Debt-to-equity ratio (to 1)	11.9	11.7	11.1

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

	December 31,		
	2006	2005	2004
Total debt	\$ 139.7	\$ 133.4	\$ 142.4
Securitized off-balance sheet receivables outstanding (a)	12.2	18.0	37.7
Retained interest in securitized off-balance sheet receivables (b)	(1.0)	(1.4)	(9.5)
Adjustments for cash, cash equivalents and marketable securities (c)	(21.8)	(17.9)	(12.7)
Fair value hedge accounting adjustments	(0.1)	(0.5)	(1.3)
Total adjusted debt	<u>\$ 129.0</u>	<u>\$ 131.6</u>	<u>\$ 156.6</u>
Total stockholder's equity (including minority interest)	\$ 11.8	\$ 11.4	\$ 12.8
Fair value hedge accounting adjustments	(0.5)	(0.7)	(1.3)
Total adjusted equity	<u>\$ 11.3</u>	<u>\$ 10.7</u>	<u>\$ 11.5</u>
Managed debt-to-equity ratio (to 1)	11.4	12.3	13.6

(a) Includes securitized funding from discontinued operations in 2004.

(b) Includes retained interest in securitized receivables from discontinued operations in 2004.

(c) Excluding marketable securities related to insurance activities.

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 fair value hedge 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 fair value hedge accounting adjustments vary over the term of the underlying debt and securitized funding obligations based on changes in market interest rates. Ford Credit generally repays its debt obligations as they mature. As a result, Ford Credit excludes the impact of the fair value hedge accounting adjustments on both the numerator and denominator in order to exclude the interim effects of changes in market interest rates. Accordingly, the managed leverage measure provides Ford Credit's investors with meaningful information regarding management's decision-making processes.

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At December 31, 2006, Ford Credit's managed leverage was 11.4 to 1, compared with 12.3 to 1 a year ago. In 2006, Ford Credit paid cash dividends of \$1.35 billion. To further enhance future funding flexibility, Ford Credit has suspended regular dividend payments beginning in 2007. Correspondingly, Ford Credit expects a continued reduction in its managed leverage.

Total Company

Stockholders' Equity. Our stockholders' equity was negative \$3.5 billion at December 31, 2006, down \$16.9 billion compared with December 31, 2005. The decrease primarily reflected 2006 net losses and recognition of previously unamortized changes in the funded status of our defined benefit postretirement plans (such as assumption changes and benefit plan changes) as required by the implementation of Statement of Financial Accounting Standards ("SFAS") No. 158, offset partially by foreign currency translation adjustments. For additional discussion of SFAS No. 158 and its impact on our financial position, see Note 23 of the Notes to the Financial Statements. For additional discussion of foreign currency translation adjustments, see Note 2 of the Notes to the Financial Statements.

Credit Ratings

Our short- and long-term debt is rated by four credit rating agencies designated as nationally recognized statistical rating organizations ("NRSROs") by the SEC:

- Dominion Bond Rating Service Limited ("DBRS");
- Fitch, Inc. ("Fitch");
- Moody's Investors Service, Inc. ("Moody's"); and
- Standard & Poor's Rating Services, a division of 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 and profitability, declining market share, excess industry capacity, industry pricing pressure and rising health care costs.

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

The following ratings actions were taken in the fourth quarter 2006:

Ford

- DBRS: In November 2006, DBRS assigned Ford an issuer rating of B (low), lowered Ford's long-term senior unsecured rating to CCC (high) from B, rated Ford's senior secured credit facilities at B (high), and maintained the trend at Negative.
- Fitch: In November 2006, Fitch lowered Ford's long-term senior unsecured rating to B from B+, rated Ford's senior secured credit facilities at BB and maintained the outlook at Negative. In December 2006, Fitch lowered Ford's long-term senior unsecured rating to B- from B and maintained the outlook at Negative. Ford's issuer default rating of B was unaffected.
- Moody's: In November 2006, Moody's affirmed Ford's corporate rating at B3, lowered Ford's long-term senior unsecured rating to Caa1 from B3, rated Ford's senior secured credit facilities at Ba3, and maintained the outlook at Negative.
- S&P: In November 2006, S&P affirmed Ford's issuer credit rating at B, lowered Ford's long-term senior unsecured rating to CCC+ from B, rated Ford's senior secured credit facilities at B, and maintained the outlook at Negative.

Ford Credit

- DBRS: In November 2006, DBRS lowered Ford Credit's long-term senior unsecured rating to B from B (high), maintained the short-term rating at R-4, and maintained the trend at Negative.
- S&P, Moody's and Fitch: No ratings actions taken in the fourth quarter of 2006.

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

	Ford				Ford Credit		
	Issuer Default/ Corporate/ Issuer Rating	Long-Term Senior Unsecured	Senior Secured	Outlook / Trend	Long-Term Senior Unsecured	Short-Term Unsecured	Outlook / Trend
DBRS	B (low)	CCC (high)	B (high)	Negative	B	R-4	Negative
Fitch	B	B-	BB	Negative	BB-	B	Negative
Moody's	B3	Caa1	Ba3	Negative	B1	NP	Negative
S&P	B	CCC+	B	Negative	B*	B-3	Negative

* S&P rates FCE long-term senior unsecured rating as B+, maintaining a one notch differential versus Ford Credit.

OUTLOOK

Our current projection of first quarter 2007 production for certain segments is as follows (in thousands):

	First Quarter	
	Vehicle Unit Production	2007 Over/(Under) 2006
Ford North America	740	(136)
Ford Europe	520	29
PAG	210	15

We have set and communicated the following 2007 planning assumptions and operational metrics:

Planning Assumptions

Industry Volume (SAAR incl. heavy trucks):

-U.S. (million units)	16.8
-Europe (million units)	17.6
U.S. industry net pricing	Lower

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

Quality	Improved
Market share	
–U.S.	Lower
–Other regions	Higher
Automotive cost *	Lower
Cash flow	Negative
Capital spending (in billions)	About \$7

* At constant volume, mix and exchange; excluding special items.

As indicated in the table above, we anticipate that quality will continue to improve in 2007. We anticipate that U.S. market share will be lower as we reduce fleet sales, though new product introductions should increase market share in most other regions. We plan to continue to reduce Automotive costs during 2007, and we remain on track to deliver about \$5 billion of cost reductions in North America by the end of 2008 as compared with 2005. We anticipate that commodity and regulatory costs will continue to increase in 2007; that advertising and sales promotions costs will remain essentially flat; and that other product costs, manufacturing and engineering, pension and OPEB, depreciation and amortization, warranty and overhead costs should decrease. As previously disclosed, we anticipate that, from 2007 through 2009, cumulative Automotive operating-related cash outflows will be about \$10 billion, and cumulative restructuring expenditures about \$7 billion. We expect more than half of this \$17 billion in outflow to occur during 2007. These outflows also reflect plans to invest in new products at levels comparable to previous years, or about \$7 billion annually. During the same period, from 2007 through 2009, we also anticipate other non-operating related net Automotive cash inflows of about \$2 billion. For additional discussion of projected Automotive cash flows, see "Liquidity and Capital Resources – Automotive Sector" above.

As previously disclosed, we expect that market share and most earnings comparisons will remain challenging through the first three quarters of 2007. We expect that production levels will be down in the first half of 2007, before increasing on a year-over-year basis during the second half of the year. The decline in the first half of the year primarily reflects cessation of production of the Ford Taurus and Ford Freestar (in the fourth quarter of 2006) resulting in lower fleet and total share, as well as lower truck production. Year-over-year third-quarter earnings comparisons will be impacted by the non-recurrence of tax-related interest income we received in 2006. In addition, essentially no tax offsets to losses will be recognized during 2007, which will negatively impact comparisons for the first nine months of 2007. However, we do anticipate that special items in 2007 will be significantly lower than in 2006, with special items likely in the range of \$1 billion to \$2 billion excluding any gains or losses from the sale of any operations, and that our structural-related cost reductions will improve during the year as personnel are separated, plants are idled, and capacity is reduced.

By segment or business unit for full-year 2007, we anticipate that Ford North America will improve its results, though still incur a substantial loss. We anticipate that PAG will be profitable, and we expect continued profits from Ford South America, Ford Europe, and Mazda and Associated Operations. We expect that Ford Asia Pacific and Africa will report a full-year loss, primarily due to adverse segmentation in Australia and lower industry volumes in Taiwan. Net interest expense will be substantially higher in 2007 compared with 2006, primarily reflecting the impact of the new debt raised at the end of 2006, as well as the absence of tax-related interest income. In 2007, we expect total Automotive results including special items, though still a loss, to be substantially improved from 2006.

We expect Ford Credit's 2007 pre-tax profits to be substantially lower than 2006 due to higher borrowing costs, the non-recurrence of credit loss reserve reductions in the amounts experienced in 2006, the costs associated with its North America restructuring initiative (as described in "Item 1. Business — Financial Services Sector"), and the impact of lower receivable levels. Beginning with 2007, Ford Credit will suspend regular dividends. We expect year-end managed receivables to be in the range of \$140 billion to \$145 billion.

We currently expect our overall results including special items, though still a net loss, to be substantially improved from 2006.

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

Risk Factors

Statements included or incorporated by reference herein may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on expectations, forecasts and assumptions by our management and involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those stated, including, without limitation:

- Continued decline in market share;
- Continued or increased price competition resulting from industry overcapacity, currency fluctuations or other factors;
- A market shift (or an increase in or acceleration of market shift) away from sales of trucks or sport utility vehicles, or from sales of other more profitable vehicles in the United States;
- A significant decline in industry sales, particularly in the United States or Europe, resulting from slowing economic growth, geo-political events or other factors;
- Lower-than-anticipated market acceptance of new or existing products;
- Continued or increased high prices for or reduced availability of fuel;
- Currency or commodity price fluctuations;
- Adverse effects from the bankruptcy or insolvency of a major competitor;
- Economic distress of suppliers that has in the past and may in the future require us to provide financial support or take other measures to ensure supplies of components or materials;
- Labor or other constraints on our ability to restructure our business;
- Work stoppages at Ford or supplier facilities or other interruptions of supplies;
- Single-source supply of components or materials;
- Substantial pension and postretirement healthcare and life insurance liabilities impairing our liquidity or financial condition;
- Worse-than-assumed economic and demographic experience for our postretirement benefit plans (e.g., discount rates, investment returns, and health care cost trends);
- The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns or increased warranty costs;
- Increased safety, emissions (e.g., CO₂), fuel economy or other (e.g., pension funding) regulation resulting in higher costs, cash expenditures, and/or sales restrictions;
- Unusual or significant litigation or governmental investigations arising out of alleged defects in our products or otherwise;
- 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);
- Adverse effects on our operations resulting from certain geo-political or other events;
- 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;
- 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);
- Inability of Ford Credit to access debt or securitization markets around the world at competitive rates or in sufficient amounts due to additional credit rating downgrades or otherwise;
- Higher-than-expected credit losses;
- Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles;
- Changes in interest rates;
- Collection and servicing problems related to finance receivables and net investment in operating leases;
- Lower-than-anticipated residual values or higher-than-expected return volumes for leased vehicles; and
- New or increased credit, consumer or data protection or other regulations resulting in higher costs and/or additional financing restrictions.

We cannot be certain that any expectation, forecast or assumption made by management in preparing forward-looking statements will prove accurate, or that any projection will be realized. It is to be expected that there may be differences between projected and actual results. Our forward-looking statements speak only as of the date of their initial issuance, and we do not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. For additional discussion of these risks, see "Item 1A. Risk Factors."

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Warranty and Additional Service Actions

Nature of Estimates Required. The estimated warranty and additional service action costs are accrued for each vehicle at the time of sale. Estimates are principally based on assumptions regarding the lifetime warranty costs of each vehicle line and each model year of that vehicle line, where little or no claims experience may exist. In addition, the number and magnitude of additional service actions expected to be approved, and policies related to additional service actions, are taken into consideration. Due to the uncertainty and potential volatility of these estimated factors, changes in our assumptions could materially affect net income.

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

See Note 27 of the Notes to the Financial Statements for more information regarding costs and assumptions for warranties and additional service actions.

Pensions

Nature of Estimates Required. The estimation of our pension obligations, costs and liabilities requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

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

- *Discount rates.* We base the discount rate assumption primarily on the results of a cash flow matching analysis, which matches the future cash outflows for each major plan to a yield curve comprised of high quality bonds specific to the country of the plan. Benefit payments are discounted at the rates on the curve and a single discount rate specific to the plan is determined.
- *Expected return on plan assets.* The expected return on plan assets assumption reflects historical plan returns and long-run inputs from a range of advisors for capital market returns, inflation, bond yields, and other variables, adjusted for specific aspects of our investment strategy. The assumption is based on consideration of all inputs, with a focus on long-term trends to avoid short-term market influences. Assumptions are not changed unless structural trends in the underlying economy are identified, our asset strategy changes, or there are significant changes in other inputs.
- *Salary growth.* The salary growth assumption reflects our long-term actual experience, outlook and assumed inflation.

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

- *Inflation.* Our inflation assumption is based on an evaluation of external market indicators.
- *Expected contributions.* The expected amount and timing of contributions is based on an assessment of minimum requirements, and additional amounts based on cash availability and other considerations (e.g., funded status, avoidance of Pension Benefit Guaranty Corporation ("PBGC") penalty premiums, U.K. Pension Protection Fund levies, and tax efficiency).
- *Retirement rates.* Retirement rates are developed to reflect actual and projected plan experience.
- *Mortality rates.* Mortality rates are developed to reflect actual and projected plan experience.

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses. Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods. Amounts are recognized as a component of net expense over the expected future years of service (approximately 11 years for the major U.S. plans). In 2006, the U.S. actual return on assets was 14%, which exceeded the expected return of 8.5%. The year-end 2006 weighted average discount rates for the U.S. and non-U.S. plans increased by 25 and 33 basis points, respectively. These differences resulted in an unamortized gain of about \$5 billion. These gains are only amortized to the extent they exceed 10% of the higher of the market-related value of assets or the projected benefit obligation of the respective plan. For the major U.S. plans, the gains do not exceed this threshold and recognition will begin at a future measurement date.

See Note 23 of the Notes to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Sensitivity Analysis. The December 31, 2006 pension funded status and 2007 expense are affected by December 31, 2006 assumptions. Note that these sensitivities may be asymmetric and are specific to the time periods noted. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown. The effect of the indicated increase/(decrease) in selected factors is shown below (in millions):

Assumption	Percentage Point Change	Increase/(Decrease) in:				
		December 31, 2006			2007 Expense	
		U.S. Plans Funded Status and Equity	Non-U.S. Plans Funded Status and Equity	Total Plans Funded Status and Equity	U.S. Plans	Non-U.S. Plans
Discount rate	+/- 1.0 pt.	\$4,690/\$(5,230)	\$4,630/\$(5,440)	\$9,320/\$(10,670)	\$10/\$290	\$(380)/\$460
Actual return on assets	+/- 1.0	400/(400)	240/(240)	640/(640)	(10)/10	(10)/10
Expected return on assets	+/- 1.0	—	—	—	(410)/410	(240)/240

The foregoing indicates that changes in the discount rate and return on assets can have a significant effect on the funded status of our pension plans, stockholders' equity and expense. We cannot predict these changes in discount rates or investment returns and, therefore, cannot reasonably estimate whether adjustments to our stockholders' equity in subsequent years will be significant.

Other Postretirement Employee Benefits (Retiree Health Care and Life Insurance)

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

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

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

- *Discount rates.* We base the discount rate assumption primarily on the results of a cash flow matching analysis, which matches the future cash outflows for each plan to a yield curve comprised of high quality bonds specific to the country of the plan. Benefit payments are discounted at the rates on the curve and a single discount rate specific to the plan is determined.
- *Health care cost trends.* Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook, anticipated efficiencies and other cost-mitigation actions (including eligibility management, employee education and wellness, competitive sourcing and appropriate employee cost sharing) and an assessment of likely long-term trends.
- *Expected return on plan assets.* The expected return on plan assets assumption reflects external investment managers' expectations of likely returns on short-duration VEBA assets over the next several years.
- *Salary growth.* The salary growth assumptions reflect our long-term actual experience, outlook and assumed inflation.
- *Expected VEBA contributions/drawdowns.* The expected amount and timing of contributions/drawdowns is based on an assessment of hourly retiree benefit payments to be reimbursed, tax efficiency, and cash availability.
- *Retirement rates.* Retirement rates are developed to reflect actual and projected plan experience.
- *Mortality rates.* Mortality rates are developed to reflect actual and projected plan experience.

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses. Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods. In 2006, the U.S. actual health care trend was 5%, which was less than the expected trend of 7%. The year-end 2006 weighted average discount rate for the U.S. increased by 25 basis points. These differences, as well as updates for employee separation programs, resulted in an unamortized gain of about \$3 billion. This amount is expected to be recognized as a component of net expense over the expected future years of service (approximately 11 years).

See Note 23 of the Notes to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Sensitivity Analysis. The December 31, 2006 OPEB funded status and 2007 expense are affected by December 31, 2006 assumptions. Note that these sensitivities may be asymmetric and are specific to the time periods noted. They are not additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown. The effect of the indicated increase/(decrease) in selected assumptions is shown below (in millions):

Assumption	Percentage Point Change	Effect on U.S. and Canadian Plans: Increase/(Decrease)	
		December 31, 2006 Funded Status and Equity	2007 Expense
Discount rate	+/- 1.0 pt.	\$3,830/\$(4,580)	\$(340)/\$390
Health care cost trend rates — total expense	+/- 1.0	(4,580)/3,640	680/(540)
Health care cost trend rates — service and interest expense	+/- 1.0	(4,580)/3,640	340/(270)

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

Allowance for Credit Losses — Financial Services Sector

The allowance for credit losses is Ford Credit's estimate of the credit losses related to impaired finance receivables and operating leases as of the date of the financial statements. Consistent with its normal practices and policies, Ford Credit assesses the adequacy of its allowance for credit losses quarterly and regularly evaluates the assumptions and models used in establishing the allowance. Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain.

Nature of Estimates Required. Ford Credit estimates the credit losses related to impaired finance receivables and operating leases based on several factors including historical credit loss trends (including loss history and key physical trends, such as delinquency and repossessions), the composition and credit quality of its present portfolio (including vehicle brand, term, risk evaluation and new/used), trends in historical and projected used vehicle values and general economic measures.

Assumptions Used. Ford Credit makes projections of two key assumptions:

- *Frequency.* The number of finance receivables and operating lease contracts that Ford Credit expects will default over a period of time, measured as repossessions; and
- *Loss severity.* The expected difference between the amounts a customer owes Ford Credit when they charge off the finance contract and the amount Ford Credit receives, net of expenses, from selling the repossessed vehicle, including any recoveries from the customer.

Ford Credit uses these assumptions to assist in setting its allowance for credit losses. See Note 6 of the Notes to the Financial Statements for more information regarding allowance for credit losses.

Sensitivity Analysis. Changes in the assumptions used to derive frequency and severity would affect the allowance for credit losses. The effect of the indicated increase/decrease in the assumptions is shown below for Ford, Lincoln and Mercury brand vehicles in the United States (in millions):

Assumption	Percentage Point Change	Increase/(Decrease)	
		December 31, 2006 Allowance for Credit Losses	2006 Expense
	+/- 0.1		
Repossession rates *	pt.	\$30/\$(30)	\$30/\$(30)
	+/-		
Loss severity	1.0	5/(5)	5/(5)

* Reflects the number of finance receivables and operating lease contracts that Ford Credit expects will default over a period of time relative to the average number of contracts outstanding.

Changes in our assumptions affect the *Provision for credit and insurance losses* on our statement of income and the allowance for credit losses contained within *Finance receivables, net* and *Net investment in operating leases* on our balance sheet.

Accumulated Depreciation on Vehicles Subject to Operating Leases

Accumulated depreciation on vehicles subject to operating leases reduces the value of the leased vehicles in our operating lease portfolio from their original acquisition value to their expected residual value at the end of the lease term. These vehicles primarily consist of retail lease contracts for Ford Credit and vehicles sold to daily rental car companies subject to a guaranteed repurchase option ("rental repurchase vehicles") for the Automotive sector.

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

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

For retail leases, each lease customer has the option to buy the leased vehicle at the end of the lease or to return the vehicle to the dealer. If the customer returns the vehicle to the dealer, the dealer may buy the vehicle from us or return it to us. Over the last three years, between 230,000 and 310,000 units of Ford Credit's North America operating lease vehicles have been returned to us per year. For rental repurchase vehicles, practically all vehicles are returned to us.

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

Assumptions Used. For retail leases, our accumulated depreciation on vehicles subject to operating leases is based on our assumptions of:

- *Auction value.* The market value of the vehicles when we sell them at the end of the lease; and
- *Return volume.* The number of vehicles that will be returned to us at lease end.

See Note 5 of the Notes to the Financial Statements for more information regarding accumulated depreciation on vehicles subject to operating leases.

Sensitivity Analysis. For returned vehicles, we face a risk that the amount we obtain from the vehicle sold at auction will be less than our estimate of the expected residual value for the vehicle. At December 31, 2006, if future auction values for Ford Credit's existing portfolio of operating leases on Ford, Lincoln and Mercury brand vehicles in the U.S. were to decrease by one percent from its present estimates, the effect would be to increase the depreciation on these vehicles by about \$50 million. Similarly, if return volumes for Ford Credit's existing portfolio of operating leases on Ford, Lincoln and Mercury brand vehicles in the U.S. were to increase by one percentage point from its present estimates, the effect would be to increase the depreciation on these vehicles by about \$10 million. These increases in depreciation would be charged to depreciation expense during the 2007 through 2010 period so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value. Adjustments to the amount of accumulated depreciation on operating leases will be reflected on our balance sheet as *Net investment in operating leases* and on the income statement in *Depreciation*, in each case under the Financial Services sector.

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). This standard permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. The standard requires that interests in securitized financial assets be evaluated to identify whether they are freestanding derivatives or hybrid financial instruments containing an embedded derivative that requires bifurcation. SFAS No. 155 is effective for all financial instruments acquired or issued by us after January 1, 2007. We expect the impact on our financial condition or results of operations to be immaterial.

In March 2006, FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets — an amendment to FASB Statement No. 140* ("SFAS No. 156"), which provides revised guidance on when a servicing asset and servicing liability should be recognized and requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The standard also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. SFAS No. 156 is effective for us as of January 1, 2007. We expect the impact on our financial condition or results of operations to be immaterial.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48"). This interpretation prescribes a recognition threshold and a measurement attribute for the financial statement reporting of tax positions taken in tax returns. The interpretation is effective for fiscal years beginning after December 15, 2006. We are adopting the interpretation as of January 1, 2007 and we expect a \$1 billion to \$1.5 billion increase to equity as a result of this adoption. The favorable impact to equity is the result of recognizing

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

refund claims and related interest for prior years that meet the "more-likely-than-not" recognition threshold of FIN 48. These prior-year refund claims and related interest were not recognized as of December 31, 2006 because they were considered gain contingencies under SFAS No. 5, *Accounting for Contingencies* and could not be recognized until the contingency lapsed.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). This standard defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not introduce new requirements for when fair value measures must be used, but focuses on how to measure fair value. SFAS No. 157 establishes a fair value hierarchy to classify the sources of information used to measure fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are assessing the potential impact on present fair value measurement techniques, disclosures, and on our financial position.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This standard requires employers that sponsor defined benefit plans to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur, through comprehensive income. For further discussion of the impact of the adoption of this standard on our financial condition, see Note 23 of the Notes to the Financial Statements. The measurement date for substantially all of our worldwide postretirement benefit plans is December 31. The potential impact on our financial condition for those plans in which we have not adopted the requirement to measure plan assets and benefit obligation as of the date of our present statement of financial position is minimal. This requirement is not effective until December 2008.

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 13 and 27, respectively, of the Notes to the Financial Statements.

Securitizations by Ford Credit

Securitization. Ford Credit securitizes retail installment sale contracts, wholesale receivables, and net investment in operating leases through a variety of programs, utilizing amortizing, variable funding and revolving structures. 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, but could have an effect on its financial condition, operating results and liquidity.

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 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, and are sold to securitization investors at cost-effective pricing.

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. 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 generally not identified until the month in which the securitization occurs.

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

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.

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 stock or stock of any of its affiliates.

Ford Credit retains interests in its securitization transactions, including senior and subordinated securities issued by the SPE, rights to restricted 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's ability to realize the carrying amount of its retained interests depends on the performance of the securitized assets, including factors such as the actual credit losses and the prepayment speeds or payment rates of such assets. Ford Credit retains credit risk in securitizations because its retained interests include the most subordinated interests in the securitized assets, which are the first to absorb credit losses on the securitized assets. Based on past experience, Ford Credit expects that any credit losses in the pool of securitized assets would likely be limited to its retained interests.

At December 31, 2006 and 2005, the total outstanding principal amount of receivables sold by Ford Credit in off-balance sheet securitizations was \$12.2 billion and \$18 billion, respectively. At December 31, 2006 and 2005, Ford Credit's retained interests in such sold receivables were \$990 million and \$1.4 billion, respectively.

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 other 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:

- *FCAR.* 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, wholesale or lease assets exceed specified levels, FCAR is not permitted to purchase additional asset-backed securities of the affected type for so long as such levels are exceeded.
- *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 would not have the right to sell additional pools of assets to that conduit.
- *Wholesale Securitization (including Motown Notes).* If the payment rates on wholesale receivables are lower than specified levels, or if there are significant dealer defaults, Ford Credit would be unable to obtain additional funding and any existing funding would begin to amortize.

Based on its experience, Ford Credit does not expect that any of these features will have a material adverse impact on its ability to use securitization to fund its operations.

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

In addition to the specific transaction-related structural features discussed above, Ford Credit's securitization programs may be affected by the following factors: the amount and credit quality of assets available to securitize, the performance of assets in its previous securitizations, general demand for the type of assets supporting the asset-backed securities, market capacity for Ford Credit and Ford Credit-sponsored investments, accounting and regulatory changes, Ford Credit's credit ratings, and the availability of liquidity facilities. 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, results of operations or liquidity.

AGGREGATE CONTRACTUAL OBLIGATIONS

We are party to many contractual obligations involving commitments to make payments to third parties. Most of these are debt obligations incurred by our Financial Services sector. Long-term debt may have fixed or variable interest rates. For long-term debt with variable rate interest, we estimate the future interest payments based on projected market interest rates for various floating-rate benchmarks received from third parties. In addition, as part of our normal business practices, we enter into contracts with suppliers for purchases of certain raw materials, components and services. These arrangements may contain fixed or minimum quantity purchase requirements. We enter into such arrangements to facilitate adequate supply of these materials and services. "Purchase obligations" are defined as off-balance sheet agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms.

The table below summarizes our contractual obligations as of December 31, 2006 (in millions):

	Automotive	Financial Services	Total	Payments Due by Period			
				2007	2008-2009	2010-2011	2012 and Thereafter
On-balance sheet							
Long-term debt* (excluding capital leases)	\$ 28,938	\$115,859	\$144,797	\$35,523	\$46,689	\$23,759	\$ 38,826
Interest payments relating to long-term debt	36,505	22,586	59,091	8,418	12,019	7,765	30,889
Capital leases	372	—	372	53	129	118	72
Off-balance sheet							
Purchase obligations	4,225	140	4,365	1,589	2,332	311	133
Operating lease	1,660	494	2,154	607	830	392	325
Total	<u>\$ 71,700</u>	<u>\$139,079</u>	<u>\$210,779</u>	<u>\$46,190</u>	<u>\$61,999</u>	<u>\$32,345</u>	<u>\$ 70,245</u>

* Amount includes \$796 million for the current portion of long-term debt. See Note 15 of the Notes to the Financial Statements for additional discussion.

For additional information regarding long-term debt, operating lease obligations, and pension and OPEB obligations, see Notes 15, 27 and 23, respectively, of the Notes to the Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

OVERVIEW

We are exposed to a variety of market and other risks, including the effects of changes in foreign currency exchange rates, commodity prices, interest rates, as well as risks to availability of funding sources, hazard events, and specific asset risks.

These risks affect our Automotive and Financial Services sectors differently. We monitor and manage these exposures as an integral part of our overall risk management program, which includes regular reports to a central management committee, the Global Risk Management Committee ("GRMC"). The GRMC is chaired by our Chief Financial Officer, and its members include our Treasurer, our Controller, and other members of senior management.

Our Automotive and Financial Services sectors are exposed to liquidity risk, or the possibility of having to curtail their businesses or being unable to meet present and future financial obligations as they come due because funding sources may be reduced or become unavailable. We maintain plans for sources of funding to ensure liquidity through a variety of economic or business cycles. As discussed in greater detail in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," our funding sources include sales of receivables in securitizations and other structured financings, unsecured debt issuances and bank borrowings.

We are exposed to a variety of insurable risks, such as loss or damage to property, liability claims, and employee injury. We protect against these risks through a combination of self-insurance and the purchase of commercial insurance designed to protect against events that could generate significant losses.

Direct responsibility for the execution of our market risk management strategies resides with our Treasurer's Office and is governed by written policies and procedures. Separation of duties is maintained between the development and authorization of derivative trades, the transaction of derivatives, and the settlement of cash flows. Regular audits are conducted to ensure that appropriate controls are in place and that they remain effective. In addition, our market risk exposures and our use of derivatives to manage these exposures are reviewed by the GRMC, and the Audit and Finance Committees of our Board of Directors.

In accordance with corporate risk management policies, we use derivative instruments, such as forward contracts, swaps and options that economically hedge certain exposures (foreign currency, commodity, and interest rates). Derivative positions are used to manage underlying exposures; we do not use derivative contracts for trading, market-making or speculative purposes. In certain instances, we forgo hedge accounting, which results in unrealized gains and losses that are recognized currently in net income. For additional information on our derivatives, see Note 22 of the Notes to the Financial Statements.

The market and counterparty risks of our Automotive sector and Ford Credit are discussed and quantified below.

AUTOMOTIVE MARKET AND COUNTERPARTY RISK

Our Automotive sector frequently has expenditures and receipts denominated in foreign currencies, including the following: purchases and sales of finished vehicles and production parts, debt and other payables, subsidiary dividends, and investments in foreign operations. These expenditures and receipts create exposures to changes in exchange rates. We also are exposed to changes in prices of commodities used in our Automotive sector and changes in interest rates.

Foreign currency risk and commodity risk are measured and quantified using a model to evaluate the sensitivity of the fair value of currency and commodity derivative instruments with exposure to market risk that assumes instantaneous, parallel shifts in rates and/or prices. For options and instruments with non-linear returns, appropriate models are utilized to determine the impact of shifts in rates and prices.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

Foreign Currency Risk. Foreign currency risk is the possibility that our financial results could be better or worse than planned because of changes in foreign currency exchange rates. Accordingly, we use derivative instruments to hedge our economic exposure with respect to forecasted revenues and costs, assets, liabilities, investments in foreign operations, and firm commitments denominated in foreign currencies. In our hedging actions, we use primarily instruments commonly used by corporations to reduce foreign exchange risk (e.g., forward contracts and options).

The net fair value of financial instruments with exposure to cash flow foreign currency risk was an asset of \$705 million as of December 31, 2006 compared to a net fair value liability of \$421 million as of December 31, 2005. The increase in fair value primarily reflects mark-to-market adjustments resulting from the weakening of the U.S. dollar against the euro, the British pound and the Swedish krona. The potential decrease in fair value for such financial instruments, assuming a 10% adverse change in quoted foreign currency exchange rates, would be \$2.1 billion and \$1.6 billion at December 31, 2006 and 2005, respectively.

Commodity Price Risk. Commodity price risk is the possibility of higher or lower costs due to changes in the prices of commodities, such as 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 electricity), and plastics/resins (e.g., polypropylene), which we use in the production of motor vehicles. Steel and resins are our two largest commodity exposures and are among the most difficult to hedge.

We use derivative instruments to hedge the price risk associated with the purchase of those commodities that we can economically hedge (primarily non-ferrous metals, precious metals and energies). In our hedging actions, we primarily use instruments commonly used by corporations to reduce commodity price risk (e.g., financially settled forward contracts, swaps, and options).

The net fair value asset of commodity forward and option contracts as of December 31, 2006 and 2005 was \$750 million and \$664 million, respectively. The potential decrease in fair value of commodity forward and option contracts, assuming a 10% adverse change in the underlying commodity price, would be about \$200 million at both December 31, 2006 and 2005.

In addition, our purchasing organization (with guidance from the GRMC as appropriate) negotiates contracts to ensure continuous supply of raw materials. In some cases, these contracts stipulate minimum purchase amounts and specific prices, and as such, play a role in managing price risk.

Interest Rate Risk. Interest rate risk relates to the gain or loss we could incur in our Automotive investment portfolio due to a change in interest rates. Our interest rate sensitivity analysis on the investment portfolio includes cash and cash equivalents, net marketable and loaned securities and VEBA assets. At December 31, 2006, we had \$37.5 billion (including total VEBA assets of \$4.9 billion) in our Automotive investment portfolio, compared to \$25.1 billion at December 31, 2005. We invest the portfolio in securities of various types and maturities, the value of which are subject to fluctuations in interest rates. These securities are generally classified as either trading or available-for-sale. The trading portfolio gains and losses (unrealized and realized) are reported in the income statement. The available-for-sale portfolio realized gains or losses are reported in the income statement, and unrealized gains and losses are reported in the Consolidated Statement of Stockholders' Equity in *Accumulated other comprehensive income/(loss)*. The investment strategy is based on clearly defined risk and liquidity guidelines to maintain liquidity, minimize risk, and earn a reasonable return on the short-term investment.

At any time, a rise in interest rates could have a material adverse impact on the fair value of our trading and available-for-sale portfolios. As of December 31, 2006, the value of our trading portfolio was \$36.6 billion, which is \$14 billion higher than December 31, 2005. The value of our available-for-sale portfolio was about \$900 million, which is \$1.6 billion lower than December 31, 2005.

Assuming a hypothetical increase in interest rates of one percentage point, the value of our trading and available-for-sale portfolios would be reduced by \$121 million and \$12 million, respectively. This compares to \$91 million and \$28 million, respectively, as calculated as of December 31, 2005. While these are our best estimates of the impact of the specified interest rate scenario, actual results could differ from those projected. The sensitivity analysis presented assumes interest rate changes are instantaneous, parallel shifts in the yield curve. In reality, interest rate changes of this magnitude are rarely instantaneous or parallel.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

Counterparty Risk. The use of derivatives to manage market risk results in counterparty risk, which is the loss we could incur if counterparty defaulted on a derivative contract. We enter into master agreements with counterparties that allow netting of certain exposures in order to manage this risk. Exposures primarily relate to derivative contracts used for managing interest rate, foreign currency exchange rate and commodity price risk. We, together with Ford Credit, establish exposure limits for each counterparty to minimize risk and provide counterparty diversification.

Our approach to managing counterparty risk is forward-looking and proactive, allowing us to take risk mitigation actions before risks become losses. We establish exposure limits for both net fair value and future potential exposure, based on our overall risk tolerance and ratings-based historical default probabilities. The exposure limits are lower for lower-rated counterparties and for longer-dated exposures. We use a Monte Carlo simulation technique to assess our potential exposure by tenor, defined at a 95% confidence level. We monitor and report our exposures to the Treasurer on a periodic basis.

Substantially all of our counterparty exposures are with counterparties that are rated single-A or better. Our guideline for counterparty minimum long-term ratings is BBB-.

For additional information about derivative notional amount and fair value of derivatives, please refer to Note 22 of the Notes to the Financial Statements.

FORD CREDIT MARKET RISKS

Overview. Ford Credit is exposed to a variety of risks in the normal course of its business activities. In addition to counterparty risk discussed above, Ford Credit is subject to the following additional types of risks that it seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures:

- *Market risk.* The possibility that changes in interest and currency exchange rates will adversely affect Ford Credit's cash flow and economic value;
- *Credit risk.* The possibility of loss from a customer's failure to make payments according to contract terms;
- *Residual risk.* The possibility that the actual proceeds Ford Credit receives at lease termination will be lower than its projections or return rates will be higher than its projections; and,
- *Liquidity risk.* The possibility that Ford Credit may be unable to meet all current and future obligations in a timely manner.

Each form of risk is uniquely managed in the context of its contribution to Ford Credit's overall global risk. Business decisions are evaluated on a risk-adjusted basis and products are priced consistent with these risks. Credit and residual risks are discussed above in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" and liquidity risk is discussed above in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources". A discussion of Ford Credit's market risks is included below.

Foreign Currency Risk. To meet funding objectives, Ford Credit issues debt or, for its international affiliates, draws on local credit lines in a variety of currencies. Ford Credit faces exposure to currency exchange rate changes if a mismatch exists between the currency of its receivables and the currency of the debt funding those receivables. When possible, receivables are funded with debt in the same currency, minimizing exposure to exchange rate movements. When a different currency is used, Ford Credit seeks to minimize its exposure to changes in currency exchange rates by executing foreign currency derivatives. These derivatives convert substantially all of its foreign currency debt obligations to the local country currency of the receivables. As a result, Ford Credit's market risk exposure relating to currency exchange rates is believed to be immaterial.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

Interest Rate Risk. Interest rate risk is the primary market risk to which Ford Credit is exposed and consists principally of “re-pricing risk” or differences in the re-pricing characteristics of assets and liabilities. An instrument’s re-pricing period is a term used by financial institutions to describe how an interest rate-sensitive instrument responds to changes in interest rates. It refers to the time it takes an instrument’s interest rate to reflect a change in market interest rates. For fixed-rate instruments, the re-pricing period is equal to the maturity for repayment of the instrument’s principal because, with a fixed interest rate, the principal is considered to re-price only when re-invested in a new instrument. For a floating-rate instrument, the re-pricing period is the period of time before the interest rate adjusts to the market rate. For instance, a floating-rate loan whose interest rate is reset to a market index annually on December 31 would have a re-pricing period of one year on January 1, regardless of the instrument’s maturity.

Ford Credit’s receivables consist primarily of fixed-rate retail installment sale and lease contracts and floating-rate wholesale receivables. Fixed-rate retail installment sale and lease contracts are originated principally with maturities ranging between two and six years and generally require customers to make equal monthly payments over the life of the contract. Wholesale receivables are originated to finance new and used vehicles held in dealers’ inventory and generally require dealers to pay a floating rate. Ford Credit’s funding sources consist primarily of securitizations and short- and long-term unsecured debt. In the case of unsecured term debt, and in an effort to have funds available throughout the business cycle, Ford Credit may issue debt with five- to ten-year maturities, which is generally longer than the terms of its assets. These debt instruments are principally fixed-rate and require fixed and equal interest payments over the life of the instrument and a single principal payment at maturity.

Ford Credit is exposed to interest rate risk to the extent that a difference exists between the re-pricing profile of its assets and debt. Specifically, without derivatives, Ford Credit’s assets would re-price more quickly than its debt.

Ford Credit’s interest rate risk management objective is to maximize its economic value while limiting the impact of changes in interest rates. Ford Credit achieves this objective by setting an established risk tolerance and staying within this tolerance through the following risk management process:

Ford Credit determines the sensitivity of the economic value of its portfolio of interest rate-sensitive assets and liabilities (its economic value) to hypothetical changes in interest rates. Economic value is a measure of the present value of all future expected cash flows, discounted by market interest rates, and is equal to the present value of interest rate-sensitive assets minus the present value of interest rate-sensitive liabilities. Ford Credit then enters into interest rate swaps, to economically convert portions of its floating-rate debt to fixed or its fixed-rate debt to floating, to ensure that the sensitivity of its economic value falls within an established tolerance. Ford Credit also monitors its pre-tax cash flow sensitivity over a twelve-month horizon using simulation techniques. This simulation determines the sensitivity of cash flows associated with the re-pricing characteristics of interest rate-sensitive assets, liabilities and derivatives under various hypothetical interest rate scenarios including both parallel and non-parallel shifts in the yield curve. This sensitivity calculation does not take into account any future actions Ford Credit may take to reduce the risk profile that arises from a change in interest rates. These quantifications of interest rate risk are reported to our Treasurer regularly (either monthly or quarterly dependent on the market).

The process described above is used to measure and manage the interest rate risk of Ford Credit’s operations in the United States, Canada and the United Kingdom, which together represented approximately 79% of its total on-balance sheet finance receivables at December 31, 2006. For its other international affiliates, Ford Credit uses a technique commonly referred to as “gap analysis,” to measure re-pricing mismatch. This process uses re-pricing schedules, which group assets, debt and swaps into discrete time bands based on their re-pricing characteristics. Under this process, Ford Credit enters into interest rate swaps, which effectively change the re-pricing profile of its debt, to ensure that any re-pricing mismatch (between assets and liabilities) existing in a particular time band falls within an established tolerance.

As a result of its interest rate risk management process, Ford Credit’s debt, combined with the derivative instruments economically hedging its debt, re-prices faster than its assets. Other things equal, this means that during a period of rising interest rates, the interest rates paid on Ford Credit’s debt will increase more rapidly than the interest rates earned on its assets, thereby initially reducing Ford Credit’s pre-tax cash flow. Correspondingly, during a period of falling interest rates, Ford Credit’s pre-tax cash flow would be expected to initially increase. To provide a quantitative measure of the sensitivity of its pre-tax cash flow to changes in interest rates, Ford Credit uses interest rate scenarios that assume a hypothetical, instantaneous increase or decrease in interest rates of one percentage point across all maturities (a “parallel

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

shift”), as well as a base case that assumes that interest rates remain constant at existing levels. The differences between these scenarios and the base case over a twelve-month period represent an estimate of the sensitivity of Ford Credit’s pre-tax cash flow. The sensitivity as of year-end 2006 and 2005 was as follows (in millions):

	December 31, 2006	December 31, 2005
Pre-tax Cash Flow sensitivity given a one percentage point instantaneous increase in interest rates	\$ (55)	\$ (40)
Pre-tax Cash Flow sensitivity given a one percentage point instantaneous decrease in interest rates	55	40

Based on assumptions included in the analysis, sensitivity to a one percentage point instantaneous change in interest rates was higher at year-end 2006 than at year-end 2005. This change primarily reflects the results of normal fluctuations within the approved tolerances of risk management strategy. While the sensitivity analysis presented is Ford Credit’s best estimate of the impacts of specified assumed interest rate scenarios, the model Ford Credit uses for this analysis is heavily dependent on assumptions, so that actual results could differ from those projected. Embedded in the model Ford Credit uses are assumptions regarding the reinvestment of maturing asset principal, refinancing of maturing debt, and predicted repayment of retail installment sale and lease contracts ahead of contractual maturity. Ford Credit’s repayment projections of retail installment sale and lease contracts ahead of contractual maturity are based on historical experience. If interest rates or other factors were to change, the actual prepayment experience could be different than projected.

Additionally, interest rate changes of one percentage point or more are rarely instantaneous or parallel, and rates could move more or less than the one percentage point assumed in Ford Credit’s analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed above. The model used to conduct this analysis also relies heavily on assumptions regarding the reinvestment of maturing asset principal, refinancing of maturing debt, and predicted repayment of sale and lease contracts ahead of contractual maturity.

The fair value of Ford Credit’s net derivative financial instruments (derivative assets less derivative liabilities) as reported in Note 22 of the Notes to the Financial Statements as of December 31, 2006 was \$1.5 billion compared with \$1.9 billion at December 31, 2005. The decrease in fair value reflects primarily mark-to-market adjustments resulting from higher interest rates, partially offset by translation gains resulting from the weakening of the U.S. dollar against the euro and the British pound. For additional information on Ford Credit derivatives, please refer to the “Financial Services Sector” discussion in Note 22 of the Notes to the Financial Statements.

ITEM 8. Financial Statements and Supplementary Data

Our Financial Statements, the accompanying Notes to the Financial Statements, the Report of Independent Registered Public Accounting Firm, the Financial Statement Schedule and the Report of Independent Registered Public Accounting Firm on Financial Statement Schedule that are filed as part of this Report are listed under “Item 15. Exhibits and Financial Statement Schedules” and are set forth on pages FS-1 through FS-59 and FSS-1 and FSS-2 immediately following the signature pages of this Report.

Selected quarterly financial data for 2006 and 2005 is provided in Note 26 of the Notes to the Financial Statements.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Alan Mulally, our Chief Executive Officer (“CEO”), and Donat R. Leclair, Jr., our Chief Financial Officer (“CFO”), have performed an evaluation of the Company’s disclosure controls and procedures, as that term is defined in Rule 13a–15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of December 31, 2006 and each has concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a–15(f). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006. The assessment was based on criteria established in the framework *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Report.

MATERIAL CHANGES IN INTERNAL CONTROL

During the fourth quarter of 2006, Ford Europe modified some of its information technology systems to accommodate new business relationships created by recent legal entity status changes.

Also during the fourth quarter of 2006, we implemented changes related to remediation of a material weakness in internal control over financial reporting with respect to accounting for certain hedges of interest rate risk (as reported in our Quarterly Report on Form 10–Q for the quarter ended September 30, 2006). We suspended our use of the application of Paragraph 68 of SFAS No. 133, and de–designated all derivative transactions to which we previously had applied the exception set forth in Paragraph 68.

ITEM 9B. Other Information

None.

PART III

ITEM 10. *Directors, Executive Officers of Ford and Corporate Governance*

The information required by Item 10 regarding our directors is incorporated by reference from the information under the captions “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Management Stock Ownership” in our Proxy Statement. The information required by Item 10 regarding our executive officers appears as Item 4A under Part I of this Report. The information required by Item 10 regarding an audit committee financial expert is incorporated by reference from the information under the caption “Corporate Governance” in our Proxy Statement. The information required by Item 10 regarding the members of our Audit Committee of the Board of Directors is incorporated by reference from the information under the caption “Committees of the Board of Directors” in our Proxy Statement. The information required by Item 10 regarding the Audit Committee’s review and discussion of the audited financial statements is incorporated by reference from information under the caption “Audit Committee Report” in our Proxy Statement. The information required by Item 10 regarding our codes of ethics is incorporated by reference from the information under the caption “Corporate Governance” in our Proxy Statement. In addition, we have included in “Item 1. Business” instructions for how to access our codes of ethics on our website and our Internet address. Amendments to, and waivers granted under, our Code of Ethics for Senior Financial Personnel, if any, will be posted to our website as well.

ITEM 11. *Executive Compensation*

The information required by Item 11 is incorporated by reference from the information under the following captions in our Proxy Statement: “Compensation of Directors,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Compensation Committee Interlocks and Insider Participation,” “Compensation of Executive Officers,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” “Pension Benefits,” “Nonqualified Deferred Compensation,” and “Post-Employment Compensation.”

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by Item 12 is incorporated by reference from the information under the captions “Equity Compensation Plan Information” and “Management Stock Ownership” in our Proxy Statement.

ITEM 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by Item 13 is incorporated by reference from the information under the captions “Certain Relationships and Related Transactions” and “Corporate Governance” in our Proxy Statement.

ITEM 14. *Principal Accounting Fees and Services*

The information required by Item 14 is incorporated by reference from the information under the caption “Audit Committee Report” in our Proxy Statement.

PART IV**ITEM 15. Exhibits and Financial Statement Schedules****(a) 1. Financial Statements — Ford Motor Company and Subsidiaries**

The following are contained in this 2006 10-K Report:

- Consolidated Statement of Income and Sector Statement of Income for the years ended December 31, 2006, 2005, and 2004.
- Consolidated Balance Sheet and Sector Balance Sheet at December 31, 2006 and 2005.
- Consolidated Statement of Cash Flows and Sector Statement of Cash Flows for the years ended December 31, 2006, 2005, and 2004.
- Consolidated Statement of Stockholders' Equity for the years ended December 31, 2006, 2005, and 2004.
- Notes to the Financial Statements.
- Report of Independent Registered Public Accounting Firm.

The Consolidated and Sector Financial Statements, the Notes to the Financial Statements and the Report of Independent Registered Public Accounting Firm listed above are filed as part of this Report and are set forth on pages FS-1 through FS-60 immediately following the signature pages of this Report.

(a) 2. Financial Statement Schedules

<u>Designation</u>	<u>Description</u>
Schedule II	Valuation and Qualifying Accounts

Schedule II and the Report of Independent Registered Public Accounting Firm on Financial Statement Schedule are filed as part of this Report and are set forth on pages FSS-1 and FSS-2 immediately following the Notes to the Financial Statements referred to above. The other schedules are omitted because they are not applicable, the information required to be contained in them is disclosed elsewhere in our Sector and Consolidated Financial Statements or the amounts involved are not sufficient to require submission.

(a) 3. Exhibits

<u>Designation</u>	<u>Description</u>	<u>Method of Filing</u>
Exhibit 2	Stock Purchase Agreement dated as of September 12, 2005 between CCMG Holdings, Inc., Ford Holdings LLC and Ford Motor Company.	Filed as Exhibit 2 to our Quarterly Report on Form 10-Q for the period ended September 30, 2005.*
Exhibit 3-A	Restated Certificate of Incorporation, dated August 2, 2000.	Filed as Exhibit 3-A to our Annual Report on Form 10-K for the year ended December 31, 2000.*
Exhibit 3-B	By-Laws as amended through December 14, 2006.	Filed with this Report.
Exhibit 10-A	Amended and Restated Profit Maintenance Agreement, dated as of January 1, 2002, between Ford and Ford Credit.	Filed as Exhibit 10-A to our Annual Report on Form 10-K for the year ended December 31, 2001.*

[Table of Contents](#)ITEM 15. *Exhibits and Financial Statement Schedules (continued)*

<u>Designation</u>	<u>Description</u>	<u>Method of Filing</u>
Exhibit 10-B	Executive Separation Allowance Plan as amended through October 1, 2006 for separations on or after January 1, 1981.**	Filed as Exhibit 10-B to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-C	Deferred Compensation Plan for Non-Employee Directors, as amended and restated as of January 1, 2005.**	Filed as Exhibit 10-D to our Annual Report on Form 10-K for the year ended December 31, 2004.*
Exhibit 10-D	Benefit Equalization Plan, as amended as of October 1, 2006.**	Filed as Exhibit 10-D to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-D-1	Amendment to Benefit Equalization Plan, adopted in October 2002 and effective as of November 1, 2001.**	Filed as Exhibit 10 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.*
Exhibit 10-E	Description of financial counseling services provided to certain executives.**	Filed as Exhibit 10-F to Ford's Annual Report on Form 10-K for the year ended December 31, 2002.*
Exhibit 10-F	Supplemental Executive Retirement Plan, as amended through October 1, 2006.**	Filed as Exhibit 10-F to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-G	Restricted Stock Plan for Non-Employee Directors adopted by the Board of Directors on November 10, 1988.**	Filed as Exhibit 10-P to our Annual Report on Form 10-K for the year ended December 31, 1988.*
Exhibit 10-G-1	Amendment to Restricted Stock Plan for Non-Employee Directors, effective as of August 1, 1996.**	Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.*
Exhibit 10-G-2	Amendment to Restricted Stock Plan for Non-Employee Directors, effective as of July 1, 2004.**	Filed as Exhibit 10 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.*
Exhibit 10-G-3	Description of Director Compensation as of July 13, 2006.**	Filed as Exhibit 10-G-3 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-H	1990 Long-Term Incentive Plan, amended as of June 1, 1990.**	Filed as Exhibit 10-R to our Annual Report on Form 10-K for the year ended December 31, 1990.*
Exhibit 10-H-1	Amendment to 1990 Long-Term Incentive Plan, effective as of October 1, 1990.**	Filed as Exhibit 10-P-1 to our Annual Report on Form 10-K for the year ended December 31, 1991.*
Exhibit 10-H-2	Amendment to 1990 Long-Term Incentive Plan, effective as of March 8, 1995.**	Filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.*
Exhibit 10-H-3	Amendment to 1990 Long-Term Incentive Plan, effective as of October 1, 1997.**	Filed as Exhibit 10-M-3 to our Annual Report on Form 10-K for the year ended December 31, 1997.*
Exhibit 10-H-4	Amendment to 1990 Long-Term Incentive Plan, effective as of January 1, 1998.**	Filed as Exhibit 10-M-4 to our Annual Report on Form 10-K for the year ended December 31, 1997.*
Exhibit 10-I		

Description of Matching Gift Program and Vehicle Evaluation Program for Non-Employee Directors.**

Filed as Exhibit 10-I to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*

Exhibit 10-J

Non-Employee Directors Life Insurance and Optional Retirement Plan (as amended as of October 1, 2006).**

Filed as Exhibit 10-J to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*

[Table of Contents](#)ITEM 15. *Exhibits and Financial Statement Schedules (continued)*

<u>Designation</u>	<u>Description</u>	<u>Method of Filing</u>
Exhibit 10-K	Description of Non-Employee Directors Accidental Death, Dismemberment and Permanent Total Disablement Indemnity.**	Filed as Exhibit 10-S to our Annual Report on Form 10-K for the year ended December 31, 1992.*
Exhibit 10-L	Agreement dated December 10, 1992 between Ford and William C. Ford.**	Filed as Exhibit 10-T to our Annual Report on Form 10-K for the year ended December 31, 1992.*
Exhibit 10-M	Select Retirement Plan, as amended through October 1, 2006.**	Filed as Exhibit 10-M to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-N	Deferred Compensation Plan, as amended and restated as of July 12, 2006.**	Filed as Exhibit 10-N to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-N-1	Amendments to Deferred Compensation Plan, effective as of December 1, 2006.**	Filed with this Report.
Exhibit 10-O	Annual Incentive Compensation Plan, as amended and restated as of January 1, 2000.**	Filed as Exhibit 10-T to our Annual Report on Form 10-K for the year ended December 31, 1999.*
Exhibit 10-O-1	Annual Incentive Compensation Plan Metrics for 2007.**	Filed with this Report.
Exhibit 10-P	1998 Long-Term Incentive Plan, as amended and restated effective as of January 1, 2003.**	Filed as Exhibit 10-R to our Annual Report on Form 10-K for the year ended December 31, 2002.*
Exhibit 10-P-1	Amendment to Ford Motor Company 1998 Long-Term Incentive Plan (effective as of January 1, 2006).**	Filed as Exhibit 10-P-1 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-2	Form of Stock Option Agreement (NQO) with Terms and Conditions.**	Filed as Exhibit 10-P-2 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-3	Form of Stock Option Agreement (ISO) with Terms and Conditions.**	Filed as Exhibit 10-P-3 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-4	Form of Stock Option Agreement (U.K. NQO) with Terms and Conditions.**	Filed as Exhibit 10-P-4 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-5	Performance Stock Rights Description for 2005-2007 Performance Period.**	Filed as Exhibit 10-Q-4 to our Annual Report on Form 10-K for the year ended December 31, 2004.*
Exhibit 10-P-6	Performance Stock Rights Description for 2006-2008 Performance Period.**	Filed as Exhibit 10-P-6 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-7	Form of Final Award Notification Letter For 2003-2005 Performance Period.**	Filed as Exhibit 10-P-7 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-8	Form of Restricted Stock Equivalent Grant Letter.**	Filed as Exhibit 10-Q-6 to our Annual Report on Form 10-K for the year ended December 31, 2004.*

[Table of Contents](#)ITEM 15. *Exhibits and Financial Statement Schedules (continued)*

<u>Designation</u>	<u>Description</u>	<u>Method of Filing</u>
Exhibit 10-P-10	Form of Performance-Based Restricted Stock Equivalent Opportunity Letter for 2006.**	Filed as Exhibit 10-P-10 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-11	Form of Restricted Stock Grant Letter.**	Filed as Exhibit 10-Q-8 to our Annual Report on Form 10-K for the year ended December 31, 2004.*
Exhibit 10-P-12	Form of Final Award Notification Letter for 2005 Performance-Based Restricted Stock Equivalents.**	Filed as Exhibit 10-P-12 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-P-13	Form of Final Award Notification Letter for 2006 Performance-Based Restricted Stock Equivalents.**	Filed with this Report.
Exhibit 10-P-14	Description of Performance-Based Restricted Stock Units for 2007.**	Filed with this Report.
Exhibit 10-P-15	Form of Final Award Notification Letter for 2004-2006 Performance Period.**	Filed with this Report.
Exhibit 10-P-16	Description of Time-Based Restricted Stock Units.**	Filed with this Report.
Exhibit 10-Q	Agreement dated January 13, 1999 between Ford and Edsel B. Ford II.**	Filed as Exhibit 10-X to our Annual Report on Form 10-K for the year ended December 31, 1998.*
Exhibit 10-R	Amended and Restated Agreement between Ford Motor Company and Ford Motor Credit Company dated as of December 12, 2006.	Filed with this Report.
Exhibit 10-S	Agreement between Ford and Carl Reichardt, entered into in June 2002.**	Filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.*
Exhibit 10-T	Form of Trade Secrets/Non-Compete Statement between Ford and certain of its Executive Officers.**	Filed as Exhibit 10-V to our Annual Report on Form 10-K for the year ended December 31, 2003.*
Exhibit 10-U	Form of Special 2006-2008 Retention Incentive Opportunity Letter.**	Filed as Exhibit 10-U to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-U-1	Description of Settlement of Special 2006 — 2008 Senior Executive Retention Program.**	Filed with this Report.
Exhibit 10-V	Form of Special 2006 Performance Incentive Opportunity Letter.**	Filed as Exhibit 10-V to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-W	Arrangement between Ford Motor Company and James J. Padilla.**	Filed as Exhibit 10-Z to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-X-1	Description of Retirement Arrangement for James J. Padilla.**	Filed with our Current Report on Form 8-K dated May 10, 2006.*

[Table of Contents](#)ITEM 15. *Exhibits and Financial Statement Schedules (continued)*

<u>Designation</u>	<u>Description</u>	<u>Method of Filing</u>
Exhibit 10–Y	Arrangement between Ford Motor Company and William Clay Ford, Jr. dated May 11, 2005.**	Filed with our Current Report on Form 8–K dated May 11, 2005.*
Exhibit 10–Y–1	Arrangement between Ford Motor Company and William Clay Ford, Jr. dated February 27, 2006.**	Filed as Exhibit 10–AA–1 to our Annual Report on Form 10–K/A for the year ended December 31, 2005.*
Exhibit 10–Z	Arrangement between Ford Motor Company and Greg C. Smith dated February 10, 2006.**	Filed as Exhibit 10–BB to our Annual Report on Form 10–K/A for the year ended December 31, 2005.*
Exhibit 10–Z–1	Agreement between Ford Motor Company and Greg C. Smith dated February 10, 2006.**	Filed as Exhibit 10–BB–1 to our Annual Report on Form 10–K/A for the year ended December 31, 2005.*
Exhibit 10–AA	Agreement between Ford Motor Company and Mark Fields dated October 5, 2005.**	Filed as Exhibit 10–CC to our Annual Report on Form 10–K/A for the year ended December 31, 2005.*
Exhibit 10–AA–1	Arrangement between Ford Motor Company and Mark Fields dated February 7, 2007.**	Filed with this Report.
Exhibit 10–BB	Description of Company Practices regarding Club Memberships for Executives.**	Filed with this Report.
Exhibit 10–CC	Accession Agreement between Ford Motor Company and Alan Mulally as of September 1, 2006.**	Filed as Exhibit 10.1 to our Quarterly Report on Form 10–Q for the quarter ended September 30, 2006.*
Exhibit 10–CC–1	Description of Special Terms and Conditions for Stock Options Granted to Alan Mulally.**	Filed with this Report.
Exhibit 10–CC–2	Description of President and CEO Compensation Arrangements.**	Filed with this Report.
Exhibit 10–DD	Consulting Agreement between Ford Motor Company and Sir John Bond dated September 13, 2006.**	Filed as Exhibit 10.2 to our Quarterly Report on Form 10–Q for the quarter ended September 30, 2006.*
Exhibit 10–EE	Credit Agreement dated as of December 15, 2006.	Filed with this Report.
Exhibit 12	Calculation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.	Filed with this Report.
Exhibit 21	List of Subsidiaries of Ford as of February 21, 2007.	Filed with this Report.
Exhibit 23	Consent of Independent Registered Public Accounting Firm.	Filed with this Report.
Exhibit 24	Powers of Attorney.	Filed with this Report.

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ITEM 15. *Exhibits and Financial Statement Schedules (continued)*

<u>Designation</u>	<u>Description</u>	<u>Method of Filing</u>
Exhibit 31.1	Rule 15d-14(a) Certification of CEO.	Filed with this Report.
Exhibit 31.2	Rule 15d-14(a) Certification of CFO.	Filed with this Report.
Exhibit 32.1	Section 1350 Certification of CEO.	Furnished with this Report.
Exhibit 32.2	Section 1350 Certification of CFO.	Furnished with this Report.

* Incorporated by reference as an exhibit to this Report (file number reference 1-3950, unless otherwise indicated).

** Management contract or compensatory plan or arrangement.

Instruments defining the rights of holders of certain issues of long-term debt of Ford and of certain consolidated subsidiaries and of any unconsolidated subsidiary, for which financial statements are required to be filed with this Report, have not been filed as exhibits to this Report because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Ford and our subsidiaries on a consolidated basis. Ford agrees to furnish a copy of each of such instruments to the Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Ford has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORD MOTOR COMPANY

By: /s/ Peter J. Daniel
Peter J. Daniel
Senior Vice President and
Controller

Date: February 28, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of Ford and in the capacities on the date indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>WILLIAM CLAY FORD, JR.*</u> William Clay Ford, Jr.	Director, Chairman of the Board, Executive Chairman, Chair of the Office of the Chairman and Chief Executive, and Acting Chair of the Finance Committee	February 28, 2007
<u>ALAN MULALLY*</u> Alan Mulally	Director, President and Chief Executive Officer (principal executive officer)	February 28, 2007
<u>JOHN R. H. BOND*</u> John R. H. Bond	Director	February 28, 2007
<u>STEPHEN G. BUTLER*</u> Stephen G. Butler	Director and Chair of the Audit Committee	February 28, 2007
<u>KIMBERLY A. CASIANO*</u> Kimberly A. Casiano	Director	February 28, 2007
<u>EDSEL B. FORD II*</u> Edsel B. Ford II	Director	February 28, 2007
<u>IRVINE O. HOCKADAY, JR.*</u> Irvine O. Hockaday, Jr.	Director	February 28, 2007
<u>RICHARD A. MANOOGIAN*</u> Richard A. Manoogian	Director and Chair of the Compensation Committee	February 28, 2007
<u>ELLEN R. MARRAM*</u> Ellen R. Marram	Director and Chair of the Nominating and Governance Committee	February 28, 2007
<u>HOMER A. NEAL*</u> Homer A. Neal	Director and Chair of the Environmental and Public Policy Committee	February 28, 2007
<u>JORMA OLLILA*</u> Jorma Ollila	Director	February 28, 2007

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>JOHN L. THORNTON*</u> John L. Thornton	Director	February 28, 2007
<u>DONAT R. LECLAIR, JR.*</u> Donat R. Leclair, Jr.	Executive Vice President and Chief Financial Officer (principal financial officer)	February 28, 2007
<u>PETER J. DANIEL*</u> Peter J. Daniel	Senior Vice President and Controller (principal accounting officer)	February 28, 2007
<u>*By: /s/ PETER J. SHERRY, JR.</u> (Peter J. Sherry, Jr.) Attorney-in-Fact		February 28, 2007

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FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the Years Ended December 31, 2006, 2005 and 2004
(in millions, except per share amounts)

	2006	2005	2004
Sales and revenues			
Automotive sales	\$ 143,307	\$ 153,474	\$ 147,119
Financial Services revenues	<u>16,816</u>	<u>23,422</u>	<u>25,197</u>
Total sales and revenues	160,123	176,896	172,316
Costs and expenses			
Automotive cost of sales	148,869	144,924	135,755
Selling, administrative and other expenses	19,180	24,622	24,012
Interest expense	8,783	8,417	8,471
Financial Services provision for credit and insurance losses	<u>241</u>	<u>483</u>	<u>1,212</u>
Total costs and expenses	177,073	178,446	169,450
Automotive interest income and other non-operating income/(expense), net	1,478	1,249	988
Automotive equity in net income/(loss) of affiliated companies	421	285	255
Gain on sale of The Hertz Corporation ("Hertz") (Note 19)	<u>—</u>	<u>1,095</u>	<u>—</u>
Income/(loss) before income taxes	(15,051)	1,079	4,109
Provision for/(benefit from) income taxes (Note 18)	<u>(2,646)</u>	<u>(845)</u>	<u>643</u>
Income/(loss) before minority interests	(12,405)	1,924	3,466
Minority interests in net income/(loss) of subsidiaries	<u>210</u>	<u>280</u>	<u>282</u>
Income/(loss) from continuing operations	(12,615)	1,644	3,184
Income/(loss) from discontinued operations (Note 19)	<u>2</u>	<u>47</u>	<u>(146)</u>
Income/(loss) before cumulative effects of changes in accounting principles	(12,613)	1,691	3,038
Cumulative effects of changes in accounting principles (Note 27)	<u>—</u>	<u>(251)</u>	<u>—</u>
Net income/(loss)	<u>\$ (12,613)</u>	<u>\$ 1,440</u>	<u>\$ 3,038</u>
Average number of shares of Common and Class B Stock outstanding	1,879	1,846	1,830
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 20)			
Basic income/(loss)			
Income/(loss) from continuing operations	\$ (6.72)	\$ 0.89	\$ 1.74
Income/(loss) from discontinued operations	—	0.03	(0.08)
Cumulative effects of changes in accounting principles	<u>—</u>	<u>(0.14)</u>	<u>—</u>
Net income/(loss)	<u>\$ (6.72)</u>	<u>\$ 0.78</u>	<u>\$ 1.66</u>
Diluted income/(loss)			
Income/(loss) from continuing operations	\$ (6.72)	\$ 0.87	\$ 1.59
Income/(loss) from discontinued operations	—	0.02	(0.07)
Cumulative effects of changes in accounting principles	<u>—</u>	<u>(0.12)</u>	<u>—</u>
Net income/(loss)	<u>\$ (6.72)</u>	<u>\$ 0.77</u>	<u>\$ 1.52</u>
Cash dividends	\$ 0.25	\$ 0.40	\$ 0.40

The accompanying notes are part of the financial statements.
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FORD MOTOR COMPANY AND SUBSIDIARIES
SECTOR STATEMENT OF INCOME
For the Years Ended December 31, 2006, 2005 and 2004
(in millions, except per share amounts)

	2006	2005	2004
AUTOMOTIVE			
Sales	\$ 143,307	\$ 153,474	\$ 147,119
Costs and expenses			
Cost of sales	148,869	144,924	135,755
Selling, administrative and other expenses	12,359	12,738	11,564
Total costs and expenses	161,228	157,662	147,319
Operating income/(loss)	(17,921)	(4,188)	(200)
Interest expense	995	1,220	1,221
Interest income and other non-operating income/(expense), net	1,478	1,249	988
Equity in net income/(loss) of affiliated companies	421	285	255
Income/(loss) before income taxes — Automotive	(17,017)	(3,874)	(178)
FINANCIAL SERVICES			
Revenues	16,816	23,422	25,197
Costs and expenses			
Interest expense	7,788	7,197	7,250
Depreciation	5,295	5,854	6,618
Operating and other expenses	1,526	6,030	5,830
Provision for credit and insurance losses	241	483	1,212
Total costs and expenses	14,850	19,564	20,910
Gain on sale of Hertz (Note 19)	—	1,095	—
Income/(loss) before income taxes — Financial Services	1,966	4,953	4,287
TOTAL COMPANY			
Income/(loss) before income taxes	(15,051)	1,079	4,109
Provision for/(benefit from) income taxes (Note 18)	(2,646)	(845)	643
Income/(loss) before minority interests	(12,405)	1,924	3,466
Minority interests in net income/(loss) of subsidiaries	210	280	282
Income/(loss) from continuing operations	(12,615)	1,644	3,184
Income/(loss) from discontinued operations (Note 19)	2	47	(146)
Income/(loss) before cumulative effects of changes in accounting principles	(12,613)	1,691	3,038
Cumulative effects of changes in accounting principles (Note 27)	—	(251)	—
Net income/(loss)	<u>\$ (12,613)</u>	<u>\$ 1,440</u>	<u>\$ 3,038</u>
Average number of shares of Common and Class B Stock outstanding	1,879	1,846	1,830
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 20)			
Basic income/(loss)			
Income/(loss) from continuing operations	\$ (6.72)	\$ 0.89	\$ 1.74
Income/(loss) from discontinued operations	—	0.03	(0.08)
Cumulative effects of changes in accounting principles	—	(0.14)	—
Net income/(loss)	<u>\$ (6.72)</u>	<u>\$ 0.78</u>	<u>\$ 1.66</u>
Diluted income/(loss)			
Income/(loss) from continuing operations	\$ (6.72)	\$ 0.87	\$ 1.59
Income/(loss) from discontinued operations	—	0.02	(0.07)
Cumulative effects of changes in accounting principles	—	(0.12)	—
Net income/(loss)	<u>\$ (6.72)</u>	<u>\$ 0.77</u>	<u>\$ 1.52</u>
Cash dividends	\$ 0.25	\$ 0.40	\$ 0.40

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in millions)

	December 31, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 28,894	\$ 28,406
Marketable securities (Note 3)	21,472	10,672
Loaned securities (Note 3)	5,256	3,461
Finance receivables, net	106,863	105,975
Other receivables, net	7,782	8,536
Net investment in operating leases (Note 5)	29,834	27,099
Retained interest in sold receivables (Note 7)	990	1,420
Inventories (Note 8)	11,578	10,271
Equity in net assets of affiliated companies	2,787	2,579
Net property (Note 10)	38,505	40,676
Deferred income taxes	4,950	5,880
Goodwill and other net intangible assets (Note 12)	6,937	5,945
Assets of discontinued/held-for-sale operations	—	5
Other assets	12,706	18,534
Total assets	\$ 278,554	\$ 269,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables	\$ 23,549	\$ 22,910
Accrued liabilities and deferred revenue (Note 14)	82,518	73,047
Debt (Note 15)	172,049	153,278
Deferred income taxes	2,744	5,660
Total liabilities	280,860	254,895
Minority interests	1,159	1,122
Stockholders' equity		
Capital stock (Note 20)		
Common Stock, par value \$0.01 per share (1,837 million shares issued; 6,000 million shares authorized)	18	18
Class B Stock, par value \$0.01 per share (71 million shares issued; 530 million shares authorized)	1	1
Capital in excess of par value of stock	4,562	4,872
Accumulated other comprehensive income/(loss)	(7,846)	(3,680)
Treasury stock	(183)	(833)
Retained earnings/(Accumulated deficit)	(17)	13,064
Total stockholders' equity	(3,465)	13,442
Total liabilities and stockholders' equity	\$ 278,554	\$ 269,459

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
SECTOR BALANCE SHEET
(in millions)

	December 31, 2006	December 31, 2005
ASSETS		
Automotive		
Cash and cash equivalents	\$ 16,020	\$ 13,388
Marketable securities (Note 3)	11,310	6,860
Loaned securities (Note 3)	5,256	3,461
Total cash, marketable and loaned securities	32,586	23,709
Receivables, less allowances of \$196 and \$298	3,878	3,075
Inventories (Note 8)	11,578	10,271
Deferred income taxes	1,569	1,249
Other current assets	7,714	8,177
Total current assets	57,325	46,481
Equity in net assets of affiliated companies	2,029	1,756
Net property (Note 10)	38,236	40,348
Deferred income taxes	14,880	10,999
Goodwill and other net intangible assets (Note 12)	6,920	5,928
Assets of discontinued/held-for-sale operations	—	5
Other assets	3,244	8,308
Total Automotive assets	122,634	113,825
Financial Services		
Cash and cash equivalents	12,874	15,018
Marketable securities (Note 3)	10,162	3,812
Finance receivables, net (Note 4)	110,767	111,436
Net investment in operating leases (Note 5)	26,606	22,951
Retained interest in sold receivables (Note 7)	990	1,420
Goodwill and other intangible assets (Note 12)	17	17
Other assets	6,167	7,457
Receivable from Automotive (Note 1)	1,467	83
Total Financial Services assets	169,050	162,194
Intersector elimination	(1,467)	(83)
Total assets	\$ 290,217	\$ 275,936
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive		
Trade payables	\$ 17,069	\$ 16,637
Other payables	4,893	4,222
Accrued liabilities and deferred revenue (Note 14)	28,995	28,829
Deferred income taxes	3,139	804
Debt payable within one year (Note 15)	1,499	978
Current payable to Financial Services (Note 1)	640	83
Total current liabilities	56,235	51,553
Long-term debt (Note 15)	28,514	16,900
Other liabilities (Note 14)	49,398	38,639
Deferred income taxes	441	586
Non-current payable to Financial Services (Note 1)	827	—
Total Automotive liabilities	135,415	107,678
Financial Services		
Payables	1,587	2,051
Debt (Note 15)	142,036	135,400
Deferred income taxes	10,827	10,747
Other liabilities and deferred income	4,125	5,579
Total Financial Services liabilities	158,575	153,777
Minority Interests	1,159	1,122
Stockholders' equity		
Capital stock (Note 20)		

Common Stock, par value \$0.01 per share (1,837 million shares issued; 6,000 million shares authorized)	18	18
Class B Stock, par value \$0.01 per share (71 million shares issued; 530 million shares authorized)	1	1
Capital in excess of par value of stock	4,562	4,872
Accumulated other comprehensive income/(loss)	(7,846)	(3,680)
Treasury stock	(183)	(833)
Retained earnings/(Accumulated deficit)	(17)	13,064
Total stockholders' equity	(3,465)	13,442
Intersector elimination	(1,467)	(83)
Total liabilities and stockholders' equity	<u>\$ 290,217</u>	<u>\$ 275,936</u>

The accompanying notes are part of the financial statements.

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FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2006, 2005 and 2004
(in millions)

	2006	2005	2004
Cash flows from operating activities of continuing operations			
Net cash flows from operating activities (Note 21)	\$ 9,609	\$ 20,387	\$ 21,683
Cash flows from investing activities of continuing operations			
Capital expenditures	(6,848)	(7,517)	(6,738)
Acquisitions of retail and other finance receivables and operating leases	(59,793)	(54,024)	(63,284)
Collections of retail and other finance receivables and operating leases	41,502	48,257	51,002
Net acquisitions of daily rental vehicles	—	(1,552)	(2,192)
Purchases of securities	(23,678)	(11,883)	(11,767)
Sales and maturities of securities	18,456	8,735	16,648
Proceeds from sales of retail and other finance receivables and operating leases	5,120	17,288	6,481
Proceeds from sale of businesses	56	7,937	537
Cash paid for acquisitions	—	(2,031)	(30)
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(4)	(1,255)	(39)
Other	325	1,849	2,292
Net cash (used in)/provided by investing activities	(24,864)	5,804	(7,090)
Cash flows from financing activities of continuing operations			
Cash dividends	(468)	(738)	(733)
Sales of Common Stock	431	895	21
Purchases of Common Stock	(183)	(570)	(172)
Changes in short-term debt	(5,825)	(8,713)	4,885
Proceeds from issuance of other debt	58,258	24,559	22,223
Principal payments on other debt	(36,601)	(36,080)	(36,000)
Other	(339)	(153)	(136)
Net cash (used in)/provided by financing activities	15,273	(20,800)	(9,912)
Effect of exchange rate changes on cash	464	(496)	505
Net increase/(decrease) in cash and cash equivalents from continuing operations	482	4,895	5,186
Cash from discontinued operations			
Cash flows from operating activities of discontinued operations	2	55	315
Cash flows from investing activities of discontinued operations	—	(49)	(320)
Cash flows from financing activities of discontinued operations	—	—	—
Net increase/(decrease) in cash and cash equivalents	<u>\$ 484</u>	<u>\$ 4,901</u>	<u>\$ 5,181</u>
Cash and cash equivalents at January 1	\$ 28,406	\$ 22,828	\$ 17,672
Cash and cash equivalents of discontinued/held-for-sale operations at January 1	4	681	656
Net increase/(decrease) in cash and cash equivalents	484	4,901	5,181
Less: cash and cash equivalents of discontinued/held-for-sale operations at December 31	—	(4)	(681)
Cash and cash equivalents at December 31	<u>\$ 28,894</u>	<u>\$ 28,406</u>	<u>\$ 22,828</u>

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
SECTOR STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2006, 2005 and 2004
(in millions)

	2006		2005		2004	
	Automotive	Financial Services	Automotive	Financial Services	Automotive	Financial Services
Cash flows from operating activities of continuing operations						
Net cash flows from operating activities (Note 21)	\$ (4,185)	\$ 7,316	\$ 5,433	\$ 6,912	\$ 6,963	\$ 7,963
Cash flows from investing activities of continuing operations						
Capital expenditures	(6,809)	(39)	(7,123)	(394)	(6,280)	(458)
Acquisitions of retail and other finance receivables and operating leases	—	(59,793)	—	(54,024)	—	(63,284)
Collections of retail and other finance receivables and operating leases	—	41,867	—	48,245	—	51,220
Net (increase)/decrease in wholesale receivables	—	6,113	—	4,751	—	2,882
Net acquisitions of daily rental vehicles	—	—	—	(1,988)	—	(2,492)
Purchases of securities	(4,068)	(19,610)	(5,714)	(6,169)	(7,590)	(4,177)
Sales and maturities of securities	4,865	13,591	5,106	3,629	7,615	9,033
Proceeds from sales of retail and other finance receivables and operating leases	—	5,120	—	17,288	—	6,481
Proceeds from sale of wholesale receivables	—	—	—	3,739	—	3,957
Proceeds from sale of businesses	56	—	280	7,657	125	412
Cash paid for acquisitions	—	—	(2,031)	—	(30)	—
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(4)	—	—	(1,255)	(26)	(13)
Investing activity from Financial Services	1,185	—	8,407	—	4,361	—
Investing activity to Financial Services	(1,400)	—	—	—	—	—
Other	18	307	387	1,462	107	2,185
Net cash (used in)/provided by investing activities	(6,157)	(12,444)	(688)	22,941	(1,718)	5,746
Cash flows from financing activities of continuing operations						
Cash dividends	(468)	—	(738)	—	(733)	—
Sales of Common Stock	431	—	895	—	21	—
Purchases of Common Stock	(183)	—	(570)	—	(172)	—
Changes in short-term debt	414	(6,239)	(115)	(8,598)	(342)	5,227
Proceeds from issuance of other debt	12,254	46,004	385	24,174	469	21,754

Principal payments on other debt	(758)	(35,843)	(758)	(35,322)	(2,564)	(33,436)
Financing activity from Automotive	—	1,400	—	—	—	—
Financing activity to Automotive	—	(1,185)	—	(8,407)	—	(4,361)
Other	(147)	(192)	(177)	24	(39)	(97)
Net cash (used in)/provided by financing activities	11,543	3,945	(1,078)	(28,129)	(3,360)	(10,913)
Effect of exchange rate changes on cash	104	360	(23)	(473)	117	388
Net change in intersector receivables/payables and other liabilities	1,321	(1,321)	(394)	394	1,258	(1,258)
Net increase/(decrease) in cash and cash equivalents from continuing operations	2,626	(2,144)	3,250	1,645	3,260	1,926
Cash from discontinued operations						
Cash flows from operating activities of discontinued operations	2	—	(16)	71	(149)	464
Cash flows from investing activities of discontinued operations	—	—	17	(66)	137	(457)
Cash flows from financing activities of discontinued operations	—	—	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	\$ 2,628	\$ (2,144)	\$ 3,251	\$ 1,650	\$ 3,248	\$ 1,933
Cash and cash equivalents at January 1	\$13,388	\$ 15,018	\$10,139	\$ 12,689	\$ 6,853	\$ 10,819
Cash and cash equivalents of discontinued/held-for-sale operations at January 1	4	—	2	679	40	616
Net increase/(decrease) in cash and cash equivalents	2,628	(2,144)	3,251	1,650	3,248	1,933
Less: cash and cash equivalents of discontinued/held-for-sale operations at December 31	—	—	(4)	—	(2)	(679)
Cash and cash equivalents at December 31	\$16,020	\$ 12,874	\$13,388	\$ 15,018	\$10,139	\$ 12,689

The accompanying notes are part of the financial statements.
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FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2006, 2005 and 2004
(in millions)

YEAR ENDED DECEMBER 31, 2004	Capital Stock	Capital in Excess of Par Value of Stock	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)			Other	Total
				Foreign Currency Translation	Employee Benefit Related	Derivative Instruments and Other		
Balance at beginning of year	\$ 19	\$ 5,374	\$ 10,057	\$ 1,816	\$ (3,520)	\$ 1,462	\$(1,749)	\$ 13,459
Comprehensive income/(loss)								
Net income/(loss)	—	—	3,038	—	—	—	—	3,038
Foreign currency translation	—	—	—	2,321	—	—	—	2,321
Net gain/(loss) on derivative instruments (net of \$76 of tax)	—	—	—	(125)	—	(16)	—	(141)
Minimum pension liability (net of \$243 of tax)	—	—	—	—	(451)	—	—	(451)
Net holding gain/(loss) (net of \$13 of tax)	—	—	—	—	—	(24)	—	(24)
Comprehensive income/(loss)								4,743
Common Stock issued for employee benefit plans and other	—	(53)	—	—	—	—	—	(53)
ESOP loan and treasury stock	—	—	—	—	—	—	21	21
Cash dividends	—	—	(733)	—	—	—	—	(733)
Balance at end of year	<u>\$ 19</u>	<u>\$ 5,321</u>	<u>\$ 12,362</u>	<u>\$ 4,012</u>	<u>\$ (3,971)</u>	<u>\$ 1,422</u>	<u>\$(1,728)</u>	<u>\$ 17,437</u>
YEAR ENDED DECEMBER 31, 2005								
Balance at beginning of year	\$ 19	\$ 5,321	\$ 12,362	\$ 4,012	\$ (3,971)	\$ 1,422	\$(1,728)	\$ 17,437
Comprehensive income/(loss)								
Net income/(loss)	—	—	1,440	—	—	—	—	1,440
Foreign currency translation	—	—	—	(3,684)	—	—	—	(3,684)
Net gain/(loss) on derivative	—	—	—	285	—	(1,264)	—	(979)

instruments (net of \$527 of tax)									
Minimum pension liability (net of \$229 of tax)	—	—	—	—	(425)	—	—	(425)	
Net holding gain/(loss) (net of \$30 of tax).	—	—	—	—	—	(55)	—	(55)	
Comprehensive income/(loss)									(3,703)
Common Stock issued for employee benefit plans and other	—	(449)	—	—	—	—	—	(449)	
ESOP loan and treasury stock	—	—	—	—	—	—	895	895	
Cash dividends	—	—	(738)	—	—	—	—	(738)	
Balance at end of year	<u>\$ 19</u>	<u>\$ 4,872</u>	<u>\$ 13,064</u>	<u>\$ 613</u>	<u>\$ (4,396)</u>	<u>\$ 103</u>	<u>\$ (833)</u>	<u>\$ 13,442</u>	

**YEAR ENDED
DECEMBER 31,
2006**

Balance at beginning of year	\$ 19	\$ 4,872	\$ 13,064	\$ 613	\$ (4,396)	\$ 103	\$ (833)	\$ 13,442	
Comprehensive income/(loss)									
Net income/(loss)	—	—	(12,613)	—	—	—	—	(12,613)	
Foreign currency translation (Note 2)	—	—	—	2,585	—	—	—	2,585	
Net gain/(loss) on derivative instruments (net of \$266 of tax)	—	—	—	17	—	477	—	494	
Minimum pension liability (net of \$819 of tax)	—	—	—	—	1,542	—	—	1,542	
Net holding gain/(loss) (net of \$266 of tax)	—	—	—	—	—	(59)	—	(59)	
Comprehensive income/(loss)									(8,051)
Adoption of Statement of Financial Accounting Standards ("SFAS") Statement No. 158 (net of \$646 of tax)	—	—	—	—	(8,728)	—	—	(8,728)	
Common Stock issued for employee benefit plans and other	—	(310)	—	—	—	—	—	(310)	
ESOP loan and treasury stock	—	—	—	—	—	—	650	650	
Cash dividends	—	—	(468)	—	—	—	—	(468)	

Balance at end of year	<u>\$ 19</u>	<u>\$ 4,562</u>	<u>\$ (17)</u>	<u>\$ 3,215</u>	<u>\$ (11,582)</u>	<u>\$ 521</u>	<u>\$ (183)</u>	<u>\$ (3,465)</u>
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The accompanying notes are part of the financial statements.

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FORD MOTOR COMPANY AND SUBSIDIARIES

NOTE 1. PRINCIPLES OF PRESENTATION AND CONSOLIDATION

Principles of Presentation and Consolidation

Our financial statements are presented in accordance with generally accepted accounting principles in the United States (“GAAP”) and are shown on two bases: 1) consolidated basis and 2) sector basis for Automotive and Financial Services. We believe the additional information provided in the sector basis statements enables the reader to better understand the operating performance, financial position, cash flows, and liquidity of our two very different businesses. The primary difference between the presentation of our sector balance sheet and our consolidated balance sheet is the netting of deferred tax assets and liabilities.

Our financial statements include consolidated majority-owned subsidiaries and consolidated variable interest entities (“VIEs”) of which we are the primary beneficiary. Affiliates that we do not consolidate, but over whose operating and financial policies we have significant influence, are accounted for using the equity method.

Certain Transactions Between Automotive and Financial Services Sectors

Intersector transactions occur in the ordinary course of business. We formally documented certain long-standing business practices with Ford Motor Credit Company (“Ford Credit”), our indirect wholly-owned subsidiary, in a 2001 agreement that was amended in 2006. Additional details on certain transactions and the effect on each sector’s balance sheet at December 31 are shown below (in billions):

	2006		2005	
	Automotive	Financial Services	Automotive	Financial Services
Finance receivables, net (a)		\$3.9		\$5.5
Wholesale receivables (b)		1.9		1.6
Net investment in operating leases (c)		0.8		0.9
Other assets (d)		0.7		1.1
Intersector receivables/(payables) (e)	\$(1.5)	1.5	\$(0.1)	0.1

- (a) Automotive sector receivables (generated primarily from vehicle and parts sales to third parties) sold to Ford Credit. These receivables are classified as *Other receivables, net* on our consolidated balance sheet and *Finance receivables, net* on our sector balance sheet.
- (b) Primarily wholesale receivables with entities that are consolidated subsidiaries of Ford. The consolidated subsidiaries include dealerships that are partially owned by Ford and consolidated as VIEs, and also certain overseas affiliates.
- (c) Sale-leaseback agreement between Automotive and Financial Services sectors relating to vehicles that we lease to our employees and employees of our subsidiaries.
- (d) Primarily used vehicles purchased by Ford Credit pursuant to the Automotive sector’s obligation to repurchase such vehicles from daily rental car companies. These vehicles are subsequently sold at auction.
- (e) Primarily amounts owed to the Automotive sector by Ford Credit under a tax sharing agreement, and the net result of all other transactions including receivables of Ford Credit from the Automotive sector’s consolidated dealerships.

Additionally, amounts recorded as revenue by the Financial Services sector and billed to the Automotive sector for interest supplements and other support costs for special financing and leasing programs were \$3.5 billion in 2006, \$3.3 billion in 2005, and \$3.4 billion in 2004. At December 31, 2006, the Automotive sector has accrued in *Accrued liabilities and deferred revenue* \$4.6 billion for interest supplements and about \$900 million for residual-value supplements in the United States and Canada to be paid to Ford Credit over the term of the related finance contracts.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and all highly liquid investments with a maturity of three months or less at the date of purchase, including short-term time deposits and government agency and corporate obligations, are classified in *Cash and cash equivalents*. Cash and cash equivalents and investments that are restricted as to withdrawal or usage under the terms of certain contractual arrangements are recorded in *Other assets* on our consolidated balance sheet. See Note 7 for additional information regarding cash that supports Financial Services’ on-balance sheet securitizations.

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF ACCOUNTING POLICIES (Continued)

Asset Impairments

Held-for-Sale and Discontinued Operations. We perform an impairment test on an asset group to be discontinued, held for sale, or otherwise disposed of when management has committed to the action and the action is expected to be completed within one year. We estimate fair value to approximate the expected proceeds to be received, less transaction costs, and compare it to the carrying value of the asset group. An impairment charge is recognized when the carrying value exceeds the estimated fair value. A gain is recognized upon disposal if the estimated fair value exceeds the carrying value of the asset group.

Held-and-Used Long-Lived Assets. We monitor the carrying value of long-lived asset groups held for potential impairment when certain triggering events have occurred. These events include current period losses combined with a history of losses or a projection of continuing losses. When a triggering event occurs, a test for recoverability is performed, comparing projected undiscounted future cash flows (utilizing current cash flow information and expected growth rates) to the carrying value of the asset group. If the test for recoverability identifies a possible impairment, the asset group fair value is measured relying primarily on the discounted cash flow methodology. Additionally, we consider various market multiples (e.g., revenue and earnings before interest, taxes and depreciation and amortization ("EBITDA")) and consult with external valuation experts. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value.

Revenue Recognition — Automotive Sector

Sales are recorded when the risks and rewards of ownership are transferred to our customers (generally dealers and distributors). In the majority of our sales arrangements, this occurs when products are shipped from our manufacturing facilities. When vehicles are shipped to customers or modifiers on consignment, revenue is recognized when the vehicle is sold to the ultimate customer. We also sell vehicles to daily rental car companies subject to guaranteed repurchase options. These vehicles are accounted for as operating leases. At the time of sale, the proceeds are recorded as deferred revenue in *Accrued liabilities and deferred revenue*. The difference between the proceeds and the guaranteed repurchase amount is recognized in *Automotive sales* over the term of the lease, using a straight-line method. Also at the time of sale, the cost of the vehicles is recorded as an operating lease in *Other current assets*. The difference between the cost of the vehicle and the estimated auction value is depreciated in *Automotive cost of sales* over the term of the lease. At December 31, 2006 and 2005, included in *Accrued liabilities and deferred revenue* was \$3.6 billion and \$4.6 billion, respectively, and included in *Other current assets* was \$3.2 billion and \$4.1 billion, respectively, for these vehicles.

Income generated from cash and cash equivalents, investments in marketable securities, loaned securities and other miscellaneous receivables is reported in *Automotive interest income and other non-operating income/(expense), net*.

Revenue Recognition — Financial Services Sector

Revenue from finance receivables is recognized using the interest method. Certain origination costs on receivables are deferred and amortized, using the interest method, over the term of the related receivable as a reduction in financing revenue. Rental revenue on operating leases is recognized on a straight-line basis over the term of the lease. Initial direct costs related to leases are deferred and amortized on a straight-line basis over the term of the lease. The accrual of interest on receivables is discontinued at the time a receivable is determined to be uncollectible.

Income generated from cash and cash equivalents, investments in marketable securities, and other miscellaneous receivables is reported in *Financial Services revenues*.

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF ACCOUNTING POLICIES (Continued)

Marketing Incentives and Interest Supplements

Marketing incentives, including customer and dealer cash payments and costs for special financing and leasing programs paid to the Financial Services sector, are recognized by the Automotive sector as revenue reductions. These revenue reductions are accrued at the later of the date the related vehicle sales to the dealers are recorded or the date the incentive program is both approved and communicated. Costs of these marketing incentives are measured based on assumptions regarding the number of vehicles that will have a specific incentive applied against them. The Financial Services sector identifies payments for special financing and leasing programs as interest supplements or other support costs and recognizes them consistent with the earnings process of the underlying receivable or operating lease.

Sale of Receivables

Ford Credit securitizes finance receivables and sells retail installment sale contracts in whole-loan sale transactions to fund operations and to maintain liquidity. Most securitizations do not qualify for off-balance sheet treatment. As a result, the securitized receivables and associated debt remain on our balance sheet and no gain or loss is recorded for these transactions.

We record our sales of receivables as off-balance sheet when the following criteria are met:

- The receivables are isolated from the transferor; we transfer the receivables to bankruptcy – remote special purpose entities (“SPEs”) or other independent entities.
- The receivables are transferred to an entity that has the right to pledge or exchange the assets, or to a qualifying SPE whose beneficial interest holders have the right to pledge or exchange their beneficial interests. In our off-balance sheet transactions, we generally use a qualifying SPE or we sell the receivables to an independent entity. In either case, we do not restrict the transferee from pledging or exchanging the receivables or beneficial interests.
- The transferor does not maintain control over the receivables; we are not permitted to regain control over the transferred receivables or cause the return of specific receivables, other than through a “cleanup” call.

For off-balance sheet sales of receivables, gains or losses are recognized in the period in which the sale occurs. We retain certain interests in receivables sold in off-balance sheet securitization transactions. In determining the gain or loss on each sale of finance receivables, the investment in the sold receivables pool is allocated between the portions sold and retained based on their relative fair values at the date of sale. Retained interests may include residual interest in securitizations, restricted cash held for the benefit of securitization investors and subordinated securities. These interests are recorded at fair value with unrealized gains recorded, net of tax, as a separate component of *Accumulated other comprehensive income/(loss)* (“OCI”). Residual interests in securitizations represent the present value of monthly collections on the sold finance receivables in excess of amounts needed for payment of the debt and other obligations issued or arising in the securitization transactions. We do not retain any interests in the whole-loan sale transactions but continue to service the sold receivables.

In both off-balance sheet securitization transactions and whole-loan sales, we also retain the servicing rights and generally receive a servicing fee. The fee is recognized as collected over the remaining term of the related sold finance receivables. When the servicing fee adequately compensates us for retaining the servicing rights, we do not establish a servicing asset or liability. Interest supplement payments due from affiliates related to receivables sold in off-balance sheet securitizations or whole-loan sale transactions are recorded, on a present value basis, as a receivable in *Other assets* on our balance sheet at the time the receivables are sold. Present value accretion is recognized in *Financial Services revenues*.

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF ACCOUNTING POLICIES (Continued)**Supplier Price Adjustments**

We frequently negotiate price adjustments with our suppliers throughout a production cycle, even after receiving production material. These price adjustments relate to changes in design specifications or to other commercial terms such as economics, productivity, and competitive pricing. We recognize price adjustments when we reach final agreement with our suppliers. In general, we avoid price changes in consideration of future business; however, when these occur, our policy is to defer the financial statement impact of any such price change given explicitly in consideration of future business where guaranteed volumes are specified.

Government Grants and Loan Incentives

We receive grants and loan incentives from domestic and foreign governments. They are recorded in the financial statements as dictated by the grant agreement, either as a reduction of expenses or a reduction of the cost of the capital investment. The benefit of grants and loan incentives is recorded when performance is complete and all conditions as specified in the agreement are fulfilled. Grants and loan incentives are recorded as a reduction of expense in *Automotive cost of sales*.

Selected Other Costs

Freight, engineering and research and development costs are included in *Automotive cost of sales*; advertising costs are included in *Selling, administrative and other expenses*. Advertising, engineering and research and development costs are expensed as incurred and were as follows (in billions):

	2006	2005	2004
Advertising	\$5.1	\$5.0	\$4.7
Engineering, research and development	7.2	8.0	7.4

Foreign Currency Translation

The assets and liabilities of foreign subsidiaries using the local currency as their functional currency are translated to U.S. dollars based on current exchange rates and any resulting translation adjustments are included in OCI. The net translation adjustments for 2006 and 2005 were an increase in net assets and OCI of \$2.6 billion and a decrease in net assets and OCI of \$3.7 billion (net of \$524 million and \$299 million of tax), respectively. The net translation adjustment also reflects amounts transferred to net income as a result of the sale or liquidation of an entity, resulting in a gain of \$116 million (primarily from the sale of Hertz) in 2005.

Also included in *Automotive cost of sales*, *Automotive interest income and other non-operating income/(expense)*, *net*, and *Financial Services revenues* are the gains and losses arising from transactions denominated in a currency other than the functional currency of a location, the effect of re-measuring assets and liabilities of foreign subsidiaries using U.S. dollars as their functional currency, and the results of our foreign currency hedging activities. For additional discussion of hedging activities, see Note 22. The net after-tax income effects of these adjustments were a loss of about \$17 million in 2006, and gains of \$621 million and \$609 million in 2005 and 2004, respectively.

Presentation of Sales Taxes

We collect and remit taxes assessed by different governmental authorities that are both imposed on and concurrent with a revenue-producing transaction between us and our customers. These taxes may include, but are not limited to, sales, use, value-added, and some excise taxes. We report the collection of these taxes on a net basis (excluded from revenues). The amounts of these taxes are not significant.

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect our reported amounts of assets and liabilities, our disclosure of contingent assets and liabilities at the date of the financial statements, and our revenue and expenses during the periods reported. Estimates are used when accounting for certain items such as marketing accruals, warranty costs, employee benefit programs, etc. Estimates are based on historical experience, where applicable, and assumptions that we believe are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

NOTE 3. MARKETABLE, LOANED AND OTHER SECURITIES

We classify all securities as trading, available-for-sale or held-to-maturity. Trading securities are recorded at fair value, with unrealized gains and losses included in income. Available-for-sale securities are recorded at fair value, with net unrealized holding gains and losses reported, net of tax, in *Accumulated other comprehensive income/(loss)*. Held-to-maturity securities are recorded at amortized cost. Realized gains and losses for all securities are included in *Automotive interest income and other non-operating income/(expense), net* and *Financial Services revenues*, and are accounted for using the specific identification method.

The fair value of trading and available-for-sale securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities traded in the market.

Expected maturities of debt securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

We loan certain securities from our portfolio to other institutions. Such securities are classified as *Loaned securities*. Collateral for the loaned securities, consisting of cash or other securities, is maintained at a rate of 102% of the market value of a loaned security. We received securities as collateral in the amount of \$4.4 billion and \$2.8 billion for 2006 and 2005, respectively. These securities have not been pledged or sold. We received cash as collateral in the amount of \$931 million and \$764 million for 2006 and 2005, respectively. This cash collateral is recorded in *Other assets* on the consolidated balance sheet and *Other current assets* on the sector balance sheet, offset by a current obligation to return the collateral in *Payables* on the consolidated balance sheet and *Other payables* on the sector balance sheet. Income received from loaning securities is recorded in *Automotive interest income and other non-operating income/(expense), net*.

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. MARKETABLE, LOANED AND OTHER SECURITIES (Continued)

Investments in marketable and loaned securities at December 31 were as follows (in millions):

	2006				2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Automotive Sector								
Trading	\$15,060	\$ 27	\$ 18	\$15,069	\$ 8,028	\$ 13	\$ 24	\$ 8,017
Available-for-sale								
U.S. government	185	—	1	184	1,063	—	6	1,057
Mortgage-backed securities	595	1	3	593	527	1	4	524
Other debt securities	724	—	4	720	729	1	7	723
Subtotal	<u>1,504</u>	<u>1</u>	<u>8</u>	<u>1,497</u>	<u>2,319</u>	<u>2</u>	<u>17</u>	<u>2,304</u>
Total	<u>\$16,564</u>	<u>\$ 28</u>	<u>\$ 26</u>	<u>\$16,566</u>	<u>\$10,347</u>	<u>\$ 15</u>	<u>\$ 41</u>	<u>\$10,321</u>
Financial Services Sector								
Trading	\$ 1	\$ —	\$ —	\$ 1	\$ 2	\$ —	\$ —	\$ 2
Available-for-sale								
U.S. government	3,710	4	1	3,713	92	1	—	93
Government-sponsored enterprises	4,968	5	—	4,973	1,648	—	—	1,648
Mortgage-backed securities	263	1	4	260	282	1	4	279
Other debt securities	1,113	1	2	1,112	1,684	1	3	1,682
Equity securities	60	36	1	95	65	38	1	102
Subtotal	<u>10,114</u>	<u>47</u>	<u>8</u>	<u>10,153</u>	<u>3,771</u>	<u>41</u>	<u>8</u>	<u>3,804</u>
Held-to-maturity	8	—	—	8	6	—	—	6
Total	<u>\$10,123</u>	<u>\$ 47</u>	<u>\$ 8</u>	<u>\$10,162</u>	<u>\$ 3,779</u>	<u>\$ 41</u>	<u>\$ 8</u>	<u>\$ 3,812</u>

The proceeds from maturities and sales of available-for-sale securities were as follows (in millions):

	Proceeds								
	Maturities			Sales			Gains/(Losses)		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Automotive Sector	\$ 496	\$ 321	\$ —	\$ 4,369	\$ 4,785	\$ 7,615	\$ (19)	\$ (57)	\$ (12)
Financial Services Sector	9,157	2,381	6,981	4,434	691	2,032	15	4	6

The amortized cost and fair value of investments in available-for-sale and held-to-maturity securities by contractual maturity for our sectors at December 31, 2006 were as follows (in millions):

Contractual Maturity	Automotive Available-for-Sale		Financial Services			
	Amortized Cost	Fair Value	Available-for-Sale		Held-to-Maturity	
			Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 year	\$ 147	\$ 147	\$ 9,516	\$ 9,524	\$ 2	\$ 2
2-5 years	739	735	143	142	2	2
6-10 years	22	21	53	53	1	1
11 years and later	1	1	79	79	3	3
Mortgage-backed securities	595	593	263	260	—	—
Equity securities	—	—	60	95	—	—
Total	<u>\$ 1,504</u>	<u>\$ 1,497</u>	<u>\$10,114</u>	<u>\$10,153</u>	<u>\$ 8</u>	<u>\$ 8</u>

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. MARKETABLE, LOANED AND OTHER SECURITIES (Continued)

The fair value of our investments in an unrealized loss position at December 31, 2006, aggregated by investment category and length of time the investments have been in a continuous loss position, are as follows (in millions):

Description of Securities	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Automotive Sector						
U.S. government	\$ 127	\$ 1	\$ 10	\$ —	\$ 137	\$ 1
Mortgage-backed securities	177	—	145	3	322	3
Other debt securities	349	1	276	3	625	4
Total	<u>\$ 653</u>	<u>\$ 2</u>	<u>\$ 431</u>	<u>\$ 6</u>	<u>\$ 1,084</u>	<u>\$ 8</u>
Financial Services Sector						
U.S. government	\$ 45	\$ 1	\$ 6	\$ —	\$ 51	\$ 1
Government-sponsored enterprises	250	—	17	—	267	—
Mortgage-backed securities	51	1	136	3	187	4
Other debt securities	47	—	74	2	121	2
Equity securities	3	1	1	—	4	1
Total	<u>\$ 396</u>	<u>\$ 3</u>	<u>\$ 234</u>	<u>\$ 5</u>	<u>\$ 630</u>	<u>\$ 8</u>

We utilize a systematic process to evaluate whether unrealized losses related to investments in debt and equity securities are temporary in nature. Factors considered in determining whether a loss is temporary include the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If losses are determined to be other than temporary, the investment carrying amount is considered impaired and adjusted downward to a revised fair value.

NOTE 4. FINANCE RECEIVABLES — FINANCIAL SERVICES SECTOR

Net finance receivables at December 31 were as follows (in millions):

	2006	2005
Retail	\$ 72,513	\$ 67,928
Wholesale	33,813	38,522
Other finance receivables	5,396	6,320
Total finance receivables	111,722	112,770
Allowance for credit losses	(995)	(1,400)
Other	40	66
Net finance and other receivables	<u>\$110,767</u>	<u>\$111,436</u>
Net finance receivables subject to fair value*	\$105,324	\$105,481
Fair Value	\$104,066	\$105,004

* December 31, 2006 and 2005, excludes \$5.4 billion and \$6 billion, respectively, of certain receivables (primarily direct financing leases) that are not financial instruments.

Finance receivables that originated outside of the United States were \$49.4 billion and \$46.4 billion at December 31, 2006 and 2005, respectively. Other finance receivables consisted primarily of real estate, commercial and other collateralized loans and accrued interest. At December 31, 2006, finance receivables included \$1.8 billion owed by the three customers with the largest receivables balances.

Included in net finance and other receivables at December 31, 2006 and 2005 were \$56.5 billion and \$44.7 billion, respectively, of finance receivables that have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. These receivables are available only for payment of the debt or other

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. FINANCE RECEIVABLES — FINANCIAL SERVICES SECTOR (Continued)

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

The fair value of finance receivables is generally calculated by discounting future cash flows using an estimated discount rate that reflects the current credit, interest rate and prepayment risks associated with similar types of instruments. For finance receivables with short maturities (generally three months or less), the book value approximates fair value.

Future maturities of total finance receivables, including minimum lease rentals, are \$69.3 billion for 2007, \$20.8 billion for 2008, \$12.2 billion for 2009, and \$9.4 billion thereafter. Experience indicates that a portion of the portfolio is repaid before the contractual maturity dates.

Included in retail receivables above are investments in direct financing leases. The net investment at December 31 was as follows (in millions):

	2006	2005
Total minimum lease rentals to be received	\$ 3,516	\$ 3,978
Less: Unearned income	(504)	(555)
Loan origination costs	49	41
Estimated residual values	2,349	2,394
Less: Allowance for credit losses	(52)	(59)
Net investment in direct financing leases	<u>\$ 5,358</u>	<u>\$ 5,799</u>

The investment in direct financing leases primarily relates to the leasing of vehicles. Future maturities of minimum lease rentals, as included above, are \$1.4 billion for 2007, \$991 million for 2008, \$726 million for 2009, and \$382 million thereafter.

NOTE 5. NET INVESTMENT IN OPERATING LEASES

The net investment in operating leases at December 31 was as follows (in millions):

	2006	2005
Automotive Sector		
Vehicles, net of depreciation	\$ 3,228	\$ 4,148
Financial Services Sector		
Vehicles and other equipment, at cost	33,974	29,489
Accumulated depreciation	(7,242)	(6,344)
Allowance for credit losses	(126)	(194)
Total Financial Services Sector	<u>26,606</u>	<u>22,951</u>
Total	<u>\$29,834</u>	<u>\$27,099</u>

Automotive Sector

Included in *Net investment in operating leases* for the Automotive sector are vehicles sold to daily rental car companies subject to guaranteed repurchase options. Assets subject to operating leases are depreciated on the straight-line method over the projected service life of the lease to reduce the asset to its estimated residual value. Operating lease depreciation expense (which excludes gains and losses on disposal of assets) was \$1.2 billion in 2006, \$218 million in 2005, and \$230 million in 2004.

Included in *Automotive sales* are rents on operating leases. The amount contractually due for minimum rentals on operating leases is \$368 million for 2007.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. NET INVESTMENT IN OPERATING LEASES (Continued)

Financial Services Sector

Included in *Net investment in operating leases* at December 31, 2006 and 2005 were interests of \$17.3 billion and \$6.5 billion, respectively, that have been included in securitizations that do not satisfy the requirements for accounting sale treatment. These net investment in operating leases are available only for payment of the debt or other obligations issued or arising in the securitization transactions; they are not available to pay our other obligations or the claims of our other creditors.

Included in *Financial Services revenues* are rents on operating leases. The amounts contractually due for minimum rentals on operating leases are \$3.8 billion for 2007, \$3.6 billion for 2008, \$1.7 billion for 2009, \$433 million for 2010, \$73 million for 2011, and \$291 million thereafter.

Assets subject to operating leases are depreciated on the straight-line method over the term of the lease to reduce the asset to its estimated residual value. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned. Operating lease depreciation expense (which includes gains and losses on disposal of assets) was \$5.2 billion in 2006, \$5.7 billion in 2005, and \$6.4 billion in 2004.

NOTE 6. ALLOWANCE FOR CREDIT LOSSES — FINANCIAL SERVICES SECTOR

We estimate and record an allowance for credit losses related to impaired receivables and operating leases at the date of the financial statements. This allowance is based on factors including historical credit loss trends (for example, loss history and key physical trends such as delinquency and repossessions), the composition and credit quality of our present portfolio (including vehicle brand, term, risk evaluation, and new/used), trends in historical and projected used vehicle values and general economic measures. Additions to the allowance for credit losses are made by recording charges to the *Provision for credit and insurance losses* on our statement of income. Finance receivables and lease investments are charged to the allowance for credit losses at the earlier of when an account is deemed to be uncollectible or when an account is 120 days delinquent, taking into consideration the financial condition of the borrower or lessee, the value of the collateral, recourse to guarantors and other factors. Recoveries on finance receivables and lease investments previously charged off as uncollectible are credited to the allowance for credit losses.

The allowance for credit losses is included in *Finance receivables, net* and *Net investment in operating leases*. Changes in the allowance for credit losses for finance receivables, investment in direct financing leases and investment in operating leases were as follows (in millions):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 1,594	\$ 2,471	\$ 2,977
Provision for credit and insurance losses	100	167	923
Total charge-offs and recoveries			
Charge-offs	(995)	(1,184)	(1,843)
Recoveries	<u>470</u>	<u>478</u>	<u>477</u>
Net charge-offs	(525)	(706)	(1,366)
Other changes, principally amounts related to finance receivables sold and translation adjustments	<u>(48)</u>	<u>(338)</u>	<u>(63)</u>
Ending balance	<u>\$ 1,121</u>	<u>\$ 1,594</u>	<u>\$ 2,471</u>

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. SALES OF RECEIVABLES — FINANCIAL SERVICES SECTOR

Servicing Portfolio

We retain servicing rights for receivables sold in off–balance sheet securitization and whole–loan sale transactions. The servicing portfolio is summarized in the following table (in millions):

	<u>Retail</u>	<u>Wholesale</u>	<u>Total</u>
Servicing portfolio at December 31, 2004	\$ 20,669	\$ 18,904	\$ 39,573
Receivables sales	18,138	1,561	19,699
Collections and re–acquired receivables	<u>(17,886)</u>	<u>(20,465)</u>	<u>(38,351)</u>
Servicing portfolio at December 31, 2005	20,921	—	20,921
Receivables sales	5,531	—	5,531
Collections and re–acquired receivables	<u>(12,218)</u>	<u>—</u>	<u>(12,218)</u>
Servicing portfolio at December 31, 2006	<u>\$ 14,234</u>	<u>\$ —</u>	<u>\$ 14,234</u>

In the fourth quarter of 2005, we consolidated our off–balance sheet wholesale securitization program as a result of certain changes authorized in accordance with the transaction documents. The accounting consolidation did not have an impact on our earnings, credit facilities, unsecured debt programs or other securitization programs. This transaction was primarily non–cash and increased receivables by \$17.9 billion and debt by \$15.8 billion upon consolidation.

Retained Interest

Components of retained interest in off–balance sheet securitized assets at December 31 include (in millions):

	<u>2006</u>	<u>2005</u>
Residual interest in securitization transactions	\$ 709	\$ 1,094
Restricted cash held for benefit of securitization investors	204	199
Subordinated securities	<u>77</u>	<u>127</u>
Retained interest in securitized assets	<u>\$ 990</u>	<u>\$ 1,420</u>

Investments in subordinated securities and restricted cash are senior to the residual interest in securitization transactions. Retained interests are recorded at fair value. The fair value of subordinated securities are valued based on secondary market trading prices, if available, or by utilizing a discounted cash flow method with current market rates. In determining the fair value of residual interest in securitization transactions, we discount the present value of the projected cash flows retained at the transaction discount rate.

Investment and Other Income

The following table summarizes the activity related to off–balance sheet sales of receivables reported in *Financial Services revenues* for the years ended December 31 (in millions):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net gain on sales of receivables	\$ 88	\$ 87	\$ 160
Interest income on retained interests	32	327	588
Servicing fees	198	376	372
Income on residual interests and other	<u>350</u>	<u>723</u>	<u>815</u>
Investment and other income related to sales of receivables	<u>\$ 668</u>	<u>\$ 1,513</u>	<u>\$ 1,935</u>

For the year ended December 31, 2006, we utilized certain point–of–sale assumptions to value the residual interest in our retail transactions, which included a discount rate of 11.0%, prepayment speeds of 0.9% to 1.5% (which represent expected payments earlier than scheduled maturity dates) and credit losses of 0.1% to 2.3% over the life of the sold receivables. The weighted–average life of the underlying assets was 45.8 months. For the year ended December 31, 2005, point–of–sale assumptions in our retail transactions included discount rates of 11.0%, prepayment speeds of 0.9% to 1.5% and credit losses of 0.1% to 2.3% over the life of the sold receivables. For the year ended December 31, 2005, the weighted–average life of the underlying assets was 51.9 months.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. SALES OF RECEIVABLES — FINANCIAL SERVICES SECTOR (Continued)

Cash Flow

The following table summarizes the cash flow movements between the transferees and us in our off-balance sheet sales of receivables for the years ended December 31 (in millions):

	2006	2005	2004
Proceeds from sales of receivables and retained interests			
Proceeds from sales of retail receivables	\$ 4,863	\$15,549	\$ 4,795
Proceeds from interest in sold wholesale receivables	—	3,739	3,957
Proceeds from revolving-period securitizations	217	1,349	1,567
Proceeds from sale of retained notes — retail	40	298	—
Total	<u>\$ 5,120</u>	<u>\$20,935</u>	<u>\$10,319</u>
Cash flows related to net change in retained interest			
Interest in sold retail receivables	\$ 672	\$ 708	\$ 1,457
Interest in sold wholesale receivables	—	2,684	(1,831)
Total	<u>\$ 672</u>	<u>\$ 3,392</u>	<u>\$ (374)</u>
Servicing fees			
Retail	\$ 198	\$ 260	\$ 260
Wholesale	—	116	112
Total	<u>\$ 198</u>	<u>\$ 376</u>	<u>\$ 372</u>
Other cash flows received on retained interests (which are reflected in securitization income)			
Retail	\$ 115	\$ 276	\$ 356
Wholesale	—	507	802
Total	<u>\$ 115</u>	<u>\$ 783</u>	<u>\$ 1,158</u>

We repurchased \$36 million, \$43 million, and \$143 million of receivables in 2006, 2005, and 2004, respectively, relating to off-balance sheet sales of receivables due to receivable contract modifications or breach of initial eligibility criteria representations.

Other Disclosures

The following table summarizes key assumptions used at December 31, 2006 in estimating cash flows from off-balance sheet sales of retail receivables and the corresponding sensitivity of the current fair values to 10% and 20% adverse changes (in millions, except percentages):

	Assumption Percentage (annual rate)	Impact on Fair Value Based on Adverse Change	
		10% Change	20% Change
Cash flow discount rate	12.5%	\$(11)	\$(21)
Estimated net credit loss rate	0.2% – 2.1%	(11)	(22)
Prepayment speed	0.7% – 1.7%	(2)	(3)

The effect of a variation in a particular assumption on the fair value of residual interest in securitization transactions was calculated without changing any other assumptions and changes in one factor may result in changes in another.

Outstanding delinquencies over 30 days related to the off-balance sheet securitized portfolio were \$208 million and \$386 million at December 31, 2006 and 2005, respectively. Credit losses, net of recoveries, were \$84 million and \$127 million for the years ended December 31, 2006 and 2005, respectively. Expected static pool credit losses related to outstanding securitized retail receivables were 1.2% at December 31, 2006. To calculate the static pool credit losses, actual and projected future credit losses are added together and divided by the original balance of each pool of assets.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. SALES OF RECEIVABLES — FINANCIAL SERVICES SECTOR (Continued)

On-Balance Sheet Securitizations

At December 31, 2006 and 2005, finance receivables of \$56.5 billion and \$44.7 billion, respectively, have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. In addition, at December 31, 2006 and 2005, net investment in operating leases of \$17.3 billion and \$6.5 billion, respectively, have been included in securitizations that do not satisfy the requirements for accounting sale treatment. These receivables and net investment in operating leases are available only for payment of the debt or other obligations issued or arising in the securitization transactions. At December 31, 2006 and 2005, associated debt of \$59.6 billion and \$39.8 billion, respectively, is reported on our balance sheet for financial statement reporting purposes. This debt includes long-term and short-term asset-backed debt that is payable only out of collections on the underlying securitized assets and related enhancements. The cash balances to be used only to support the on-balance sheet securitizations at December 31, 2006 and 2005, were \$3.7 billion and \$2.3 billion, respectively. These assets and liabilities are generally held by VIEs of which we are the primary beneficiary.

NOTE 8. INVENTORIES

Inventories at December 31 were as follows (in millions):

	2006	2005
Raw materials, work-in-process and supplies	\$ 4,604	\$ 4,056
Finished products	7,989	7,224
Total inventories under first-in, first-out method ("FIFO")	12,593	11,280
Less: last-in, first-out method ("LIFO") adjustment	(1,015)	(1,009)
Total inventories	<u>\$11,578</u>	<u>\$10,271</u>

Inventories are stated at lower of cost or market. About one-fourth of inventories were determined under the LIFO method.

During 2005, inventory quantities were reduced, resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2005 purchases, the effect of which decreased *Automotive cost of sales* by about \$12 million.

NOTE 9. SIGNIFICANT UNCONSOLIDATED AFFILIATES

Presented below is summarized financial information for Mazda Motor Corporation ("Mazda") and Blue Diamond Parts, LLC ("Blue Diamond Parts"). These entities are accounted for under the equity method, and were considered significant unconsolidated affiliates in 2005.

Mazda-Related Investments. At December 31, 2006, our ownership interest in Mazda was 33.6%. The carrying value of our investment in Mazda was \$1.1 billion and \$928 million at December 31, 2006 and 2005, respectively. Included in our investment in Mazda was \$207 million and \$171 million of goodwill at December 31, 2006 and 2005, respectively. Dividends received from Mazda were \$20 million, \$11 million and \$8 million for the years ended December 31, 2006, 2005, and 2004, respectively. The market value of the shares we own of Mazda at December 31, 2006 was \$3.2 billion.

Summarized income statement information from Mazda's published financial statements for the twelve months ended September 30, 2006, 2005, and 2004 is as follows (in millions):

	2006	2005	2004
Net sales	\$26,640	\$26,555	\$28,015
Cost and expenses	25,395	25,696	27,226
Income from continuing operations	611	333	419
Net income	542	566	384

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9. SIGNIFICANT UNCONSOLIDATED AFFILIATES (Continued)

Included in our *Automotive equity in net income/(loss) of affiliated companies* was income of \$256 million, \$148 million and \$108 million for the years ended December 31, 2006, 2005, and 2004, respectively, representing our share of Mazda's results on a GAAP basis. There have been no events at Mazda subsequent to September 30, 2006 that would materially affect our balance sheet or statement of income. Balance sheet information for Mazda is insignificant to our consolidated balance sheet.

During the second half of 2005 and the first quarter of 2006, we converted to equity all of our Mazda convertible bonds. The bonds were previously accounted for as an available-for-sale security, and at December 31, 2005 the bonds had a fair value of \$52 million.

Blue Diamond Parts, LLC. We have a 50% voting interest in Blue Diamond Parts. Blue Diamond Parts manages sourcing, merchandising, and distribution of various replacement parts. The carrying value of our investment in Blue Diamond Parts was \$8 million and \$7 million at December 31, 2006 and 2005, respectively. Dividends received from Blue Diamond Parts were \$87 million, \$99 million and \$41 million for the years ended December 31, 2006, 2005, and 2004, respectively.

Summarized income statement information from Blue Diamond Parts' financial statements for the twelve months ended December 31, 2006, 2005, and 2004 is as follows (in millions):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net service revenue	\$213	\$187	\$111
Net other expenses	31	27	18
Income from continuing operations	182	160	93
Net income	180	158	91

Included in our *Automotive equity in net income/(loss) of affiliated companies* was income of \$89 million, \$83 million and \$48 million for the years ended December 31, 2006, 2005, and 2004, respectively. Balance sheet information for Blue Diamond Parts is insignificant to our consolidated balance sheet.

NOTE 10. NET PROPERTY AND RELATED EXPENSES

Property and equipment are stated at cost and depreciated primarily using the straight-line method over the estimated useful life of the asset. Useful lives range from 3 years to 36 years. The estimated useful lives generally are 14.5 years for machinery and equipment and 30 years for buildings and land improvements. Maintenance, repairs, and rearrangement costs are expensed as incurred.

Net property at December 31 was as follows (in millions):

	<u>2006</u>	<u>2005</u>
Land	\$ 820	\$ 697
Buildings and land improvements	13,803	12,833
Machinery, equipment and other	48,829	45,679
Construction in progress	2,307	2,736
Total land, plant and equipment	65,759	61,945
Accumulated depreciation	(38,518)	(32,617)
Net land, plant and equipment	27,241	29,328
Special tools, net of amortization	10,995	11,020
Net Automotive sector property	38,236	40,348
Net Financial Services sector property	269	328
Total	<u>\$ 38,505</u>	<u>\$ 40,676</u>

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. NET PROPERTY AND RELATED EXPENSES (Continued)

Automotive sector property-related expenses were as follows (in millions) for the years ended December 31:

	2006	2005	2004
Depreciation and other amortization	\$ 6,488	\$ 4,181	\$ 3,258
Amortization of special tools	4,670	3,976	3,162
Total	<u>\$11,158</u>	<u>\$8,157</u>	<u>\$6,420</u>
Maintenance and rearrangement	\$ 2,080	\$ 1,895	\$ 1,971

Beginning January 1, 2006, we changed our method of amortization for special tools from an activity-based method (units-of-production) to a time-based method. The time-based method amortizes the cost of special tools over their expected useful lives using a straight-line method or, if the production volumes for major product programs associated with the tool are expected to materially decline over the life of the tool, an accelerated method reflecting the rate of decline. For 2006, this change in method decreased *Automotive cost of sales* by \$135 million.

NOTE 11. IMPAIRMENT OF LONG-LIVED ASSETS

Based on the assumptions underlying the acceleration of our Way Forward plan, we project a decline in net cash flows for the Ford North America segment, primarily reflecting lower market share assumptions, capacity reductions, and other aspects of our accelerated plan. As a result, in the third quarter of 2006 we tested the long-lived assets of this segment for recoverability and recorded a pre-tax impairment charge of \$2.2 billion in *Automotive cost of sales*, representing the amount by which the carrying value of these assets exceeded the fair value.

During the third quarter of 2006, we also reviewed our business plan for the Jaguar and Land Rover operating unit within our Premier Automotive Group ("PAG") segment and, consistent with 2006 operating results, projected lower sales, a decline in net cash flows for this operating unit based on cost performance shortfalls and currency exchange deterioration. As a result, we tested the long-lived assets of this operating unit for recoverability and recorded a pre-tax impairment charge of \$1.6 billion in *Automotive cost of sales*, representing the amount by which the carrying value of these assets exceeded the fair value.

During 2005, we updated our PAG Improvement Plan for the Jaguar and Land Rover operating unit. We projected a decline in net cash flows for the Jaguar and Land Rover operating unit based on updated market projections primarily reflecting recent market performance for Jaguar. As a result, we tested the long-lived assets of this operating unit for recoverability and recorded a pre-tax impairment charge of \$1.3 billion in *Automotive cost of sales*, representing the amount by which the carrying value of these assets exceeded the fair value.

NOTE 12. GOODWILL AND OTHER INTANGIBLES

Beginning with 2006, our policy has been to perform annual testing of goodwill and certain other intangible assets during the fourth quarter to determine whether any impairment has occurred. Testing is conducted at the reporting unit level. Testing is also performed following a triggering event for the long-lived asset impairment test. As a result of the impairment of the Ford North America segment and Jaguar and Land Rover operating unit in the third quarter of 2006, we tested goodwill at our Ford North America and PAG reporting units. No goodwill impairment was necessary.

To test for impairment, the carrying value of each reporting unit is compared with its fair value. Fair value is estimated using the present value of free cash flows method. Prior to 2006, our policy was to test in the second quarter; in 2005, we tested in both the second and fourth quarters. Fourth quarter testing is considered preferable because it allows us to use more current financial information and matches our business plan timing. This change in accounting principle does not delay, accelerate or avoid an impairment charge or affect our financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12. GOODWILL AND OTHER INTANGIBLES (Continued)

Changes in the carrying amount of goodwill are as follows (in millions):

	Goodwill, December 31, 2005	Goodwill Acquired	Exchange Translation/ Other	Goodwill, December 31, 2006
Automotive Sector				
Ford North America	\$ 202	\$ 5	\$ —	\$ 207
Ford South America	—	—	—	—
Ford Europe	31	—	4	35
PAG	4,875	—	705	5,580
Ford Asia Pacific and Africa	—	—	—	—
Total Automotive Sector	5,108	5	709	5,822
Financial Services Sector				
Ford Credit	17	—	—	17
Total Financial Services Sector	17	—	—	17
Total	<u>\$ 5,125</u>	<u>\$ 5</u>	<u>\$ 709</u>	<u>\$ 5,839</u>

In addition to the goodwill presented in the above table, included within *Automotive equity in net assets of affiliated companies* was goodwill of \$249 million at December 31, 2006. This included an increase of \$36 million from 2005 related to the conversion of our investment in Mazda convertible bonds to an investment in Mazda's equity.

The components of identifiable intangible assets are as follows (in millions):

	December 31, 2006			December 31, 2005		
	Gross	Less:		Gross	Less:	
	Carrying Amount	Accumulated Amortization	Net Intangible Assets	Carrying Amount	Accumulated Amortization	Net Intangible Assets
Automotive Sector						
Tradename	\$ 491	\$ —	\$ 491	\$ 431	\$ —	\$ 431
Distribution Networks	372	(98)	274	337	(83)	254
Manufacturing and production incentive rights	246	—	246	—	—	—
Other	244	(157)	87	221	(86)	135
Total Automotive Sector	1,353	(255)	1,098	989	(169)	820
Total Financial Services Sector						
Total	<u>4</u>	<u>(4)</u>	<u>—</u>	<u>4</u>	<u>(4)</u>	<u>—</u>
	<u>\$ 1,357</u>	<u>\$ (259)</u>	<u>\$ 1,098</u>	<u>\$ 993</u>	<u>\$ (173)</u>	<u>\$ 820</u>

The intangibles account is comprised of a non-amortizable tradename, distribution networks with a useful life of 40 years, manufacturing and production incentive rights related to an acquisition with a useful life of 4 years, and other intangibles with various amortization periods (primarily patents, customer contracts, technology, and land rights).

Pre-tax amortization expense related to these intangible assets was as follows (in millions):

	2006	2005	2004
Pre-tax amortization expense	\$66	\$55	\$36

Included in the net intangible asset total for 2006 are impairments related to the long-lived asset test for Ford North America and PAG (see Note 11). Intangible asset amortization is forecasted to range from \$80 million to \$90 million per year for the next four years and \$20 million to \$30 million thereafter, excluding the impact of foreign currency translation.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13. VARIABLE INTEREST ENTITIES

We consolidate VIEs of which we are the primary beneficiary. The liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Reflected in our December 31, 2006 balance sheet are consolidated VIE assets of \$5.6 billion for the Automotive sector and \$71.6 billion for the Financial Services sector. Included in Automotive consolidated VIE assets are \$488 million of cash and cash equivalents. For the Financial Services sector, consolidated VIE assets include \$3.7 billion in cash and cash equivalents, and \$67.9 billion of receivables and beneficial interests in net investment in operating leases.

Automotive Sector

VIEs of which we are the primary beneficiary:

The activities with the joint ventures described below include purchasing substantially all of the joint ventures' output under a cost plus margin arrangement and/or volume dependent pricing. Described below are the most significant of the VIEs that were consolidated.

AutoAlliance International, Inc. ("AAI") is a 50/50 joint venture with Mazda in North America. AAI is engaged in the manufacture of automobiles on behalf of Ford and Mazda, primarily for sale in North America.

Ford Otosan ("Otosan") is a joint venture in Turkey with the Koc Group of Turkey (41% partner) and public investors (18%). Otosan is the single source supplier of the Ford Transit Connect model and an assembly supplier of the Ford Transit van model, both of which we sell primarily in Europe.

Getrag Ford Transmissions GmbH ("GFT") is a 50/50 joint venture with Getrag Deutsche Venture GmbH and Co. KG. GFT is the primary supplier of manual transmissions for use in our European vehicles.

Pininfarina Sverige, AB is a 40/60 joint venture between Volvo Cars and Pininfarina, S.p.A. The joint venture was established to engineer and manufacture niche vehicles.

Getrag All Wheel Drive AB is a 40/60 joint venture between Volvo Cars and Getrag Dana Holding GmbH. The joint venture produces all-wheel drive components.

Tekfor Cologne GmbH ("Tekfor") is a 50/50 joint venture with Neumayer Tekfor GmbH. Tekfor produces transmission and chassis components for use in our vehicles.

We also hold interests in certain Ford and/or Lincoln Mercury dealerships. At December 31, 2006, we consolidated a portfolio of approximately 111 dealerships that are part of our Dealer Development program. The program's purpose is to facilitate the establishment of independent franchised dealers by allowing a participating dealership to become the sole owner of a Ford and/or Lincoln Mercury dealership corporation by purchasing equity from us using the operator's share of dealership net profits. We supply and finance the majority of vehicles and parts to these dealerships and the operators have a contract to buy our equity interest over a period of time.

VIEs of which we are not the primary beneficiary:

In 2005 as part of the Hertz transaction, we provided cash-collateralized letters of credit to support the payment obligations of Hertz Vehicle Financing, a VIE which is wholly owned by Hertz and of which we are not the primary beneficiary. The fair value of our obligation related to these letters of credit, which will expire no later than December 21, 2011, was approximately \$23 million at December 31, 2006. For additional discussion of these letters of credit, see Note 27.

The risks and rewards associated with our interests in joint ventures deemed to be VIEs of which we are not the primary beneficiary are based primarily on ownership percentages. Our maximum exposure (approximately

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13. VARIABLE INTEREST ENTITIES (Continued)

\$294 million at December 31, 2006) to any potential losses, should they occur, associated with these VIEs is limited to equity investments.

Financial Services Sector

VIEs of which we are the primary beneficiary:

Ford Credit uses SPEs in a variety of on-balance sheet and off-balance sheet securitizations. Some on-balance sheet securitizations discussed in Note 7 use SPEs that are considered VIEs of which Ford Credit is the primary beneficiary, and these SPEs have been consolidated.

VIEs of which we are not the primary beneficiary:

Ford Credit has investments in certain joint ventures deemed to be VIEs of which it is not the primary beneficiary. The risks and rewards associated with Ford Credit's interests in these entities are based primarily on ownership percentages. Ford Credit's maximum exposure (approximately \$182 million at December 31, 2006) to any potential losses, should they occur, associated with these VIEs is limited to its equity investments and, where applicable, receivables due from the VIEs.

Ford Credit also sells finance receivables to bank-sponsored asset-backed commercial paper issuers that are SPEs of the sponsor bank. Ford Credit is not the primary beneficiary of these SPEs. The outstanding balance of finance receivables that have been sold by Ford Credit to these SPEs was approximately \$5.2 billion and \$5.7 billion at December 31, 2006 and 2005, respectively.

NOTE 14. ACCRUED LIABILITIES AND DEFERRED REVENUE

The accrued liabilities and deferred revenue at December 31 was as follows (in millions):

	2006	2005
Automotive Sector		
Current		
Dealer and customer allowances and claims	\$13,644	\$13,074
Deferred revenue	4,708	5,697
Employee benefit plans	4,741	2,059
Other postretirement employee benefits	566	1,442
Accrued interest	867	1,248
Pension	331	398
Other	4,138	4,911
Total Automotive current	<u>28,995</u>	<u>28,829</u>
Non-current		
Other postretirement employee benefits	25,372	17,778
Pension	9,323	7,156
Dealer and customer allowances and claims	8,289	7,359
Employee benefit plans	1,599	1,121
Deferred revenue	2,046	2,130
Other	2,769	3,095
Total Automotive non-current	<u>49,398</u>	<u>38,639</u>
Total Automotive Sector	<u>78,393</u>	<u>67,468</u>
Financial Services Sector	4,125	5,579
Total	<u>\$82,518</u>	<u>\$73,047</u>

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15. DEBT AND COMMITMENTS

Debt at December 31 was as follows (in millions, except percentages):

	Interest Rates				Amount	
	Average Contractual (a)		Weighted Average (b)		2006	2005
	2006	2005	2006	2005		
Automotive Sector						
Debt payable within one year						
Short-term	5.1%	6.0%	5.1%	6.0%	\$ 703	\$ 251
Long-term payable within one year						
Senior indebtedness					796	727
Total debt payable within one year					1,499	978
Long-term debt						
Senior indebtedness						
Notes and bank debt	7.2%	7.5%	7.2%	7.5%	23,524	11,942
Unamortized discount					(165)	(197)
Total senior indebtedness					23,359	11,745
Subordinated indebtedness	6.5%	6.5%	6.5%	6.5%	5,155	5,155
Total long-term debt					28,514	16,900
Total debt					\$ 30,013	\$ 17,878
Fair value (c)					\$ 22,564	\$ 13,179
Financial Services Sector						
Short-term debt						
Asset-backed commercial paper (d)					\$ 16,480	\$ 21,736
Other asset-backed short-term debt (d)					1,197	—
Ford Interest Advantage (e)					5,611	6,719
Unsecured commercial paper					400	1,041
Other short-term debt					2,489	2,824
Total short-term debt	5.6%	4.6%	5.8%	5.0%	26,177	32,320
Long-term debt						
Senior indebtedness						
Notes payable within one year					17,450	21,460
Notes payable after one year (f)					56,521	63,659
Unamortized discount					(109)	(63)
Asset-backed debt (d)						
Notes payable within one year					17,330	5,357
Notes payable after one year					24,667	12,667
Total long-term debt	6.1%	5.9%	5.9%	5.1%	115,859	103,080
Total debt					\$ 142,036	\$ 135,400
Fair value (c)					\$ 143,633	\$ 131,233

- (a) Excludes the effect of interest rate swap agreements and facility fees.
- (b) Includes the effect of interest rate swap agreements and facility fees.
- (c) Based on quoted market prices or current rates for similar debt with the same remaining maturities.
- (d) Obligations issued or arising in securitizations that are payable only out of collections on the underlying securitized assets and related enhancements.
- (e) The Ford Interest Advantage program consists of our floating rate demand notes.
- (f) Includes \$14 million payable to affiliated companies at December 31, 2006.

Long-term debt maturities at December 31, 2006 are as follows (in millions):

Long-term debt maturities	2007	2008	2009	2010	2011	Thereafter
Automotive Sector	\$ 796	\$ 644	\$ 287	\$ 699	\$ 271	\$26,613
Financial Services Sector	34,780	24,563	21,324	9,472	13,435	12,285

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15. DEBT AND COMMITMENTS (*Continued*)

Senior Indebtedness

On December 15, 2006, we issued \$4.95 billion in principal amount of unsecured Senior Convertible Notes (the "Convertible Notes") due 2036. The Convertible Notes pay interest semiannually at a rate of 4.25% per annum. The Convertible Notes are convertible into shares of our Common Stock, based on a conversion rate (subject to adjustment) of 108.6957 shares per \$1,000 principal amount of Convertible Notes (which is equal to a conversion price of \$9.20 per share, representing a 25% conversion premium based on the closing price of \$7.36 per share on December 6, 2006). Holders may require us to purchase all or a portion of the Convertible Notes for cash on December 20, 2016 and December 15, 2026 or upon a change in control of the Company or for shares of our Common Stock upon a designated event, in each case for a price equal to 100% of the principal amount of the Convertible Notes being repurchased, plus any accrued and unpaid interest to, but not including, the date of repurchase. We may redeem for cash all or a portion of the Convertible Notes at our option at any time or from time to time on or after December 20, 2016 at a price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but not including, the redemption date. We may also terminate the conversion rights at any time on or after December 20, 2013 if the closing price of our Common Stock exceeds 140% of the then prevailing conversion price for twenty trading days during any consecutive thirty trading day period.

Subordinated Indebtedness

Ford Motor Company Capital Trust II, a subsidiary trust ("Trust II"), has outstanding 6.50% Cumulative Convertible Trust Preferred Securities with an aggregate liquidation preference of \$5.0 billion (the "Trust II Preferred Securities"). The sole assets of Trust II are \$5.2 billion principal amount of 6.50% Junior Subordinated Debentures due 2032 of Ford Motor Company (the "Subordinated Debentures"). At our option, we may redeem the Subordinated Debentures, in whole or in part, on or after January 15, 2007. To the extent we redeem the Subordinated Debentures or upon the maturity of the Subordinated Debentures, Trust II is required to redeem the Trust II Preferred Securities at \$50 per share plus accrued and unpaid distributions. We guarantee the payment of all distribution and other payments of the Trust II Preferred Securities to the extent not paid by Trust II, but only if and to the extent we have made a payment of interest or principal on the Subordinated Debentures. Trust II is not consolidated by us as it is a VIE in which we do not have a significant variable interest and of which we are not the primary beneficiary.

Credit Facilities*

Automotive Sector

Secured Credit Facilities

On December 15, 2006, we entered into an 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. At December 31, 2006, \$11.1 billion of the revolving credit facility was available for use. We may designate certain of our domestic and foreign subsidiaries, including Ford Credit, as borrowers under the revolving facility. We and certain of our domestic subsidiaries that constitute a substantial portion of our domestic automotive assets (excluding cash) are guarantors under the Credit Agreement, and future material domestic subsidiaries will become guarantors when formed or acquired.

Collateral. 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 (excluding cash). 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 Ford VHC AB, a holding

* Credit facilities of our VIEs are excluded as we do not control their use.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15. DEBT AND COMMITMENTS (Continued)

company for Volvo Car Corporation (“Volvo”), Ford Motor Company of Canada, Limited (“Ford Canada”) and Grupo Ford S. de R.L. de C.V. (a Mexican subsidiary); 66% –100% of the stock of all major first tier foreign subsidiaries (including Volvo); and certain domestic intellectual property, including trademarks.

Covenants. 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 our 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 Voluntary Employee Benefit Association (“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 values for various categories of collateral (in billions, except percentages):

	Eligible Value (a)	Advance Rate	Borrowing Base
U.S. receivables	\$ 0.3	75%	\$ 0.3
U.S. inventory	3.4	60%	2.0
Pledge of intercompany notes	7.5	N/A	4.7
Pledge of equity in Ford Credit and certain foreign subsidiaries	10.7	75%	8.0
U.S. property, plant and equipment subject to indenture limitation	6.7	N/A	3.2
Other U.S. machinery and equipment	4.5	40%	1.8
Intellectual property and U.S. trademarks (b)	7.9	N/A	2.5
Eligible value/borrowing base	<u>\$ 41.0</u>		<u>\$ 22.5</u>

- (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, 2006; equity of Ford Credit is based on its book value at December 31, 2006, and equity in other subsidiaries is based on a multiple of their two-year average EBITDA less current debt.
- (b) Value reflects independent third party valuation of trademarks only.

Based on the Borrowing Base value of \$22.5 billion and the total outstanding amount of debt secured by collateral of \$7.4 billion, the resulting collateral coverage ratio is 3.03. Assuming the \$11.5 billion revolving credit facility were fully drawn and the \$1.5 billion of non-loan exposure permitted under the facility were fully utilized, the collateral coverage ratio would have been 1.13.

Events of Default. 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 Automotive Credit Facilities

At December 31, 2006, we had \$1.5 billion of other Automotive credit facilities, of which \$1.1 billion constituted global unsecured credit facilities that could be used by any of our direct or indirect majority-owned subsidiaries on a guaranteed basis. At December 31, 2006, \$1.4 billion of these facilities were available for use. All of the global unsecured credit facilities are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements), and credit rating triggers that would limit our ability to obtain funding.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15. DEBT AND COMMITMENTS (*Continued*)

Financial Services Sector

Credit Facilities. At December 31, 2006, Ford Credit and its majority-owned subsidiaries, including FCE Bank, plc ("FCE"), had \$3.8 billion of contractually-committed credit facilities with financial institutions, of which \$2.6 billion were available for use. Of the lines available for use, 26% (or \$700 million) are committed through June 30, 2010, and the remainder are committed for a shorter period of time. Of the \$3.8 billion, \$1.1 billion constitute Ford Credit facilities (\$700 million global and about \$400 million non-global) and \$2.7 billion are FCE facilities (\$2.6 billion global and about \$100 million non-global). The global credit facilities may be used, at Ford Credit's or FCE's option, by any of its direct or indirect majority-owned subsidiaries. Ford Credit or FCE, as the case may be, will guarantee any such borrowings. All of the global credit facilities have substantially identical contract terms (other than commitment amounts) and are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements) and credit rating triggers that could limit our ability to obtain funding.

Additionally, at December 31, 2006, banks provided \$18.9 billion of contractually-committed liquidity facilities exclusively to support Ford Credit's two on-balance sheet, asset-backed commercial paper programs; \$18.6 billion supported Ford Credit's retail securitization program ("FCAR") and \$300 million supported Ford Credit's Motown NotesSM wholesale securitization program ("Motown Notes"). Of the contractually-committed liquidity facilities, 45% (or \$8.6 billion) are committed through June 30, 2011. The FCAR and Motown Notes programs must be supported by liquidity facilities equal to at least 100% and 5%, respectively, of their outstanding balance. At December 31, 2006, \$18.1 billion of FCAR's bank liquidity facilities were available to support FCAR's asset-backed commercial paper or subordinated debt. The remaining \$500 million of available credit lines could be accessed for additional funding if FCAR issued additional subordinated debt. Utilization of these facilities is subject to conditions specific to each program and to Ford Credit having a sufficient amount of securitizable assets. At December 31, 2006, the outstanding balances were \$13.6 billion for the FCAR program and \$3 billion for the Motown Notes program.

Committed Liquidity Programs. Ford Credit has entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits ("conduits") and other financial institutions pursuant to which such parties are contractually committed, at Ford Credit's option, to purchase from Ford Credit's eligible retail or wholesale assets or to make advances under asset-backed securities backed by wholesale assets for proceeds up to \$29.1 billion (\$16.9 billion retail and \$12.2 billion wholesale). These committed liquidity programs have varying maturity dates, with \$20.8 billion having an original term of 364 days, and the balance having maturities between 2008 and 2011. Ford Credit's ability to obtain funding under these programs is subject to it having a sufficient amount of assets eligible for these programs. At December 31, 2006, \$9.7 billion of these commitments were in use. These programs are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements) and credit rating triggers that could limit Ford Credit's ability to obtain funding. However, the unused portion of these commitments may be terminated if the performance of the underlying assets deteriorates beyond specified levels. Based on our experience and knowledge as servicer of the related assets, we do not expect any of these programs to be terminated due to such events.

In addition, Ford Credit has a multi-year committed liquidity program for the purchase of up to \$6 billion of unrated asset-backed securities that at its option can be supported with various retail, wholesale, or lease assets. Ford Credit's ability to obtain funding under this program is subject to it having a sufficient amount of assets available to issue the securities. This program is also free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations or minimum net worth requirements), and credit rating triggers that could limit Ford Credit's ability to obtain funding. Through December 31, 2006, Ford Credit had utilized \$2.8 billion. The programs was increased from \$4 billion to \$6 billion as of January 1, 2007.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16. SHARE-BASED COMPENSATION

Since January 1, 2003, we have been expensing employee compensation pursuant to the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. During the fourth quarter of 2005, we adopted the provisions of SFAS No. 123R, *Share-Based Payment*, under the modified prospective method. We applied SFAS No. 123R to new awards in 2006 and to any previous awards that were modified, repurchased, or cancelled after the date of adoption of this standard.

At December 31, 2006, a variety of Ford stock-based compensation grants or awards were outstanding for employees (including officers) and members of the Board of Directors. All stock-based compensation plans are approved by the shareholders.

Description of Stock Option Plans

We continue to measure the fair value of the majority of our stock-based compensation using the Black-Scholes option-pricing model, using historical volatility and the simplified method of calculating the expected term. Our expected term is calculated by averaging the vesting term (3 years) and the contractual term of the option (10 years). Historical data is also used to estimate option exercise behaviors and employee termination experience within the valuation model. Based on our assessment of employee groupings and observable behaviors, we determined that a single grouping is appropriate. Upon stock-settled compensation exercises and awards, shares were issued from treasury stock. We do not expect to repurchase a significant number of shares for treasury stock during 2007.

We have stock options outstanding under two Long-term Incentive Plans ("LTIP"), the 1990 LTIP and the 1998 LTIP. No further grants may be made under the 1990 LTIP and all outstanding options thereunder are exercisable. All outstanding options under the 1990 LTIP continue to be governed by the terms and conditions of the existing option agreements for those grants. Grants may continue to be made under the 1998 LTIP through April 2008. Under the 1998 LTIP, 33% of the options are generally exercisable after the first anniversary of the date of grant, 66% after the second anniversary, and 100% after the third anniversary. Stock options expire ten years from the grant date and are expensed using a three-year cliff vesting methodology.

We awarded performance-based stock options in 2006. The fair value of the performance-based options was measured on the date of grant using the Monte Carlo simulation lattice model. This model computes an expected term for the performance-based option grant and utilizes multiple input variables that determine the probability of satisfying each market condition stipulated in the award grant.

Under the 1998 LTIP, 2% of our issued Common Stock as of December 31 becomes available for granting plan awards in the succeeding calendar year. Any unused portion is available for later years. The limit may be increased up to 3% in any year, with a corresponding reduction in shares available for grants in future years. At December 31, 2006, the number of unused shares carried forward was 95.9 million shares.

Stock option activity was as follows:

	2006		2005		2004	
	Shares (millions)	Weighted-Average Exercise Price	Shares (millions)	Weighted-Average Exercise Price	Shares (millions)	Weighted-Average Exercise Price
Stock Option Activity						
Outstanding, beginning of year	245.2	\$ 18.72	245.4	\$ 19.13	234.7	\$ 19.34
Granted	29.1	7.89	27.6	12.46	26.7	13.46
Exercised*	(0.5)	7.55	(3.7)	9.14	(11.7)	10.60
Forfeited (including expirations)	(18.2)	14.26	(24.1)	17.13	(4.3)	18.68
Outstanding, end of year	<u>255.6</u>	17.83	<u>245.2</u>	18.72	<u>245.4</u>	19.13
Exercisable, end of year	203.2	19.81	191.9	20.61	183.0	21.41

* Exercised at option price of \$7.55 during 2006, and ranging from \$7.40 to \$12.53 during 2005, and \$7.55 to \$12.53 during 2004.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16. SHARE-BASED COMPENSATION (Continued)

The total fair value of options that vested during the years ended December 31, 2006, 2005, and 2004, was about \$93 million, \$145 million, and \$184 million, respectively. We have 203.2 million fully-vested stock options, with a weighted-average exercise price of \$19.81 and remaining term of 4.1 years. We expect 51.4 million stock options (after forfeitures), with a weighted-average exercise price of \$10.14 and remaining term of 8.6 years to vest in the future. The aggregate intrinsic value is *de minimis* for unvested and vested options at December 31, 2006.

We received about \$4 million from the exercise of stock options in 2006. The tax benefit realized was *de minimis*. An equivalent of about \$4 million in treasury shares was used to settle exercised options. For options exercised during the years ended December 31, 2006, 2005, and 2004, the difference between the fair value of the common shares issued and their respective exercise price was about \$1 million, \$9 million, and \$48 million, respectively.

Compensation cost was as follows (in millions):

	2006	2005	2004
Compensation cost	\$ 77	\$ 116	\$ 119
Taxes	(19)	(23)	(42)
Compensation cost, net of taxes	<u>\$ 58</u>	<u>\$ 93</u>	<u>\$ 77</u>

As of December 31, 2006, there was about \$38 million in unrealized compensation cost related to non-vested stock options. This expense will be recognized over a weighted average period of 1.3 years. A summary of the status of our non-vested shares and changes during 2006 follows:

	Shares (millions)	Weighted-Average Grant-Date Fair Value
Nonvested beginning of year	53.3	\$ 4.09
Granted	29.1	2.09
Vested	(25.8)	3.61
Forfeited (including expirations)	(4.2)	4.15
Nonvested end of year	<u>52.4</u>	3.22

The estimated fair value of stock options at the time of grant using the Black-Scholes option-pricing model was as follows:

	2006	2005	2004
Fair value per option	\$2.07	\$4.44	\$4.71
Assumptions:			
Annualized dividend yield	4.9%	3.2%	3.0%
Expected volatility	39.7%	41.9%	42.2%
Risk-free interest rate	4.9%	4.4%	3.4%
Expected option term (in years)	6.5	7.0	7.0

Details on various stock option exercise price ranges are as follows:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Shares (millions)	Weighted-Average Life (years)	Weighted-Average Exercise Price	Shares (millions)	Weighted-Average Exercise Price
\$7.40 – \$10.58	53.6	7.8	\$ 7.93	25.2	\$ 7.97
10.62 – 15.81	66.7	6.0	12.86	43.3	12.93
15.91 – 23.88	83.6	3.6	20.01	83.0	20.03
23.97 – 35.79	51.1	3.3	30.85	51.1	30.85
41.03 – 42.52	0.6	1.3	41.42	0.6	41.42
Total options	<u>255.6</u>			<u>203.2</u>	

FORD MOTOR COMPANY AND SUBSIDIARIES**NOTES TO THE FINANCIAL STATEMENTS****NOTE 16. SHARE-BASED COMPENSATION (Continued)**

As discussed above, performance-based options granted in 2006 were measured on the date of grant using a Monte Carlo model. Expected terms range from 2.1 years to 3.3 years with each criterion. The key assumptions used for valuing the performance-based options during 2006 are as follows:

Risk-free interest rate	4.7%
Expected dividends	0.0%
Expected volatility	38.9%

Other Share-Based Compensation

Pursuant to the 1998 LTIP we also grant other share-based awards to select executives and other key employees, in addition to stock options. These awards include restricted stock, restricted stock equivalents, performance stock rights, performance-based restricted stock equivalents, and stock appreciation rights. These awards have various vesting criteria which may include service requirements, individual performance targets, and company-wide performance targets.

Other share-based compensation expense was as follows (in millions):

	2006	2005	2004
Other share-based compensation expense	\$34	\$30	\$8

NOTE 17. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES**Automotive Sector****General**

We have implemented a number of different employment separation actions during 2006 and our accounting for them is dependent on the individual benefit design. Jobs Bank Benefits (defined below) provided to our hourly employees at facilities that will be idled by 2008 are expensed when it becomes probable that the employees will be permanently idled. The cost of both hourly and salaried voluntary employee separation actions are recorded at the time of the employee's acceptance, unless the acceptance needs explicit approval by the Company. Conditional voluntary separations are accrued for when all of the conditions are satisfied. Involuntary separation programs are accrued for when management has approved the program and the affected employees are identified.

Jobs Bank Benefits Reserve

In 2006, we announced a major business improvement plan for our North American Automotive operations, which we refer to as the Way Forward plan. As part of this plan, we announced that the following facilities would be idled through 2008: Atlanta Assembly Plant, Batavia Transmission Plant, Essex Engine Plant in Canada, Maumee Stamping Plant, Norfolk Assembly Plant, St. Louis Assembly Plant, Twin Cities Assembly Plant, Windsor Casting Plant in Canada and Wixom Assembly Plant. We also announced a shift reduction in advance of idling the facilities at Norfolk and Twin Cities and that production at our St. Thomas Assembly Plant in Canada would be reduced to one shift. In addition, we announced that all Automotive Components Holdings, LLC ("ACH") operations would be sold or closed by the end of 2008.

Hourly employees working at the U.S. plants identified above are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW"); hourly employees working at the Canadian plants identified above are represented by the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW"). Our collective bargaining agreement with the UAW contains a guaranteed employment numbers provision, pursuant to which we are required to pay idled employees who meet certain conditions substantially all of their wages and benefits for the term of the current agreement; our collective bargaining agreement with the CAW contains a provision pursuant to which we are required to pay idled employees a portion of their wages and certain benefits for a specified period of time based on the number of credits an employee has received. We refer to these benefits under the UAW and CAW agreements as "Jobs Bank Benefits."

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES (*Continued*)

The plant idlings and shift reductions described above are expected to create a population of covered hourly employees who will be permanently idled because we do not have the ability or intent to redeploy or absorb them in our operations (the "affected employees"). The Jobs Bank Benefits reserve ("reserve") includes an amount for benefits expected to be provided in their present form under the current UAW and CAW collective bargaining agreements, which are scheduled to expire in September 2007 and September 2008, respectively, and an amount for similar benefits in an expected modified form under new collective bargaining agreements after expiration of the current agreements. During 2006, we recorded an expense of \$2.6 billion for the Jobs Bank Benefits reserve. The reserve balance is reduced for Jobs Bank Benefits payments made to employees, and when employees accept relocation packages. In addition, the reserve is adjusted for the estimated cost of voluntary separation packages to be offered in lieu of Jobs Bank Benefits. As of December 31, 2006, approximately 14,100 of the estimated 25,800 affected employees had accepted voluntary separation packages (including those affected employees who accepted enterprise-wide buyout offers described in the "Other Actions" section below). About 1,000 of the estimated 25,800 affected employees had agreed to relocate to other facilities as of December 31, 2006.

The Jobs Bank Benefits reserve balance at December 31, 2006 was \$1 billion, and represents our best estimate of the liability we will incur for the remaining 8,100 UAW-represented employees (including ACH) and 2,600 CAW-represented employees at the facilities we plan to idle who have not accepted a voluntary separation package. This amount takes into account several factors: the demographics of the population at each affected facility, redeployment alternatives, and recent experience relative to voluntary redeployments. Due to the complexities inherent in estimating this reserve, our actual costs could differ materially. We continue to expense costs associated with the small number of employees who are temporarily idled on an as-incurred basis.

In addition to the announced plant idlings and shift reductions discussed above, the Way Forward plan includes additional plant idlings for which the specific facilities have not yet been announced. We have not accrued any costs for benefits that may be provided to employees working at these facilities. The execution of the plans for these facilities is dependent on the resolution of many contingencies, including the negotiation of future labor agreements, the successful implementation of our product cycle plan, the resolution of alternative capacity actions, and changes in our market share between now and the planned idling of those facilities. Our current estimate for the cost of benefits that we anticipate could be paid to employees at the remaining facilities is about \$700 million (on a discounted basis). Although it is probable that we will take the necessary actions to reduce our manufacturing employment, the amount of our estimated benefit obligation is highly dependent on the resolution of the previously-mentioned contingencies. No estimated value is more likely than another, and therefore, the benefit obligation is not reasonably estimable.

Other Actions

UAW Voluntary Separations: During 2006, we offered early retirement and voluntary separation programs to all Ford and ACH hourly employees in the United States. These programs resulted in an additional 22,300 voluntary separation acceptances, and we have recognized a pre-tax charge of \$1.9 billion in 2006 related to these acceptances (separate from our Jobs Bank Benefits reserve discussed above). Hourly employees in Ford North America who accepted an early retirement or separation package are expected to leave the Company by September 2007, though employees have an opportunity to rescind acceptance until the time of separation. In 2005, approximately \$88 million of pre-tax charges were incurred for hourly separations, of which approximately \$62 million was related to ACH.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES (Continued)

Other Employee Separation Actions: We announced in 2006 our plans to reduce North American Automotive salaried-related costs through the elimination of the equivalent of about 14,000 positions (which included the equivalent of 4,000 positions already eliminated in the first quarter of 2006). Through year-end 2006, about 850 additional salaried employees had accepted separation packages, and we recognized pre-tax charges of \$25 million for these acceptances in 2006. Most salaried reductions are expected to be completed by the end of the first quarter of 2007 and will be achieved through early retirements, voluntary separations, and if necessary, involuntary separations. In 2005, we announced plans to reduce salaried positions in North America and incurred about \$148 million of pre-tax charges related to these actions through December 31, 2005.

During 2006 and 2005, Ford Europe initiated hourly and salaried employee separation actions resulting in pre-tax charges of \$109 million and \$297 million for 2006 and 2005, respectively.

During 2006 and 2005, PAG initiated hourly and salaried employee restructuring actions resulting in pre-tax charges of \$160 million and \$63 million for 2006 and 2005, respectively.

During 2006 and 2005, our Ford Asia Pacific business unit initiated hourly and salaried employee separation actions resulting in pre-tax charges of approximately \$61 million and \$32 million, respectively.

The above costs exclude costs for pension and other postretirement employee benefits ("OPEB"). For further discussion, see Note 23 for employee separation costs related to pension, postretirement health care and life insurance benefits.

Financial Services Sector

Business Restructuring

In 2006, FCE announced a plan to restructure its business in Germany that supports the sales activities of automotive financial services of Ford, Jaguar, Land Rover and Mazda vehicles. The plan includes the consolidation of branches into district offices; these actions are expected to reduce ongoing costs. We recognized pre-tax charges of \$30 million in 2006. The costs associated with the business restructuring are primarily related to employee separations and were charged to Financial Services *Operating and other expenses*. The restructuring will be completed in 2007.

In 2004, we announced a plan to create an integrated sales platform in the United States and Canada over the next two years that would support sales activities for Ford Credit and our other business operating units. The plan included the consolidation of regional sales offices and an integration of branch locations. We recognized pre-tax charges of \$56 million as of December 31, 2006, including \$4 million in 2006 and \$41 million in 2005. The costs associated with the sales branch integration are primarily related to employee separations and facility lease breakages and were charged to *Operating and other expenses* as incurred. The integration was completed in 2006.

The table below summarizes the pre-tax charges incurred, the related liability at December 31 and the estimated total costs related to these actions (in millions):

Segment	Liability at December 31,	Accrued in	Paid in	Other	Liability at December 31,	Estimated Total Costs
	2005	2006	2006		2006	
Ford Credit	\$ 15	\$34	\$(16)	\$—	\$ 33	\$86

In 2006, Ford Credit announced plans to consolidate and centralize most of its originations and servicing operations in the United States to reduce costs and improve process efficiencies. Most related salaried reductions are expected to be completed by the end of 2007 and will be achieved through attrition, early retirements, voluntary separations, and if necessary, involuntary separations. In 2006 and 2005, Ford Credit announced various separation programs for North American and International salaried employees in connection with reorganization and efficiency actions. Ford Credit recognized pre-tax charges of \$9 million and \$36 million in 2006 and 2005, respectively, as a result of these actions (excluding costs for retirement plan and postretirement health care and life insurance benefits).

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. INCOME TAXES

Components of income taxes, excluding discontinued operations, cumulative effects of changes in accounting principles and equity in net results of affiliated companies accounted for after-tax, are as follows:

	2006	2005	2004
Income/(loss) before income taxes, excluding equity in net results of affiliated companies accounted for after-tax (in millions)			
U.S.	\$(15,814)	\$ 40	\$ 2,164
Non-U.S.	335	743	1,692
Total	<u>\$(15,479)</u>	<u>\$ 783</u>	<u>\$ 3,856</u>
Provision for income taxes (in millions)			
Current			
Federal	\$ —	\$ 26	\$ (119)
Non-U.S.	372	764	1,038
State and local	(8)	43	(148)
Total current	<u>364</u>	<u>833</u>	<u>771</u>
Deferred			
Federal	(4,272)	(752)	643
Non-U.S.	1,112	(822)	(737)
State and local	150	(104)	(34)
Total deferred	<u>(3,010)</u>	<u>(1,678)</u>	<u>(128)</u>
Total	<u>\$ (2,646)</u>	<u>\$ (845)</u>	<u>\$ 643</u>
Reconciliation of effective tax rate			
U.S. tax at statutory rate	35%	35%	35%
Non-U.S. income taxes	1	(11)	(2)
State and local income taxes	2	(4)	—
Deductible dividends	1	(20)	(4)
General business credits	1	(15)	(4)
Dispositions and restructurings	—	16	—
Medicare prescription drug benefit	1	(13)	(2)
Repatriation of foreign earnings under <i>The American Jobs Creation Act of 2004</i>	—	(33)	—
Prior year settlements and claims	3	(50)	(7)
Other	(1)	(13)	1
Valuation allowance	(26)	—	—
Effective rate	<u>17%</u>	<u>(108)%</u>	<u>17%</u>

Annual tax provisions include amounts considered sufficient to pay probable assessments for examination of prior-year tax returns by federal, foreign, state and local jurisdictions; actual assessments may differ. We do not expect that such differences would have a material effect on the future financial statements for a particular year, although such an outcome is possible. No provision for deferred taxes has been made on \$715 million of unremitted earnings that are considered to be indefinitely invested in non-U.S. subsidiaries. Deferred taxes for these unremitted earnings are not practicable to estimate.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. INCOME TAXES (Continued)

The components of deferred tax assets and liabilities at December 31 were as follows (in millions):

	2006	2005
Deferred tax assets		
Employee benefit plans	\$12,723	\$ 7,142
Net operating loss carryforwards	3,132	1,717
Tax credit carryforwards	2,649	1,505
Dealer and customer allowances and claims	2,572	3,000
Other foreign deferred tax assets	2,379	1,856
Allowance for credit losses	1,696	1,764
All other	5,550	6,227
Total gross deferred tax assets	30,701	23,211
Less: valuation allowance	(7,180)	(252)
Total net deferred tax assets	23,521	22,959
Deferred tax liabilities		
Leasing transactions	7,610	7,736
Depreciation and amortization (excluding leasing transactions)	4,082	5,130
Finance receivables	2,631	2,849
All other	6,992	7,024
Total deferred tax liabilities	21,315	22,739
Net deferred tax assets/(liabilities)	<u>\$ 2,206</u>	<u>\$ 220</u>

Operating loss carryforwards for tax purposes were \$6.6 billion at December 31, 2006. A substantial portion of those losses have an indefinite carryforward period; the remaining losses will begin to expire in 2007. Tax credits available to offset future tax liabilities are \$2.6 billion. A substantial portion of these credits have a remaining carryforward period of 10 years or more; the remainder begins to expire in 2009. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. Effective September 30, 2006, the balance of deferred taxes primarily at our U.S., Jaguar, and Land Rover entities has changed from a net deferred tax liability position to a net deferred tax asset position. Due to the cumulative losses we have incurred at these operations and their near-term financial outlook, we have established a valuation allowance of \$7.2 billion against the net deferred tax asset.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48"). This interpretation prescribes a recognition threshold and a measurement attribute for the financial statement reporting of tax positions taken in tax returns. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt the interpretation as of January 1, 2007 and management is expecting a \$1 billion to \$1.5 billion increase to equity as a result of this adoption. The favorable impact to equity is the result of recognizing refund claims and related interest for prior years that meet the "more-likely-than-not" recognition threshold of FIN 48. These prior year refund claims and related interest were not recognized as of December 31, 2006 because they were considered gain contingencies under SFAS No. 5, *Accounting for Contingencies* and could not be recognized until the contingency lapsed.

Effective January 1, 2006, we adopted the *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* under FASB Staff Position No. 123(R)-3. The election provides specific requirements for reporting the differences between the financial reporting of share-based compensation and the related tax benefits.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS

Automotive Sector

Discontinued Operations. In 2004, the Automotive sector completed the disposition of several of its non-core businesses initiated in 2002 and 2003, including our former automotive recycling businesses in the United States and Canada, our electric vehicle business in Norway, and our insurance-related products and services business in the United Kingdom. Associated with the disposition of these entities, we recorded pre-tax charges of \$9 million in 2004, reflected in *Income/(loss) from discontinued operations*.

In 2004, we sold our Formula One racing operations as these operations were not consistent with our PAG Improvement Plan nor our goals to build on the basics and focus on our core business. We recorded pre-tax charges of \$204 million for impairment of goodwill, \$23 million related to write-down of inventory and \$77 million for loss on sale in 2004.

The results of all discontinued Automotive sector operations are as follows (in millions):

	2006	2005	2004
Sales	\$ 3	\$ 3	\$ 192
Operating income/(loss) from discontinued operations	\$ —	\$ (4)	\$ (184)
Gain/(loss) on discontinued operations	3	13	(165)
(Provision for)/benefit from income taxes	(1)	(3)	122
Income/(loss) from discontinued operations	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ (227)</u>

At December 31, 2006 and 2005, there were no significant assets or liabilities remaining on our balance sheet related to discontinued operations.

Held-for-Sale Operations. In 2005, we acquired the minority interest in the Beanstalk Group, LLC, a majority-owned subsidiary that licensed trademarks, and subsequently sold our 100% interest. Its operations were not consistent with our objective to focus on our core automotive business. We recorded pre-tax charges of \$53 million for the impairment of intangible assets and goodwill in *Automotive cost of sales* and \$12 million in *Automotive interest income and other non-operating income/(expense), net* for the loss on sale in 2005.

In 2004, management committed to sell certain consolidated dealerships in the Ford Asia Pacific and Africa/Mazda segment as the sale of the dealerships would allow us to concentrate on the production and marketing of our products in the Asia Pacific region rather than the day-to-day retailing operations. In 2004, we recorded pre-tax charges of \$64 million reflected in *Automotive cost of sales* for the impairment of goodwill and \$16 million in *Automotive interest income and other non-operating income/(expense), net* for the estimated loss on disposal. In 2005, we completed the sale and recognized a pre-tax gain of \$14 million reflected in *Automotive interest income and other non-operating income/(expense), net*.

At December 31, 2006 and 2005, there were no assets or liabilities on our balance sheet related to held-for-sale operations.

Other Dispositions. In 2005, we completed the sale of our interests in Mahindra & Mahindra Ltd. (approximately 5% interest), Vastera, Inc. (approximately 19% interest), and Kwik-Fit Group Limited (approximately 18% interest). As a result of the sales, we recognized pre-tax gains of approximately \$22 million, \$11 million, and \$152 million, respectively in *Automotive interest income and other non-operating income/(expense), net* in 2005.

We also completed the exchange of 8.3 million shares in Ballard Power Systems Inc. ("Ballard") for an equity interest (50%) in NuCellSys, GmbH, a 50/50 joint venture with DaimlerChrysler Corporation. As a result of the exchange and the retirement of certain restrictions, we recognized in *Automotive cost of sales* a pre-tax charge of \$61 million in 2005. Our ownership interest in Ballard is 11.5%. We continue to report this investment under the equity method.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS (Continued)

Acquisitions. In December 2006, we purchased Troller Veiculos Especiais LTDA (“Troller”), a Brazilian manufacturer of vehicles in the light duty segment, for a present value cash amount of \$214 million and liabilities amounting to \$32 million. We have agreed to pay \$23 million in 2007 and the remaining balance over the course of four years, which has been classified as debt. As part of the transaction related to this acquisition, we have recorded an intangible asset of \$246 million.

In 2005, we finalized an agreement with Visteon Corporation (“Visteon”), our largest supplier, in which we assumed control of 17 plants and 6 other facilities in the United States and Mexico. These assets were transferred to ACH, a temporary business controlled and managed by us, to protect the flow of critical parts and components in the near-term and, over time, to improve our sourcing flexibility and cost competitiveness. We consolidated ACH on October 1, 2005 as part of our Ford North America segment.

The total 2005 pre-tax loss from the transaction was \$468 million reflected in *Automotive cost of sales*, summarized as follows (in millions):

Value of ACH Assets/(Liabilities) Received on October 1, 2005

Net property	\$ 427
Inventory	299
Warrants for purchase of Visteon stock	165
Other net liabilities	(10)
Total	<u>\$ 881</u>

Cash Paid/Liabilities Assumed

Forgiveness of employee-related liabilities*	\$ (500)
Cash paid to escrow account for Visteon restructuring	(400)
Cash paid for inventories	(299)
Liability recorded for Visteon restructuring	(150)
Total	<u>\$(1,349)</u>

* As part of the transaction, we forgave \$1.1 billion of Visteon’s liability to us for employee-related costs of which \$600 million was recognized in 2004 as an allowance for doubtful accounts.

As announced in the acceleration of our Way Forward plan on September 15, 2006, all ACH operations are to be sold or closed by the end of 2008. In support of the plan, ACH entered into Memoranda of Understanding during December 2006 for the sale of three ACH facilities; we expect to formally complete the associated sale agreements with each of the buyers in the first half of 2007.

In 2004, we acquired 100% ownership of ZF Batavia, LLC (renamed Batavia Transmissions, LLC) from ZF Transmissions Technologies LLC. ZF Transmission Technologies LLC, is a company we jointly own (49%) with ZF Friedrichshafen Germany (51%).

In June 2000, we purchased the Land Rover sport utility vehicle business from the BMW Group. As part of the acquisition, we agreed to pay two-thirds of the purchase price at closing with the remainder being paid in 2005. During 2005, we made the final payment of approximately \$1.3 billion.

Financial Services Sector

Discontinued Operations. Consistent with our strategy to focus on our core business, we completed the disposition of the operations discussed below.

In 2004, we committed to a plan to sell Triad Financial Corporation, our operation in the United States that specialized in automobile retail installment sales contracts with borrowers who generally would not be expected to qualify for traditional financing sources such as commercial banks or automobile manufacturers’ affiliated finance companies. During 2005, we completed the sale of this business and recognized a pre-tax loss of approximately \$16 million.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS (Continued)

In 2004, we completed the sale of AMI Leasing and Fleet Management Services, our operation in the United States that offered full service car and truck leasing.

The results of all discontinued Financial Services sector operations are as follows (in millions):

	2006	2005	2004
Revenues	\$ —	\$ 118	\$ 493
Operating income/(loss) from discontinued operations	\$ —	\$ 59	\$ 138
Gain/(loss) on discontinued operations	—	(16)	—
(Provision for)/benefit from income taxes	—	(2)	(57)
Income/(loss) from discontinued operations	<u>\$ —</u>	<u>\$ 41</u>	<u>\$ 81</u>

At December 31, 2006 and 2005, there were no significant assets or liabilities remaining on our balance sheet related to discontinued operations.

Held-for-Sale Operations. In 2005, we sold our 100% ownership interest in Hertz as it is not core to our Automotive business. As part of the transaction, we provided cash-collateralized letters of credit in an aggregate amount of \$200 million to support the asset-backed portion of the buyer's financing for the transaction. These letters of credit will expire no later than December 21, 2011. As a result of the sale, we recognized in *Gain on sale of Hertz*, a pre-tax gain of \$1.1 billion, inclusive of \$27 million of charges to record the estimated fair value of the letters of credit. For further discussion of these letters of credit, see Note 27.

At December 31, 2006 and 2005, there were no assets or liabilities on our balance sheet related to held-for-sale operations.

NOTE 20. CAPITAL STOCK AND AMOUNTS PER SHARE

All general voting power is vested in the holders of Common Stock and Class B Stock. Holders of Common Stock have 60% of the general voting power and holders of Class B Stock are entitled to such number of votes per share as will give them the remaining 40%. Shares of Common Stock and Class B Stock share equally in dividends, with stock dividends payable in shares of stock of the class held. As discussed in Note 15, we are prohibited from paying dividends (other than dividends payable in stock) under the terms of the Credit Agreement.

If liquidated, each share of Common Stock will be entitled to the first \$0.50 available for distribution to holders of Common Stock and Class B Stock, each share of Class B Stock will be entitled to the next \$1.00 so available, each share of Common Stock will be entitled to the next \$0.50 so available and each share of Common and Class B Stock will be entitled to an equal amount thereafter.

As discussed in Note 15, Convertible Notes with a principal amount of \$4.95 billion are outstanding. At the option of the holder, each Convertible Note is convertible at any time on or before December 15, 2036, into shares of our Common Stock at a rate of 108.6957 shares per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of \$9.20 per share). Conversion of all shares of such Convertible Notes would result in the issuance of 538 million shares of our Common Stock.

As discussed in Note 15, Trust II Preferred Securities with an aggregate liquidation preference of \$5 billion are outstanding. At the option of the holder, each Preferred Security is convertible, at any time on or before January 15, 2032, into shares of our Common Stock at a rate of 2.8249 shares for each Preferred Security (equivalent to a conversion price of \$17.70 per share). Conversion of all shares of such securities would result in the issuance of 282 million shares of our Common Stock.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20. CAPITAL STOCK AND AMOUNTS PER SHARE (Continued)

Amounts Per Share of Common and Class B Stock

The calculation of diluted income per share of Common Stock and Class B Stock takes into account the effect of obligations, such as stock options and convertible notes and securities, considered to be potentially dilutive. Basic and diluted income/(loss) per share were calculated using the following (in millions):

	2006	2005	2004
Basic and Diluted Income/(Loss)			
Basic income/(loss) from continuing operations attributable to Common Stock and Class B Stock	\$(12,615)	\$ 1,644	\$ 3,184
Effect of dilutive senior convertible notes (a)	—	—	—
Effect of dilutive convertible preferred securities (b)	—	213	199
Diluted income/(loss) from continuing operations attributable to Common Stock and Class B Stock	<u>\$(12,615)</u>	<u>\$ 1,857</u>	<u>\$ 3,383</u>
Diluted Shares			
Average shares outstanding	1,879	1,846	1,830
Restricted and uncommitted—ESOP shares	(2)	(3)	(4)
Basic shares	1,877	1,843	1,826
Net dilutive options and restricted and uncommitted ESOP shares (c)	—	10	18
Dilutive senior convertible notes (a)	—	—	—
Dilutive convertible preferred securities (b)	—	282	282
Diluted shares	<u>1,877</u>	<u>2,135</u>	<u>2,126</u>

In 2006, not included in calculation of diluted earnings per share due to their antidilutive effect:

- (a) 538 million shares and the related income effect for senior convertible notes (issued December 15, 2006).
- (b) 282 million shares and the related income effect for convertible preferred securities.
- (c) 4 million contingently issuable shares.

NOTE 21. OPERATING CASH FLOWS

The reconciliation of *Net income/(loss)* to cash flows from operating activities of continuing operations is as follows (in millions):

	2006		
	Automotive	Financial Services	Total
Net income/(loss)	\$(13,912)	\$ 1,299	\$(12,613)
(Income)/loss of discontinued operations	(2)	—	(2)
Cumulative effects of changes in accounting principles	—	—	—
Depreciation and special tools amortization	11,158	5,295	16,453
Amortization of intangibles	66	—	66
Net losses/(earnings) from equity investments in excess of dividends received	(253)	—	(253)
Provision for credit/insurance losses	—	241	241
Foreign currency adjustments	112	—	112
(Gain)/loss on sale of business	—	(33)	(33)
Stock option expense	72	5	77
Cash changes in operating assets and liabilities were as follows:			
Provision for deferred income taxes	(2,577)	77	(2,500)
Decrease/(increase) in accounts receivable and other assets	1,564	657	2,221
Decrease/(increase) in inventory	(695)	—	(695)
Increase/(decrease) in accounts payable and accrued and other liabilities	7,131	(578)	6,553
Net sales/(purchases) of trading securities	(6,762)	(9)	(6,771)
Other	(87)	362	275
Cash flows from operating activities of continuing operations	<u>\$ (4,185)</u>	<u>\$ 7,316</u>	<u>\$ 3,131</u>

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21. OPERATING CASH FLOWS (Continued)

	2005		
	Automotive	Financial Services	Total
Net income/(loss)	\$ (1,884)	\$ 3,324	\$ 1,440
(Income)/loss of discontinued operations	(6)	(41)	(47)
Cumulative effects of changes in accounting principles	251	—	251
Depreciation and special tools amortization	8,157	5,854	14,011
Amortization of intangibles	49	6	55
Net losses/(earnings) from equity investments in excess of dividends received	(135)	—	(135)
Provision for credit/insurance losses	—	483	483
Foreign currency adjustments	36	—	36
(Gain)/loss on sale of business	—	(1,099)	(1,099)
Stock option expense	103	13	116
Cash changes in operating assets and liabilities were as follows:			
Provision for deferred income taxes	(960)	1,664	704
Decrease/(increase) in accounts receivable and other assets	(2,086)	(727)	(2,813)
Decrease/(increase) in inventory	(94)	—	(94)
Increase/(decrease) in accounts payable and accrued and other liabilities	2,277	(2,343)	(66)
Net sales/(purchases) of trading securities	(579)	(50)	(629)
Other	304	(172)	132
Cash flows from operating activities of continuing operations	<u>\$ 5,433</u>	<u>\$ 6,912</u>	<u>\$12,345</u>

	2004		
	Automotive	Financial Services	Total
Net income/(loss)	\$ 257	\$ 2,781	\$ 3,038
(Income)/loss of discontinued operations	227	(81)	146
Cumulative effects of changes in accounting principles	—	—	—
Depreciation and special tools amortization	6,420	6,618	13,038
Amortization of intangibles	26	10	36
Net losses/(earnings) from equity investments in excess of dividends received	3	—	3
Provision for credit/insurance losses	—	1,212	1,212
Foreign currency adjustments	1	—	1
(Gain)/loss on sale of business	16	(66)	(50)
Stock option expense	105	14	119
Cash changes in operating assets and liabilities were as follows:			
Provision for deferred income taxes	2,451	1,514	3,965
Decrease/(increase) in accounts receivable and other assets	(1,793)	1,294	(499)
Decrease/(increase) in inventory	(130)	—	(130)
Increase/(decrease) in accounts payable and accrued and other liabilities	(6,799)	(923)	(7,722)
Net sales/(purchases) of trading securities	5,600	92	5,692
Other	579	(4,502)	(3,923)
Cash flows from operating activities of continuing operations	<u>\$ 6,963</u>	<u>\$ 7,963</u>	<u>\$14,926</u>

The reconciliation between total sector and consolidated cash flows from operating activities of continuing operations is as follows (in millions):

	2006	2005	2004
Sum of sector cash flows from operating activities of continuing operations	\$ 3,131	\$12,345	\$14,926
Reclassification of wholesale receivable cash flows from investing to operating for consolidated presentation	6,478	8,478	7,057
Reclassification relating to sale of vehicles to Hertz and related auction proceeds for consolidated presentation	—	(436)	(300)
Consolidated cash flows from operating activities of continuing operations	<u>\$ 9,609</u>	<u>\$20,387</u>	<u>\$21,683</u>

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21. OPERATING CASH FLOWS (Continued)

Cash paid/(received) for interest and income taxes for continuing operations was as follows (in millions):

	2006	2005	2004
Interest			
Automotive Sector	\$ 1,419	\$ 1,506	\$ 1,518
Financial Services Sector	7,483	6,319	5,837
Total interest paid	\$ 8,902	\$ 7,825	\$ 7,355
Income taxes	423	382	211

NOTE 22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices and interest rates. The objective of our risk management program is to manage the financial and operational exposure arising from these risks by offsetting gains and losses on the underlying exposures with gains and losses on derivatives used to hedge them. We document our hedging objectives, practices, procedures, and accounting treatment. In addition, we review our hedging program and our derivative positions, as well as our strategy, on a regular basis.

Our use of derivatives to manage market risk results in the risk of a counterparty defaulting on a derivative contract. We establish exposure limits for each counterparty to minimize this risk and provide counterparty diversification. We also enter into master netting agreements with counterparties that usually allow for netting of certain exposures. Substantially all of our counterparties have long-term debt ratings of single-A or better. The aggregate fair value of derivative instruments in asset positions on December 31, 2006, is \$5.2 billion, and represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Hedge Accounting Designations

We have elected to apply hedge accounting to certain derivatives. Derivatives that receive designated hedge accounting treatment are documented and evaluated for effectiveness in accordance with our documentation. Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting treatment. We have elected to apply the normal purchase and normal sales classification to all physical supply contracts that are entered into for the purpose of procuring commodities to be used in production within a reasonable time during the normal course of our business.

Automotive Sector

Cash Flow Hedges. We use forward and option contracts to manage our exposure to foreign currency exchange and commodity price risks. We apply the critical terms method of assessing effectiveness for derivatives designated as hedging forecasted transactions. The effective portion of changes in the fair value of cash flow hedges is deferred in *Accumulated other comprehensive income/(loss)* ("OCI") and is recognized in *Automotive cost of sales* when the hedged item affects earnings. An amount is also reclassified from OCI and recognized in earnings if it becomes probable that the original forecasted transaction will not occur. Our cash flow hedges mature within three years or less. The exchange of cash associated with these derivative transactions is reported as net cash flows from operating activities in our statements of cash flows.

Net Investment Hedges. We use foreign currency forward exchange contracts to hedge the net assets of certain foreign entities to offset the translation and economic exposures related to our investment in these entities. We assess effectiveness based upon a comparison of the hedge with the beginning balance of the net investment level hedged, with subsequent quarterly tests based upon changes in spot rates to determine the effective portion of the hedge. Changes in

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (*Continued*)

the value of these derivative instruments, excluding the ineffective portion of the hedge, were included in OCI as a foreign currency translation adjustment. The exchange of cash associated with these derivative transactions is reported as net cash flows from operating activities in our statements of cash flows.

Derivatives not designated as hedging instruments. Some derivatives do not qualify for hedge accounting treatment or we elect not to apply hedge accounting. We report changes in the fair value of these derivatives through *Automotive cost of sales* or *Automotive interest income and other non-operating income/(expense)*, net depending on the underlying exposure. The earnings impact primarily relates to the revaluation of foreign currency derivatives and changes in fair value of commodity derivatives and warrants. The exchange of cash associated with these derivative transactions is recorded as net cash flows from investing activities in our statements of cash flows.

Financial Services Sector

Ford Credit's overall risk management objective is to maximize economic value while limiting the effect of changes in foreign currencies and interest rates. Ford Credit faces exposure to currency exchange rates if a mismatch exists between the currency of its receivables and the currency of the debt funding those receivables. Ford Credit executes cross-currency swaps and foreign currency forwards to convert substantially all of the foreign currency debt obligations to the local currency of the receivables. Interest rate swaps are used to manage exposure to re-pricing risk, which arises when assets and the debt funding those assets have different re-pricing periods that consequently respond differently to interest rate changes. Regardless of hedge accounting treatment, derivative positions are used only to manage identified exposures.

Fair Value Hedges. Ford Credit uses certain derivatives to reduce the risk of changes in the fair value of liabilities. We designate receive-fixed, pay-float interest rate swaps as hedges of existing fixed-rate debt. The risk being hedged is the risk of changes in the fair value of the hedged item attributable to changes in the benchmark interest rate. For certain interest rate swaps we use the dollar-offset method to assess hedge effectiveness. Hedge ineffectiveness is the difference between the change in fair value of the entire derivative instrument and the change in fair value of the hedged item. Ineffectiveness is recorded directly in earnings. The notional balances for these highly effective interest rate swaps were \$1.1 billion, \$1.8 billion, and \$13.1 billion at December 31, 2006, 2005, and 2004, respectively. Other interest rate swaps meet the specific criteria to assume no ineffectiveness in the hedge relationship. These interest rate swaps had notional balances of \$0, \$3.8 billion, and \$5.6 billion at December 31, 2006, 2005, and 2004, respectively.

Cash Flow Hedges. Ford Credit has used certain derivatives to reduce the risk of the variability of expected future cash flows. We designated receive-float, pay-fixed interest rate swaps as hedges of existing floating rate debt. The risk being hedged was the risk of changes in the cash flows of the hedged item attributable to changes in the benchmark interest rate. We used the change in variable cash flows method to measure hedge ineffectiveness, which was the difference between the change in the fair value of the float leg of the swap and the change in fair value of the hedged item. Hedge ineffectiveness was recorded directly in earnings. Ford Credit had notional balances of \$0, \$0, and \$17.8 billion in receive-float, pay-fixed interest rates swaps classified as cash flow hedges at December 31, 2006, 2005, and 2004, respectively.

Net Investment Hedges. Ford Credit has used foreign currency forward exchange contracts and options to hedge the net assets of certain foreign entities to offset the translation and economic exposures related to its investment in these entities. We assessed effectiveness based upon a comparison of the hedge with the beginning balance of the net investment level hedged, with subsequent quarterly tests based upon changes in spot rates to determine the effective portion of the hedge. Ford Credit had notional balances of \$0, \$0, and \$1.6 billion in foreign currency forwards and foreign currency options classified as net investment hedges at December 31, 2006, 2005, and 2004, respectively. Changes in the value of these derivative instruments, excluding the ineffective portion of the hedge, were included in OCI as a foreign currency translation adjustment.

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
NOTE 22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Derivatives not designated as hedging instruments. We elect not to apply hedge accounting to a majority of Ford Credit's derivatives. In addition, some of Ford Credit's derivatives would not qualify for hedge accounting. We report changes in the fair value of these derivatives through *Financial Services revenues*. The earnings impact primarily relates to interest rate swaps, which are included in evaluating Ford Credit's overall risk management objective, and foreign currency derivatives, which are offset by the revaluation of foreign denominated debt. The notional amount of derivatives not designated for hedge accounting was \$158.7 billion, \$143.7 billion, and \$125.7 billion at December 31, 2006, 2005, and 2004, respectively.

We report the exchange of cash related to all of Ford Credit's derivative transactions, regardless of designation, as net cash flows from investing activities in our statements of cash flows.

Income Statement Effect of Derivative Instruments

The following table summarizes the estimated pre-tax gains/(losses) for each type of hedge designation described above for the Automotive and Financial Services sectors, for the years ended December 31 (in millions):

	2006	2005	2004	Income Statement Classification
Automotive Sector				
Cash flow hedges:				
Ineffectiveness and impact of discontinued hedges	\$ (8)	\$ (1)	\$ 1	<i>Automotive cost of sales</i>
Net investment hedges:				
Ineffectiveness	40	20	(2)	<i>Automotive cost of sales</i>
Derivatives not designated as hedging instruments:				
Commodities	333	254	99	<i>Automotive cost of sales</i>
Foreign currency forward contracts (a)	71	(383)	331	<i>Automotive cost of sales</i>
Other	88	7	23	<i>Automotive cost of sales/Automotive interest income and other non-operating income/(expense), net</i>
Financial Services Sector				
Fair value hedges:				
Ineffectiveness	\$ 11	\$ (1)	\$ 10	<i>Financial Services revenues</i>
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	19	257	628	<i>Interest expense</i>
Foreign exchange revaluation adjustments excluded from the assessment of hedge effectiveness (a) (b)	160	(350)	368	<i>Financial Services revenues</i>
Cash flow hedges:				
Ineffectiveness	—	(8)	(8)	<i>Financial Services revenues</i>
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	—	(45)	(431)	<i>Interest expense</i>
Net investment hedges:				
Ineffectiveness	—	(13)	(29)	<i>Financial Services revenues</i>
Derivatives not designated as hedging instruments:				
Interest rate swaps	(181)	(231)	775	<i>Financial Services revenues</i>
Foreign currency swaps and forward contracts (a)	(149)	(1,308)	313	<i>Financial Services revenues</i>
Other	1	—	—	<i>Financial Services revenues</i>

(a) These gains/(losses) related to foreign currency derivatives and were substantially offset by net revaluation impacts on foreign denominated debt, which were recorded to the same income statement line item as the hedge gains/(losses).

(b) Amount represents the portion of the derivative's fair value attributable to the change in foreign currency exchange rates.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Balance Sheet Effect of Derivative Instruments

The fair value of derivatives reflects the price that a third party would be willing to pay or receive in arm's length transactions and includes mark-to-market adjustments to reflect the effects of changes in the related index. The following tables summarize the estimated fair value of our derivative financial instruments at December 31:

	2006		2005	
	Fair Value Assets (in millions)	Fair Value Liabilities (in millions)	Fair Value Assets (in millions)	Fair Value Liabilities (in millions)
Automotive Sector				
Cash flow hedges	\$ 1,736	\$ 860	\$ 1,002	\$ 1,059
Net investment hedges	6	—	30	—
Derivatives not designated as hedging instruments	977	256	546	148
Total derivative financial instruments	<u>\$ 2,719</u>	<u>\$ 1,116</u>	<u>\$ 1,578</u>	<u>\$ 1,207</u>
Financial Services Sector				
Fair value hedges	\$ 111	\$ 1	\$ 314	\$ 90
Derivatives not designated as hedging instruments	2,334	891	2,469	795
Impact of netting agreements	(641)	(641)	(205)	(205)
Total derivative financial instruments	<u>\$ 1,804</u>	<u>\$ 251</u>	<u>\$ 2,578</u>	<u>\$ 680</u>

OCI Activity

The following table summarizes activity in OCI excluding foreign currency translation adjustments on net investment hedges for both the Automotive and Financial Services sectors during the years ended December 31 (in millions):

	2006	2005	2004
Beginning of year: net unrealized gain/(loss) on derivative financial instruments	\$ (43)	\$ 1,221	\$ 1,237
Increase/(decrease) in fair value of derivatives	742	(664)	896
Gains reclassified from OCI	(265)	(600)	(912)
End of year: net unrealized gain/(loss) on derivative financial instruments	<u>\$ 434</u>	<u>\$ (43)</u>	<u>\$ 1,221</u>

We expect to reclassify for Automotive and Financial Services sectors existing net gains of \$188 million from OCI to *Net income/(loss)* during the next twelve months as the underlying exposures are realized.

NOTE 23. RETIREMENT BENEFITS

Employee Retirement and Savings Plans

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. Other U.S. and non-U.S. subsidiaries have separate plans that generally provide similar types of benefits for their employees. We established, effective January 1, 2004, a defined contribution plan generally covering new salaried U.S. employees hired on or after that date. Ford-UAW Retirement Plan expense accruals for UAW-represented Ford employees previously assigned to Visteon ("Visteon Hourly Employees") were charged to Visteon. Pursuant to definitive agreements with Visteon signed on September 12, 2005, these charges were discontinued effective October 1, 2005.

For our plans that provide benefits based on salary, we project employee future salary growth for such salary-related benefits. Certain of our defined benefit pension plans provide benefits that are not based on salary (e.g., U.S. Ford-UAW Retirement Plan, noncontributory portion of the U.S. General Retirement Plan, and Canada Ford-UAW Retirement Plan). The salary growth assumption is not applicable to these benefits.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. RETIREMENT BENEFITS *(Continued)*

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

In general, our plans are funded, with the main exceptions being certain plans in Germany and U.S. defined benefit plans for senior management. In such cases, an unfunded liability is recorded.

The expense for our worldwide defined contribution plans was \$50 million in 2006, \$83 million in 2005 and \$80 million in 2004. This includes the expense for company matching contributions to our primary employee savings plans (United States and Canada) of \$0 in 2006, \$44 million in 2005 and \$40 million in 2004. Company matching contributions were suspended in July 2005.

Postretirement Health Care and Life Insurance Benefits

We, and certain of our subsidiaries, sponsor plans to provide selected health care and life insurance benefits for retired employees. The Ford UAW Hospital–Surgical–Medical–Drug–Dental–Vision Program (“H–S–M–D–D–V Program”) covers hourly employees represented by the UAW, and the Ford Salary Health Care Plan covers substantially all other Ford employees in the United States hired before June 1, 2001. U.S. salaried employees hired on or after June 1, 2001 are covered by a separate plan that provides for annual company allocations to employee–specific notional accounts to be used to fund postretirement health care benefits. We also provide company–paid postretirement life insurance benefits to U.S. salaried employees hired before January 1, 2004 and all U.S. hourly employees. Our employees generally may become eligible for benefits when they retire; however, benefits and eligibility rules may be modified from time to time.

Effective January 1, 2007 for U.S. salaried employees hired before June 1, 2001, we established a company contribution limit set at 2006 levels for retiree health care benefits. U.S. salaried employees hired on or after June 1, 2001 participate in a defined contribution retiree health care plan. In addition, for U.S. salaried employees hired before January 1, 2004 who are retirement eligible after June 1, 2006, company–paid retiree life insurance benefits are limited to \$50,000 (employees hired on or after January 1, 2004 do not receive company–paid life insurance benefits). These benefit changes resulted in a reduction in 2006 and ongoing expense of about \$400 million annually as well as a decrease in the year–end 2005 OPEB obligation of about \$3 billion.

Effective January 1, 2008 for U.S. salaried employees hired before June 1, 2001, we will replace health care coverage (including prescription drugs and dental) for retirees and surviving spouses who are age 65 and older or Medicare eligible with a new Health Reimbursement Arrangement (“HRA”). Each such surviving spouse, retiree and his or her eligible spouse will be provided an annual amount of up to \$1,800 in an HRA account. The HRA may be used to help offset health care, dental, vision and hearing costs. This benefit change resulted in a decrease in the year–end 2006 OPEB obligation of about \$500 million and a reduction in 2006 and ongoing expense of about \$80 million annually.

As previously reported, we entered into an agreement with the UAW (“Agreement”) in December 2005 to increase retiree health care cost sharing as part of our overall cost reduction efforts. On July 13, 2006, we received the necessary court approval of a settlement of a lawsuit challenging proposed modifications to the H–S–M–D–D–V Program and cost savings began to accrue as of that date. The Agreement provides for increased cost sharing of health care expenses by retirees presently covered under the H–S–M–D–D–V Program (“Plan Amendment”) and establishes an independent Defined Contribution Retiree Health Benefit Trust (“UAW Benefit Trust”) which will serve as a non–Ford sponsored Voluntary Employee Benefit Association. The UAW Benefit Trust will be used to mitigate the reduction in health plan benefits for certain eligible present and future retirees, surviving spouses and other dependents. This settlement agreement will remain in effect until September 14, 2011, at which point either Ford or the UAW may provide notice of a desire to terminate the Agreement.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. RETIREMENT BENEFITS (*Continued*)

The Agreement provisions reduce significantly our share of health care costs. The Agreement has been accounted for as a negative amendment to the H-S-M-D-D-V Program in the amount of \$4 billion, net of \$90 million representing the present value of our commitment to fund the UAW Benefit Trust (discussed below) discounted at 6.5%. We will amortize the negative plan amendment on a straight-line basis over 12 years (which represents the average remaining service period of our active workforce). In addition we will accrete interest expense on the discounted value of the funding commitment noted above. The interest expense recorded for 2006 was \$2 million. Our year-end obligation was \$62 million.

Our commitment to fund the UAW Benefit Trust consists of three non-contingent cash payments ("buy-down") totaling \$108 million. We paid the first installment of \$30 million in cash to the UAW Benefit Trust on August 10, 2006. We are committed to make a second contribution of \$35 million in 2009, and a third contribution of \$43 million in 2011.

The UAW Benefit Trust is controlled by the UAW Benefit Association Plan Committee ("Committee") which is appointed by the UAW. The Committee does not and will not include any representatives of the Company. The Committee has the right to appoint an independent trustee ("Trustee") for purposes of managing the assets. The assets of the UAW Benefit Trust are the responsibility of the Committee, which has full fiduciary responsibility for the investment strategy, safeguarding of assets, and execution of the benefit plan as designed. Benefit payments to eligible participants in the UAW Benefit Trust are limited in amount to the assets held by the UAW Benefit Trust. Each year, the Committee will determine the level of benefits to be paid to eligible participants. If the value of the assets in the UAW Benefit Trust is deemed insufficient by the Trustee, the Trustee may accelerate our obligation for the second and third contribution to the extent necessary to enable the UAW Benefit Trust to continue paying benefits.

As part of the Agreement, we also agreed to transfer to the UAW Benefit Trust the right to an amount of cash determined by the appreciation of 8.75 million shares of Ford Common Stock above \$8.145 per share. These stock appreciation rights are exercisable for three years from the effective date of the Plan Amendment. One third of the 8.75 million stock appreciation rights were available on July 13, 2006. As of December 31, 2006, these stock appreciation rights had not been exercised. On the first anniversary of the effective date of the Agreement, another third of the 8.75 million stock appreciation rights will become available and on the second anniversary, the remaining stock appreciation rights will become available. We use a Black-Scholes model to measure the fair value of the stock appreciation rights on a graded vesting schedule. We expensed \$8 million related to the stock appreciation rights in 2006, recorded in *Automotive cost of sales*.

As part of the Agreement, UAW members also agreed to divert to the UAW Benefit Trust payments of a previously-negotiated 2006 wage increase and a portion of negotiated cost-of-living increases through 2011 as they are earned. In 2006, \$44 million of diverted wage increases were expensed.

The average annual cost savings to Ford from the Plan Amendment is projected to be \$650 million, with projected average annual cash savings of \$200 million. The cost savings associated with the amendment for 2006 is approximately \$300 million.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. RETIREMENT BENEFITS (Continued)

The following table summarizes the benefit obligation included in our financial statements and the assets held by the UAW Benefit Trust and not included in our 2006 financial statements (in millions):

	UAW Benefit Trust
Change in Benefit Obligation	
Benefit obligation at January 1	\$ —
Amendments	90
Interest cost	2
Benefits paid	(30)
Benefit obligation at December 31	<u>\$ 62</u>
Change in Plan Assets	
Fair value of plan assets at January 1	\$ —
Company contributions	60
Benefits Paid	(48)
Fair value of plan assets at December 31	<u>\$ 12</u>

In 2005, an agreement was reached with Visteon which included forgiving a receivable related to Visteon's remaining UAW OPEB obligation and a portion of Visteon's salary obligation for former Ford employees and retirees. The total receivable forgiven was about \$800 million, of which \$600 million was recorded in 2004 as an allowance for doubtful receivables. At December 31, 2006 and 2005, we had a long-term receivable of \$127 million and \$140 million, respectively, representing Visteon's remaining responsibility for the benefits of the Visteon salaried employees.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. We provide retiree drug benefits that exceed the value of the benefits that will be provided by Medicare Part D, and our retirees' out-of-pocket costs are less than they would be under Medicare Part D. Therefore, we have concluded that our plan is at least "actuarially equivalent" to the Medicare Part D plan and that we will be eligible for the subsidy. We have reflected the impact of the subsidy by reducing our 2006, 2005, and 2004 expense by \$270 million, \$290 million, and \$250 million, respectively. Beginning in 2008, the U.S. salary health care plan will no longer be eligible for the subsidy receipt under Medicare Part D.

The measurement date for substantially all of our worldwide postretirement benefit plans is December 31. Our expense for defined benefit pension and OPEB benefits was as follows (in millions):

	Pension Benefits						Health Care and Life Insurance		
	U.S. Plans			Non-U.S. Plans			2006	2005	2004
	2006	2005	2004	2006	2005	2004			
Service cost	\$ 680	\$ 734	\$ 636	\$ 704	\$ 630	\$ 554	\$ 617	\$ 710	\$ 548
Interest cost	2,431	2,398	2,445	1,396	1,408	1,332	2,004	2,188	1,970
Expected return on assets	(3,379)	(3,363)	(3,219)	(1,643)	(1,633)	(1,651)	(479)	(500)	(289)
Amortization of:									
Prior service cost/(credit)	444	500	501	120	126	117	(815)	(245)	(220)
(Gains)/losses and other	99	102	23	568	352	204	763	893	623
Separation programs	440	97	26	263	422	78	84	1	—
Loss from curtailment	2,535	—	—	206	—	—	3	—	—
Allocated costs to Visteon	—	(84)	(107)	—	—	—	6	(246)	(228)
Net expense	<u>\$ 3,250</u>	<u>\$ 384</u>	<u>\$ 305</u>	<u>\$ 1,614</u>	<u>\$ 1,305</u>	<u>\$ 634</u>	<u>\$ 2,183</u>	<u>\$ 2,801</u>	<u>\$ 2,404</u>

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NOTES TO THE FINANCIAL STATEMENTS
NOTE 23. RETIREMENT BENEFITS (Continued)

The year-end status of these plans was as follows (dollar amounts in millions):

	Pension Benefits				Health Care and Life Insurance	
	U.S. Plans		Non-U.S. Plans		2006	2005
	2006	2005	2006	2005		
Change in Benefit Obligation						
Benefit obligation at January 1	\$ 43,598	\$ 43,102	\$ 30,700	\$ 29,452	\$ 39,274	\$ 39,115
Service cost	680	734	704	630	617	710
Interest cost	2,431	2,398	1,396	1,408	2,004	2,188
Amendments	(19)	—	(34)	218	(5,268)	(3,155)
Separation programs	440	97	232	422	84	1
Curtailments	1,696	—	81	—	(47)	—
Settlements	—	—	(98)	—	—	—
Plan participant contributions	39	41	144	146	44	33
Benefits paid	(3,005)	(2,856)	(1,556)	(1,355)	(1,547)	(1,576)
Foreign exchange translation	—	—	3,434	(2,936)	2	110
Divestiture	—	(400)	—	(163)	—	(20)
Actuarial (gain)/loss and other	(572)	482	(1,344)	2,878	(4,300)	1,868
Benefit obligation at December 31	<u>\$ 45,288</u>	<u>\$ 43,598</u>	<u>\$ 33,659</u>	<u>\$ 30,700</u>	<u>\$ 30,863</u>	<u>\$ 39,274</u>
Change in Plan Assets						
Fair value of plan assets at January 1	\$ 41,857	\$ 39,628	\$ 21,927	\$ 20,595	\$ 6,497	\$ 6,762
Actual return on plan assets	5,688	3,922	2,286	3,239	510	621
Company contributions	149	1,432	1,025	1,355	—	200
Plan participant contributions	39	41	144	150	—	—
Benefits paid	(3,005)	(2,856)	(1,556)	(1,355)	(2,086)	(1,111)
Settlements	—	—	(109)	—	—	—
Foreign exchange translation	—	—	2,390	(1,924)	—	—
Divestiture	—	(309)	—	(95)	—	—
Other	—	(1)	(7)	(38)	—	25
Fair value of plan assets at December 31	<u>\$ 44,728</u>	<u>\$ 41,857</u>	<u>\$ 26,100</u>	<u>\$ 21,927</u>	<u>\$ 4,921</u>	<u>\$ 6,497</u>
Funded status	<u>\$ (560)</u>	<u>\$ (1,741)</u>	<u>\$ (7,559)</u>	<u>\$ (8,773)</u>	<u>\$ (25,942)</u>	<u>\$ (32,777)</u>
Unamortized prior service costs		2,635		912		(4,054)
Unamortized net (gains)/losses and other		4,567		8,609		17,009
Net amount recognized		<u>\$ 5,461</u>		<u>\$ 748</u>		<u>\$ (19,822)</u>
Amounts Recognized on the Balance Sheet						
Prepaid assets	\$ 1,425	\$ 2,398	\$ 145	\$ 1,710	\$ —	\$ —
Accrued liabilities	(1,985)	(1,511)	(7,704)	(6,009)	(25,942)	(19,822)
Intangible assets	—	2,133	—	657	—	—
Accumulated other comprehensive loss	—	2,441	—	4,390	—	—
Net amount recognized	<u>\$ (560)</u>	<u>\$ 5,461</u>	<u>\$ (7,559)</u>	<u>\$ 748</u>	<u>\$ (25,942)</u>	<u>\$ (19,822)</u>
Amounts Recognized in Accumulated Other Comprehensive Loss						
	\$ 1,338		\$ 701		\$ (8,514)	

Unamortized prior service costs/(credits)				
Unamortized net (gains)/losses and other	1,581		6,924	11,867
Total amount recognized	<u>\$ 2,919</u>		<u>\$ 7,625</u>	<u>\$ 3,353</u>
Pension Plans in Which Accumulated Benefit Obligation Exceeds Plan Assets at December 31				
Accumulated benefit obligation	\$26,130	\$24,287	\$18,784	\$17,217
Fair value of plan assets	24,241	22,807	13,327	11,454
Accumulated Benefit Obligation at December 31	\$43,958	\$41,983	\$29,089	\$26,060

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. RETIREMENT BENEFITS (Continued)

	Pension Benefits				Health Care and Life Insurance	
	U.S. Plans		Non-U.S. Plans		2006	2005
	2006	2005	2006	2005		
Weighted Average Assumptions at December 31 (a)						
Discount rate	5.86%	5.61%	4.91%	4.58%	5.98%	5.73%
Expected return on assets	8.50%	8.50%	7.64%	7.78%	5.50%	8.28%
Average rate of increase in compensation	3.80%	4.00%	3.30%	3.44%	3.80%	4.00%
Initial health care cost trend rate	—	—	—	—	6%	7%
Ultimate health care cost trend rate	—	—	—	—	5%	5%
Year ultimate trend rate is reached	—	—	—	—	2011	2011
Assumptions Used to Determine Net Benefit Cost for the Year (a)						
Discount rate	5.61%	5.75%	4.58%	5.18%	5.73%	5.75%
Expected return on assets	8.50%	8.75%	7.78%	7.76%	8.28%	7.93%
Average rate of increase in compensation	4.00%	4.50%	3.44%	4.00%	4.00%	4.50%
Weighted Average Asset Allocation at December 31 (b)						
Equity securities	72.8%	72.8%	65.9%	65.3%	0.0%	66.2%
Debt securities	26.6%	26.7%	32.9%	33.7%	100.0%	33.8%
Real estate	0.0%	0.0%	0.6%	0.7%	0.0%	0.0%
Other assets	0.6%	0.5%	0.6%	0.3%	0.0%	0.0%

(a) U.S. plans for Health Care and Life Insurance

(b) Weighted average asset allocation based on major non-U.S. plans including U.K., Canada, Germany, Sweden, Netherlands, Belgium and Australia

A one percentage point increase/(decrease) in the assumed health care cost trend rates would increase/(decrease) the postretirement health care benefit obligation for year-end 2006 by approximately \$4.6 billion/\$(3.6) billion and the service and interest component of health care expense for 2006 by \$400 million/\$(320) million.

As discussed in Note 17, we intend to idle several facilities in North America. As a result of the Way Forward plan, we have recognized curtailment losses due to the significant reduction in the expected aggregate years of future service of the employees in the U.S. and Canadian hourly pension plans and the corresponding increase in their expected aggregate years of future retirement. The curtailment losses include recognition of the increase in the projected benefit obligation and a portion of the previously unrecognized prior service cost reflecting the reduction in expected future service. The financial impact is reflected in the tables above.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This standard requires employers that sponsor defined benefit plans to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur. Unrecognized prior service credits/costs and net actuarial gains/losses are recognized as a component of *Accumulated other comprehensive income/(loss)*. Additional minimum pension liabilities and related intangible assets are eliminated upon adoption of the new standard. SFAS No. 158 requires prospective application and is effective for financial statements issued for fiscal years ending after December 15, 2006. The following table summarizes the effect of the initial adoption of SFAS No. 158 (in millions):

	Prior to SFAS 158 Adjustment	SFAS 158 Adjustment	Post SFAS 158 Adjustment
Prepaid assets	\$ 4,112	\$(2,542)	\$ 1,570

Accrued liabilities	(30,276)	(5,355)	(35,631)
Intangible assets	1,466	(1,466)	—
Accumulated other comprehensive loss (pre tax)	4,534	9,363	13,897

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FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. RETIREMENT BENEFITS (Continued)

The amounts in *Accumulated other comprehensive income/(loss)* that are expected to be recognized as components of net expense/(income) during the next year are as follows (in millions):

	Pension Benefits		Health Care and	Total
	U.S. Plans	Non-U.S. Plans	Life Insurance	
Prior service cost/(credit)	\$270	\$ 100	\$ (960)	\$ (590)
(Gains)/losses and other	20	400	760	1,180

Plan Contributions and Drawdowns

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

Pension. In 2006, we made \$800 million of cash contributions to our funded pension plans. During 2007, we expect to contribute from available Automotive cash and cash equivalents \$2.2 billion to our worldwide pension plans, including 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 2007.

Health Care and Life Insurance. In 2006, we withdrew \$2.1 billion from the VEBA. During 2007 we expect to withdraw \$900 million from the VEBA as reimbursement for U.S. hourly retiree benefit payments.

Estimated Future Benefit Payments

The following table presents estimated future gross benefit payments and subsidy receipts related to the Medicare Prescription Drug Improvement and Modernization Act of 2003 (in millions):

	Pension Benefits		Health Care and Life Insurance	
	U.S. Plans	Non-U.S. Plans	Gross Benefit Payments	Subsidy Receipts
2007	\$ 3,220	\$ 1,570	\$ 1,670	\$(100)
2008	3,470	1,450	1,770	(70)
2009	3,480	1,450	1,870	(80)
2010	3,450	1,470	1,940	(90)
2011	3,410	1,500	1,990	(90)
2012 – 2016	16,370	8,150	10,640	(570)

Plan Asset Information

Pension. Our investment strategy for pension assets has a long-term horizon and is tolerant of return volatility, in keeping with the long-term nature of the liabilities. The target asset allocation for our major plans worldwide generally is 70% equities, 30% fixed income. The present allocation to alternative investments (e.g., private equity) is below 1%. All assets are externally managed and most investment managers have discretion to invest globally within their respective mandates. A diverse array of investments within asset classes reduces volatility. Most assets are actively managed; manager skill and broad mandates have generally produced long-term returns in excess of common market indices. Ford securities comprised less than five percent of the total market value of our assets in major worldwide plans (including U.S., U.K., Canada, Germany, Sweden, Netherlands, Belgium, and Australia) during 2006 and 2005.

Investment managers are permitted to use derivatives as efficient substitutes for traditional securities and to manage exposure to foreign exchange and interest rate risks. Interest rate and foreign currency derivative instruments are used for the purpose of hedging changes in the fair value of assets that result from interest rate changes and currency fluctuations. Derivatives may not be used to leverage or to alter the economic exposure to an asset class outside the scope of the mandate to which an investment manager has been appointed.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. RETIREMENT BENEFITS (*Continued*)

The equity allocation shown at year-end 2006 and 2005 includes public equity securities, private equity investments, and REITS. Direct real estate investments shown separately reflect a liquidation strategy that has been in place for several years. Other assets include cash held for near-term benefit funding; cash held by investment managers for liquidity purposes is included in the appropriate asset class balance.

The long-term return assumption at year-end 2006 is 8.50% for U.S. plans, 8.00% for U.K. plans and averages 7.64% for non-U.S. plans. A generally consistent approach is used worldwide to develop this assumption. This approach considers various inputs, including a review of historical plan returns and long-run inputs from a range of advisors for capital market returns, inflation, bond yields and other variables, adjusted for specific aspects of our investment strategy.

At December 31, 2006, our actual 10-year annual rate of return on pension plan assets was 9.71% and 7.92% for U.S. and the U.K. plans, respectively. At December 31, 2005, our actual 10-year annual rate of return on pension plan assets was 9.79% and 8.33% for U.S. and the U.K. plans, respectively.

Health Care and Life Insurance. At December 31, 2006, we had \$4.9 billion invested in shorter-duration fixed income investments. Of this total, \$1.8 billion was able to be used within the next 18 months to pay for retiree benefits ("short-term VEBA"). Our current strategy is to invest all of the assets of our retiree VEBA in shorter-duration fixed income investments. Consistent with our standard practice, we will continue to include in Automotive gross cash our short-term VEBA. We refer to retiree VEBA assets that are not able to be used within the next 18 months to pay for retiree benefits as "long-term VEBA." A portion of the total assets is managed internally, with the remainder managed externally. Ford securities comprised less than five percent of the market value of the total retiree VEBA assets during 2006 and 2005.

Investment managers are permitted to use derivatives as efficient substitutes for traditional securities and to manage exposure to foreign exchange and interest rate risks. Interest rate and foreign currency derivative instruments are used for the purpose of hedging changes in the fair value of assets that result from interest rate changes and currency fluctuations. Derivatives may not be used to leverage or to alter the economic exposure to an asset class outside the scope of the mandate to which an investment manager has been appointed. Cash held by investment managers for liquidity purposes is included in the appropriate asset class balance.

The expected return assumption applicable to the total retiree VEBA is 5.50%. This reflects external investment managers' expectations of likely returns on short-duration VEBA assets over the next several years.

NOTE 24. SEGMENT INFORMATION

Our operating activity consists of two operating sectors, Automotive and Financial Services. Segment selection is based on the organizational structure we use to evaluate performance and make decisions on resource allocation, as well as availability and materiality of separate financial results consistent with that structure.

Beginning with the second quarter of 2006, we changed the reporting of our Automotive sector to separately disclose the following five segments: Ford North America, Ford South America, Ford Europe, PAG, and Ford Asia Pacific and Africa/Mazda. Automotive sector prior period information has been reclassified and is provided for these segments in the table below. Included in each segment described below with the exception of our interest in Mazda are the associated costs to design, develop, manufacture, and service vehicles and parts.

Ford North America segment includes primarily the sale of Ford, Lincoln and Mercury brand vehicles and related service parts in North America (the United States, Canada and Mexico).

Ford South America segment includes primarily the sale of Ford-brand vehicles and related service parts in South America.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24. SEGMENT INFORMATION (*Continued*)

Ford Europe segment includes primarily the sale of Ford-brand vehicles and related service parts in Europe, Turkey, and Russia.

The PAG segment includes primarily the sale of PAG-brand vehicles (i.e., Volvo, Jaguar, Land Rover and Aston Martin) and related service parts throughout the world (including North America, South America, Europe, Asia Pacific and Africa).

Ford Asia Pacific and Africa/Mazda segment includes primarily the sale of Ford-brand vehicles and related service parts in the Asia Pacific region and South Africa and also includes our share of the results of Mazda, of which we own 33.6% at December 31, 2006, and certain of our Mazda-related investments.

The Other Automotive component of the Automotive sector consists primarily of centrally managed net interest expense, which is not managed individually by the five segments.

Transactions among Automotive segments are presented generally on an absolute cost basis, eliminating the effect of legal entity transfer prices within the Automotive sector for vehicles, components and product engineering.

The Financial Services sector includes the Ford Credit segment. Ford Credit provides vehicle-related financing, leasing, and insurance. The Hertz segment was sold in December 2005.

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FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
NOTE 24. SEGMENT INFORMATION (Continued)

(In Millions)	Automotive Sector								Total
	Ford North America	Ford South America	Total The Americas	Ford Europe	PAG	Total Ford Europe & PAG	Ford Asia Pacific & Africa/ Mazda	Other	
2006									
Sales/Revenues									
External customer	\$ 69,425	\$ 5,697	\$ 75,122	\$ 30,394	\$ 30,028	\$ 60,422	\$ 7,763	\$ —	\$ 143,307
Intersegment	393	—	393	878	233	1,111	4	—	1,508
Income									
Income/(loss) before income taxes	(15,969)	661	(15,308)	371	(2,322)	(1,951)	(5)	247	(17,017)
Other disclosures									
Depreciation and special tools amortization	6,753	77	6,830	1,289	2,716	4,005	323	—	11,158
Amortization of intangibles	7	1	8	6	51	57	1	—	66
Interest expense	—	—	—	—	—	—	—	995	995
Automotive interest income	76	—	76	—	—	—	—	1,333	1,409
Cash out flow for capital expenditures	3,626	122	3,748	1,404	1,375	2,779	282	—	6,809
Unconsolidated affiliates									
Equity in net income/(loss)	138	—	138	(3)	—	(3)	286	—	421
Total assets at year-end									122,634
2005									
Sales/Revenues									
External customer	\$ 80,662	\$ 4,366	\$ 85,028	\$ 29,918	\$ 30,283	\$ 60,201	\$ 8,245	\$ —	\$ 153,474
Intersegment	3,398	—	3,398	1,613	541	2,154	131	—	5,683
Income									
Income/(loss) before income taxes	(2,444)	399	(2,045)	(437)	(1,634)	(2,071)	297	(55)	(3,874)
Other disclosures									
Depreciation and special tools amortization	3,746	68	3,814	1,285	2,764	4,049	294	—	8,157
Amortization of intangibles	28	1	29	7	12	19	1	—	49
Interest expense	—	—	—	—	—	—	—	1,220	1,220
Automotive interest income	46	—	46	—	—	—	—	1,141	1,187
Cash out flow for capital expenditures	3,875	84	3,959	1,232	1,673	2,905	259	—	7,123
Unconsolidated affiliates									
Equity in net income/(loss)	92	—	92	—	—	—	193	—	285
Total assets at year-end									113,825

2004									
Sales/Revenues									
External customer	\$ 83,019	\$2,998	\$ 86,017	\$26,519	\$27,627	\$54,146	\$6,956	\$ —	\$147,119
Intersegment	3,588	—	3,588	1,864	766	2,630	113	—	6,331
Income									
Income/(loss) before income taxes	525	144	669	177	(830)	(653)	82	(276)	(178)
Other disclosures									
Depreciation and special tools amortization	3,527	57	3,584	1,338	1,278	2,616	220	—	6,420
Amortization of intangibles	6	1	7	6	12	18	1	—	26
Interest expense	—	—	—	—	—	—	—	1,221	1,221
Automotive interest income	132	—	132	—	—	—	—	981	1,113
Cash out flow for capital expenditures	3,189	75	3,264	1,245	1,478	2,723	293	—	6,280
Unconsolidated affiliates									
Equity in net income/(loss)	75	—	75	6	—	6	174	—	255
Total assets at year-end									113,251

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FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
NOTE 24. SEGMENT INFORMATION (Continued)

(In Millions)	Financial Services Sector (a)					Total Company	
	Ford Credit	Hertz	Other	Elims	Total	Elims (b)	Total
2006							
Sales/Revenues							
External customer	\$ 16,553	\$ —	\$ 263	\$ —	\$ 16,816	\$ —	\$160,123
Intersegment	694	—	31	(7)	718	(2,226)	—
Income							
Income/(loss) before income taxes	1,953	—	13	—	1,966	—	(15,051)
Other disclosures							
Depreciation and special tools amortization	5,262	—	33	—	5,295	—	16,453
Amortization of intangibles	—	—	—	—	—	—	66
Interest expense	7,818	—	(30)	—	7,788	—	8,783
Automotive interest income	—	—	—	—	—	—	1,409
Cash outflow for capital expenditures	25	—	14	—	39	—	6,848
Unconsolidated affiliates							
Equity in net income/(loss)	7	—	—	—	7	—	428
Total assets at year-end	167,332	—	10,555	(8,837)	169,050	(1,467)	290,217
2005							
Sales/Revenues							
External customer	\$ 15,883	\$ 7,403	\$ 136	\$ —	\$ 23,422	\$ —	\$176,896
Intersegment	597	20	55	(47)	625	(6,308)	—
Income							
Income/(loss) before income taxes	2,923	1,980	50	—	4,953	—	1,079
Other disclosures							
Depreciation and special tools amortization	4,507	1,310	37	—	5,854	—	14,011
Amortization of intangibles	—	6	—	—	6	—	55
Interest expense	6,616	511	70	—	7,197	—	8,417
Automotive interest income	—	—	—	—	—	—	1,187
Cash outflow for capital expenditures	48	335	11	—	394	—	7,517
Unconsolidated affiliates							
Equity in net income/(loss)	11	—	—	—	11	—	296
Total assets at year-end	162,262	—	10,328	(10,396)	162,194	(83)	275,936
2004							
Sales/Revenues							
External customer	\$ 18,083	\$ 6,681	\$ 433	\$ —	\$ 25,197	\$ —	\$172,316
Intersegment	478	19	13	(13)	497	(6,828)	—
Income							
Income/(loss) before income taxes	3,710	493	84	—	4,287	—	4,109
Other disclosures							
Depreciation and special tools amortization	4,980	1,603	35	—	6,618	—	13,038
Amortization of intangibles	—	10	—	—	10	—	36
Interest expense	6,733	408	109	—	7,250	—	8,471
Automotive interest	—	—	—	—	—	—	1,113

income							
Cash outflow for capital expenditures	62	325	71	—	458	—	6,738
Unconsolidated affiliates							
Equity in net income/(loss)	(2)	—	—	—	(2)	—	253
Total assets at year-end	172,903	14,417	18,912	(17,044)	189,188	(2,753)	299,686

(a) Financial Services sector's interest income is recorded as *Financial Services revenues*.

(b) Includes intersector transactions occurring in the ordinary course of business.

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FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25. GEOGRAPHIC INFORMATION (in millions)

	2006		2005		2004	
	Net Sales and Revenues	Long-Lived Assets	Net Sales and Revenues	Long-Lived Assets	Net Sales and Revenues	Long-Lived Assets
North America						
United States	\$ 81,155	\$ 36,185	\$ 96,704	\$ 37,800	\$100,862	\$ 35,315
Canada	8,075	9,281	7,939	8,062	7,085	6,900
Mexico	3,461	1,008	3,374	1,073	2,934	807
Total North America	92,691	46,474	108,017	46,935	110,881	43,022
Europe						
Germany	7,006	4,974	7,642	4,518	7,396	6,187
Sweden	4,290	4,241	4,412	3,399	4,059	3,715
United Kingdom	15,850	5,842	15,264	6,537	14,193	9,104
Other	22,934	3,376	23,201	3,172	20,456	3,715
Total Europe	50,080	18,433	50,519	17,626	46,104	22,721
All Other	17,352	3,432	18,360	3,214	15,331	3,124
Total	<u>\$160,123</u>	<u>\$ 68,339</u>	<u>\$176,896</u>	<u>\$ 67,775</u>	<u>\$172,316</u>	<u>\$ 68,867</u>

NOTE 26. SUMMARY QUARTERLY FINANCIAL DATA (unaudited)

	2006				2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In millions, except per share amounts)								
Automotive Sector								
Sales	\$36,973	\$37,827	\$32,556	\$35,951	\$39,414	\$38,708	\$34,656	\$40,696
Operating income/(loss)	(2,668)	(1,253)	(7,796)	(6,204)	708	(1,067)	(1,626)	(2,203)
Financial Services Sector								
Revenues	3,828	4,067	4,554	4,367	5,481	6,458	5,854	5,629
Income/(loss) before income taxes	375	425	750	416	506	1,692	714	2,041
Total Company								
Income/(loss) before cumulative effects of changes in accounting principles	(1,423)	(317)	(5,248)	(5,625)	875	1,215	(576)	177
Net income/(loss)	(1,423)	(317)	(5,248)	(5,625)	875	1,215	(576)	(74)
Common and Class B per share from income/(loss) before cumulative effects of changes in accounting principles								
Basic	\$ (0.76)	\$ (0.17)	\$ (2.79)	\$ (2.98)	\$ 0.48	\$ 0.66	\$ (0.31)	\$ 0.09
Diluted	(0.76)	(0.17)	(2.79)	(2.98)	0.44	0.60	(0.31)	0.09

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FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We lease land, buildings and equipment under agreements that expire in various years. Minimum rental commitments under non-cancellable operating leases were as follows (in millions):

	2007	2008	2009	2010	2011	Thereafter	Total
Automotive Sector	\$490	\$351	\$278	\$194	\$97	\$250	\$1,660
Financial Services Sector	117	109	91	59	42	76	494

Rental expense was as follows (in billions):

	2006	2005	2004
Rental expense	\$1.0	\$1.5	\$1.5

Guarantees

The fair values of guarantees and indemnifications during 2006 and 2005 are recorded in the financial statements. At December 31, 2006 and 2005, the following guarantees and indemnifications were issued and outstanding:

Guarantees related to affiliates and third parties. We guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties to support business and economic growth. Expiration dates vary, and guarantees will terminate on payment and/or cancellation of the obligation. A payment by us would be triggered by failure of the guaranteed party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from the third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances. The maximum potential payments under these guarantees total \$100 million for 2006 and \$113 million for 2005, the majority of which relates to the Automotive sector.

In December 2005, we completed the sale of Hertz. As part of this transaction, we provided cash-collateralized letters of credit in an aggregate amount of \$200 million to support the asset-backed portion of the buyer's financing for the transaction. Our commitment to provide the letters of credit expires no later than December 21, 2011 and supports the payment obligations of Hertz Vehicle Finance LLC under one or more series of asset-backed notes ("asset-backed notes"). The letters of credit can be drawn upon on any date funds allocated to pay interest on the asset-backed notes are insufficient to pay scheduled interest payments, principal amounts due on the legal final maturity date, or when the balance of assets supporting the asset-backed notes is less than the outstanding balance of the asset-backed notes. The carrying value of our deferred gain related to the letters of credit was \$23 million for 2006 and \$27 million for 2005, which represents the estimated fair value of our guarantee.

In 1996, we issued \$500 million of 7.25% Notes due October 1, 2008. In 1999, we entered into a de-recognition transaction to defease our obligation as primary obligor with respect to the principal of these notes. As part of this transaction, we placed certain financial assets into an escrow trust for the benefit of the noteholders, and the trust became the primary obligor with respect to the principal (we became secondarily liable for the entire principal amount).

We also have guarantees outstanding associated with a subsidiary trust, Trust II. For further discussion of Trust II, see Notes 15 and 20.

Indemnifications. In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction, such as the sale of a business. These indemnifications might include claims against any of the following: environmental, tax, and shareholder matters;

FORD MOTOR COMPANY AND SUBSIDIARIES**NOTES TO THE FINANCIAL STATEMENTS****NOTE 27. COMMITMENTS AND CONTINGENCIES (Continued)**

intellectual property rights; power generation contracts; governmental regulations and employment-related matters; dealers, supplier, and other commercial contractual relationships; and financial matters, such as securitizations. Performance under these indemnities would generally be triggered by a breach of terms of the contract or by a third-party claim. We regularly evaluate the probability of having to incur costs associated with these indemnifications and have accrued for expected losses that are probable. We are party to numerous indemnifications and many of these indemnities do not limit potential payment; therefore, we are unable to estimate a maximum amount of potential future payments that could result from claims made under these indemnities.

Product Performance

Warranty. Estimated warranty costs and additional service actions are accrued for at the time the vehicle is sold to a dealer. Included in the warranty cost accruals are costs for basic warranty coverages on vehicles sold. Additional service actions, such as product recalls and other customer service actions, are not included in the warranty reconciliation below, but are also accrued for at the time of sale. Estimates for warranty costs are made based primarily on historical warranty claim experience. The following is a tabular reconciliation of the product warranty accruals (in millions):

	2006	2005
Beginning balance	\$ 6,243	\$ 5,814
Payments made during the period	(4,106)	(3,986)
Changes in accrual related to warranties issued during the period	3,464	3,949
Changes in accrual related to pre-existing warranties	219	615
Foreign currency translation and other	212	(149)
Ending balance	<u>\$ 6,032</u>	<u>\$ 6,243</u>

Extended Service Plans: Fees or premiums for the issuance of extended service plans are recognized in income over the contract period in proportion to the costs expected to be incurred in performing services under the contract.

Litigation and Claims

Various legal actions, governmental investigations and proceedings and claims are pending or may be instituted or asserted in the future against us, including those arising out of alleged defects in our products; governmental regulations relating to safety, emissions and fuel economy; financial services; employment-related matters; dealer, supplier and other contractual relationships; intellectual property rights; product warranties; environmental matters; shareholder or investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the foregoing matters involve or may involve compensatory, punitive, or antitrust or other treble damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, or other relief, which, if granted, would require very large expenditures.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. We have established accruals for certain of the matters discussed in the foregoing paragraph where losses are deemed probable and reasonably estimable. It is reasonably possible, however, that some of the matters discussed in the foregoing paragraph for which accruals have not been established could be decided unfavorably to us and could require us to pay damages or make other expenditures in amounts or a range of amounts that cannot be estimated at December 31, 2006. We do not reasonably expect, based on our analysis, that such matters would have a material effect on future financial statements for a particular year, although such an outcome is possible.

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. COMMITMENTS AND CONTINGENCIES (*Continued*)

Conditional Asset Retirement Obligations

In March 2005, the FASB issued Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, companies must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

We have identified asbestos abatement and PCB removal as conditional asset retirement obligations. Asbestos abatement was estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. PCB removal costs were based on historical removal costs per transformer and applied to transformers identified by a PCB transformer global survey we conducted. Other conditional asset retirement obligations exist, including regulated substances. These costs, however, are not estimable until a triggering event occurs (e.g., plant closing) due to the absence of historical cost, range of potential settlement dates and variability among plants. Presently the Company does not have sufficient information to estimate the fair value of these other obligations.

FIN 47 requires that an estimate of conditional asset retirement obligations be recorded as a liability and as an increase to the asset. The capitalized portion is depreciated over the remaining useful life of the asset. We believe the most reasonable remaining useful life should be consistent with our depreciation policy. Therefore, the full amount of this estimate for asbestos abatement and PCB removal was expensed at December 31, 2005, as an after-tax charge of \$251 million shown as a *Cumulative effects of changes in accounting principles*.

NOTE 28. SUBSEQUENT EVENTS

Held-for-Sale Operations

Aston Martin Lagonda Group Limited ("Aston Martin"), a wholly-owned subsidiary, is part of our PAG segment and manufactures premium vehicles. During the first quarter of 2007, management committed to sell all or part of Aston Martin through a stock sale. We expect the sale to be completed in the first half of 2007.

Automobile Protection Corporation ("APCO"), a wholly-owned subsidiary, offers vehicle service contracts and related after-market products to dealers of all vehicle makes and models. During the first quarter of 2007, management committed to sell APCO. We expect the sale to be completed in the first half of 2007.

UAW Voluntary Separations

Hourly employees in Ford North America who accepted an early retirement or separation package are expected to leave the Company by September 2007, though employees have an opportunity to rescind acceptance until the time of separation. Subsequent to year-end, there have been approximately 1,700 rescissions, which would have reduced the 2006 pre-tax charge by about \$150 million. For additional discussion of the voluntary separation programs, see Note 17.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Ford Motor Company:

We have completed integrated audits of Ford Motor Company's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) (1) present fairly, in all material respects, the financial position of Ford Motor Company and its subsidiaries at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying sector balance sheets and the related sector statements of income and of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 27 of the Notes to the Financial Statements, the Company changed the manner in which it accounts for conditional asset retirement obligations in 2005. As discussed in Notes 23, 12, and 10, respectively, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans, the timing of its annual goodwill and other intangible assets impairment testing, and its amortization method for special tools in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the

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standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Detroit, Michigan

February 27, 2007

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FORD MOTOR COMPANY AND SUBSIDIARIES

Schedule II — Valuation and Qualifying Accounts
(in millions)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
For the Year Ended December 31, 2006				
Allowances Deducted from Assets				
Allowance for Credit Losses	\$ 1,594	\$ 100	\$ 573(a)	\$ 1,121
Allowance for Doubtful Receivables	317	30	153(b)	194(c)
Inventories (primarily service part obsolescence)	428	108(d)	—	536
Allowance for Deferred Tax Assets	252	6,928(e)	—	7,180
Total Allowances Deducted from Assets	<u>\$ 2,591</u>	<u>\$ 7,166</u>	<u>\$ 726</u>	<u>\$ 9,031</u>
For the Year Ended December 31, 2005				
Allowances Deducted from Assets				
Allowance for Credit Losses	\$ 2,471	\$ 167	\$ 1,044(a)	\$ 1,594
Allowance for Doubtful Receivables	988	523(f)	1,194(b)	317(c)
Inventories (primarily service part obsolescence)	376	52(d)	—	428
Allowance for Deferred Tax Assets	172	80	—	252
Total Allowances Deducted from Assets	<u>\$ 4,007</u>	<u>\$ 822</u>	<u>\$ 2,238</u>	<u>\$ 2,591</u>
For the Year Ended December 31, 2004				
Allowances Deducted from Assets				
Allowance for Credit Losses	\$ 2,977	\$ 923	\$ 1,429(a)	\$ 2,471
Allowance for Doubtful Receivables	384	663(f)	59(b)	988(c)
Inventories (primarily service part obsolescence)	368	8(d)	—	376
Allowance for Deferred Tax Assets	105	67	—	172
Total Allowances Deducted from Assets	<u>\$ 3,834</u>	<u>\$ 1,661</u>	<u>\$ 1,488</u>	<u>\$ 4,007</u>

- (a) Finance receivables and lease investments deemed to be uncollectible and other changes, principally amounts related to finance receivables sold and translation adjustments.
- (b) Accounts and notes receivable deemed to be uncollectible as well as translation adjustments. Included in 2005 is a write-off of Visteon-related receivables of \$1.1 billion.
- (c) Includes non-current Visteon-related receivables of \$1 million, \$19 million, and \$600 million at December 31, 2006, 2005, and 2004, respectively, which are netted against *Other assets - Automotive* on the sector balance sheet.
- (d) Net change in inventory allowances.
- (e) Includes \$2.7 billion of allowance for deferred tax assets through *Accumulated other comprehensive income/(loss)* and \$4.2 billion of allowance for deferred tax assets through the income statement.
- (f) Includes Visteon-related increases of \$500 million and \$600 million in 2005 and 2004, respectively.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors Ford Motor Company:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated February 27, 2007 also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Detroit, Michigan

February 27, 2007

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FORD MOTOR COMPANY

By-Laws

As amended through December 14, 2006

**BY-LAWS
OF
FORD MOTOR COMPANY
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**BY-LAWS
OF
FORD MOTOR COMPANY
ARTICLE I
OFFICES**

The registered office of the Company shall be in the City of Wilmington, County of New Castle, State of Delaware. The Company may also have an office in the City of Dearborn, State of Michigan, and at such other places as the Board of Directors may from time to time determine or as the business of the Company may require. The books and records of the Company may be kept (except as otherwise provided by law) at the office of the Company in the City of Dearborn, State of Michigan, outside of the State of Delaware, or at such other places as from time to time may be determined by the Board of Directors.

**ARTICLE II
STOCKHOLDERS**

Section 1. Annual Meeting.

Unless otherwise determined by the Board of Directors, the annual meeting of the stockholders for the purpose of electing directors and of transacting such other business as may come before it shall be held in the City of Detroit, State of Michigan, on the second Thursday of May in each and every year, if not a legal holiday, and if a legal holiday then on the next day not a legal holiday. The Board of Directors shall, by resolution duly adopted, fix the place within the City of Detroit, Michigan, or elsewhere if so determined, the time, and the date (if different from that described above) for the holding of each such meeting. At least twenty (20) days' notice shall be given to each stockholder entitled to vote at such meeting of the place, date and time for the meeting.

Section 2. Special Meetings.

Special meetings of the stockholders shall be held at the office of the Company in the City of Dearborn, State of Michigan, unless otherwise determined by resolution of the stockholders or of the Board of Directors, whenever called in the manner required by law for purposes as to which there are special statutory provisions, and for other purposes whenever called by the Chairman of the Board of Directors or the President, or by resolution of the Board of Directors, and whenever the holders of thirty percent (30%) or more of the total number of outstanding shares of any class of stock the holders of which are entitled to vote on every matter that is to be voted on without regard to class at such meeting shall file with the Secretary a written application for such meeting stating the time and purpose thereof.

Section 3. Notice of Meetings.

Except as otherwise provided by law, at least twenty (20) days' notice of stockholders' meetings stating the time and place and the objects thereof shall be given by the Chairman of the Board of Directors, the President or the Secretary to stockholders of record having voting power in respect of the business to be transacted thereat. No business other than that stated in the notice shall be transacted at any meeting.

Section 4. Quorum.

At any meeting of the stockholders the number of shares the holders of which shall be present or represented by proxy in order to constitute a quorum for, and the votes that shall be necessary for, the transaction of any business shall be as expressly provided in Article FOURTH of the Certificate of Incorporation, as amended. At any meeting of stockholders at which a quorum is not present, the holders of shares entitled to cast a majority of all of the votes (computed, in the case of each share of Class B Stock, as provided in subsection 1.3 of said Article FOURTH) which could be cast at such meeting by the holders of outstanding shares of stock of the Company who are present in person or by proxy and who are entitled to vote on every matter that is to be voted on without regard to class at such meeting may adjourn the meeting from time to time.

Section 5. Organization.

The Chairman of the Board of Directors shall act as chairman of meetings of the stockholders. The Board of Directors may designate any other officer or director of the Company to act as chairman of any meeting in the absence of the Chairman of the Board of Directors, and the Board of Directors may further provide for determining who shall act as chairman of any stockholders meeting in the absence of the Chairman of the Board of Directors and such designee.

The Secretary of the Company shall act as secretary of all meetings of the stockholders, but in the absence of the Secretary the presiding officer may appoint any other person to act as secretary of any meeting.

Section 6. Proxies and Voting.

Every stockholder entitled to vote at any meeting may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedures established for the meeting. No proxy shall be voted after three years from its date unless such proxy provides expressly for a longer period. Shares of the Company's stock belonging to the Company shall not be voted upon directly or indirectly.

Section 7. Stock Lists.

A complete list of stockholders entitled to vote at any meeting of stockholders shall be prepared, in alphabetical order by class, by the Secretary and shall be open to the

examination of any stockholder, at the place where the meeting is to be held, for at least ten days before the meeting and during the whole time of the meeting.

Section 8. Ratification.

Any transaction questioned in any stockholders' derivative suit, or any other suit to enforce alleged rights of the Company or any of its stockholders, on the ground of lack of authority, defective or irregular execution, adverse interest of any director, officer or stockholder, nondisclosure, miscomputation or the application of improper principles or practices of accounting may be approved, ratified and confirmed before or after judgment by the Board of Directors or by the holders of Common Stock and the holders of Class B Stock voting as provided in subsection 1.6 of Article FOURTH of the Certificate of Incorporation, as amended, and, if so approved, ratified or confirmed, shall have the same force and effect as if the questioned transaction had been originally duly authorized, and said approval, ratification or confirmation shall be binding upon the Company and all of its stockholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

Section 9. Judges.

All votes by ballot at any meeting of stockholders shall be conducted by two judges appointed for the purpose either by the directors or by the meeting. The judges shall decide upon the qualifications of voters, count the votes and declare the result.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Number, Term of Office and Eligibility.

Except as provided by the laws of the State of Delaware or by the Certificate of Incorporation, as amended, the business and the property of the Company shall be managed by or under the direction of a Board of not less than ten and not more than twenty directors, the exact number of which shall be fixed from time to time by resolution of the Board. Each director shall be elected annually by ballot by the holders of Common Stock and the holders of Class B Stock voting as provided in subsection 1.6 of Article FOURTH of the Certificate of Incorporation, as amended, at the annual meeting of stockholders, to serve until his or her successor shall have been elected and shall have qualified, except as provided in this Section. No person may be elected or re-elected a director of the Company if at the time of his or her election or re-election he or she shall have attained the age of seventy-two years, and the term of any director who shall have attained such age while serving as a director shall terminate as of the time of the first annual meeting of stockholders following his or her seventy-second birthday; provided, however, that the Board by resolution may waive such age limitation in any year and from year to year with respect to any director or directors.

Section 2. Meetings.

The directors may hold their meetings outside of the State of Delaware, at the office of the Company in the City of Dearborn, State of Michigan, or at such other place as from time to time they may determine.

The annual meeting of the Board of Directors, for the election of officers and the transaction of other business, shall be held at the World Headquarters of the Company in Dearborn, Michigan, on the same day as, and as soon as practicable following, the annual meeting of stockholders, or at such other time or place as shall be determined by the Board of Directors at its regular meeting next preceding said annual meeting of stockholders. No notice of said annual meeting of the Board of Directors shall be required to be given to the directors.

Regular meetings of the Board of Directors may be held at such time and place as shall from time to time be determined by the Board of Directors.

Special meetings of the Board of Directors shall be held whenever called by direction of the Chairman of the Board of Directors or the President or by one-third of the directors then in office.

Section 3. Notice of Meetings.

The Secretary or an Assistant Secretary shall give notice of the time and place of holding of meetings of the Board of Directors (excepting the annual meeting of directors) by mailing such notice not later than during the second day preceding the day on which such meeting is to be held, or by sending a cablegram, facsimile transmission, mailgram, radiogram, telegram or other form of recorded communication containing such notice or delivering such notice personally or by telephone not later than during the first day preceding the day on which such meeting is to be held to each director. Unless otherwise stated in the notice thereof any and all business may be transacted at any meeting.

Section 4. Quorum and Organization of Meetings.

A third of the total number of members of the Board of Directors as constituted from time to time, but in no event less than three, shall constitute a quorum for the transaction of business; but if at any meeting of the Board of Directors, there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time, and the meeting may be held as adjourned without further notice or waiver. Except as otherwise provided by law or by the Certificate of Incorporation, as amended, or by these By-Laws, a majority of the directors present at any duly constituted meeting may decide any question brought before such meeting.

The Board of Directors shall elect one of its members to be Chairman of the Board of Directors. The Chairman of the Board of Directors shall lead the Board of Directors in fulfilling its responsibilities as set forth in these By-Laws, including its responsibility to oversee the performance of the Company, and shall determine the agenda and perform all other duties and exercise all other powers which are or from time to time may be delegated to him or her by the Board of Directors.

Meetings of the Board of Directors shall be presided over by the Chairman of the Board of Directors, or in his or her absence, by such other person as the Board of Directors may designate or the members present may select.

Section 5. Powers.

In addition to the powers and authorities by these By-Laws expressly conferred upon them, the Board of Directors shall have and may exercise all such powers of the Company and do all such lawful acts and things that are not by statute or by the Certificate of Incorporation, as amended, or by these By-Laws directed or required to be exercised or done by the stockholders. Without prejudice to or limitation of such general powers and any other powers conferred by statute, or by the Certificate of Incorporation, as amended, or by these By-Laws, the Board of Directors shall have the following powers:

(1) To determine, subject to the requirements of law and of Section 5 of Article FOURTH of the Certificate of Incorporation, as amended, what, if any, dividends shall be declared and paid to the stockholders out of net profits, current or accumulated, or out of surplus or other assets of the Company available for dividends.

(2) To fix, and from time to time to vary, the amount of working capital of the Company, and to set aside from time to time out of net profits, current or accumulated, or surplus of the Company such amount or amounts as they in their discretion may deem necessary and proper as, or as a safeguard to the maintenance of, working capital, as a reserve for contingencies, as a reserve for repairs, maintenance, or rehabilitation, or as a reserve for revaluation of profits of the Company or for such other proper purpose as may in the opinion of the directors be in the best interests of the Company; and in their sole discretion to abolish or modify any such provision for working capital or any such reserve, and to credit the amount thereof to net profits, current or accumulated, or to the surplus of the Company.

(3) To purchase, or otherwise acquire for the Company, any business, property, rights or privileges which the Company may at the time be authorized to acquire, at such price or consideration and generally on such terms and conditions as they think fit; and at their discretion to pay therefor either wholly or partly in money, stock, bonds, debentures or other securities of the Company.

(4) To create, make and issue mortgages, bonds, deeds of trust, trust agreements or negotiable or transferable instruments or securities, secured by mortgage or otherwise, and to do every other act and thing necessary to effect the same.

(5) To appoint any person or corporation to accept and hold in trust for the Company any property belonging to the Company, or in which it is interested, or for any other purpose, and to execute such deeds and do all things requisite in relation to any such trust.

(6) To delegate any of the powers of the Board in the course of the business of the Company to any officer, employee or agent, and to appoint any person the agent of the Company, with such powers (including the power to subdelegate) and upon such terms as the Board may think fit.

(7) To remove any officer of the Company with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being.

(8) To confer upon any officer of the Company the power to appoint, remove and suspend subordinate officers, agents and employees.

(9) To determine who shall be authorized on the Company's behalf, either generally or specifically, to make and sign bills, notes, acceptances, endorsements, checks, releases, receipts, contracts, conveyances, and all other written instruments executed on behalf of the Company.

(10) To make and change regulations, not inconsistent with these By-Laws, for the management of the Company's business and affairs.

(11) To adopt and, unless otherwise provided therein, to amend and repeal, from time to time, a bonus or supplemental compensation plan for employees (including employees who are officers or directors) of the Company or any subsidiary. Power to construe, interpret, administer, modify or suspend such plan shall be vested in the Board of Directors or a committee thereof.

(12) To adopt a retirement plan, or plans, for the purpose of making retirement payments to employees (including employees who are officers or directors) of the Company or of any subsidiary thereof; and to adopt a group insurance plan, or plans, for the purpose of enabling employees (including employees who are officers or directors) of the Company or of any subsidiary thereof to acquire insurance protection; any such retirement plan or insurance plan, unless otherwise provided therein, shall be subject to amendment or revocation by the Board of Directors.

Section 6. Reliance upon Books, Reports and Records.

Each director, each member of any committee designated by the Board of Directors and each officer, in the performance of his or her duties, shall be fully protected in relying in good faith upon the books of account or reports made to the Company by any of its officials, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or by any such committee, or in relying in good faith upon other records of the Company.

Section 7. Compensation of Directors.

Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, services as Chairman of the Board of Directors, or members of committees of the directors

or as chairmen thereof; provided, however, that nothing herein contained shall be construed to preclude any director from serving the Company in any other capacity and receiving compensation therefor.

ARTICLE IV COMMITTEES

Section 1. Committees of the Board of Directors.

There are hereby established as committees of the Board of Directors an Audit Committee, a Compensation Committee, an Environmental and Public Policy Committee, a Finance Committee, and a Nominating and Governance Committee, each of which shall have the powers and functions set forth in Sections 2, 3, 4, 5, and 6 hereof, respectively, and such additional powers as may be delegated to it by the Board of Directors. The Board of Directors may from time to time establish additional standing committees or special committees of the Board of Directors, each of which shall have such powers and functions as may be delegated to it by the Board of Directors. The Board of Directors may abolish any committee established by or pursuant to this Section 1 as it may deem advisable. Each such committee shall consist of one or more directors, the exact number being determined from time to time by the Board of Directors; provided, however, that membership on the Audit Committee and on the Compensation Committee shall be limited to directors who are not officers or employees of the Company. Designations of the Chairman and members of each such committee, and, if desired, a Vice Chairman and alternates for members, shall be made by the Board of Directors. Each such committee shall have a secretary who shall be designated by its chairman. A vice chairman of a committee shall act as the chairman of the committee in the absence or disability of the chairman.

Section 2. Audit Committee.

The Audit Committee shall select and engage, on behalf of the Company, independent public accountants to (1) audit the books of account and other corporate records of the Company and (2) perform such other duties as the Committee may from time to time prescribe. The Committee shall transmit financial statements certified by such independent public accountants to the Board of Directors after the close of each fiscal year. The selection of independent public accountants for each fiscal year shall be made in advance of the annual meeting of stockholders in such fiscal year and shall be submitted for ratification or rejection at such meeting. The Committee shall confer with such accountants and review and approve the scope of the audit of the books of account and other corporate records of the Company. The Committee shall have the power to confer with and direct the officers of the Company to the extent necessary to review the internal controls, accounting practices, financial structure and financial reporting of the Company. From time to time the Committee shall report to and advise the Board of Directors concerning the results of its consultation and review and such other matters relating to the internal controls, accounting practices, financial structure and financial reporting of the Company as the Committee believes merit review by the Board of Directors. The Committee also shall perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors.

Section 3. Compensation Committee.

The Compensation Committee shall fix from time to time the salaries of members of the Board of Directors who are officers or employees of the Company, the President, and of any and all Vice Chairmen of the Company, Executive Vice Presidents, Group Vice Presidents, Senior Vice Presidents and Vice Presidents of the Company. The Committee from time to time shall consider and make recommendations to the Board of Directors, to the Chairman of the Board of Directors and to the President with respect to the management organization of the Company, the nominations or elections of officers of the Company, senior management succession plans and the appointments of such other employees of the Company as shall be referred to the Committee. It also shall perform such functions as may be delegated to it under the provisions of any bonus, supplemental compensation, special compensation or stock option plan of the Company.

Section 4. Environmental and Public Policy Committee.

The Environmental and Public Policy Committee shall review all aspects of the Company's policies and practices that relate to environmental, public policy and corporate citizenship considerations facing the Company worldwide. From time to time the Committee shall report and make recommendations to the Board of Directors concerning the results of its review and such other matters relating to the foregoing matters as the Committee believes merit consideration by the Board of Directors. The Committee also shall perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors.

Section 5. Finance Committee.

The Finance Committee shall review all aspects of the Company's policies and practices that relate to the management of the financial affairs of the Company, not inconsistent, however, with law or with such specific directions as to the conduct of affairs as shall have been given by the Board of Directors. The Committee also shall perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors. From time to time the Committee shall report and make recommendations to the Board of Directors concerning the results of its review and such other matters relating to the foregoing matters as the Committee believes merit consideration by the Board of Directors.

Section 6. Nominating and Governance Committee.

The Nominating and Governance Committee from time to time shall consider and make recommendations to the Board of Directors and to the Chairman of the Board of Directors with respect to the nominations or elections of directors of the Company.

The Committee from time to time shall consider the size, composition, functioning and compensation of the Board of Directors and make recommendations to the Board of Directors with respect to such matters. Prior to the annual meeting of stockholders each year, and prior to any special meeting of stockholders at which a director is to be elected, the Committee shall recommend to the Board of Directors persons proposed to constitute

the nominees whose election at such meeting will be recommended by the Board of Directors.

The authority vested in the Committee by this section shall not derogate from the power of individual members of the Board of Directors to recommend or place in nomination persons other than those recommended by the Committee.

The Committee also shall perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors.

Section 7. Other Committees.

The Board of Directors, or any committee, officer or employee of the Company may establish additional standing committees or special committees to serve in an advisory capacity or in such other capacities as may be permitted by law, by the Certificate of Incorporation and by the By-Laws. The members of any such committee need not be members of the Board of Directors. Any committee established pursuant to this Section 7 may be abolished by the person or body by whom it was established as he, she or it may deem advisable. Each such committee shall consist of two or more members, the exact number being determined from time to time by such person or body. Designations of members of each such committee and, if desired, alternates for members, shall be made by such person or body, at whose will all such members and alternates shall serve. The chairman of each such committee shall be designated by such person or body. Each such committee shall have a secretary who shall be designated by the chairman.

Section 8. Rules and Procedures.

Each committee may fix its own rules and procedures and shall meet at such times and places as may be provided by such rules, by resolution of the committee, or by call of the chairman or vice chairman. Notice of meeting of each committee, other than of regular meetings provided for by its rules or resolutions, shall be given to committee members. The presence of one-third of its members, but not less than two, shall constitute a quorum of any committee, and all questions shall be decided by a majority vote of the members present at the meeting. All action taken at each committee meeting shall be recorded in minutes of the meeting.

Section 9. Application of Article.

Whenever any provision of any other document relating to any committee of the Company named therein shall be in conflict with any provision of this Article IV, the provisions of this Article IV shall govern, except that if such other document shall have been approved by the stockholders, voting as provided in the Certificate of Incorporation, or by the Board of Directors, the provisions of such other document shall govern.

ARTICLE V

OFFICERS

Section 1. Officers.

The officers of the Company shall be an Executive Chairman of the Board of Directors, who shall be chosen from among the directors, a President, and may also include one or more Vice Chairmen of the Company, one or more Executive Vice Presidents, one or more Group Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Treasurer, a Controller and a Secretary, each of whom shall be elected by the Board of Directors to hold office until his or her successor shall have been chosen and shall have qualified. The Board of Directors may elect or appoint one or more Assistant Treasurers, one or more Assistant Secretaries, and such other officers as it may deem necessary, or desirable, each of whom shall have such authority, shall perform such duties and shall hold office for such term as may be prescribed by the Board of Directors from time to time. Any person may hold at one time more than one office.

Section 2. Executive Chairman of the Board of Directors.

Subject to the provisions of these By-Laws, the Executive Chairman of the Board of Directors shall have all powers commonly incident to such position or which are or from time to time may be delegated to him or her by the Board of Directors, or which are or may at any time be authorized or required by law.

Section 3. Chief Executive Officer.

Subject to the provisions of these By-Laws and to the direction of the Board of Directors and the Executive Chairman of the Board of Directors, the Chief Executive Officer shall have ultimate authority for decisions relating to the general management and control of the affairs and business of the Company and shall perform all other duties and exercise all other powers commonly incident to the position of Chief Executive Officer or which are or from time to time may be delegated to him or her by the Executive Chairman of the Board of Directors or by the Board of Directors, or which are or may at any time be authorized or required by law. He or she may redelegate from time to time and to the full extent permitted by law, in writing, to officers or employees of the Company any or all of such duties and powers, and any such redelegation may be either general or specific. Whenever he or she so shall delegate any of his or her authority, he or she shall file a copy of the redelegation with the Secretary of the Company.

Section 4. President.

There shall be a President of the Company. Subject to the provisions of these By-Laws and to the direction of the Board of Directors, the Executive Chairman of the Board of Directors and of the Chief Executive Officer, he or she shall have such powers and shall perform such duties as from time to time may be delegated to him or her by the Board of Directors, the Executive Chairman of the Board of Directors or by the Chief Executive Officer, or which are or may at any time be authorized or required by law.

Section 5. Vice Chairmen of the Company, Executive Vice Presidents, Group Vice Presidents, Senior Vice Presidents and Vice Presidents.

Each of the Vice Chairmen of the Company, each of the Executive Vice Presidents, each of the Group Vice Presidents, each of the Senior Vice Presidents and each of the other Vice Presidents shall have such powers and shall perform such duties as may be delegated to him or her by the Board of Directors, by the Executive Chairman of the Board of Directors or by the President.

In addition, the Board of Directors shall designate one of the Vice Chairmen of the Company, Executive Vice Presidents, Group Vice Presidents, Senior Vice Presidents or Vice Presidents as the Chief Financial Officer, who, among his or her other powers and duties, shall provide and maintain, subject to the direction of the Board of Directors and the Finance Committee, financial and accounting controls over the business and affairs of the Company. Such office shall maintain, among others, adequate records of the assets, liabilities and financial transactions of the Company, and shall direct the preparation of financial statements, reports and analyses. The Chief Financial Officer shall perform such other duties and exercise such other powers as are incident to such functions, subject to the control of the Board of Directors.

Section 6. Treasurer and Assistant Treasurer.

The Treasurer, subject to the direction of the Board of Directors, shall have the care and custody of all funds and securities which may come into his or her hands. When necessary or proper he or she shall endorse on behalf of the Company, for collection, checks, notes and other obligations, and shall deposit all funds of the Company in such banks or other depositories as may be designated by the Board of Directors or by such officers or employees as may be authorized by the Board of Directors so to designate. He or she shall perform all acts incident to the office of Treasurer, subject to the control of the Board of Directors. He or she may be required to give a bond for the faithful discharge of his or her duties, in such sum and upon such conditions as the Board of Directors may require.

At the request of the Treasurer, any Assistant Treasurer, in the case of the absence or inability to act of the Treasurer, temporarily may act in his or her place. In the case of the death of the Treasurer, or in the case of his or her absence or inability to act without having designated an Assistant Treasurer to act temporarily in his or her place, the Assistant Treasurer so to perform the duties of the Treasurer shall be designated by the Executive Chairman of the Board of Directors, the President, a Vice Chairman of the Company or an Executive Vice President.

Section 7. Secretary and Assistant Secretary.

The Secretary shall keep the minutes of the meetings of the stockholders and of the Board of Directors, and, when required, the minutes of meetings of the committees, and shall be responsible for the custody of all such minutes. Subject to the direction of the Board of Directors, the Secretary shall have custody of the stock ledgers and documents of the Company. He or she shall have custody of the corporate seal and shall affix and attest such seal to any instrument whose execution under seal shall have been duly authorized. He or she shall give notice of meetings and, subject to the direction of the Board of

Directors, shall perform all other duties and enjoy all other powers commonly incident to his or her office.

At the request of the Secretary, any Assistant Secretary, in the case of the absence or inability to act of the Secretary, temporarily may act in his or her place. In the case of the death of the Secretary, or in the case of his or her absence or inability to act without having designated an Assistant Secretary to act temporarily in his or her place, the Assistant Secretary or other person so to perform the duties of the Secretary shall be designated by the Executive Chairman of the Board of Directors, the President, a Vice Chairman of the Company or an Executive Vice President.

Section 8. General Counsel.

The Company may have a General Counsel who shall be appointed by the Board of Directors and who shall have general supervision of all matters of a legal nature concerning the Company.

Section 9. Controller.

The Controller shall have such powers and shall perform such duties as may be delegated to him or her by the Board of Directors, the Executive Chairman of the Board of Directors, the President, or the appropriate Vice Chairman of the Company, Executive Vice President, Group Vice President, Senior Vice President or Vice President.

Section 10. Salaries.

Salaries of officers, agents or employees shall be fixed from time to time by the Board of Directors or by such committee or committees, or person or persons, if any, to whom such power shall have been delegated by the Board of Directors. An employment contract, whether with an officer, agent or employee, if expressly approved or specifically authorized by the Board of Directors, may fix a term of employment thereunder; and such contract, if so approved or authorized, shall be valid and binding upon the Company in accordance with the terms thereof, provided that this provision shall not limit or restrict in any way the right of the Company at any time to remove from office, discharge or terminate the employment of any such officer, agent or employee prior to the expiration of the term of employment under any such contract, except that the Company shall not thereby be relieved of any continuing liability for salary or other compensation provided for in such contract.

ARTICLE VI

RESIGNATIONS, REMOVALS AND VACANCIES

Section 1. Resignations.

Any director, officer or agent of the Company, or any member of any committee, may resign at any time by giving written notice to the Board of Directors, to the Chairman of the Board of Directors, to the President or to the Secretary of the Company. Any such

resignation shall take effect at the time specified therein, or if the time be not specified therein, then upon receipt thereof. The acceptance of such resignation shall not be necessary to make it effective.

Section 2. Removals.

At any meeting thereof called for the purpose, the holders of Common Stock and the holders of Class B Stock voting as provided in subsection 1.6 of Article FOURTH of the Certificate of Incorporation, as amended, may remove from office or terminate the employment of any director, officer or agent with or without cause; and the Board of Directors, by vote of not less than a majority of the entire Board at any meeting thereof called for the purpose, may, at any time, remove from office or terminate the employment of any officer, agent or member of any committee.

Section 3. Vacancies.

Subject to the last sentence of Section 1 of Article III, any vacancy in the office of any director, officer or agent through death, resignation, removal, disqualification, increase in the number of directors or other cause may be filled by the Board of Directors (in the case of vacancies in the Board, by the affirmative vote of a majority of the directors then in office, even though less than a quorum remains) and the person so elected shall hold office until his or her successor shall have been elected and shall have qualified.

ARTICLE VII

CAPITAL STOCK–DIVIDENDS–SEAL

Section 1. Certificates of Shares; Uncertificated Shares

The shares of capital stock of the Company shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Company. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates, and upon request every holder of uncertificated shares, shall be entitled to have a certificate in such form, not inconsistent with the Certificate of Incorporation, as amended, as shall be approved by the Board of Directors. The certificates shall be signed by the Executive Chairman of the Board of Directors, the President, a Vice Chairman of the Company, an Executive Vice President, a Group Vice President, a Senior Vice President or a Vice President, and also by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. Any and all signatures may be facsimiles.

All certificates shall bear the name of the person owning the shares represented thereby, shall state the number of shares represented by such certificate and the date of issue; and such information shall be entered in the Company's original stock ledger.

Section 2. Addresses of Stockholders.

It shall be the duty of every stockholder to notify the Company of his or her post office address and of any change therein. The latest address furnished by each stockholder shall be entered on the original stock ledger of the Company and the latest address appearing on such original stock ledger shall be deemed conclusively to be the post office address and the last-known post office address of such stockholder. If any stockholder shall fail to notify the Company of his or her post office address, it shall be sufficient to send corporate notices to such stockholder at the address, if any, understood by the Secretary to be his or her post office address, or in the absence of such address, to such stockholder, at the General Post Office in the City of Wilmington, State of Delaware.

Section 3. Lost, Destroyed or Stolen Certificate.

Any person claiming a stock certificate in lieu of one lost, destroyed or stolen, shall give the Company an affidavit as to his, her or its ownership of the certificate and of the facts which go to prove that it has been lost, destroyed or stolen. If required by the Board of Directors, he, she or it also shall give the Company a bond, in such form as may be approved by the Board of Directors, sufficient to indemnify the Company against any claim that may be made against it on account of the alleged loss of the certificate or the issuance of a new certificate.

Section 4. Fixing a Record Date.

The Board of Directors may fix in advance a date not exceeding (i) sixty (60) days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of stock shall go into effect (other than conversions or exchanges pursuant to Sections 2, 3 or 4 of Article FOURTH of the Certificate of Incorporation, as amended), as a record date for the determination of the stockholders entitled to notice of and to vote at any such meeting and any adjournment thereof, or entitled to payment of any such dividend or to any such allotment of rights or to exercise the rights in respect of any such change, or conversion or exchange of stock (other than conversions or exchanges pursuant to Sections 2, 3 or 4 of Article FOURTH of the Certificate of Incorporation, as amended), or (ii), ten (10) days after adoption of the resolution fixing such date, as a record date for the determination of the stockholders entitled to consent in writing to corporate action; and in any such case, such stockholders and only such stockholders, as shall be stockholders of record on the date so fixed, shall be entitled, subject to the provisions of Article FOURTH of the Certificate of Incorporation, as amended, to such notice of and to vote at such meeting and any adjournment thereof or to receive payment of such dividend or to receive such allotment of rights or to exercise such rights or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the Company after such record date.

Section 5. Regulations.

The Board of Directors shall have power and authority to make all such rules and regulations not inconsistent with any of the provisions of Sections 2, 3, 4 or 5 of Article FOURTH of the Certificate of Incorporation, as amended, as it may deem expedient, concerning the issue, transfer and registration of certificates for shares of the stock of the Company.

Section 6. Corporate Seal.

The corporate seal shall have inscribed thereon the name of the Company, the year of its organization, and the words "Corporate Seal" and "Delaware." If and when so authorized by the Board of Directors, a duplicate of the seal may be kept and used by the Secretary or Treasurer or by any Assistant Secretary or Assistant Treasurer.

ARTICLE VIII

EXECUTION OF CONTRACTS AND OTHER DOCUMENTS

Section 1. Contracts, etc.

Except as otherwise prescribed in these By-Laws, such officers, employees or agents of the Company as shall be specified by the Board of Directors shall sign, in the name and on behalf of the Company, all deeds, bonds, contracts, mortgages and other instruments or documents, the execution of which shall be authorized by the Board of Directors; and such authority may be general or confined to specific instances. Except as so authorized by the Board of Directors, no officer, agent or employee of the Company shall have power or authority to bind the Company by any contract or engagement or to pledge, mortgage, sell or otherwise dispose of its credit or any of its property or to render it pecuniarily liable for any purpose or in any amount.

Section 2. Checks, Drafts, etc.

Except as otherwise provided in these By-Laws, all checks, drafts, notes, bonds, bills of exchange or other orders, instruments or obligations for the payment of money shall be signed by such officer or officers, employee or employees, or agent or agents, as the Board of Directors shall by resolution direct. The Board of Directors may, in its discretion, also provide by resolution for the countersignature or registration of any or all such orders, instruments or obligations for the payment of money.

ARTICLE IX

FISCAL YEAR

The fiscal year of the Company shall begin the first day of January in each year.

ARTICLE X
MISCELLANEOUS

Section 1. Original Stock Ledger.

As used in these By-Laws and in the Certificate of Incorporation, as amended, the words "original stock ledger" shall mean the record maintained by the Secretary of the Company of the name and address of each of the holders of shares of any class of stock of the Company, and the number of shares and the numbers of the certificates for such shares held by each of them, taking into account transfers at the time made by and recorded on the transfer sheets of each of the Transfer Agents of the Company although such transfers may not then have been posted in the record maintained by the Secretary.

Section 2. Notices and Waivers Thereof.

Whenever any notice whatever is required by these By-Laws or by the Certificate of Incorporation, as amended, or by any of the laws of the State of Delaware to be given to any stockholder, director or officer, such notice, except as otherwise provided by the laws of the State of Delaware, may be given personally or by telephone or be given by cablegram, facsimile transmission, mailgram, radiogram, telegram or other form of recorded communication, addressed to such stockholder at the address set forth as provided in Section 2 of Article VII, or to such director or officer at his or her Company location, if any, or at such address as appears on the books of the Company, or the notice may be given in writing by depositing the same in a post office, or in a regularly maintained letter box, in a postpaid, sealed wrapper addressed to such stockholder at the address set forth in Section 2 of Article VII, or to such director or officer at his or her Company location, if any, or such address as appears on the books of the Company.

Any notice given by cablegram, mailgram, radiogram or telegram shall be deemed to have been given when it shall have been delivered for transmission. Any notice given by facsimile transmission or other form of recorded communication shall be deemed to have been given when it shall have been transmitted. Any notice given by mail shall be deemed to have been given when it shall have been mailed.

A waiver of any such notice in writing, including by cablegram, facsimile transmission, mailgram or telegram, signed or dispatched by the person entitled to such notice or by his or her duly authorized attorney, whether before or after the time stated therein, shall be deemed equivalent to the notice required to be given, and the presence at any meeting of any person entitled to notice thereof shall be deemed a waiver of such notice as to such person.

Section 3. Voting upon Stocks.

The Board of Directors (whose authorization in this connection shall be necessary in all cases) may from time to time appoint an attorney or attorneys or agent or agents of the Company, or may at any time or from time to time authorize the Executive Chairman of the Board of Directors, the President, any Vice Chairman of the Company, any Executive Vice President, any Group Vice President, any Senior Vice President, any Vice President, the

Treasurer or the Secretary to appoint an attorney or attorneys or agent or agents of the Company, in the name and on behalf of the Company, to cast the votes which the Company may be entitled to cast as a stockholder or otherwise in any other corporation or association, any of the stock or securities of which may be held by the Company, at meetings of the holders of the stock or other securities of such other corporation or association, or to consent in writing to any action by any such other corporation or association, and the Board of Directors or any aforesaid officer so authorized may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and the Board of Directors or any aforesaid officer so authorized may from time to time authorize the execution and delivery, on behalf of the Company and under its corporate seal, or otherwise, of such written proxies, consents, waivers or other instruments as may be deemed necessary or proper in the premises.

ARTICLE XI
AMENDMENTS

The Board of Directors shall have power to make, alter, amend or repeal the By-Laws of the Company by vote of not less than a majority of the entire Board at any meeting of the Board. The holders of Common Stock and the holders of Class B Stock voting as provided in subsection 1.6 of Article FOURTH of the Certificate of Incorporation, as amended, shall have power to make, alter, amend or repeal the By-Laws at any regular or special meeting, if the substance of such amendment be contained in the notice of such meeting of stockholders.

AMENDMENTS TO FORD MOTOR COMPANY
DEFERRED COMPENSATION PLAN
(Effective as of December 1, 2006)

Paragraph (a) of Section 9 is amended in its entirety to read as follows:

“(a) General. Except as otherwise provided in paragraph (b) of this Section 9 or in Section 11, or as otherwise determined by the Committee, distribution of all or any part of a participant’s Deferred Compensation Account shall be made upon the earliest of the following:

- (i) If the participant selected to receive the distribution in a lump sum payment in a particular year when the participant is an active employee, such payment shall be made on the March 15th of the year selected by the participant, or as soon thereafter as practicable.
- (ii) Upon termination of employment with the Company, including retirement, in either a lump sum payment or in no more than ten annual installment payments, as selected by the participant, with such lump sum payment being made on, or such annual installments beginning on, the March 15th following the participant’s termination of employment, or as soon thereafter as practicable. If the participant selected annual installments, the annual installment payments following the first installment shall be made on the applicable number of consecutive anniversaries of the first March 15th annual installment payment date, or as soon thereafter as practicable. If a participant selected to receive a lump sum payment in a particular year, upon termination of employment prior to such year, the participant shall receive a lump sum payment on the March 15th following the participant’s termination of employment, or as soon thereafter as practicable.
- (iii) Notwithstanding any prior selection by the participant, upon a participant’s death, the participant’s Deferred Compensation Account shall be distributed in its entirety on the March 15th following the participant’s death, or as soon thereafter as practicable.

Unless otherwise determined by the Committee, a Deferred Compensation Account, or part thereof, relating to a particular distribution shall be valued for purposes of the distribution as of the following date, or as soon thereafter as practicable: the March 15th of the year of distribution, or the next preceding day for which valuation information is available. Notwithstanding anything contained in the Plan to the contrary, no distribution of any or all of a Deferred Compensation Account held by a “specified employee” (as defined for purposes of Section 409A of the Internal Revenue Code of 1986, as amended) shall occur earlier than the first day of the seventh month following the specified employee’s termination of employment, except in the case of death. In addition, the Compensation Committee shall determine the extent, if any, to which participants may be allowed to elect to change the method and/or timing of their distributions in accordance with Section 409A of the Internal Revenue Code of 1986, as amended.”

Paragraph (d) of Section 9 is amended in its entirety to read as follows:

“(d) Election to Change Method and/or Timing of Distributions. Notwithstanding anything contained in the Plan to the contrary, elections by active participants to change the method and/or timing of distributions may be allowed in accordance with Internal Revenue Service Notice 2005-1, Q&A-19, such that such elections shall not be treated as a change in the form and timing of a payment under Section 409A(a)(4) of the Internal Revenue Code of 1986, as amended, or an acceleration of a payment under Section 409A(a)(3) of the Internal Revenue Code of 1986, as amended; provided, that such elections are made on or before December 31, 2006 and that no such election results in (i) an acceleration of a distribution into the year of the election, or (ii) the deferral of a distribution otherwise payable in the year of the election into a subsequent year.”

Paragraph (e) of Section 9 is added to read as follows:

“On and after December 1, 2006, all deferrals under this Plan shall be subject to Section 409A of the Internal Revenue Code of 1986, as amended.”

Annual Incentive Compensation Plan Metrics for 2007

On February 27, 2007, the Compensation Committee of the Board of Directors of the Company approved the specific performance goals and business criteria to be used for purposes of determining any future cash awards for 2007 for participants, including executive officers, under the Company's shareholder-approved Annual Incentive Compensation Plan (filed as Exhibit 10-T to the Company's Annual Report on Form 10-K for the year ended December 31, 1999). For most participants, the performance criteria and weightings to be used for 2007 under the plan include attaining specified levels of:

- total company pre-tax profits (40%),
- relevant business unit pre-tax profits (15%),
- total Automotive operating-related cash flow (20%),
- relevant business unit cost reductions (8.33%),
- relevant business unit market shares (8.33%), and
- relevant business unit quality metrics (8.33%).

For some participants, including certain executive officers, whose job responsibilities encompass multiple business units, the performance criteria to be used for 2007 under the plan include attaining specified levels of:

- total company pre-tax profits (55%),
- total Automotive operating-related cash flow (20%),
- total company cost reductions (8.33%),
- total company market shares (8.33%), and
- total company quality metrics (8.33%).

Based on business performance results for 2007 against the targeted levels established for each criterion, the Compensation Committee will determine the percentage of the target award that is earned, which could range between 0% and 200% depending on actual performance achieved relative to the target levels. In addition, individual awards may be increased (within limits set by the Compensation Committee) or decreased from a formula amount, based on leadership level or salary grade level, to reward a person's performance.



World Headquarters, Room 538
One American Road
Dearborn, MI 48126-2798

March ____, 2007

Dear _____,

In March 2006, the Compensation Committee of the Board of Directors awarded you the opportunity to earn restricted stock equivalents (RSEs). The size of this award opportunity was calculated by converting one-half of the value of the amount of stock options that you otherwise would have received to an equivalent value of RSEs. The Compensation Committee designated the following as the 2006 performance metrics for this award:

- Company Performance
- Strategic Direction and Operational Effectiveness
- Leadership
- People and Culture

The Compensation Committee has reviewed the 2006 performance-to-objectives and determined the 2006 award will **payout at 62%** of the grant. Therefore, you are being awarded [] RSEs.

Your RSE award will be subject to a one-year restriction period, ending March ____, 2008, during which time dividend equivalents will be paid in cash, if dividends are paid on Ford Common Stock. As soon as practicable after the restriction lapses, shares of Ford Common Stock will be issued to you, less any shares withheld to cover any tax liability on the value of the grant.

Your RSE award is made under the 1998 Long-Term Incentive Plan and is subject to its terms and conditions provided at grant.

If you have any questions regarding your RSE award, please contact [] at [] or [] at [].

Regards,

[], Director
Compensation & Executive Personnel

**Performance-Based Restricted Stock Units (RSUs) Description
for [2007] Performance Period
Executive Compensation & Benefits
(Formerly referred to as Performance Stock Rights (PSRs))**

Issued: March __, [2007]

What are Restricted Stock Units (RSUs)?

RSUs are phantom shares of Ford common stock that are paid out in actual shares following a specified performance and/or restriction period. Performance-based RSUs give you the opportunity to earn a number of RSUs (final award) over a specified performance period, based on the achievement of certain performance objectives. Any RSUs awarded to you convert to bonafide shares of Ford Common Stock after a specified, time-based restriction period.

Because RSUs are not “real” shares until the restriction period ends, you will not be eligible to vote the shares, nor are the shares registered in your name.

RSUs are different from a stock option grant that gives you the right to purchase shares of Ford stock at a specified price during a certain time period.

Who is eligible to receive Performance-Based RSUs and when are they awarded?

LL1 employees are eligible to be considered for performance-based RSU opportunity grants in March of each year. The Company's grant to an employee of a performance-based RSU is not an element of the employee's compensation. Any final award does not entitle an employee to any further grants in the future and the Company does not guarantee that benefits under the 1998 Long-Term Incentive Plan will have a particular value or be granted to the employee in the future.

How do performance-based RSUs work?

Performance-based RSUs have a one-year performance period after which a final award, if any, is determined based on the Company's performance on specific metrics applicable to the grant.

At the beginning of each performance period, management recommends a performance-based RSU opportunity grant based on your expected future contributions to Ford's success. The one-year performance period begins in January of the year of the grant and ends in December of the year of the grant. For example, the performance period for the March [2007] grant is from January [2007] through December [2007].

Each metric is weighted toward the total final award determination. Metrics for the performance-based RSUs covering the January [2007] — December [2007] performance period include pre-tax profits (both total and business unit), total Automotive operating-related cash flow, business unit cost performance, market share, and quality. The performance goals and weightings for each metric are the same as those used under the Annual Incentive Compensation Plan for the applicable performance period.

How are the final awards calculated?

Following the end of the one-year period, performance results are evaluated against the initial objectives, and it is determined whether a final award will be made. Payouts can range from 0% to 100% of the initial target amount, depending on Company performance on the metrics. For [2007], the goals for pre-tax profit and Automotive operating-related cash flow have a minimum threshold that must be met in order to receive credit for that metric. For each of these metrics, the minimum threshold is [80%] of the related objective.

Any final award is issued in the form of RSUs having a [one/two/three-year] restriction period and will be determined by the Compensation Committee of the Board of Directors. An account showing the RSU final award will be set up in your name. At the end of the restriction period, the RSUs are converted to actual shares of Ford common stock, less shares withheld to cover any tax liability on the value of the award. The shares carry all associated rights including voting rights and the right to any dividend payments.

Performance-based RSUs are subject to the terms and conditions described herein and in the Company's 1998 Long-Term Incentive Plan.

Will I receive dividends or equivalents on my performance-based RSU grant?

Dividend equivalents will not be paid on your performance-based RSU grant either during the performance period or during the restriction period. Dividends will begin after any RSU final award converts to actual shares of Ford common stock, if the Company is paying dividends on common stock.

What happens to my grant if I leave the Company during the one-year performance period or before the [one/three-year] restriction is over?

If you leave the Company for reasons of voluntary quit, discharge, or release in the best interest of the Company, your grant will be cancelled and you will forfeit the grant opportunity.

If your employment with the Company terminates before the one-year performance period is over for any reason other than voluntary quit, discharge, or release in the best interest of the Company, and your termination date is at least six months after the grant of your RSU opportunity, you will be eligible to be considered for a pro-rated award, based on the number of full months worked during the performance period. Final awards are determined at the discretion of the Compensation Committee of the Board of Directors.

Are there any other conditions related to the RSU awards?

There are several other conditions that you should be aware of:

- 1) You must refrain from engaging in any activity that is directly or indirectly in competition with any activity of the Company or any subsidiary thereof. In the event of non-fulfillment of this condition, your rights in the RSU grant, including the right to have any final award converted to real shares of Ford stock at the end of the applicable restriction period, will be forfeited and cancelled.
 - 2) Your rights in the RSUs, including the right to have any final award converted to real shares of Ford Stock at the end of the applicable restriction period, will be forfeited and cancelled if it is determined that you have acted in a manner inimical to the best interests of the Company.
-

3) Your RSUs are subject to the terms and conditions described herein and in the Company's 1998 Long-Term Incentive Plan.

* The FMV is the average of the high and low price of Ford Common Stock trading on the New York Stock Exchange on the applicable date.



Joe W. Laymon
Group Vice President
Corporate Human Resources
and Labor Affairs

March____, 2007

To: LL2 and Above Employees
Subject: Final Award for the 2004–2006 Performance Stock Right Grant

The 2004–2006 performance period for the 2004 Performance Stock Right grants (sometimes referred to as LTI grants) ended on December 31, 2006. The performance metrics for the 2004 grant were Ford Motor Company's total shareholder return (stock appreciation plus dividends) relative to the S&P 500, Total Cost Performance, Global Market Share, High Time-in-Service Improvement and Launch Metrics in the Period. Based on the performance-to-metrics, the Compensation Committee has approved a final award of 39% of the initial grant.

In recognition of the Company's accomplishments, as well as your personal contributions to our collective efforts, you will receive a final award in Ford common stock (net after taxes) related to your 2006 Performance Stock Right grant. Your final award, net of shares withheld to cover any tax liability, was deposited into a book-entry account with Computershare Trust Company, N.A. during March. Your award is made under the 1998 Long-Term Incentive Plan and is subject to its provisions.

Thank you for your contribution to the achievement of our objectives during the 2004–2006 performance period.

Time-Based Restricted Stock Units (RSUs) Description For [2007] Annual Stock-Based Grants

Issued: March __, [2007]

What are Restricted Stock Units (RSUs)?

RSUs are phantom shares of Ford common stock that are paid out in actual shares following a specified performance and/or restriction period. Time-based RSUs awarded to you convert to bonafide shares of Ford Common Stock after a specified restriction period.

Because RSUs are not “real” shares until the restriction period ends, you will not be eligible to vote the shares, nor are the shares registered in your name.

RSUs are different from a stock option grant that gives you the right to purchase shares of Ford stock at a specified price during a certain time period.

Who is eligible to receive Time-Based RSUs and when are they awarded?

LL5+ employees are eligible to be considered for a time-based RSU grant in March of each year. The Company's grant to an employee of a time-based RSU is not an element of the employee's compensation. Any grant to an employee does not entitle an employee to any further grants in the future and the Company does not guarantee that benefits under the 1998 Long-Term Incentive Plan will have a particular value or be granted to the employee in the future.

How do time-based RSUs work? What happens when the restriction period lifts?

Time-based RSUs vest over a specified restriction period. [Grants awarded in [2007] vest over a three year period. 33% of your grant will vest after one year; 33% after two years; and 34% after three years.]

During the annual compensation planning process, management recommends a stock-based award having a dollar value based on your Leadership Level and your expected future contributions to Ford's success. The number of RSUs granted to you is based on the Fair Market Value* (FMV) of Ford Common Stock on the grant date. An account showing your RSU grant will be set up in your name at [].

At the end of the specified restriction period, the RSUs are converted to actual shares of Ford common stock, less shares withheld to cover any tax liability on the value of the award. The shares carry all associated rights including voting rights and the right to any dividend payments.

Will I receive dividends on my RSUs during the restriction period?

Dividend equivalents will not be paid on your RSU grant during the restriction period. Dividends will begin after the RSU grant converts to actual shares of Ford common stock, if the Company is paying dividends on common stock.

What about taxes?

RSUs are generally not recognized as taxable income at the time the RSU grant is made. As soon as practicable after the restriction period ends, shares of Ford common stock will be issued to you for this grant [less shares withheld to cover any tax liability on the value of the grant].

What happens to my grant if I leave the Company before the [one/two/three] year restriction is over?

If you leave the Company for any reason other than death, disability or approved retirement before the restriction period ends, or if your employment terminates for any reason prior to six months following the grant date, your grant will automatically be forfeited.

Are there any other conditions related to the RSU awards?

There are several other conditions that you should be aware of:

- 1) You must refrain from engaging in any activity that is directly or indirectly in competition with any activity of the Company or any subsidiary thereof. In the event of non-fulfillment of this condition, your rights in the RSU grant, including the right to have the grant converted to real shares of Ford stock at the end of the applicable restriction period, will be forfeited and cancelled.
- 2) Your rights in the RSUs, including the right to have the grant converted to real shares of Ford Stock at the end of the applicable restriction period, will be forfeited and cancelled if it is determined that you have acted in a manner inimical to the best interests of the Company.
- 3) Your RSUs are subject to the terms and conditions described herein and in the Company's 1998 Long-Term Incentive Plan.

* The FMV is the average of the high and low price of Ford Common Stock trading on the New York Stock Exchange on the applicable date.

AMENDED AND RESTATED AGREEMENT

This Amended and Restated Agreement (the "Agreement") dated as of December 12, 2006 is made and entered into between Ford Motor Company, a Delaware corporation ("Ford"), and Ford Motor Credit Company, a Delaware corporation ("Ford Credit").

RECITALS

A. Ford Credit supports the sale of Ford's products by providing, among other things, wholesale, retail and lease financing for the purchase and lease of those products.

B. Ford Credit is highly dependent on the public debt markets to raise funds for its business.

C. Ford Credit's ability to raise funds in the public debt markets is highly dependent on its credit ratings, which, in turn, are dependent on the level of Ford Credit's equity capital, the quality of its assets and its liquidity.

D. It is important to the success of Ford that Ford Credit remains a viable finance company that can fund itself in the public debt markets and continue supporting the sale of Ford's products.

E. Towards maintaining the viability of Ford Credit, the parties entered into an agreement dated October 18, 2001 (the "October 18, 2001 Agreement") that provides for certain agreements regarding transactions between them and the creditworthiness of Ford Credit.

F. The parties desire to amend the October 18, 2001 Agreement to, among other things, provide for the right to offset their obligations to each other.

NOW, THEREFORE, for good and valuable consideration and the mutual agreements herein provided, the parties agree as follows:

1. The parties agree that all Affiliate Receivables (as defined below) shall be on arm's-length terms. For purposes hereof, "Affiliate Receivables" means any advance, loan, extension of credit, or other financing to Ford or any affiliate of Ford whose assets and liabilities are classified on Ford's consolidated balance sheet as Automotive ("Automotive Affiliate"). Ford Credit shall enforce, and cause any affiliate of Ford Credit whose assets and liabilities are consolidated with Ford Credit's on Ford Credit's consolidated balance sheet ("Credit Affiliate") to enforce, all Affiliate Receivables in a commercially reasonable manner, and Ford shall pay, shall cause its Automotive Affiliates to pay and shall guarantee its Automotive Affiliates' payment of, Affiliate Receivables in accordance with their terms.

2. Ford Credit shall not, nor shall it permit any Credit Affiliate to, guarantee any indebtedness of (other than Permitted Guarantees), or purchase any equity securities issued by, or make any other investment in, Ford (parent company only) or any Automotive Affiliate. In addition, Ford Credit shall not, nor shall it permit any Credit Affiliate to, purchase or finance any real property (other than Permitted Mortgages) or manufacturing equipment (including tooling)

from or of Ford or any Automotive Affiliate that is classified as an Automotive asset on Ford's consolidated balance sheet. Ford shall not, nor shall it permit any Automotive Affiliate to request or require Ford Credit or any Credit Affiliate to do any of the transactions prohibited by this paragraph 2. For purposes hereof, "Permitted Guarantees" shall mean guarantees by Ford Credit or Credit Affiliates of indebtedness of Ford or Automotive Affiliates which at any time does not exceed \$500 million in the aggregate, and "Permitted Mortgages" shall mean financing by Ford Credit or Credit Affiliates of real property of Ford or Automotive Affiliates which at any time does not exceed \$500 million in the aggregate.

3. Ford and Ford Credit agree that Ford Credit's total stockholder's equity as stated on or reflected in its consolidated financial statements shall, at the end of any calendar quarter during which this Agreement is in effect, be maintained at a commercially reasonable level appropriate to support the amount, quality and mix (i.e., retail finance receivables, wholesale finance receivables and lease receivables) of Ford Credit's assets as stated on or reflected in its consolidated financial statements for the same calendar quarter, taking into account general business conditions affecting Ford Credit.

4. Ford Credit shall, and shall cause each Credit Affiliate to, conduct its business, including its finance and lease business, in a prudent and commercially reasonable manner, including maintaining and adhering to credit risk underwriting standards for finance and lease receivables and residual assumptions for lease receivables it acquires or originates that are consistent with industry standards. Ford shall not, nor shall it permit any Automotive Affiliate to, require Ford Credit or any Credit Affiliate to accept credit or residual risk beyond what it would be willing to accept acting in a prudent and commercially reasonable manner. For avoidance of doubt, acquisition or origination of finance or lease receivables having terms that are not market-based shall be considered to be prudent and commercially reasonable if subsidies (in the form of interest rate subvention payments, guarantees, residual risk sharing arrangements or otherwise) are provided by Ford or an Automotive Affiliate in an amount sufficient to assure that Ford Credit or a Credit Affiliate, as the case may be, will receive the economic benefits of such receivables as if they had been acquired or originated on market-based terms. Notwithstanding the foregoing, in recognition of the fact that Ford uses Ford Credit as the exclusive provider of financial services for special retail and lease programs to support the sale of products manufactured by Ford and other Automotive Affiliates, it is understood that it would be commercially reasonable and prudent for Ford Credit to accept, to a limited extent, higher levels of credit risk than it might otherwise accept in order to continue as the exclusive provider of financial services to Ford and the other Automotive Affiliates with respect to such programs. For any given program, Ford Credit may waive its right to be the exclusive provider of financial services to Ford and the other Automotive Affiliates.

5. Ford and Ford Credit agree that (a) Ford Credit shall at all times maintain its books, records, financial statements and bank accounts separate from those of Ford and any Automotive Affiliate; (b) Ford Credit shall maintain its assets in such a manner that it will not be costly or difficult to segregate, ascertain or identify its assets from those of Ford and any Automotive Affiliate; (c) the funds and other assets of Ford Credit shall not be commingled with those of Ford or any Automotive Affiliate; (d) Ford Credit shall at all times hold itself out as a legal entity separate and distinct from Ford and any Automotive Affiliate; (e) except with respect to the

performance of their respective obligations under that certain Amended and Restated Profit Maintenance Agreement dated as of January 1, 2002 between Ford and Ford Credit (as it may be amended from time to time), each will act in a manner and conduct its business such that creditors of Ford, acting reasonably, will rely primarily on the creditworthiness of, and look solely to the assets of Ford, for repayment of indebtedness and creditors of Ford Credit, acting reasonably, will rely primarily on the creditworthiness of, and look solely to the assets of Ford Credit, for repayment of indebtedness; and (f) they otherwise will take such reasonable and customary action so that Ford Credit will not be consolidated with Ford or any Automotive Affiliate in any case or other proceeding seeking liquidation, reorganization or other relief with respect to Ford or any Automotive Affiliate or its debts under any bankruptcy, insolvency or other similar law.

6. The sum of (i) the aggregate amount of unused committed credit facilities, (ii) the unutilized portion of the aggregate dollar amount of receivables that bank-sponsored, commercial paper issuers (conduits) are contractually committed to purchase from Ford Credit and (iii) cash, cash equivalents and marketable securities (and any other sources of liquidity that may be agreed upon from time to time) of Ford Credit and its consolidated subsidiaries shall at all times be at least equal to 100% of the outstanding commercial paper of Ford Credit and its consolidated subsidiaries.

7. In the event that Ford or any of its subsidiaries engages in a corporate transaction that causes the Pension Benefit Guaranty Corporation ("PBGC") to threaten to terminate the pension plans sponsored by Ford or any of its subsidiaries, Ford shall, or shall cause any of its subsidiaries to, seek to negotiate a settlement with the PBGC to avoid an involuntary plan termination. In connection with such negotiated settlement, Ford shall endeavor not to grant to the PBGC a security interest in the assets of Ford Credit that has priority over the claims of unsecured creditors of Ford Credit.

8. All determinations to be made under this Agreement shall be made in accordance with, or with reference to financial statements prepared in accordance with, United States generally accepted accounting principles. For purposes of this Agreement, the term "lease receivables" shall mean "net investment in operating leases" as stated on or reflected in Ford Credit's consolidated financial statements.

9. During the term of this Agreement, Ford Credit shall continue to make inventory and capital financing generally available to dealers of vehicles manufactured or sold by Ford or its Automotive Affiliates and shall continue to make retail and lease financing generally available to such dealers' customers to substantially the same extent that Ford Credit has historically made such services available, so long as providing such services to such an extent would not result in a breach of any of the foregoing provisions. Nothing herein precludes Ford Credit from providing or continuing to provide financial services to automotive manufacturers other than Ford or its Automotive Affiliates.

10. In addition to any rights of set-off Ford and Ford Credit may have against the other as a matter of law or otherwise, (a) upon Ford Credit having failed, or being reasonably expected by Ford to fail, to make payments in the ordinary course of business on a Ford Credit Obligation

or upon the commencement of any bankruptcy, insolvency or similar proceeding of Ford Credit or any Credit Affiliate, Ford will have the right (but will not be obliged) without prior notice to Ford Credit or any other person to set-off any Ford Credit Obligations (whether matured or contingent, regardless of the currency or terms of the obligation) against Ford Obligations (whether matured or contingent, regardless of the currency or terms of the obligation) and (b) upon Ford having failed to, or being reasonably expected by Ford Credit to fail to, make payments in the ordinary course of business on a Ford Obligation or upon the commencement of any bankruptcy, insolvency or similar proceeding of Ford or an Automotive Affiliate, Ford Credit will have the right (but will not be obliged) without prior notice to Ford or any other person to set-off any Ford Obligations (whether matured or contingent, regardless of the currency or terms of the obligation) against Ford Credit Obligations (whether matured or contingent, regardless of the currency or terms of the obligation). If the amount of either a Ford Obligation or a Ford Credit Obligation is unascertained, Ford or Ford Credit (as the case may be) may in good faith estimate that obligation and set-off in respect of the estimate, subject to Ford or Ford Credit (as the case may be) accounting to the other when the amount of such obligation is ascertained. For the avoidance of doubt, it is understood that nothing in this paragraph creates a security interest. For purposes of this Agreement, the Ford Obligations shall consist of the following obligations (whether or not then due) of Ford or an Automotive Affiliate to Ford Credit or a Credit Affiliate: (i) interest rate subvention; (ii) lease residual subvention; (iii) intercompany payables; (iv) notes payable; (v) uncollateralized guarantees; (vi) FMC Related Receivables; and (vii) any other obligation of, or guaranteed by, Ford or an Automotive Affiliate owing to Ford Credit or a Credit Affiliate whether or not it would appear as an asset on a consolidated balance sheet of Ford Credit. For purposes of this Agreement, the Ford Credit Obligations shall consist of the following obligations (whether or not then due) of Ford Credit or a Credit Affiliate to Ford or an Automotive Affiliate: (i) notes payable; (ii) intercompany payables; (iii) retiree healthcare and life insurance payables; (iv) intercompany payables for taxes; and (v) any other obligation of Ford Credit or a Credit Affiliate owing to Ford or an Automotive Affiliate. The parties agree that interest rate and lease subvention obligations of Ford and Automotive Affiliates may be prepaid at any time and from time to time, and if the agreements for such obligations do not contain prepayment provisions, then the value of such subvention obligations for purposes of any prepayment thereof shall be calculated as the present value thereof obtained by applying the then-current discount rate that has been agreed to between Ford and Ford Credit. For purposes of this Agreement, the FMC Related Receivables means the following types of receivables purchased by or assigned to Ford Credit or Credit Affiliates from Ford or Automotive Affiliates, or originated by Ford Credit or Credit Affiliates, each of which may be guaranteed (in whole or in part) by Ford or an Automotive Affiliate: receivables related to the sale of automotive parts and accessories by Ford or an Automotive Affiliate (US, Canada, Europe and Asia Pacific), receivables related to the Ford Rent A Car (FRAC) program, receivables related to the company car program (US, Europe and Asia), receivables related to the chassis converter program (US) and receivables related to the used vehicle repurchase program (US, Canada and Europe); provided, however, that FMC Related Receivables shall not include any of the foregoing receivables that have been sold in an on- or off-balance sheet securitization or other structured financing transaction.

11. During the term of this Agreement, Ford shall, and hereby does, guarantee to Ford Credit the Ford Obligations of Automotive Affiliates, and Ford Credit shall, and hereby does, guarantee to Ford the Ford Credit Obligations of Credit Affiliates.

12. This Agreement shall be construed and interpreted in accordance with, and governed by, the internal laws of the State of New York, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

13. This Agreement shall terminate on the Termination Date, which shall initially be December 11, 2011. On December 11, 2007, and on each December 11 thereafter during the term of this Agreement, the Termination Date shall be extended automatically for an additional one-year period (ending on the December 11 next following the then-current Termination Date) unless either party shall have given the other party written notice during the period beginning on the July 1 and ending on the November 1 immediately preceding such December 11, specifying its election not to extend the Termination Date beyond the then-current Termination Date and that the term of this Agreement shall, therefore, expire on such then-current Termination Date. Notwithstanding the foregoing, the provisions of paragraph 10 relating to set-off shall survive the termination of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

FORD MOTOR COMPANY

FORD MOTOR CREDIT COMPANY

By: /s/ Ann Marie Petach
Ann Marie Petach
Vice President and Treasurer

By: /s/ Kenneth R. Kent
Kenneth R. Kent
Vice Chairman, Chief Financial Officer
and Treasurer

Description of Settlement of Special 2006–2008 Senior Executive Retention Program

As a result of a recent review of our incentive compensation programs, on February 27, 2007, the Compensation Committee of the Board of Directors decided to settle the Special 2006–2008 Senior Executive Retention Program. The program was viewed as inconsistent with Ford’s strategic need to have our executives work together to achieve common goals as a team. The consideration for settling the program is a cash payout to be made to participants based on actual and expected achievement of the manufacturing capacity reduction goals for 2006–2008 and, for the other goals shown below, actual 2006 achievement. (The Committee did not use expected 2007 and 2008 results for the other metrics shown below due to the lack of data or difficulty in estimating future results.)

Metric	% Performance Achieved
1. Manufacturing capacity reduction	50%
2. Cost Reduction	33%
3. Market Share – U.S.	0%
4. Market Share – Asia	0%
5. Automotive Components Holdings, LLC	33%

Participants must repay the settlement amount if they leave the Company before March 2009 for any reason except an approved retirement.

In addition, the Committee decided to grant additional stock options in March 2007 and performance–based restricted stock units in March 2007, March 2008, and March 2009 to certain officer participants as an enhancement under the long–term incentive program. The Committee reduced the award opportunity (set at eight times base salary rounded to the nearest million) for individual officers under the 2007 program by the amount of their cash payout, if any, under the 2006–2008 Senior Executive Retention Program. The value of the net amount of the award opportunity will be delivered 50% in stock options and 50% in performance–based restricted stock units. Each grant of performance–based restricted stock units will use the same metrics and weightings as the Annual Incentive Compensation Plan for the applicable performance period.

**Arrangement between Ford Motor Company
and Mark Fields, dated February 7, 2007**

On February 7, 2007, the Compensation Committee of the Company's Board of Directors approved a request by Mark Fields, Executive Vice President and President, The Americas, regarding a change in his compensation arrangement related to his use of Company aircraft. Mr. Fields will no longer use Company aircraft for personal travel. The Company will pay the costs, including first class commercial airfare, for personal travel to and from his home in Florida. The Company will continue to provide tax relief as a result of the imputed income associated with this arrangement.

Description of Company Practices Regarding Club Memberships for Executives

Certain Group Vice Presidents and a limited number of other employees may be reimbursed (or have fees paid on their behalf) for expenses associated with certain club memberships when such memberships are considered to be beneficial to the Company's interests. The expenses reimbursed under this practice are restricted to initiation fees, membership fees, dues, assessments, and other expenses required to maintain memberships in good standing. Greens fees and other charges related to the use of the facilities are not reimbursed.

In addition, the Company maintains a number of corporate memberships for officers at the Tournament Players Club (TPC) of Michigan. Effective January 1, 2007, those officers with TPC corporate memberships may retain their membership; however, all charges related to the TPC membership will become their personal responsibility.

Terms and Conditions of Stock Option Agreement (Nonqualified Option)

(Regular Option Granted to Alan Mulally on
September 1, 2006 Covering 3,000,000 Shares)

Addition to Article 1 of the Terms and Conditions

“Notwithstanding anything contained herein, in the Agreement or in the Features and Highlights of Your Stock Options booklet to the contrary, the vesting requirements for your Option granted on September 1, 2006 covering 3,000,000 shares of Ford common stock will be removed in the event the Company terminates your employment for reasons other than “for cause” during the first five years of your employment or if there is a “Change of Control” of the Company during the first five years of your employment accompanied by a termination of your employment for “Good Reason”, as more fully described in the employment offer letter from Bill Ford to you dated August 29, 2006 and accepted by you on September 1, 2006.”

Terms and Conditions of Stock Option Agreement (Nonqualified Option)

(Performance-Based Option Granted to Alan Mulally
on September 1, 2006 Covering 1,000,000 Shares)

Addition to Terms and Conditions

“Notwithstanding anything contained herein, in the Agreement or in the Features and Highlights of Your Stock Options booklet to the contrary, your performance-based Option granted on September 1, 2006 covering 1,000,000 shares of Ford common stock has a five year term and vesting will be based solely on the closing price of Ford common stock on the New York Stock Exchange trading regular way reaching certain thresholds that are maintained for at least 30 consecutive trading days, as more fully described in the employment offer letter from Bill Ford to you dated August 29, 2006 and accepted by you on September 1, 2006.”

Description of President and CEO Compensation Arrangements

After reviewing the Company's 2006 performance results and Mr. Mulally's leadership role in progressing his key priorities, on February 27, 2007, the Compensation Committee of the Board of Directors decided to grant Alan Mulally, President and Chief Executive Officer, on March 5, 2007 nonqualified stock options with a value of \$6 million. The options will have a ten-year term and vest over a three-year period (33% after one year, 33% after two years and 34% after three years). The \$6 million value represents the final March 5, 2007 option grant value that previously was described as having a \$5 million minimum value in the accession agreement between the Company and Mr. Mulally dated as of September 1, 2006.

Additionally, on February 27, 2007, the Compensation Committee clarified the terms of Mr. Mulally's employment arrangement concerning the use of Company aircraft for personal reasons. As previously disclosed, Mr. Mulally is required to use Company aircraft for personal travel for security reasons and is entitled to have his wife, children, and guests travel with him at Company expense. We have clarified that Mr. Mulally's arrangement covers travel by his wife, children, and guests on Company aircraft for personal reasons without him at Company expense, at his request.

\$18,485,000,000

CREDIT AGREEMENT

among

FORD MOTOR COMPANY,

The Subsidiary Borrowers from Time to Time Parties Hereto,

The Several Lenders from Time to Time Parties Hereto,

JPMORGAN CHASE BANK, N.A.
as Administrative Agent,

CITIBANK, N.A. and GOLDMAN SACHS CREDIT PARTNERS L.P.,

as Syndication Agents,

Deutsche Bank Securities Inc.

HSBC Bank USA, N.A.

Lehman Brothers, Inc.

Merrill Lynch, Pierce, Fenner &
Smith

Morgan Stanley Senior
funding, Inc.

Royal Bank of Scotland

Sumitomo Mitsui Banking Corporation
as Documentation Agents

and

BNP Paribas

as Agent

Dated as of December 15, 2006

J.P. Morgan Securities Inc.

Citigroup Global Markets
Inc.

Goldman Sachs Credit
Partners L.P.

Deutsche Bank Securities Inc.

HSBC Bank

Lehman Brothers, Inc.

Merrill Lynch, Pierce, Fenner &
Smith

Morgan Stanley Senior
funding, Inc.

Royal Bank of Scotland

Sumitomo Mitsui Banking Corporation
as Bookrunners and Lead Arrangers

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EXHIBITS:

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G	Form of Discount Note
H	Form of Drawing Notice
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N	Form of Closing Certificate
O	Form of Assignment and Assumption
P-1	Form of Legal Opinion of Simpson Thacher & Bartlett LLP
P-2	Form of Legal Opinion of In-House Counsel
Q	Form of Exemption Certificate
R	Form of Joinder Agreement
S-1	Form of Addendum (Revolver)
S-2	Form of Addendum (Term Loan)
T	Form of Compliance Certificate
U-1	Form of Term Note
U-2	Form of Revolving Note

CREDIT AGREEMENT (this "Agreement"), dated as of December 15, 2006, among FORD MOTOR COMPANY, a Delaware corporation (the "Company"), the Subsidiary Borrowers (as defined herein) from time to time parties hereto, the several banks and other financial institutions or entities from time to time parties hereto (the "Lenders"), CITIBANK, N.A. and GOLDMAN SACHS CREDIT PARTNERS, L.P., as syndication agents (in such capacity, the "Syndication Agents"), and JPMORGAN CHASE BANK, N.A., as administrative agent.

The parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the terms listed in this Section 1.1 shall have the respective meanings set forth in this Section 1.1.

"ABR": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) (i) the Prime Rate in effect on such day or (ii) in the case of Canadian Revolving Loans denominated in Dollars made by a Qualifying Canadian Lender, the US Base Rate (Canada) in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the ABR due to a change in the Prime Rate, the US Base Rate (Canada) or the Federal Funds Effective Rate shall be effective as of the opening of business on the effective day of such change in the Prime Rate, the US Base Rate (Canada) or the Federal Funds Effective Rate, respectively.

"ABR Loans": Loans the rate of interest applicable to which is based upon the ABR.

"Acceptance": a Draft drawn by a Canadian Borrower on a Canadian Revolving Lender conforming to the requirements of Section 2.10 and accepted by such Canadian Revolving Lender in accordance with Section 2.10(c). As the context shall require, "Acceptance" shall also have the meaning ascribed to it in Section 2.10(j).

"Acceptance Equivalent Loan": an advance made under this Agreement by a Canadian Revolving Lender evidenced by a Discount Note.

"Acceptance Exposure": at any time, the Dollar Equivalent of the aggregate face amount of the outstanding Acceptances and Acceptance Equivalent Loans at such time. The Acceptance Exposure of any Canadian Revolving Lender at any time shall be its Canadian Revolving Percentage of the aggregate Acceptance Exposure at such time.

"Acceptance Fee": has the meaning assigned to such term in Section 2.10(m).

"Acceptance Obligation": in respect of each Acceptance, the obligation of the relevant Canadian Borrower to pay to the Canadian Revolving Lender that accepted such Acceptance the face amount thereof as required by Section 2.10(e).

"Addendum": (a) in the case of Revolving Lenders, a Master Addendum, Credit Reallocation Agreement and Amendment Agreement, substantially in the form of Exhibit S-1 and (b) in the case of Term Lenders, an Addendum Agreement, substantially in the form of Exhibit S-2.

"Additional Subsidiary Guarantor": each Domestic Subsidiary of the Company (other than any Excluded Subsidiary) (a) that has Consolidated Total Assets with a Net Book Value in excess of \$500,000,000 and (b) with respect to which the Company or any Subsidiary Guarantor directly or

indirectly owns 80% or more of the Capital Stock or Voting Stock of such Subsidiary and the remaining Capital Stock of which is not publicly held.

“Administrative Agent”: JPMorgan Chase Bank, N.A., as the administrative agent for the Lenders under this Agreement and the other Loan Documents (and, with respect to the Canadian Revolving Facility, JPMorgan Chase Bank N.A., Toronto Branch), together with any of its successors.

“Affected Foreign Currency”: as defined in Section 2.23.

“Agents”: the collective reference to the Collateral Trustee and the Administrative Agent.

“Aggregate Exposure”: with respect to any Lender at any time, an amount equal to (a) until the Closing Date, the aggregate amount of such Lender’s Commitments at such time and (b) thereafter, the sum of (i) the aggregate then unpaid principal amount of such Lender’s Term Loans and (ii) the amount of such Lender’s Revolving Commitments then in effect or, if the Revolving Commitments have been terminated, the amount of such Lender’s Revolving Extensions of Credit then outstanding.

“Aggregate Exposure Percentage”: with respect to any Lender at any time, the ratio (expressed as a percentage) of such Lender’s Aggregate Exposure at such time to the Aggregate Exposure of all Lenders at such time.

“Agreement”: as defined in the preamble hereto.

“Applicable Lending Office”: for any Lender, with respect to the Company and each Subsidiary Borrower, such Lender’s office, branch or affiliate designated for Acceptances, Acceptance Equivalent Loans, Eurocurrency Loans, ABR Loans, Canadian Base Rate Loans, L/C Participations, Competitive Loans, Swingline Loans or Letters of Credit, as applicable, as notified to the Administrative Agent and the Company or as otherwise specified in the Assignment and Assumption pursuant to which such Lender became a party hereto, any of which offices may, subject to Section 2.26, be changed by such Lender upon 10 days’ prior written notice to the Administrative Agent and the Company.

“Applicable Margin”: (a) with respect to Term Loans, (i) at any time when the Company’s Corporate Family Rating from Moody’s is B2 or better and its Corporate Credit Rating from S&P is B or better, (A) 1.75% per annum in the case of ABR Loans and (B) 2.75% per annum in the case of Eurocurrency Loans and (ii) at all other times, (A) 2.00% per annum in the case of ABR Loans and (B) 3.00% per annum in the case of Eurocurrency Loans and (b) with respect to Revolving Loans, (i) until delivery of financial statements for the first full fiscal quarter of the Company completed after the Closing Date pursuant to Section 6.1, (A) 1.25% per annum in the case of ABR Loans and Canadian Base Rate Loans and (B) 2.25% per annum in the case of Eurocurrency Loans and (ii) thereafter, the rate per annum set forth under the relevant column heading in the Pricing Grid; provided that the Applicable Margin in effect at any time may be increased pursuant to Section 6.7(e).

Changes in the Applicable Margin for Term Loans resulting from changes in ratings by S&P or Moody’s shall become effective on the Business Day following the announcement of such new rating. If one or more of such rating agencies shall not have in effect a Corporate Family Rating or a Corporate Credit Rating, as applicable (other than by reason of the circumstances referred to in the following sentence), then the rating assigned by the other rating agency shall be used to establish the Applicable Margin for the Term Loans. If the rating system of Moody’s or S&P shall change, or if either rating agency shall cease to be in the business of providing corporate ratings, the Company and the

Administrative Agent shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the rating of such rating agency shall be determined by reference to the rating most recently in effect prior to such change or cessation.

“Applicable Premium”: as of any date of determination, the present value at such date, computed using a discount rate equal to the Treasury Rate plus 50 basis points, of (a) the prepayment premium applicable to the Term Loans of the applicable Term Lenders on the first day after the second anniversary of the Closing Date, plus (b) all interest that would accrue on such Term Loans from such date to the first day after the second anniversary of the Closing Date, computed using the Eurocurrency Rate for an Interest Period of three months plus the Applicable Margin for the Term Loans on such date.

“Application”: an application, in such form as an Issuing Lender may specify from time to time, requesting such Issuing Lender to open a Letter of Credit.

“Approved Fund”: as defined in Section 10.6(b).

“Assignee”: as defined in Section 10.6(b).

“Assignment and Assumption”: an Assignment and Assumption, substantially in the form of Exhibit O.

“Attributable Debt”: as to any particular lease under which any Person is at the time liable, at any date as of which the amount thereof is to be determined, the total net amount of rent (discounted from the respective due dates thereof at the rate of 9.5% per annum) required to be paid by such person under such lease during the remaining term thereof. The net amount of rent required to be paid under any such lease for any such period shall be the total amount of the rent payable by the lessee with respect to such period, but may exclude amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

“Available Canadian Revolving Commitment”: as to any Canadian Revolving Lender at any time, an amount equal to (a) such Lender’s Canadian Revolving Commitment then in effect minus (b) such Lender’s Canadian Revolving Extensions of Credit then outstanding.

“Available Domestic Revolving Commitment”: as to any Domestic Revolving Lender at any time, an amount equal to (a) such Lender’s Domestic Revolving Commitment then in effect minus (b) such Lender’s Domestic Revolving Extensions of Credit then outstanding.

“Available Liquidity”: as of any date of determination, the sum of (a) the lesser of (i) the Total Available Revolving Commitment (including any unused commitment under any Incremental Revolving Facility or any Permitted Additional Senior Facility) and (ii) the excess of (A) the Borrowing Base as of such date, over (B) the Borrowing Base Debt at such date plus (b) “automotive gross cash” reported in the Company’s most recent Annual Report on Form 10–K or Quarterly Report on Form 10–Q, as applicable, filed with the SEC (excluding such amounts held or owned by Foreign Subsidiaries).

“Available Multicurrency Revolving Commitment”: as to any Multicurrency Revolving Lender at any time, an amount equal to (a) such Lender’s Multicurrency Revolving Commitment then in effect minus (b) such Lender’s Multicurrency Revolving Extensions of Credit then outstanding.

“Benefitted Lender”: as defined in Section 10.7(a).

“Board”: the Board of Governors of the Federal Reserve System of the United States (or any successor).

“Borrowing Base”: as of any date of determination, the aggregate of the Borrowing Base Amounts calculated for each category of Eligible Collateral in accordance with Schedule 1.1B, as the same may be amended from time to time. The Borrowing Base at any time shall be determined by reference to the most recent Borrowing Base Certificate delivered to Administrative Agent on the Closing Date or pursuant to Section 6.3(b), as applicable (adjusted on a pro forma basis for (a) any Disposition, and the application of the proceeds thereof, described in clauses (b), (c), (g), (h) or (i) of Section 7.5 or clause (A) of the last sentence of Section 7.5, (b) any reduction of the Eligible Value of Capital Stock or intercompany notes in connection with the incurrence of any Indebtedness or a Material Guarantee pursuant to clause (f) or clause (g) of Section 7.4 and (c) any addition to the Borrowing Base of additional Collateral in accordance with Schedule 1.1B (including Mazda Shares) or pursuant to Section 6.7(g), in each case consummated after the last day of the fiscal period covered by such Borrowing Base Certificate).

“Borrowing Base Certificate”: a certificate substantially in the form of Exhibit F.

“Borrowing Base Coverage Ratio”: at any time the ratio of (a) the Borrowing Base at such time (adjusted on a pro forma basis to the extent, and in the manner, required by this Agreement) to (b) the sum of (i) the Dollar Equivalent Outstanding Amount of Borrowing Base Debt at such time (giving effect to any application of proceeds to the extent required or permitted by this Agreement) and (ii) the unused Revolving Commitments (including any unused commitment under any Incremental Revolving Facility or any Permitted Additional Senior Facility) at such time.

“Borrowing Base Debt”: collectively, (a) Covered Debt and (b) the Outstanding Amount of obligations in excess of \$100,000,000 secured by Liens described in clause (x) of the definition of Permitted Liens.

“Borrowing Date”: any Business Day specified by the Company or any Subsidiary Borrower as a date on which the Company or such Subsidiary Borrower requests the relevant Lenders to make Loans hereunder.

“Business Day”: any day other than a Saturday, Sunday or other day on which banks in New York City are permitted to close; provided, however, that when used in connection with (a) a Eurocurrency Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in Dollar deposits or deposits in any Optional Currency, as applicable, in the London Interbank market, (b) a Canadian Revolving Loan denominated in Canadian Dollars, the term “Business Day” shall also exclude any day on which banks are not open for business in Toronto, Canada, (c) a Multicurrency Revolving Loan denominated in Euros, the term “Business Day” shall also exclude any day that is not a TARGET Day and (d) any other Optional Currency, the term “Business Day” shall also exclude any day on which banks in the principal financial center of the country of such Optional Currency are not open for general business.

“CAM Exchange”: as defined in Section 10.7.

“CAM Percentage”: at any date, as to any Revolving Lender, the percentage which the aggregate Revolving Commitments of such Revolving Lender as of such date (before any termination

thereof on such date) constitutes of the Total Revolving Commitments as of such date (before any termination thereof on such date).

“Canadian Base Rate”: the higher of:

(a) the rate of interest publicly announced by the Administrative Agent (or any Applicable Lending Office thereof) from time to time as its reference rate then in effect for determining interest rates on Canadian Dollar denominated commercial loans made in Canada; and

(b) the CDOR Rate for a one month period, plus 0.5%.

“Canadian Base Rate Loans”: Revolving Loans bearing interest at a rate determined by reference to the Canadian Base Rate.

“Canadian Borrower”: any Subsidiary Borrower that is organized under the laws of Canada or any province or territory thereof.

“Canadian Dollars” and “C\$”: the lawful money of Canada.

“Canadian Revolving Commitment”: as to any Lender, the obligation of such Lender, if any, to make Canadian Revolving Loans (including Acceptance Equivalent Loans) and accept Acceptances in an aggregate principal and/or face amount not to exceed the amount set forth under the heading “Canadian Revolving Commitment” opposite such Lender’s name on Schedule 1.1A or in the Assignment and Assumption pursuant to which such Lender became a party hereto, as the same may be changed from time to time pursuant to the terms hereof.

“Canadian Revolving Extensions of Credit”: as to any Canadian Revolving Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Canadian Revolving Loans denominated in Dollars held by such Lender (or its Applicable Lending Office) then outstanding, (b) the Dollar Equivalent of the aggregate principal amount of all Canadian Revolving Loans denominated in Canadian Dollars held by such Lender (or its Applicable Lending Office) then outstanding and (c) such Lender’s Acceptance Exposure.

“Canadian Revolving Lender”: each Lender that has a Canadian Revolving Commitment or that holds Canadian Revolving Loans or Acceptances.

“Canadian Revolving Loans”: as defined in Section 2.8(a).

“Canadian Revolving Percentage”: as to any Canadian Revolving Lender at any time, the percentage which such Lender’s Canadian Revolving Commitment then constitutes of the Total Canadian Revolving Commitments or, at any time after all of the Canadian Revolving Commitments shall have expired or terminated, the percentage which the aggregate amount of such Lender’s Canadian Revolving Extensions of Credit then outstanding constitutes of the Total Canadian Revolving Extensions of Credit then outstanding.

“Capital Stock”: any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

“CDOR Rate”: on any day, with respect to a particular term as specified herein, the average annual rate for such term applicable to banker’s acceptances in Canadian Dollars displayed and identified as such on the “Reuters screen CDOR page” at approximately 10:00 A.M. Toronto time on such day (provided that if such rates do not appear on the Reuters screen CDOR page, then the CDOR Rate shall be the average of the rate quotes for banker’s acceptances denominated in Canadian Dollars with such term received by the Administrative Agent at approximately 10:00 A.M. Toronto time on such day (or, if such day is not a Business Day, on the next preceding Business Day) from two or more Schedule I Lenders).

“Change in Tax Law”: as defined in Section 2.26.

“Change of Control”: the occurrence of either (a) more than 50% of the Voting Stock of the Company being held by a Person or Persons (other than Permitted Holders) who “act as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of securities” of the Company within the meaning of Section 13(d)(3) of the Exchange Act or (b) Continuing Directors ceasing to constitute at least a majority of the board of directors of the Company.

“Closing Date”: the date on which the conditions precedent set forth in Section 5.1 shall have been satisfied, which date is December 15, 2006.

“Code”: the Internal Revenue Code of 1986, as amended from time to time.

“Collateral”: all property of the Loan Parties, now owned or hereafter acquired, in which the Company or a Subsidiary Guarantor has granted a Lien pursuant to any Security Document.

“Collateral Release Conditions”: the conditions to the Collateral Release Date specified in Section 10.15(b) or (c), as applicable.

“Collateral Release Date”: as defined in Section 10.15.

“Collateral Trust Agreement”: the Collateral Trust Agreement to be executed and delivered by the Company, each Subsidiary Guarantor, the Collateral Trustee and the other parties named therein, substantially in the form of Exhibit B.

“Collateral Trustee”: Wilmington Trust Company, in its capacity as trustee under the Collateral Trust Agreement, and any successor thereof under the Collateral Trust Agreement and, as the context may require, any co-trustee appointed pursuant to the terms of the Collateral Trust Agreement.

“Collateralized”: secured by cash collateral arrangements and/or backstop letters of credit entered into on terms and in amounts reasonably satisfactory to the relevant Issuing Lender; the terms “Collateralize” and “Collateralization” shall have correlative meanings.

“Commitment”: as to any Lender, the sum of the Term Commitment and the Revolving Commitments of such Lender.

“Commonly Controlled Entity”: an entity, whether or not incorporated, that is part of a group that includes the Company and that is treated as a single employer under Section 414(b) or (c) of the Code.

“Common Stock”: as defined in Section 7.6.

“Competitive Bid”: an offer by a Revolving Lender to make a Competitive Loan in accordance with Section 2.14.

“Competitive Bid Accept/Reject Letter”: a notification made by the Company pursuant to Section 2.14 in the form of Exhibit K.

“Competitive Bid Rate”: with respect to any Competitive Bid (a) in the case of a Eurocurrency Competitive Loan, the Eurocurrency Base Rate plus (or minus) the Margin and (b) in the case of a Fixed Rate Loan, the fixed rate of interest per annum, in each case specified by the Lender making such Competitive Loan in its related Competitive Bid.

“Competitive Bid Request”: a request made pursuant to Section 2.14 in the form of Exhibit I.

“Competitive Loan”: a Loan made pursuant to Section 2.14.

“Compliance Certificate”: a certificate duly executed by a Responsible Officer, substantially in the form of Exhibit T.

“Conduit Lender”: any special purpose corporation organized and administered by any Lender for the purpose of making Loans otherwise required to be made by such Lender and designated by such Lender in a written instrument; provided, that the designation by any Lender of a Conduit Lender shall not relieve the designating Lender of any of its obligations to fund a Loan under this Agreement if, for any reason, its Conduit Lender fails to fund any such Loan, and the designating Lender (and not the Conduit Lender) shall have the sole right and responsibility to deliver all consents and waivers required or requested under this Agreement with respect to its Conduit Lender, and provided, further, that no Conduit Lender shall (a) be entitled to receive any greater amount pursuant to Section 2.25, 2.26, 2.27 or 10.5 than the designating Lender would have been entitled to receive in respect of the extensions of credit made by such Conduit Lender or (b) be deemed to have any Commitment.

“Consolidated Total Assets”: at any date, with respect to any Person, the amount set forth opposite the caption “total assets” (or any like caption) on a consolidated balance sheet (or the equivalent) of such Person and its consolidated Subsidiaries.

“Consolidated Total Automotive Assets”: at any date, the consolidated total automotive assets of the Company and its consolidated Subsidiaries as of the most recent consolidated financial statements of the Company delivered pursuant to Section 6.1.

“Consolidated Net Tangible Automotive Assets”: the sum of (a) the aggregate amount of the Company’s automotive assets (less applicable reserves and other properly deductible items) after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, plus (b) the Company’s equity in the net assets of its financial services subsidiaries after deducting therefrom all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, in each case as set forth in the most recent financial statements the Company and its consolidated Subsidiaries delivered pursuant to Section 6.1 prepared in accordance with GAAP.

“Continuing Director”: at any date, an individual (a) who is a member of the board of directors of the Company on the Closing Date, (b) who has been elected as a member of such board of directors with a majority of the total votes of Permitted Holders that were cast in such election voted in

favor of such member or (c) who has been nominated to be a member of such board of directors by a majority of the other Continuing Directors then in office.

“Contractual Obligation”: as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Covered Debt”: collectively, (a) all Indebtedness incurred and all other extensions of credit outstanding (including all Letters of Credit and Acceptances) under this Agreement (including under any Incremental Facility) and any Permitted Additional Senior Facilities, (b) any Permitted Additional Notes and (c) any Permitted First Lien Non-Loan Exposure.

“Cumulative Growth Amount”: as of any date (a) an amount, not less than zero, equal to 50% of the sum of (i) Automotive “Net Cash Flows from Operating Activities” as set forth on the sector statement of cash flows of the Company and its consolidated Subsidiaries as reported in the Company’s Annual Report(s) on Form 10-K filed with the SEC for the period (taken as one accounting period) from January 1, 2010 to the last day of the most recent fiscal year of the Company for which financial statements have been delivered pursuant to Section 6.1, plus (ii) Automotive “Net Cash (used in) / provided by investing activities” on the sector statement of cash flows of the Company and its consolidated Subsidiaries as reported in such Annual Report(s) for such period, minus (b) the aggregate amount of Restricted Payments made pursuant to Section 7.6(h) prior to such date.

“Currency”: Dollars, Canadian Dollars or any Optional Currency.

“Debt”: as defined in Section 7.8.

“Default”: any of the events specified in Section 8, whether or not any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

“Designated Cash Management Obligations”: obligations of the Company or any Subsidiary to banks, financial institutions, investment banks and others in respect of banking, cash management (including, without limitation, Automated Clearinghouse transactions), custody and other similar services and company paid credit cards that permit employees to make purchases on behalf of the Company or such Subsidiary designated by the Company in accordance with the Collateral Trust Agreement from time to time as constituting “Designated Cash Management Obligations.”

“Designated Hedging Obligations”: the direct obligations of the Company, and the obligations of the Company as a guarantor of any Subsidiary’s obligations, to counterparties designated by the Company in accordance with the Collateral Trust Agreement from time to time as constituting “Designated Hedging Obligations” under or in connection with any of the following: (a) a rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell-back transaction, securities lending transaction, weather index transaction or forward purchase or sale of a security, commodity or other financial instrument or interest (including any option with respect to any of these transactions) or (b) which is a type of transaction that is similar to any transaction referred to in clause (a) above that is currently, or in the future becomes, recurrently entered into in the financial markets (including terms and conditions incorporated by reference in such agreement) and which is a forward, swap, future, option or other derivative on one or more rates,

currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, economic indices or measures of economic risk or value, or other benchmarks against which payments or deliveries are to be made.

“Discount Note”: a non-interest bearing, non-negotiable promissory note of a Canadian Borrower denominated in Canadian Dollars, issued by such Canadian Borrower to a Canadian Revolving Lender, substantially in the form of Exhibit G.

“Discount Proceeds”: for any Acceptance issued hereunder, an amount calculated on the applicable date of issuance by multiplying (a) the face amount of the Acceptance by (b) the quotient obtained by dividing (i) one by (ii) the sum of one plus the product of (A) the Discount Rate applicable to the Acceptance and (B) a fraction, the numerator of which is the number of days in the term of the Acceptance and the denominator of which is 365, with the quotient being rounded up or down to the fifth decimal place and .00005 being rounded up.

“Discount Rate”: with respect to any Acceptance, (a) for a Canadian Revolving Lender which is a Schedule I Lender, the CDOR Rate (for the applicable term) and (b) for other Canadian Revolving Lenders, the rate determined by the Administrative Agent as being the arithmetic average (rounded upwards to the nearest multiple of 0.01%) of the discount rates for the applicable term, calculated on the basis of a year of 365 days, of the Schedule II/III Reference Lenders established in accordance with their normal practices at or about 10:00 A.M. (Toronto time) on the issuance date of such Acceptance, provided that the Discount Rate of such other Lenders shall not exceed for any issue the Discount Rate established pursuant to (a) above plus 0.10% per annum.

“Disposition”: with respect to any property, any sale, transfer or other disposition thereof; and the terms “Dispose” and “Disposed of” shall have correlative meanings.

“Dollar Equivalent”: on any date of determination, (a) with respect to any amount denominated in Dollars, such amount and (b) with respect to an amount denominated in any other currency, the equivalent in Dollars of such amount determined by the Administrative Agent in accordance with normal banking industry practice using the Exchange Rate on the date of determination of such equivalent. In making any determination of the Dollar Equivalent (for purposes of calculating the amount of Loans to be borrowed from the respective Lenders on any date or for any other purpose), the Administrative Agent shall use the relevant Exchange Rate in effect on the date on which the Company or any Subsidiary Borrower delivers a request for Revolving Loans or on such other date upon which a Dollar Equivalent is required to be determined pursuant to the provisions of this Agreement. As appropriate, amounts specified herein as amounts in Dollars shall be or include any relevant Dollar Equivalent amount.

“Dollars” and “\$”: the lawful money of the United States.

“Domestic Revolving Commitment”: as to any Lender, the obligation of such Lender, if any, to make Domestic Revolving Loans and participate in Swingline Loans and Letters of Credit in an aggregate principal and/or face amount not to exceed the amount set forth under the heading “Domestic Revolving Commitment” opposite such Lender’s name on Schedule 1.1A or in the Assignment and Assumption pursuant to which such Lender became a party hereto, as the same may be changed from time to time pursuant to the terms hereof.

“Domestic Revolving Extensions of Credit”: as to any Domestic Revolving Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Domestic Revolving Loans held by such Lender then outstanding, (b) such Lender’s Domestic Revolving Percentage of the

L/C Obligations then outstanding and (c) such Lender's Domestic Revolving Percentage of the aggregate principal amount of Swingline Loans then outstanding.

"Domestic Revolving Lender": each Lender that has a Domestic Revolving Commitment or that holds Domestic Revolving Loans.

"Domestic Revolving Loans": as defined in Section 2.4(a).

"Domestic Revolving Percentage": as to any Domestic Revolving Lender at any time, the percentage which such Lender's Domestic Revolving Commitment then constitutes of the Total Domestic Revolving Commitments or, at any time after the Domestic Revolving Commitments shall have expired or terminated, the percentage which the aggregate amount of such Lender's Domestic Revolving Extensions of Credit then outstanding constitutes of the Total Domestic Revolving Extensions of Credit then outstanding.

"Domestic Subsidiary": any Subsidiary of the Company organized under the laws of any jurisdiction within the United States.

"Domestic Subsidiary Borrower": any Subsidiary Borrower which is a Domestic Subsidiary.

"Draft": a depository bill issued in accordance with the *Depository Bills and Notes Act* (Canada) or a bill of exchange in the form used from time to time by each Canadian Revolving Lender, respectively, in connection with the creation of Acceptances in accordance with the provisions of Section 2.10 and payable in Canadian Dollars.

"Drawing Notice": as defined in Section 2.10(c).

"Environmental Laws": any and all foreign, Federal, state, provincial, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating or imposing liability or standards of conduct concerning protection of human health, the environment or natural resources, as now or may at any time hereafter be in effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Euro" and "€": the official currency of the European Union.

"Eurocurrency Base Rate": with respect to each day during each Interest Period pertaining to a Eurocurrency Loan, the rate per annum determined on the basis of the rate for deposits in the applicable Currency for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on the applicable page of the Telerate screen as of 11:00 A.M., London time, on the Quotation Date. In the event that such rate does not appear on such page of the Telerate screen (or otherwise on such screen), the "Eurocurrency Base Rate" shall be determined by reference to such other comparable publicly available service for displaying eurocurrency rates for the applicable Currency as may be selected by the Administrative Agent with the consent of the Company (such consent not to be unreasonably withheld) or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered deposits in the applicable Currency at or about 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period in the London interbank eurocurrency market for delivery on the first day of such Interest Period for the number of days comprised therein.

“Eurocurrency Competitive Loan”: any Competitive Loan bearing interest at a rate determined by reference to the Eurocurrency Base Rate.

“Eurocurrency Loans”: Loans the rate of interest applicable to which is based upon the Eurocurrency Rate.

“Eurocurrency Rate”: with respect to each day during each Interest Period pertaining to a Eurocurrency Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

$$\frac{\text{Eurocurrency Base Rate}}{1.00 - \text{Eurocurrency Reserve Requirements}}$$

: provided that with respect to any Eurocurrency Loan denominated in Pounds Sterling, the Eurocurrency Rate shall mean the Eurocurrency Base Rate plus if applicable, as reasonably determined by the Administrative Agent in accordance with Schedule 1.1C, the Mandatory Costs.

“Eurocurrency Reserve Requirements”: a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board and any other banking authority to which the Administrative Agent or any Lender is subject, for Eurocurrency Liabilities (as defined in Regulation D). Such reserve percentages shall include those imposed under Regulation D. Eurocurrency Loans shall be deemed to constitute Eurocurrency Liabilities and as such shall be deemed to be subject to such reserve requirements without benefit of or credit for proration, exceptions or offsets which may be available from time to time to any Lender under Regulation D. Eurocurrency Reserve Requirements shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Eurocurrency Tranche”: the collective reference to Eurocurrency Loans under a particular Facility the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

“Event of Default”: any of the events specified in Section 8, provided that any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

“Exchange Act”: the Securities and Exchange Act of 1934, as amended.

“Exchange Rate”: for any day with respect to any currency (other than Dollars), the rate at which such currency may be exchanged into Dollars, as set forth at 11:00 A.M., London time, on such day on the applicable Reuters currency page with respect to such currency. In the event that such rate does not appear on the applicable Reuters currency page, the Exchange Rate with respect to such currency shall be determined by reference to such other publicly available service for displaying exchange rates as may be agreed upon by the Administrative Agent and the Company or, in the absence of such agreement, such Exchange Rate shall instead be the spot rate of exchange of the Administrative Agent in the London Interbank market or other market where its foreign currency exchange operations in respect of such currency are then being conducted, at or about 11:00 A.M., London time, on such day for the purchase of Dollars with such currency, for delivery two Business Days later; provided, however, that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may use any reasonable method it deems appropriate to determine such rate, and such determination shall be conclusive absent manifest error.

“Excluded Subsidiary”: collectively (a) FMCC and each Subsidiary thereof, (b) Ford Motor Land Development Corporation, a Delaware corporation, and each Subsidiary thereof, (c) any Subsidiary that is prohibited by any applicable Requirement of Law from guaranteeing the Obligations, (d) any Domestic Subsidiary that is a Subsidiary of a Foreign Subsidiary and (e) subject to Section 6.7(c), any Subsidiary that is a bona fide joint venture.

“Existing Letters of Credit”: as defined in Section 3.9.

“Existing Notes”: the senior unsecured notes of the Company issued pursuant to the Existing Notes Indentures.

“Existing Notes Indentures”: collectively, (a) the Indenture, dated as of February 15, 1992, between the Company and The Bank of New York, as trustee, and (b) the Indenture, dated as of January 30, 2002, between the Company and The Bank of New York (as successor trustee to JPMorgan Chase Bank), as trustee.

“Extending Lender”: as defined in Section 2.33.

“Facility”: each of (a) the Term Commitments and the Term Loans made thereunder (the “Term Facility”), (b) the Domestic Revolving Commitments and the extensions of credit made thereunder (the “Domestic Revolving Facility”), (c) the Canadian Revolving Commitments and the extensions of credit made thereunder (the “Canadian Revolving Facility”), (d) the Multicurrency Revolving Facility and extensions of credit made thereunder (the “Multicurrency Revolving Facility”), (e) any New Local Facility, (f) the Incremental Revolving Commitments (other than any Revolving Commitment Increase) and the extensions of credit thereunder as provided in any Incremental Revolving Loan Activation Notice (each, an “Incremental Revolving Facility” and together with the Domestic Revolving Facility, the Canadian Revolving Facility, the Multicurrency Revolving Facility and any New Local Facility, the “Revolving Facilities” and each a “Revolving Facility”) and (g) the Incremental Term Loan Commitments and the Incremental Term Loans related thereto as provided in any Incremental Term Loan Activation Notice (each, an “Incremental Term Loan Facility” and together with the Incremental Revolving Facility, the “Incremental Facilities”).

“Facility Fee Rate”: (a) until delivery of financial statements for the first full fiscal quarter of the Company completed after the Closing Date pursuant to Section 6.1, 0.50% per annum and (b) thereafter, the rate per annum set forth under the relevant column heading in the Pricing Grid.

“Facility Rating”: as of any date, the credit rating by Moody’s or S&P, as applicable, for the Facility.

“Federal Funds Effective Rate”: for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by JPMorgan Chase Bank, N.A. from three federal funds brokers of recognized standing selected by it.

“Fee Payment Date”: (a) the 15th day of each March, June, September and December (or, if any such day is not a Business Day, the next succeeding Business Day) and (b) the last day of the final Fee Payment Period.

“Fee Payment Period”: initially the period from and including the Closing Date to but excluding the initial Fee Payment Date, and thereafter each period commencing on and including a Fee Payment Date to but excluding the succeeding Fee Payment Date (except that the final Fee Payment Period shall end on the date on which all Revolving Commitments have terminated and the Revolving Extensions of Credit have been reduced to zero).

“Fitch”: Fitch Investors Service, L.P. and its successors.

“Fixed Rate Loan”: a Competitive Loan bearing interest at a fixed rate per annum specified by the Revolving Lender making such Loan in its related Competitive Bid.

“FMCC”: Ford Motor Credit Company, a Delaware corporation.

“Ford Argentina”: Ford Argentina S.C.A., a company organized under the laws of Argentina.

“Ford Canada”: Ford Motor Company of Canada, Limited, a company organized under the laws of Ontario.

“Ford Mexico”: Ford Motor Company S.A. de C.V., a company organized under the laws of Mexico.

“Ford South Africa”: Ford Motor Company of Southern Africa (Pty), a company organized under the laws of South Africa.

“Foreign Subsidiary”: any Subsidiary of the Company that is not a Domestic Subsidiary.

“Foreign Subsidiary Borrower”: any Subsidiary Borrower that is not a Domestic Subsidiary.

“Funded Debt”: all Debt having a maturity of more than 12 months from the date of the most recent balance sheet of the Company and its consolidated Subsidiaries or having a maturity of less than 12 months but by its terms being renewable or extendible beyond 12 months from the date of such balance sheet at the option of the borrower thereof.

“Funding Office”: the office of the Administrative Agent specified in Section 10.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office with respect to any Facility or Facilities by written notice to the Company and the Lenders.

“GAAP”: generally accepted accounting principles in the United States as in effect from time to time. In the event that any “Accounting Change” (as defined below) shall occur and such change results in a change in the method of calculation of covenants, the Borrowing Base, standards or terms in this Agreement, then the Company and the Administrative Agent agree to enter into negotiations in order to amend such provisions of this Agreement so as to reflect equitably such Accounting Changes with the desired result that the criteria for evaluating the Company’s financial condition and the Borrowing Base shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by the Company, the Administrative Agent and the Required Lenders, all covenants, the Borrowing Base, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred. “Accounting Changes” refers to changes in accounting principles required by the promulgation

of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or, if applicable, the SEC.

“Governmental Authority”: any federal, state, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality, or any federal, state or municipal court, in each case whether of the United States or foreign.

“Grupo Ford”: Grupo Ford S. de R.L. de C.V., a company organized under the laws of Mexico.

“Guarantee”: the Guarantee Agreement to be executed and delivered by the Company and each Subsidiary Guarantor, substantially in the form of Exhibit C.

“Guarantee Obligation”: shall mean, as to any Person, any obligation of such Person guaranteeing any Indebtedness of any other Person.

“Incremental Lender”: any Lender designated by the Company or, with the consent of the Company, the Administrative Agent and, in the case of a Revolving Commitment Increase with respect to the Domestic Revolving Facility, each Material Swingline Lender and Material Issuing Bank at such time (such consents not to be unreasonably withheld), any other bank, financial institution or other Person which becomes a signatory to an Incremental Term Loan Activation Notice or to an Incremental Revolving Loan Activation Notice, as the case may be, and each Lender which has made, or acquired pursuant to an assignment made in accordance with Section 10.6, an Incremental Term Loan or an Incremental Revolving Commitment, as the case may be.

“Incremental Revolving Commitment”: as to each Incremental Lender, in respect of any Revolving Commitment Increase or Incremental Revolving Facility, the obligation of such Incremental Lender on and after the applicable Revolving Commitment Increase Date or Incremental Revolving Loan Closing Date to make Incremental Revolving Loans under the relevant Revolving Facility in a principal amount equal to the amount set forth under the heading “Incremental Revolving Commitment” opposite such Incremental Lender’s name on the applicable Incremental Revolving Loan Activation Notice.

“Incremental Revolving Facility”: as defined in the definition of the term “Facility.”

“Incremental Revolving Loan Activation Notice”: a notice substantially in the form of Exhibit L.

“Incremental Revolving Loan Closing Date”: as to any Incremental Revolving Facility, the date (which shall be a Business Day) specified in the related Incremental Revolving Loan Activation Notice as the first date on which Incremental Revolving Loans will be made available thereunder.

“Incremental Revolving Loan Maturity Date”: as to any Incremental Revolving Facility, the maturity date specified in the Incremental Revolving Loan Activation Notice relating thereto.

“Incremental Revolving Loans”: as defined in Section 2.32(b).

“Incremental Term Loan Activation Notice”: a notice substantially in the form of Exhibit M.

“Incremental Term Loan Commitment”: as to each Incremental Lender, in respect of any Incremental Term Loan Facility, the obligation of such Incremental Lender on and after the applicable

Incremental Term Loan Closing Date to make Incremental Term Loans hereunder in a principal amount equal to the amount set forth under the heading “Incremental Term Loan Commitment” opposite such Incremental Lender’s name on the applicable Incremental Term Loan Activation Notice.

“Incremental Term Loan Closing Date”: as to any Incremental Term Loan Facility, the date (which shall be a Business Day) specified in the related Incremental Term Loan Activation Notice as the first date on which Incremental Term Loans will be made available thereunder.

“Incremental Term Loan Facility”: as defined in the definition of the term “Facility.”

“Incremental Term Loan Maturity Date”: as to any Incremental Term Loan Facility, the maturity date specified in the related Incremental Term Loan Activation Notice.

“Incremental Term Loans”: as defined in Section 2.31(b).

“Indebtedness”: of any Person at any date, all indebtedness of such Person for borrowed money.

“Index Debt”: senior, unsecured, long-term Indebtedness of the Company.

“Initial Subsidiary Guarantor”: each Domestic Subsidiary listed on Schedule 1.1D.

“Intellectual Property”: the collective reference to all rights, priorities and privileges with respect to intellectual property, whether arising under United States, multinational or foreign laws or otherwise, including copyrights, copyright licenses, patents, patent licenses, trademarks, trademark licenses, technology, know-how and processes, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

“Interest Payment Date”: (a) as to any ABR Loan (other than any Swingline Loan) or Canadian Base Rate Loan, the 15th day of each March, June, September and December to occur while such Loan is outstanding and the final maturity date of such Loan, (b) as to any Eurocurrency Loan, Eurocurrency Competitive Loan having an Interest Period of three months or less or any Money Market Rate Loan, the last day of such Interest Period, (c) as to any Eurocurrency Loan or Eurocurrency Competitive Loan having an Interest Period longer than three months, each day that is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period, (d) as to any Fixed Rate Loan, the maturity date of such Loan and (e) as to any Loan (other than any Revolving Loan that is an ABR Loan but including any Swingline Loan that is an ABR Loan), the date of any repayment or prepayment made in respect thereof.

“Interest Period”: (a) as to any Eurocurrency Loan or Eurocurrency Competitive Loan, (i) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Loan and ending one, two, three or six (or, if agreed to by all Lenders under the relevant Facility, nine or twelve) months (or, in the case of any Eurocurrency Competitive Loan, one, two or three weeks) thereafter, as selected by the Company or relevant Subsidiary Borrower in its notice of borrowing, Competitive Bid Request or notice of conversion, as the case may be, given with respect thereto; and (ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Loan and ending one, two, three or six (or, if agreed to by all Lenders under the relevant Facility, nine or twelve) months thereafter, as selected by the Company or relevant Subsidiary Borrower by irrevocable notice to the Administrative Agent not later than 12:00 Noon, New York City time, on the date that is three Business Days prior to the last day of the then current Interest Period with respect

thereto, (b) as to any Money Market Rate Loan, the period commencing on the date of such Money Market Rate Loan, and ending on a date agreed upon by the Company or the relevant Domestic Subsidiary Borrower and the Swingline Lender which is at least one and not more than 10 Business Days after the making of such Money Market Rate Loan and (c) with respect to a Fixed Rate Loan, the period (which shall be not less than seven days or more than 360 days) commencing on the Borrowing Date thereof and ending on the date specified in the applicable Competitive Bid Accept/Reject Letter; provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(A) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of Revolving Loans, Term Loans or Eurocurrency Competitive Loans, the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(B) the Company or relevant Subsidiary Borrower may not select an Interest Period under a particular Facility that would extend beyond the Revolving Termination Date then in effect or beyond the date final payment is due on the Term Loans, as the case may be; and

(C) in the case of Revolving Loans, Term Loans or Eurocurrency Competitive Loans, any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month.

“Issuing Lender”: each Lender or any Applicable Lending Office thereof that has an L/C Commitment, in the capacity as issuer of any Letter of Credit.

“Jaguar”: Jaguar Limited, a company organized under the laws of England.

“Jaguar Trade Name”: all Trademarks owned by the Company and its Subsidiaries consisting of or containing “Jaguar” or any variation or simulation thereof.

“judgment currency”: as defined in Section 10.13.

“Land Rover”: Land Rover, a company organized under the laws of England.

“Land Rover Holdings”: Land Rover Holdings, a company organized under the laws of England.

“Land Rover Trade Name”: all Trademarks owned by the Company and its Subsidiaries consisting of or containing “Land Rover” or any variation or simulation thereof.

“L/C Commitment”: as to any Lender (or Applicable Lending Office thereof), the obligation of such Person to issue Letters of Credit pursuant to Section 3 (including any Existing Letters of Credit issued by such Lender) in an aggregate Outstanding Amount at any time not to exceed the amount set forth under the heading “L/C Commitment” opposite such Person’s name on Schedule 1.1A, as the same may be changed from time to time pursuant to Section 3.11.

“L/C Obligations”: at any time, the Dollar Equivalent of the aggregate Outstanding Amount of all Letters of Credit.

“L/C Participants”: the collective reference to all the Domestic Revolving Lenders (other than any Issuing Lender).

“L/C Sublimit”: \$2,000,000,000; provided that, from time to time, the Company may increase the L/C Sublimit by notice to the Administrative Agent.

“Lenders”: as defined in the preamble hereto; provided, that unless the context otherwise requires, each reference herein to the Lenders shall be deemed to include any Conduit Lender.

“Letter of Credit”: as defined in Section 3.1(a).

“Letter of Credit Fee”: as defined in Section 3.3.

“Lien”: any mortgage, pledge, lien, security interest, charge, statutory deemed trust, conditional sale or other title retention agreement or other similar encumbrance.

“Loan”: any loan made by any Lender pursuant to this Agreement (including any Acceptance).

“Loan Documents”: this Agreement, the Security Documents, the Guarantee, the Collateral Trust Agreement, the Notes, each Joinder Agreement and any amendment, waiver, supplement or other modification to any of the foregoing.

“Loan Parties”: the Company, each Subsidiary Borrower and each Subsidiary Guarantor.

“Local Facility Amendment”: as defined in Section 2.30.

“Majority Facility Lenders”: with respect to any Facility, the holders of more than 50% of the aggregate unpaid principal amount of the Term Loans or the Total Revolving Commitments, as the case may be, outstanding under such Facility (or, in the case of any Revolving Facility, at any time after all of the Revolving Commitments thereunder shall have expired or terminated, the holders of more than 50% of the Total Revolving Extensions of Credit thereunder).

“Majority Revolving Lenders”: the holders of more than 50% of the aggregate amount of the Total Revolving Commitments (or, at any time after the Revolving Commitments shall have expired or terminated, the holders of more than 50% of the Total Revolving Extensions of Credit).

“Mandatory Prepayment”: the prepayment of outstanding Term Loans (including any Incremental Term Loans) and term loans under any Permitted Additional Senior Facilities, together with an offer to repurchase any outstanding Permitted Additional Notes (to the extent required by the terms thereof), on a pro rata basis according to the Outstanding Amounts thereof at the time of such prepayment and offer to repurchase.

“Manufacturing Subsidiary”: a Subsidiary of the Company which owns or leases a Principal Domestic Manufacturing Property.

“Margin”: as to any Eurocurrency Competitive Loan, the margin to be added (or subtracted) from the Eurocurrency Base Rate to determine the rate of interest applicable to such Loan, as specified in the Competitive Bid relating to such Loan.

“Material Adverse Effect”: a material adverse effect on (a) the financial condition of the Company and its Subsidiaries taken as a whole or (b) the validity and enforceability of this Agreement or any of the other Loan Documents or the rights and remedies of the Administrative Agent, the Collateral Trustee and the Lenders hereunder or thereunder.

“Material Guarantee”: a Guarantee Obligation with an Outstanding Amount in excess of \$100,000,000 in respect of Indebtedness having an aggregate Outstanding Amount in excess of \$100,000,000.

“Material Issuing Lender”: any Issuing Lender with an L/C Commitment of \$250,000,000 or more.

“Material Swingline Lender”: any Swingline Lender with a Swingline Commitment of \$250,000,000 or more.

“Material Unsecured Indebtedness”: (a) any Existing Notes and (b) any unsecured Indebtedness or preferred Capital Stock of the Company having an aggregate Outstanding Amount or liquidation preference, as the case may be, in excess of \$250,000,000.

“Money Market Rate”: for any day, a fixed rate per annum as agreed between any Swingline Lender and the Company pursuant to Section 2.12.

“Money Market Rate Loans”: Swingline Loans the rate of interest applicable to which is based upon the Money Market Rate.

“Moody’s”: Moody’s Investors Service, Inc. and its successors.

“Mortgaged Property”: each property listed on Schedule 1.1E, as to which the Collateral Trustee for the benefit of the Secured Parties shall be granted a Lien pursuant to the Mortgages.

“Mortgages”: each of the mortgages and deeds of trust made by the Company or any Subsidiary Guarantor in favor of, or for the benefit of, the Collateral Trustee for the benefit of the Secured Parties, substantially in the form of Exhibit E (with such changes thereto as the Company and the Administrative Agent reasonably agree are advisable under the law of the jurisdiction in which such mortgage or deed of trust is to be recorded).

“Multicurrency Revolving Commitment”: as to any Lender, the obligation of such Lender, if any, to make Multicurrency Revolving Loans in an aggregate principal not to exceed the amount set forth under the heading “Multicurrency Revolving Commitment” opposite such Lender’s name on Schedule 1.1A or in the Assignment and Assumption pursuant to which such Lender became a party hereto, as the same may be changed from time to time pursuant to the terms hereof.

“Multicurrency Revolving Commitment Period”: the period from and including the Closing Date to the Revolving Termination Date.

“Multicurrency Revolving Extensions of Credit”: as to any Multicurrency Revolving Lender at any time, an amount equal to the Dollar Equivalent of the aggregate principal amount of all Multicurrency Revolving Loans held by such Lender then outstanding.

“Multicurrency Revolving Lender”: each Lender that has a Multicurrency Revolving Commitment or that holds Multicurrency Revolving Loans.

“Multicurrency Revolving Loans”: as defined in Section 2.6(a).

“Multicurrency Revolving Percentage”: as to any Multicurrency Revolving Lender at any time, the percentage which such Lender’s Multicurrency Revolving Commitment then constitutes of the Total Multicurrency Revolving Commitments or, at any time after all of the Multicurrency Revolving Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender’s Multicurrency Revolving Extensions of Credit then outstanding constitutes of the Total Multicurrency Revolving Extensions of Credit then outstanding.

“Net Book Value”: with respect to any asset of any Person (a) other than accounts receivable, the gross book value of such asset on the balance sheet of such Person, minus depreciation in respect of such asset on such balance sheet and (b) with respect to accounts receivable, the gross book value thereof, minus any specific reserves attributable thereto.

“Net Cash Proceeds”: (a) the gross cash proceeds (including payments from time to time in respect of installment obligations, if applicable, and cash equivalents) received less (b) the sum of:

(i) the amount, if any, of all taxes paid or estimated to be payable by the Company or any Subsidiary or affiliate thereof in connection with such transaction,

(ii) the amount of any reasonable reserve established in accordance with GAAP against any liabilities (other than any taxes deducted pursuant to clause (i) above) (A) associated with the assets that are the subject of such transaction and (B) retained by the Company or any Subsidiary or affiliate thereof,

(iii) the amount of any indebtedness secured by a Lien on the assets that are the subject of the transaction to the extent that the instrument creating or evidencing such indebtedness requires that such indebtedness be repaid upon consummation of such transaction (but excluding Indebtedness referred to in the definition of “Mandatory Prepayment”), and

(iv) fees and expenses attributable to the transaction.

“New Local Facility”: as defined in Section 2.30.

“New Local Facility Lender”: as defined in Section 2.30.

“Non-Acceptance Canadian Lender”: as defined in Section 2.10(i).

“Non-Excluded Taxes”: as defined in Section 2.26(a).

“Non-Extending Lender”: as defined in Section 2.33.

“Non-U.S. Lender”: as defined in Section 2.26(d).

“Notes”: the collective reference to any promissory note evidencing Loans.

“Notice of Acceleration”: as defined in the Collateral Trust Agreement.

“Obligations”: the Credit Agreement Obligations as defined in the Collateral Trust Agreement.

“Optional Currency”: at any time, Euro, Pounds Sterling, Swedish Kroner and such other currencies which are freely convertible into Dollars and are freely traded and available in the London interbank eurocurrency market with the consent of the Administrative Agent and the Majority Facility Lenders under the Multicurrency Revolving Facility (or, in the case of Letters of Credit, the applicable Issuing Lender).

“Original currency”: as defined in Section 10.13.

“Other Principal Trade Names”: each of the trademarks listed under the heading “Other Principal Trade Names” on Schedule 1.1F and all other Trademarks consisting of or containing any of the trademarks listed under the heading “Other Principal Trade Names” on Schedule 1.1F or any variation or simulation thereof.

“Other Taxes”: any and all present or future stamp or documentary taxes and any other excise or property, intangible or mortgage recording taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“Outstanding Amount”: (a) with respect to Indebtedness, the aggregate outstanding principal amount thereof, (b) with respect to banker’s acceptances, letters of credit or letters of guarantee, the aggregate undrawn, unexpired face amount thereof plus the aggregate unreimbursed drawn amount thereof, (c) with respect to hedging obligations, the aggregate amount recorded by the Company or any Subsidiary as its termination liability thereunder, (d) with respect to cash management obligations or guarantees, the aggregate maximum amount thereof (i) that the relevant cash management provider is entitled to assert as such as agreed from time to time by the Company or any Subsidiary and such provider or (ii) the principal amount of the Indebtedness being guaranteed or, if less, the maximum amount of such guarantee set forth in the relevant guarantee and (e) with respect to any other obligations, the aggregate outstanding amount thereof.

“Participant”: as defined in Section 10.6(c).

“PBGC”: the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

“PDMP”: “Principal Domestic Manufacturing Property” as defined in the Existing Notes Indentures.

“PDMP Ratio”: at any time, the ratio of (a) the Borrowing Base Amount of all Eligible PDMP PP&E at such time to (b) the Net Book Value of all PDMP included in the Collateral at such time.

“Permitted Additional Notes”: notes or other Indebtedness (other than any Indebtedness under Permitted Additional Senior Facilities) issued (or guaranteed) by the Company (a) the terms of which do not provide for any scheduled repayment or mandatory redemption prior to the date that is one year after the Term Loan Maturity Date as in effect on the Closing Date (other than customary offers to purchase upon a change of control, asset sale or event of loss and acceleration rights after an event of default), (b) the covenants, events of default, guarantees and other terms of which (other than interest rate, call features and redemption premiums), taken as a whole, are not more restrictive to the Company than the terms of this Agreement; provided that a certificate of a Responsible Officer of the Company is delivered to the Administrative Agent at least five Business Days (or such shorter period as the Administrative Agent may reasonably agree) prior to the incurrence of such Indebtedness, together with a description of the material terms and conditions of such Indebtedness or drafts of the documentation

relating thereto, stating that the Company has determined in good faith that such terms and conditions satisfy the foregoing requirement and such terms and conditions shall be deemed to satisfy the foregoing requirement unless the Administrative Agent notifies the Company within such period that it disagrees with such determination (including a reasonable description of the basis upon which it disagrees), (c) with respect to which, after giving effect to the incurrence and application of proceeds thereof, the Borrowing Base Coverage Ratio is at least 1.00 to 1.00 and (d) such facility (or guarantee) has been designated as “Additional Notes Debt” pursuant to the Collateral Trust Agreement.

“Permitted Additional Senior Facilities”: additional term loan or revolving credit facilities of (or guaranteed by) by the Company and any Indebtedness incurred (or other extensions of credit made) thereunder satisfying the conditions set forth in Section 2.31 or Section 2.32 with respect to the establishment of an Incremental Term Loan Facility or an Incremental Revolving Facility, as applicable; provided that (a) a certificate of a Responsible Officer of the Company is delivered to the Administrative Agent at least five Business Days (or such shorter period as the Administrative Agent may reasonably agree) prior to the establishment of such facility, together with a description of the material terms and conditions thereof or drafts of the documentation relating thereto, stating that the Company has determined in good faith that such terms and conditions satisfy the foregoing requirement and such terms and conditions shall be deemed to satisfy the foregoing requirement unless the Administrative Agent notifies the Company within such period that it disagrees with such determination (including a reasonable description of the basis upon which it disagrees), (b) such facility is established pursuant to a separate agreement or instrument with the lenders thereof and (c) that has been designated as “Additional Credit Agreement Debt” pursuant to the Collateral Trust Agreement.

“Permitted First Lien Non–Loan Exposure”: Designated Hedging Obligations, Designated Cash Management Obligations, reimbursement obligations in respect of letters of credit and bank guarantees, guarantees provided by the Company or a Subsidiary Guarantor (including in respect of Indebtedness) and other obligations of the Company or a Subsidiary Guarantor that do not constitute Indebtedness that have been designated by the Company pursuant to the terms of the Collateral Trust Agreement as “Permitted First Lien Non–Loan Exposure”; provided that after giving pro forma effect to such designation and any application of the proceeds thereof the Borrowing Base Coverage Ratio is at least 1.00 to 1.00; provided, further, that the aggregate Outstanding Amount of Permitted First Lien Non–Loan Exposure shall not exceed \$1,500,000,000 at any time.

“Permitted Holders”: holders of the Company’s Class B Stock on the Closing Date and other holders of such Capital Stock from time to time; provided that such holders satisfy the qualifications set forth in clauses (i) through (vii) of subsection 2.2 of Article Fourth of the Company’s Restated Certificate of Incorporation as in effect on the Closing Date.

“Permitted Liens” means:

- (a) Liens for taxes, assessments, governmental charges and utility charges, in each case that are not yet subject to penalties for non–payment or that are being contested in good faith by appropriate proceedings; provided that adequate reserves with respect thereto are maintained on the books of the Company in conformity with GAAP;
- (b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s, construction or other like Liens arising in the ordinary course of business;
- (c) permits, servitudes, licenses, easements, rights–of–way, restrictions and other similar encumbrances imposed by applicable law or incurred in the ordinary course of business or

minor imperfections in title to real property that do not in the aggregate materially interfere with the ordinary conduct of the business of the Company and its Subsidiaries taken as a whole;

(d) leases, licenses, subleases or sublicenses of assets (including, without limitation, real property and intellectual property rights) granted to others that do not in the aggregate materially interfere with the ordinary conduct of the business of the Company and its Subsidiaries taken as a whole and licenses of trademarks and intellectual property rights in the ordinary course of business;

(e) pledges or deposits made in the ordinary course of business or statutory Liens imposed in connection with worker's compensation, unemployment insurance or other types of social security or pension benefits or Liens incurred or pledges or deposits made to secure the performance of bids, tenders, sales, contracts (other than for the repayment of borrowed money), statutory obligations, and surety, appeal, customs or performance bonds and similar obligations, or deposits as security for contested taxes or import or customs duties or for the payment of rent, in each case incurred in the ordinary course of business;

(f) Liens arising from UCC financing statement filings (or similar filings) regarding or otherwise arising under leases entered into by the Company or any of its Subsidiaries or in connection with sales of accounts, payment intangibles, chattel paper or instruments;

(g) purchase money Liens on property (other than shares of Capital Stock or Indebtedness) existing at the time of acquisition (including acquisition through amalgamation, merger or consolidation) or to secure the payment of any part of the purchase price thereof or to secure any Indebtedness incurred prior to, at the time of, or within 60 days after, the acquisition of such property for the purpose of financing all or any part of the purchase price thereof or to secure Indebtedness provided, or guaranteed, by a Governmental Authority to finance research and development, limited in each case to the property purchased (or developed) with the proceeds thereof;

(h) Liens in existence on the Closing Date; provided that no such Lien is spread to cover any additional property after the Closing Date and that the amount of Indebtedness secured thereby is not increased (except as otherwise permitted by this Agreement);

(i) Liens on property or Capital Stock of a Person at the time such Person becomes a Subsidiary; provided however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such other Person becoming a Subsidiary; provided further, however, that any such Lien may not extend to any other property owned by the Company or any Subsidiary;

(j) Liens on property at the time the Company or a Subsidiary acquires the property, including any acquisition by means of a merger or consolidation with or into the Company or any Subsidiary; provided, however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition; provided further, however, that such Liens may not extend to any other property owned by the Company or any Subsidiary;

(k) any Lien securing the renewal, refinancing, replacing, refunding, amendment, extension or modification, as a whole or in part, of any indebtedness secured by any Lien permitted by clause (g), (h), (i), (j), (o), (p) and (x) of this definition or this paragraph (k) without any change in the assets subject to such Lien;

(l) any Lien arising out of claims under a judgment or award rendered or claim filed so long as such judgments, awards or claims do not constitute an Event of Default;

(m) any Lien consisting of rights reserved to or vested in any Governmental Authority by any statutory provision;

(n) Liens created in the ordinary course of business in favor of banks and other financial institutions over credit balances of any bank accounts held at such banks or financial institutions or over investment property held in a securities account, as the case may be, to facilitate the operation of cash pooling and/or interest set-off arrangements in respect of such bank accounts or securities accounts in the ordinary course of business;

(o) Liens created pursuant to (and Liens permitted by) the Collateral Trust Agreement and the Security Documents (other than in respect of Permitted Second Lien Debt and including, for the avoidance of doubt, Permitted First Lien Non-Loan Exposure); provided that (except as provided in clause (y) below) the aggregate Outstanding Amount of Incremental Facilities and any Revolving Commitment Increase (including unused commitments under any Incremental Revolving Facility or Revolving Commitment Increase), Permitted Additional Senior Facilities (including any unused commitments thereunder) and Permitted Additional Notes at any time shall not exceed \$2,000,000,000; provided, further that (x) in the case of any Incremental Facilities, Revolving Commitment Increases, Permitted Additional Senior Facilities and/or Permitted Additional Notes either (A) the Mazda Shares owned by the Company as of the Closing Date shall have been pledged to the Collateral Trustee, for the benefit of the Secured Parties, as Collateral or (B) the aggregate Outstanding Amount of any such Incremental Facilities and any such Revolving Commitment Increase (including unused commitments under any Incremental Revolving Facility or Revolving Commitment Increase), Permitted Additional Senior Facilities (including any unused commitments thereunder) and Permitted Additional Notes shall not exceed the sum of (1) the aggregate principal amount of Term Loans optionally repaid since the Closing Date or that are paid at maturity (including in connection with any refinancing thereof with the proceeds of additional Incremental Facilities, Revolving Commitment Increases, Permitted Additional Senior Facilities or Permitted Additional Notes), plus (2) the aggregate amount of Revolving Commitments in effect on the Closing Date (plus any increases in the Revolving Commitments occurring after the Closing Date, which, together with the Revolving Commitments in effect on the Closing Date, do not exceed \$11,485,000,000) that have been terminated or have expired since the Closing Date (including in connection with any refinancing thereof with an Incremental Revolving Facility or Revolving Commitment Increase, but net of the amount of any increase pursuant to clause (y)) and (y) notwithstanding the limitations set forth in the foregoing clause (x), additional Incremental Revolving Facilities and Revolving Commitment Increases may be established (and extensions of credit made thereunder) in an amount not to exceed the aggregate amount of Revolving Commitments in effect on the Closing Date (plus any increases in the Revolving Commitments occurring after the Closing Date, which, together with the Revolving Commitments in effect on the Closing Date, do not exceed \$11,485,000,000), that have been terminated or have expired since the Closing Date (reduced by any portion thereof allocated to increase the basket in clause (x));

(p) Liens securing Permitted Second Lien Debt;

(q) Liens in favor of lessors pursuant to sale and leaseback transactions to the extent the Disposition of the assets subject to any such sale and leaseback transaction is permitted under this Agreement;

(r) Liens securing Indebtedness or other obligations of a Subsidiary owing to the Company or a Subsidiary Guarantor;

(s) Liens under industrial revenue, municipal or similar bonds;

(t) Liens on securities accounts (other than Liens to secure Indebtedness);

(u) statutory Liens incurred or pledges or deposits made in favor of a Governmental Authority to secure the performance of obligations of the Company or any of its Subsidiaries under Environmental Laws to which any assets of the Company or any such Subsidiaries are subject;

(v) a Lien granted by the Company or any of its Subsidiaries to a landlord to secure the payment of arrears of rent in respect of leased properties in the Province of Quebec leased from such landlord, provided that such Lien is limited to the assets located at or about such leased properties;

(w) servicing agreements, development agreements, site plan agreements and other agreements with Governmental Authorities pertaining to the use or development of any of the property and assets of the Company consisting of real property, provided same are complied with; and

(x) Liens not otherwise permitted by the foregoing clauses securing obligations or other liabilities of the Company or any Guarantor; provided that the Outstanding Amount of all such obligations and liabilities shall not exceed \$500,000,000 at any time.

“Permitted Refinancing”: any Indebtedness (or preferred Capital Stock, as the case may be) issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness (or preferred Capital Stock, as the case may be); provided that:

(a) the principal amount (or accreted value, if applicable) of such Indebtedness (or preferred Capital Stock, as the case may be) does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness (or preferred Capital Stock, as the case may be) so extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest thereon and the amount of all fees, expenses and premiums incurred in connection therewith);

(b) such Indebtedness (or preferred Capital Stock, as the case may be) has a final maturity date later than the final maturity date of, and has a weighted average life to maturity equal to or greater than the weighted average life to maturity of, the Indebtedness (or preferred Capital Stock, as the case may be) being extended, refinanced, renewed, replaced, defeased or refunded; and

(c) the terms of such Indebtedness (or preferred Capital Stock, as the case may be), taken as a whole, are not more restrictive to the applicable obligor than the Indebtedness (or preferred Capital Stock, as the case may be) being extended, refinanced, renewed, replaced, defeased or refunded (other than with respect to interest rates, fees, liquidation preferences, premiums and no call periods).

“Permitted Second Lien Debt”: Indebtedness of the Company or any Subsidiary that (a) has been designated “Second Priority Additional Debt” pursuant to the Collateral Trust Agreement, (b) is on terms, taken as a whole, that are not more restrictive to the Company than the terms of this Agreement (other than in respect respect of interest rates, fees, call features or premiums); provided that a certificate of a Responsible Officer of the Company is delivered to the Administrative Agent at least five Business

Days (or such shorter period as the Administrative Agent may reasonably agree) prior to the incurrence of such Indebtedness, together with a description of the material terms and conditions of such Indebtedness or drafts of the documentation relating thereto, stating that the Company has determined in good faith that such terms and conditions satisfy the foregoing requirement and such terms and conditions shall be deemed to satisfy the foregoing requirement unless the Administrative Agent notifies the Company within such period that it disagrees with such determination (including a reasonable description of the basis upon which it disagrees) and (c) has a final maturity date no earlier than six months after the later of (i) the maturity date of any Term Loans (including any Incremental Term Loans) outstanding at such time and (ii) the maturity date of any Permitted Additional Notes outstanding at such time; provided that the Outstanding Amount thereof shall not exceed \$4,000,000,000 at any time.

“Person”: an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“Plan”: at a particular time, any employee pension benefit plan (other than a multiemployer plan as defined in Section 4001(a)(3) of ERISA) that is subject to the provisions of Title IV of ERISA or Section 412 of the Code and in respect of which the Company or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Pounds Sterling” and “£”: the lawful money of the United Kingdom.

“Pricing Grid”: as set forth on Schedule 1.1G.

“Prime Rate”: the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City (the Prime Rate not being intended to be the lowest rate of interest charged by JPMorgan Chase Bank, N.A. in connection with extensions of credit to borrowers).

“Principal Domestic Manufacturing Property”: any plant in the United States owned or leased by the Company or any Subsidiary of the Company, the gross book value (without deduction of any depreciation reserves) of which on the date as of which the determination is being made exceeds 0.5% of Consolidated Net Automotive Tangible Assets and more than 75% of the total production measured by value (as determined by any two of the following: the Chairman of the Board of the Company, its President, any Executive Vice President of the Company, any Group Vice President of the Company, any Vice President of the Company, its Treasurer or its Controller) of which in the last fiscal year prior to said date (or such lesser period prior thereto as the plant shall have been in operation) consisted of one or more of the following: cars or trucks or related parts and accessories or materials for any of the foregoing. In the case of a plant not yet in operation or of a plant newly converted to the production of a different item or items, the total production of such plant and the composition of such production for purposes of this definition shall be deemed to be the Company’s best estimate (determined as aforesaid) of what the actual total production of such plant and the composition of such production will be in the 12 months following the date as of which the determination is being made.

“Principal Trade Names”: each of the trademarks listed under the heading “Principal Trade Names” on Schedule 1.1F and all other Trademarks consisting of or containing any of the trademarks listed under the heading “Principal Trade Names” on Schedule 1.1F or any variation or simulation thereof.

“Qualifying Canadian Lender”: a Person or such Person’s Applicable Lending Office that is either (a) (i) not a non–resident of Canada for purposes of the Income Tax Act (Canada), or (ii) an authorized foreign bank deemed to be resident in Canada for purposes of Part XIII of the Income Tax Act (Canada) in respect of all amounts paid or credited to such Person with respect to the Canadian Revolving Extensions of Credit to any Canadian Borrower, and which has provided to the Company and each Canadian Borrower, upon request, a certificate certifying such status in (i) or (ii) or (b) approved in writing by the Administrative Agent and the Company; provided that, in respect of Loans made to the Company, such Person or its Applicable Lending Office for the Company shall have the capacity to lend to the Company in Dollars, such that all payments from the Company to such Person or its Applicable Lending Office for the Company shall be made free and clear of withholding taxes.

“Quotation Date”: in relation to any period for which the Eurocurrency Base Rate is to be determined hereunder, the Business Day on which quotations would ordinarily be given by prime banks in the London interbank market (or, if the Currency in relation to which such rate is determined is Euro, the European interbank market) for deposits in the Currency in relation to which such rate is to be determined for delivery on the first day of that period; provided that, if for any such period quotations would ordinarily be given on more than one date, the Quotation Date for that period shall be the last of those dates.

“Refunded Swingline Loans”: as defined in Section 2.12.

“Register”: as defined in Section 10.6(b).

“Regulation U”: Regulation U of the Board as in effect from time to time.

“Reimbursement Date”: as defined in Section 3.5

“Reimbursement Obligation”: the obligation of the Company or the relevant Subsidiary Borrower to reimburse an Issuing Lender pursuant to Section 3.5 for amounts drawn under Letters of Credit.

“Replaced Term Loan”: as defined in Section 10.1(c).

“Replacement Term Loan”: as defined in Section 10.1(c).

“Required Lenders”: at any time, Lenders with Aggregate Exposures constituting a majority of the Aggregate Exposures of all Lenders.

“Requirements of Law”: as to any Person, the Certificate of Incorporation and By–Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court of competent jurisdiction or other Governmental Authority, in each case applicable to and binding upon such Person and any of its property, and to which such Person and any of its property is subject.

“Responsible Officer”: the chief executive officer, president, chief accounting officer, chief financial officer, treasurer, assistant treasurer or, for purposes of Section 6.6 only, the secretary of the Company.

“Restricted Payments”: as defined in Section 7.6.

“Restricted Pledgee Group”: the collective reference to Ford Capital B.V., Ford Espana S.A., Ford Automotive Holdings, Ford Deutschland Holding GmbH, Grupo Ford, Ford Canada, Ford Argentina and Ford South Africa, and each of their respective Subsidiaries (excluding any such Subsidiaries that are bona fide joint ventures).

“Revolving Commitment Increase”: as defined in Section 2.32.

“Revolving Commitment Increase Date”: as to any Revolving Commitment Increase, the date (which shall be a Business Day) specified in the related Incremental Revolving Loan Activation Notice as the date on such Revolving Commitment Increase shall be effective.

“Revolving Commitment Period”: with respect to any Lender, the period from and including the Closing Date to the Revolving Termination Date applicable to such Lender.

“Revolving Commitments”: the Domestic Revolving Commitments, the Canadian Revolving Commitments and the Multicurrency Revolving Commitments. To the extent any Incremental Revolving Facility or New Local Facility is established, the “Revolving Commitments” shall, to the extent appropriate, include commitments under such Facilities.

“Revolving Extensions of Credit”: the Domestic Revolving Extensions of Credit, the Canadian Revolving Extensions of Credit and the Multicurrency Revolving Extensions of Credit. To the extent any Incremental Revolving Facility or New Local Facility is established, “Revolving Extensions of Credit” shall, to the extent appropriate, include the Outstanding Amount of any extensions of credit under such Facilities.

“Revolving Lenders”: Domestic Revolving Lenders, Canadian Revolving Lenders and Multicurrency Revolving Lenders. To the extent any Incremental Revolving Facility or New Local Facility is established, “Revolving Lenders” shall, to the extent appropriate, include any Lender under such Facilities.

“Revolving Loans”: Domestic Revolving Loans, Canadian Revolving Loans and Multicurrency Revolving Loans. To the extent any Incremental Revolving Facility or New Local Facility is established, “Revolving Loans” shall, to the extent appropriate, include Loans made under such Facilities.

“Revolving Note”: as defined in Section 2.24(i).

“Revolving Obligations”: as defined in Section 10.7.

“Revolving Percentage”: as to any Revolving Facility, the Domestic Revolving Percentage, the Canadian Revolving Percentage or the Multicurrency Revolving Percentage, as applicable. To the extent any Incremental Revolving Facility or New Local Facility is established, the “Revolving Percentage” for such Facility shall be determined on a comparable basis.

“Revolving Termination Date”: as to any Lender, initially December 15, 2011, as such date for such Lender may be extended from time to time pursuant to Section 2.33.

“S&P”: Standard & Poor’s Ratings Group and its successors.

“Sale and Leaseback Transaction”: as defined in Section 7.9.

“Schedule I Lender”: Canadian Revolving Lenders that are banks named in Schedule I to the Bank Act (Canada).

“Schedules II/III Reference Lenders”: Canadian Revolving Lenders that are banks named in Schedule II or Schedule III to the Bank Act (Canada), and to be agreed between the Company and the Administrative Agent.

“SEC”: the Securities and Exchange Commission, any successor thereto and any analogous Governmental Authority.

“Secured Parties”: as defined in the Collateral Trust Agreement.

“Security Agreement”: the Security Agreement to be executed and delivered by the Company and each Subsidiary Guarantor, substantially in the form of Exhibit A.

“Security Documents”: the collective reference to the Security Agreement, the Mortgages, the Trademark Security Agreement and all other security documents hereafter delivered to the Administrative Agent granting a Lien on any property of any Person to secure the Secured Obligations (as defined in the Collateral Trust Agreement).

“Significant Guarantor”: on any date of determination, each Subsidiary Guarantor (a) whose total assets at the last day of the four fiscal quarters ending on the last day of the most recent fiscal quarter for which financial statements have been delivered pursuant to Section 6.1 were equal to or greater than 10% of the sum of (i) the Consolidated Total Automotive Assets at such date plus (ii) the equity value of the Capital Stock of FMCC owned, directly or indirectly, by the Company as reflected in the most recent financial statements of FMCC delivered pursuant to Section 6.2 or (b) for the purpose of any particular representation, covenant or default in this Agreement, that, when combined with each other Subsidiary Guarantor that has breached such representation or covenant or is the subject of such default, would constitute a Significant Guarantor under the foregoing clause (a).

“Specified Currency Loan”: means each Revolving Loan denominated in Kroner or any other currency that is not a “Standard Specified Currency” as defined in the 2003 ISDA Credit Derivatives Definitions published by the International Swaps and Derivatives Association, Inc.

“Subsidiary”: with respect to any Person, any corporation, association, joint venture, partnership, limited liability company or other business entity (whether now existing or hereafter organized) of which at least a majority of the Voting Stock is, at the time as of which any determination is being made, owned or controlled by such Person or one or more subsidiaries of such Person or by such Person and one or more subsidiaries of such Person. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Company.

“Subsidiary Borrower”: any Subsidiary that becomes a party hereto pursuant to Section 10.1(d) until such time as such Subsidiary Borrower is removed as a party hereto pursuant to Section 10.1(d).

“Subsidiary Guarantor”: each Initial Subsidiary Guarantor, each Additional Subsidiary Guarantor and each other Subsidiary (including any joint venture) that becomes a party to the Guarantee and Security Agreement after the Closing Date pursuant to Section 6.7 or otherwise.

“Swingline Commitment”: as to any Lender, the obligation of such Lender (or its Applicable Lending Office) to make Swingline Loans pursuant to Section 2.11 in an aggregate principal amount at any one time outstanding not to exceed the amount set forth under the heading “Swingline Commitment” opposite such Lenders name on Schedule 1.1A, as the same may be changed from time to time pursuant to Section 2.13.

“Swingline Lender”: each Lender that has a Swingline Commitment, in its capacity as the lender of Swingline Loans.

“Swingline Loans”: as defined in Section 2.11.

“Swingline Participation Amount”: as defined in Section 2.12.

“Swingline Sublimit”: \$2,000,000,000.

“Syndication Agents”: as defined in the preamble hereto.

“TARGET Day”: any day on which the Trans–European Automated Real–time Gross Settlement Express Transfer payment system is open for the settlement of payments in Euro.

“Taxes” means any taxes, charges or assessments, including but not limited to income, sales, use, transfer, rental, ad valorem, value–added, stamp, property, consumption, franchise, license, capital, net worth, gross receipts, excise, occupancy, intangibles or similar tax, charges or assessments.

“Term Commitment”: as to any Lender, the obligation of such Lender, if any, to make a Term Loan to the Company in a principal amount not to exceed the amount set forth under the heading “Term Commitment” opposite such Lender’s name on Schedule 1.1A.

“Term Lender”: each Lender that has a Term Commitment or holds a Term Loan. To the extent any Incremental Term Loans are made hereunder, “Term Lenders” shall, to the extent appropriate, include Incremental Lenders that hold Incremental Term Loans.

“Term Loan Maturity Date”: December 15, 2013.

“Term Loans”: as defined in Section 2.1. To the extent any Incremental Term Loans are made hereunder, “Term Loans” shall, to the extent appropriate, include such Incremental Term Loans.

“Term Note”: as defined in Section 2.24(i).

“Term Percentage”: as to any Term Lender at any time, the percentage which such Lender’s Term Commitment then constitutes of the aggregate Term Commitments (or, at any time after the Closing Date, the percentage which the aggregate principal amount of such Lender’s Term Loans then outstanding constitutes of the aggregate principal amount of the Term Loans then outstanding).

“Third Quarter 2006 10–Q”: as defined in Section 4.1.

“Total Available Revolving Commitments”: at any time, an amount equal to the excess, if any, of (a) the Total Revolving Commitments then in effect, over (b) the Total Revolving Extensions of Credit then outstanding.

“Total Canadian Revolving Commitments”: at any time, the aggregate amount of the Canadian Revolving Commitments then in effect.

“Total Canadian Revolving Extensions of Credit”: at any time, the aggregate Outstanding Amount of the Canadian Revolving Extensions of Credit of the Canadian Revolving Lenders at such time.

“Total Domestic Revolving Commitments”: at any time, the aggregate amount of the Domestic Revolving Commitments then in effect.

“Total Domestic Revolving Extensions of Credit”: at any time, the aggregate Outstanding Amount of the Domestic Revolving Extensions of Credit of the Domestic Revolving Lenders at such time.

“Total Multicurrency Revolving Commitments”: at any time, the aggregate amount of the Multicurrency Revolving Commitments then in effect.

“Total Multicurrency Revolving Extensions of Credit”: at any time, the aggregate Outstanding Amount of the Multicurrency Revolving Extensions of Credit of the Multicurrency Revolving Lenders at such time.

“Total Revolving Commitments”: at any time, the aggregate amount of the Revolving Commitments then in effect.

“Total Revolving Extensions of Credit”: at any time, the aggregate Outstanding Amount of (a) the Revolving Extensions of Credit of the Revolving Lenders at such time plus (b) Competitive Loans at such time.

“Trademark”: trademarks, trade names, business names, trade styles, service marks, logos and other source or business identifiers, and in each case, all goodwill associated therewith, and all registrations and recordations thereof and all rights to obtain such renewals and extensions.

“Trademark Security Agreement”: the Trademark Security Agreement to be executed and delivered by the Company and the Collateral Trustee, substantially in the form of Exhibit D.

“Transferee”: any Assignee or Participant.

“Treasury Rate”: with respect to any date of determination, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two Business Days prior to such date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such date to the first day after the second anniversary of the Closing Date; provided, however, that if the period from such date to the first day after the second anniversary of the Closing Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from such date to the first date after the second anniversary of the Closing Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

“2005 10-K”: as defined in Section 4.1.

“Type”: (a) as to any Revolving Loan, Term Loan or Acceptance, its nature as an ABR Loan or a Eurocurrency Loan (or, in the case of any Acceptance or Canadian Revolving Loan made in Canadian Dollars, a Canadian Base Rate Loan, Acceptance or Acceptance Equivalent Loan), (b) as to any Competitive Loan, its nature as a Eurocurrency Competitive Loan or a Fixed Rate Loan and (c) as to any Swingline Loan, its nature as a Money Market Loan or an ABR Loan.

“UCC”: the Uniform Commercial Code.

“United States”: the United States of America.

“US Base Rate (Canada)”: the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect at its principal office in Toronto, Canada for determining rates applicable to Dollar denominated commercial loans in Canada (the US Base Rate (Canada) not being intended to be the lowest rate of interest charged by JPMorgan Chase Bank, N.A., Toronto Branch in connection with extensions of credit to borrowers).

“Volvo”: means Ford VHC AB, a company organized under the laws of Sweden.

“Volvo Group Member”: means each of Volvo, Volvo Car Holding Corporation or Volvo Car Corporation, in each case so long as such Person is a Subsidiary.

“Volvo Trade Name”: all Trademarks owned by or licensed to the Company and its Subsidiaries consisting of or containing “Volvo” or any variation or simulation thereof.

“Voting Stock”: with respect to any Person, such Person’s Capital Stock having the right to vote for election of directors (or the equivalent thereof) of such Person under ordinary circumstances.

1.2 Other Definitional Provisions. (a) As used in this Agreement, the terms listed in Schedule 1.1B shall have the respective meanings set forth in such Schedule 1.1B. Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, (i) accounting terms not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP, (ii) the words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”, (iii) the word “incur” shall be construed to mean incur, create, issue, assume, become liable in respect of or suffer to exist (and the words “incurred” and “incurrence” shall have correlative meanings), (iv) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, Capital Stock, securities, revenues, accounts, leasehold interests and contract rights, (v) references to agreements or other Contractual Obligations shall, unless otherwise specified, be deemed to refer to such agreements or Contractual Obligations as amended, supplemented, restated or otherwise modified from time to time and (vi) references to any Person shall include its successors and assigns.

(c) The words “hereof”, “herein” and “hereunder” and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole (including the Schedules and Exhibits hereto) and not to any particular provision of this Agreement (or the Schedules and

Exhibits hereto), and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

1.3 Conversion of Foreign Currencies.

(a) Except as otherwise expressly set forth on Schedule 1.1B, the Administrative Agent shall determine the Dollar Equivalent of any amount as required hereby, and a determination thereof by the Administrative Agent shall be conclusive absent manifest error. The Administrative Agent may, but shall not be obligated to, rely on any determination made by any Loan Party in any document delivered to the Administrative Agent.

(b) For purposes of determining compliance with Section 7.3, 7.4 or 7.8, with respect to any amount of Indebtedness in a currency other than Dollars, the Dollar Equivalent thereof shall be determined based on the Exchange Rate in effect at the time such Indebtedness was incurred.

(c) The Administrative Agent may set up appropriate rounding off mechanisms or otherwise round-off amounts hereunder to the nearest higher or lower amount in whole Dollar or cent to ensure amounts owing by any party hereunder or that otherwise need to be calculated or converted hereunder are expressed in whole Dollars or in whole cents, as may be necessary or appropriate.

SECTION 2. AMOUNT AND TERMS OF COMMITMENTS

2.1 Term Commitments. Subject to the terms and conditions hereof, each Term Lender severally agrees to make a term loan (a “Term Loan”) in Dollars to the Company on the Closing Date in an amount equal to the amount of the Term Commitment of such Lender. The Term Loans may from time to time be Eurocurrency Loans or ABR Loans, as determined by the Company and notified to the Administrative Agent in accordance with Sections 2.2 and 2.19.

2.2 Procedure for Term Loan Borrowing. The Company shall give the Administrative Agent notice (which notice must be received by the Administrative Agent prior to (a) 12:00 Noon, New York City time, two Business Days prior to the anticipated Closing Date, in the case of Eurocurrency Loans, or (b) 12:00 Noon, New York City time, one Business Day prior to the anticipated Closing Date, in the case of ABR Loans) requesting that the Term Lenders make the Term Loans on the Closing Date and specifying, (i) the amount and Type to be borrowed and (ii) in the case of Eurocurrency Loans, the respective lengths of the initial Interest Period(s) therefor. Upon receipt of such notice the Administrative Agent shall promptly notify each Term Lender thereof. Not later than 12:00 Noon, New York City time, on the Closing Date each Term Lender shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the Term Loan or Term Loans to be made by such Lender. The Administrative Agent shall credit the account of the Company on the books of such office of the Administrative Agent or such other account as the Company shall specify in writing with the aggregate of the amounts made available to the Administrative Agent by the Term Lenders in immediately available funds.

2.3 Repayment of Term Loans. (a) The Term Loan of each Term Lender shall be repayable on each date set forth below in an amount equal to such Lender’s Term Percentage multiplied by the amount set forth below opposite such date:

Installment	Principal Amount
March 15, 2007	\$17,500,000
June 15, 2007	\$17,500,000
September 15, 2007	\$17,500,000
December 15, 2007	\$17,500,000
March 15, 2008	\$17,500,000
June 15, 2008	\$17,500,000
September 15, 2008	\$17,500,000
December 15, 2008	\$17,500,000
March 15, 2009	\$17,500,000
June 15, 2009	\$17,500,000
September 15, 2009	\$17,500,000
December 15, 2009	\$17,500,000
March 15, 2010	\$17,500,000
June 15, 2010	\$17,500,000
September 15, 2010	\$17,500,000
December 15, 2010	\$17,500,000
March 15, 2011	\$17,500,000
June 15, 2011	\$17,500,000
September 15, 2011	\$17,500,000
December 15, 2011	\$17,500,000
March 15, 2012	\$17,500,000
June 15, 2012	\$17,500,000
September 15, 2012	\$17,500,000
December 15, 2012	\$17,500,000
March 15, 2013	\$17,500,000
June 15, 2013	\$17,500,000
September 15, 2013	\$17,500,000
Term Loan Maturity Date	\$6,527,500,000

; provided, that the Company shall repay all outstanding Term Loans on the Term Loan Maturity Date.

(b) The Incremental Term Loans made after the Closing Date, if any, of each Incremental Lender shall be repaid in such installments as are specified in the Incremental Term Loan Activation Notice pursuant to which such Incremental Term Loans were made.

2.4 Domestic Revolving Commitments. (a) Subject to the terms and conditions hereof, each Domestic Revolving Lender severally agrees to make revolving credit loans (“Domestic Revolving Loans”) in Dollars to the Company or any Domestic Subsidiary Borrower from time to time during the Revolving Commitment Period; provided that, after giving effect to such borrowing and the use of proceeds thereof, (i) such Lender’s Domestic Revolving Extensions of Credit do not exceed the amount of such Lender’s Domestic Revolving Commitments, (ii) the Outstanding Amount of Borrowing Base Debt shall not exceed the Borrowing Base at such time and (iii) the Total Revolving Extensions of Credit shall not exceed the Total Revolving Commitments then in effect. During the Revolving Commitment Period the Company and any Domestic Subsidiary Borrower may use the Domestic Revolving Commitments by borrowing, prepaying the Domestic Revolving Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Domestic Revolving Loans may from time to time be Eurocurrency Loans or ABR Loans, as determined by the Company or any

Domestic Subsidiary Borrower and notified to the Administrative Agent in accordance with Sections 2.5 and 2.19.

(b) The Company and any relevant Subsidiary Borrower shall repay all outstanding Domestic Revolving Loans of a Lender on the Revolving Termination Date for such Lender.

2.5 Procedure for Domestic Revolving Loan Borrowing. The Company and any Domestic Subsidiary Borrower may borrow under the Domestic Revolving Commitments during the Revolving Commitment Period on any Business Day, provided that the Company or the relevant Domestic Subsidiary Borrower shall give the Administrative Agent written notice (or telephonic notice promptly confirmed in writing) prior to (a) 12:00 Noon, New York City time, three Business Days prior to the requested Borrowing Date, in the case of Eurocurrency Loans, or (b) 12:00 Noon, New York City time, on the date of the proposed borrowing, in the case of ABR Loans), specifying (i) the amount and Type of Domestic Revolving Loans to be borrowed, (ii) the requested Borrowing Date and (iii) in the case of Eurocurrency Loans, the respective lengths of the initial Interest Period(s) therefor. If no election as to the Type of a Domestic Revolving Loan is specified in any such notice, then the requested borrowing shall be an ABR Loan. If no Interest Period with respect to any Eurocurrency Loan is specified in any such notice, then the Company or the relevant Subsidiary Borrower shall be deemed to have selected an Interest Period of one month's duration. Each borrowing under the Domestic Revolving Commitments shall be in an amount equal to \$50,000,000 (or, if the then aggregate Available Domestic Revolving Commitments are less than \$50,000,000, such lesser amount) or a whole multiple of \$10,000,000 in excess thereof; provided, that the Swingline Lender may request, on behalf of the Company or any Domestic Subsidiary Borrower, borrowings under the Domestic Revolving Commitments that are ABR Loans in other amounts pursuant to Section 2.12. Upon receipt of any such notice from the Company or any Domestic Subsidiary Borrower, the Administrative Agent shall promptly notify each Domestic Revolving Lender thereof. Each Domestic Revolving Lender will make the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Company or the relevant Subsidiary Borrower at the Funding Office prior to 2:00 P.M., New York City time, on the Borrowing Date requested by the Company or such Subsidiary Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Company or the relevant Subsidiary Borrower by the Administrative Agent crediting the account of the Company or the relevant Subsidiary Borrower on the books of such office or such other account as the Company or relevant Subsidiary Borrower may specify to the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Domestic Revolving Lenders and in like funds as received by the Administrative Agent.

2.6 Multicurrency Revolving Loan Commitments. (a) Subject to the terms and conditions hereof, each Multicurrency Revolving Lender severally agrees to make (or cause its Applicable Lending Office to make) revolving credit loans ("Multicurrency Revolving Loans") in Dollars or any Optional Currency to the Company or any Foreign Subsidiary Borrower (other than a Canadian Borrower) from time to time during the Revolving Commitment Period; provided that, after giving effect to such borrowing and the use of proceeds thereof, (i) the Dollar Equivalent of such Lender's Multicurrency Revolving Extensions of Credit do not exceed the amount of such Lender's Multicurrency Revolving Commitments, (ii) the Outstanding Amount of Borrowing Base Debt shall not exceed the Borrowing Base at such time and (iii) the Total Revolving Extensions of Credit shall not exceed the Total Revolving Commitments then in effect. During the Revolving Commitment Period the Company and any relevant Foreign Subsidiary Borrower may use the Multicurrency Revolving Loan Commitments by borrowing, prepaying the Multicurrency Revolving Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Multicurrency Revolving Loans shall be Eurocurrency Loans as notified to the Administrative Agent in accordance with Sections 2.7 and 2.19.

(b) The Company and each relevant Subsidiary Borrower shall repay all outstanding Multicurrency Revolving Loans of a Lender on the Revolving Termination Date for such Lender.

2.7 Procedure for Multicurrency Revolving Loan Borrowing. The Company and any Foreign Subsidiary Borrower (other than a Canadian Borrower) may borrow under the Multicurrency Revolving Loan Commitments during the Revolving Commitment Period on any Business Day, provided that the Company or the relevant Foreign Subsidiary Borrower shall give the Administrative Agent written notice (or telephonic notice promptly confirmed in writing) prior to 12:00 Noon, London time, three Business Days prior to the requested Borrowing Date, in the case of Eurocurrency Loans, specifying (a) the amount and Currency of Multicurrency Revolving Loans to be borrowed, (b) the requested Borrowing Date and (c) the respective lengths of the initial Interest Period(s) therefor. If no Interest Period with respect to any Eurocurrency Loan is specified in any such notice, then the Company or the relevant Subsidiary Borrower shall be deemed to have selected an Interest Period of one month's duration. Each borrowing under the Multicurrency Revolving Loan Commitments shall be in an amount that is an integral multiple of 10,000,000 of the relevant Currency and no less than an amount which is equal to the Dollar Equivalent of \$50,000,000 (or, if the then aggregate Available Multicurrency Revolving Loan Commitments are less than \$50,000,000, such lesser amount). Upon receipt of any such notice from the Company or the relevant Subsidiary Borrower, the Administrative Agent shall promptly notify each Multicurrency Revolving Lender thereof. Each Multicurrency Revolving Lender will make (or cause its Applicable Lending Office to make) the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Company or the relevant Subsidiary Borrower at the Funding Office prior to 2:00 P.M., London time, on the Borrowing Date requested by the Company or such Subsidiary Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Company or the relevant Subsidiary Borrower by the Administrative Agent crediting the account of the Company or the relevant Subsidiary Borrower on the books of such office or such other account as the Company or relevant Subsidiary Borrower may specify to the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Multicurrency Revolving Lenders and in like funds as received by the Administrative Agent.

2.8 Canadian Revolving Commitments. (a) Subject to the terms and conditions hereof, each Canadian Revolving Lender severally agrees to make (or cause its Applicable Lending Office to make) revolving credit loans ("Canadian Revolving Loans") in Dollars to the Company and in Dollars or Canadian Dollars to any Canadian Borrower from time to time during the Revolving Commitment Period; provided that, after giving effect to such borrowing and the use of proceeds thereof, (i) the Dollar Equivalent of such Lender's Canadian Revolving Extensions of Credit does not exceed the amount of such Lender's Canadian Revolving Commitments, (ii) the Outstanding Amount of Borrowing Base Debt shall not exceed the Borrowing Base at such time, (iii) the Total Canadian Revolving Extensions of Credit shall not exceed the Total Canadian Revolving Commitments then in effect, and (iv) the Total Revolving Extensions of Credit shall not exceed the Total Revolving Commitments then in effect; provided, further, that, except as permitted by Section 10.6(b), any Lender making Loans to the Company or to a Canadian Borrower under this Section 2.8 shall be a Qualifying Canadian Lender. During the Revolving Commitment Period the Company and any Canadian Borrower may use the Canadian Revolving Loan Commitments by borrowing, prepaying the Canadian Revolving Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Canadian Revolving Loans shall be Eurocurrency Loans or ABR Loans (if denominated in Dollars) or Canadian Base Rate Loans (if denominated in Canadian Dollars) or any combination thereof as notified to the Administrative Agent in accordance with Sections 2.9 and 2.19.

(b) The Company and each relevant Subsidiary Borrower shall repay all outstanding Canadian Revolving Loans of a Lender on the Revolving Termination Date for such Lender.

2.9 Procedure for Canadian Revolving Loan Borrowing. The Company and any Canadian Borrower may borrow under the Canadian Revolving Commitments during the Revolving Commitment Period on any Business Day; provided that the Company or the relevant Canadian Borrower shall give the Administrative Agent written notice (or telephonic notice promptly confirmed in writing) prior to (a) 12:00 Noon, New York City time, three Business Days prior to the requested Borrowing Date, in the case of Eurocurrency Loans, or (b) 12:00 Noon, New York City Time, on the date of the proposed borrowing, in the case of ABR Loans or Canadian Base Rate Loans), specifying (i) the amount, Type and Currency of Canadian Revolving Loans to be borrowed, (ii) the requested Borrowing Date, and (iii) in the case of Eurocurrency Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Period therefor. If no election as to the Type of a Canadian Revolving Loan denominated in Dollars is specified in any such notice, then the requested borrowing shall be an ABR Loan. If no Interest Period with respect to any Eurocurrency Loan is specified in any such notice, then the Company or the relevant Canadian Borrower shall be deemed to have selected an Interest Period of one month's duration. Each borrowing under the Canadian Revolving Commitments in Dollars shall be in an amount equal to \$50,000,000 or a whole multiple thereof (or, if the then aggregate Available Canadian Revolving Commitments are less than \$50,000,000, such lesser amount). Each borrowing under the Canadian Revolving Commitments in Canadian Dollars shall be in an amount equal to C\$25,000,000 (or, if the then aggregate Available Canadian Revolving Commitments are less than C\$25,000,000, such lesser amount) or a whole multiple of C\$5,000,000 in excess thereof. Upon receipt of any such notice from the Company or any Canadian Borrower, the Administrative Agent shall promptly notify each Canadian Revolving Lender thereof. Each Canadian Revolving Lender will make (or cause its Applicable Lending Office to make) the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Company or the relevant Canadian Borrower at the Funding Office prior to 2:00 P.M., New York City time, on the Borrowing Date requested by the Company or such Canadian Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Company or the relevant Canadian Borrower by the Administrative Agent crediting the account of the Company or the relevant Canadian Borrower on the books of such office or such other account as the Company or relevant Canadian Borrower may specify to the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Canadian Revolving Lenders and in like funds as received by the Administrative Agent.

2.10 Procedure for Canadian Acceptances. (a) **Acceptance Commitment.** Subject to the terms and conditions hereof, each Canadian Revolving Lender severally agrees that each Canadian Borrower may issue Acceptances denominated in Canadian Dollars, in minimum denominations of C\$25,000,000 or a whole multiple thereof and in minimum aggregate amounts of C\$5,000,000 or any greater whole multiple of C\$1,000,000, each in accordance with the provisions of this Section 2.10 from time to time until the Revolving Termination Date; provided, that after giving effect to the issuance of such Acceptance and the use of proceeds thereof, (i) the Available Canadian Revolving Commitment of any Canadian Revolving Lender shall not be less than zero, (ii) the Total Canadian Revolving Extensions of Credit shall not exceed the Total Canadian Revolving Commitments then in effect, (iii) the Outstanding Amount of Borrowing Base Debt shall not exceed the Borrowing Base at such time and (iv) the Total Revolving Extensions of Credit shall not exceed the Total Revolving Commitments then in effect; provided, further, that (A) at all times the outstanding aggregate face amount of all Acceptances made by the Applicable Lending Offices of a Canadian Revolving Lender shall equal its Canadian Revolving Percentage of the outstanding face amount of all Acceptances made by the Applicable Lending Offices of all Canadian Revolving Lenders and (B) any Canadian Revolving Lender to which a Canadian Borrower issues Acceptances shall be a Qualifying Canadian Lender. For purposes of this Agreement, the full face value of an Acceptance, without discount, shall be used when calculations are made to determine the Outstanding Amount of a Canadian Revolving Lender's Acceptances; provided that in computing the face amount of Acceptances outstanding, the face amount of an Acceptance in respect of which the Acceptance Obligation has been prepaid by a Canadian Borrower and received by the Canadian

Revolving Lender that created the same in accordance with the terms of this Agreement shall not be included.

(b) Terms of Acceptance. Each Draft shall be accepted by the Applicable Lending Office of a Canadian Revolving Lender, upon the written request of a Canadian Borrower given in accordance with paragraph (c) of this Section 2.10, by the completion and acceptance by such Applicable Lending Office of a Draft (i) payable in Canadian Dollars, drawn by a Canadian Borrower on the Applicable Lending Office in accordance with this Agreement, to the order of the Applicable Lending Office and (ii) maturing prior to the Revolving Termination Date on a Business Day not less than one month nor more than six months after the date of such Draft (and in periods of one month, two months, three months or, if available, six months, as selected by a Canadian Borrower), excluding days of grace, all as specified in a Drawing Notice to be delivered under paragraph (c) of this Section 2.10. Notwithstanding anything to the contrary in this Agreement, all requests for issuances of Acceptances and all selections of periods and maturity dates of Acceptances shall be made pursuant to such elections so that no more than 10 different Acceptance maturity dates shall be outstanding at any one time.

(c) Drawing Notice and Discount of Acceptances. (i) With respect to each requested acceptance of Drafts, a Canadian Borrower shall give the Administrative Agent a notice of drawing (each, a "Drawing Notice"), substantially in the form of Exhibit H (which shall be irrevocable and may be by telephone confirmed in writing within one Business Day) to be received prior to 10:00 A.M., Toronto time, at least two Business Days prior to the date of the requested acceptance, specifying:

- (A) the date on which such Drafts are to be accepted;
- (B) the aggregate face amount of such Drafts;
- (C) the maturity date of such Acceptances; and
- (D) whether the Canadian Revolving Lenders must purchase or arrange for the purchase of the Acceptances.

(ii) Upon receipt of a Drawing Notice, the Administrative Agent shall promptly notify each Applicable Lending Office of a Canadian Revolving Lender of the contents thereof and of such Canadian Revolving Lender's ratable share of the Acceptances requested thereunder. The aggregate face amount of the Drafts to be accepted by Applicable Lending Office of a Canadian Revolving Lender shall be determined by the Administrative Agent by reference to the respective Canadian Revolving Commitments of the Canadian Revolving Lenders; provided that, if the face amount of an Acceptance which would otherwise be accepted by the Applicable Lending Office of a Canadian Revolving Lender is not C\$5,000,000, or a whole multiple thereof, the face amount shall be increased or reduced by the Administrative Agent, in its sole discretion, to C\$1,000,000, or the nearest integral multiple thereof, as appropriate.

(iii) On each date upon which Acceptances are to be accepted, the Administrative Agent shall advise the relevant Canadian Borrower of the applicable Discount Rate for the Applicable Lending Office of each Canadian Revolving Lender. Not later than 10:00 A.M., Toronto time, on such date each Applicable Lending Office of a Canadian Revolving Lender shall, subject to the fulfillment of the conditions precedent specified in Section 5.2, and subject to the Applicable Lending Office of each Non-Acceptance Canadian Lender making

Acceptance Equivalent Loans pursuant to paragraph (i) of this Section 2.10, (A) on the basis of the information supplied by the Administrative Agent, as aforesaid, complete a Draft or Drafts of the relevant Canadian Borrower by filling in the amount, date and maturity date thereof in accordance with the applicable Drawing Notice, (B) duly accept such Draft or Drafts, (C) offer to purchase such Acceptance or Acceptances at the applicable Discount Rate, (D) give the Administrative Agent facsimile or telex notice of such Applicable Lending Office's acceptance of such Draft or Drafts and confirming the Discount Rate at which it discounted the Acceptance or Acceptances and the amount paid to the Administrative Agent for the account of such Canadian Borrower and (E) remit to the Administrative Agent in Canadian Dollars in immediately available funds an amount equal to the Discount Proceeds. Upon receipt by the Administrative Agent of such sums from the Applicable Lending Offices of the Canadian Revolving Lenders, the Administrative Agent shall make the aggregate amount thereof available to such Canadian Borrower.

(iv) Each extension of credit hereunder through the acceptance of Drafts shall be made simultaneously and pro rata by the Applicable Lending Office of each of the Canadian Revolving Lenders in accordance with their respective Canadian Revolving Commitments.

(d) Sale of Acceptances. A Canadian Borrower shall agree to sell, and the Applicable Lending Offices of the Canadian Revolving Lenders shall purchase or arrange for the purchase of, all of the Acceptances in the market and each Applicable Lending Office of a Canadian Revolving Lender shall provide to the Administrative Agent the Discount Proceeds for the account of such Canadian Borrower. The Acceptance Fee in respect of such Acceptances may, at the option of the Applicable Lending Office of a Canadian Revolving Lender, be set off against the Discount Proceeds payable by such Applicable Lending Office of such Canadian Revolving Lender hereunder.

(e) Acceptance Obligation. The relevant Canadian Borrower is obligated, and hereby unconditionally agrees, to pay to the Administrative Agent for the benefit of each Applicable Lending Office of each Canadian Revolving Lender the face amount of each Acceptance created by such Applicable Lending Office in accordance with a Drawing Notice on the maturity date thereof, or on such earlier date as may be required pursuant to provisions of this Agreement. With respect to each Acceptance which is outstanding hereunder, the relevant Canadian Borrower shall notify the Administrative Agent prior to 11:00 A.M., Toronto time, two Business Days prior to the maturity date of such Acceptance (which notice shall be irrevocable) of its intention to either (x) issue Acceptances on such maturity date to provide for the payment of such maturing Acceptance and shall deliver to the Administrative Agent a Drawing Notice with respect thereto or (y) repay the maturing Acceptances on the maturity date. Any repayment of an Acceptance must be made at or before 2:00 P.M. (Toronto time) on the maturity date of such Acceptance. If the relevant Canadian Borrower fails to provide such notice to the Administrative Agent or fails to repay the maturing Acceptances, or if an Event of Default has occurred and is continuing on such maturity date, the relevant Canadian Borrower's obligations in respect of the maturing Acceptances shall be deemed to have been converted on the maturity date thereof into a Canadian Base Rate Loan in an amount equal to the face amount of the maturing Acceptances. Each Canadian Borrower waives presentment for payment and any other defense to payment of any amounts due to the Applicable Lending Office of a Canadian Revolving Lender in respect of any Acceptances of such Canadian Borrower accepted by such Applicable Lending Office under this Agreement which might exist solely by reason of those Acceptances being held, at the maturity thereof, by that Applicable Lending Office in its own right and each

Canadian Borrower agrees not to claim any days of grace if that Applicable Lending Office, as holder, sues such Canadian Borrower on those Acceptances for payment of the amounts payable by such Canadian Borrower thereunder.

(f) Supply of Drafts and Power of Attorney. To enable the Applicable Lending Offices of the Canadian Revolving Lenders to accept Drafts in the manner specified in this Section 2.10, each Canadian Borrower hereby appoints the Applicable Lending Office of each Canadian Revolving Lender as its attorney to sign and endorse on its behalf, in handwriting or by facsimile or mechanical signature as and when deemed necessary by such Applicable Lending Office, blank forms of its Acceptances. In this respect, it is each Canadian Revolving Lender's responsibility to maintain an adequate supply of blank forms of Acceptances for acceptance under this Agreement. Each Canadian Borrower recognizes and agrees that all Acceptances signed and/or endorsed on its behalf by the Applicable Lending Office of a Canadian Revolving Lender shall bind such Canadian Borrower as fully and effectually as if signed in the handwriting of and duly issued by the proper signing officers of such Canadian Borrower; provided, that such acts in each case are to be undertaken in accordance with such Canadian Revolving Lender's obligations under this Agreement. Each Applicable Lending Office of a Canadian Revolving Lender is hereby authorized to issue such Acceptances endorsed in blank in such face amounts as may be determined by such Applicable Lending Office; provided that the aggregate amount thereof is equal to the aggregate amount of Acceptances required to be accepted by such Applicable Lending Office. Drafts drawn by a Canadian Borrower to be accepted as Acceptances shall be signed by a duly authorized officer or officers of such Canadian Borrower or by its attorney-in-fact including any attorney in fact appointed pursuant to this Section 2.10(f). Each Canadian Borrower hereby authorizes and requests each Applicable Lending Office of a Canadian Revolving Lender in accordance with each Drawing Notice received from such Canadian Borrower to take the measures with respect to a Draft or Drafts of such Canadian Borrower then in possession of such Applicable Lending Office specified in paragraph (c)(iii) of this Section 2.10. In case any authorized signatory of such Canadian Borrower whose signature shall appear on any Draft shall cease to have such authority before the acceptance of a Draft with respect to such Draft, the obligations of a Canadian Borrower hereunder and under such Acceptance shall nevertheless be valid for all purposes as if such authority had remained in force until such creation. The Administrative Agent and each Canadian Revolving Lender shall be fully protected in relying upon any instructions received from a Canadian Borrower (orally or otherwise) without any duty to make inquiry as to the genuineness of such instructions. The Administrative Agent and each Canadian Revolving Lender shall be entitled to rely on instructions received from any Person identifying himself (orally or otherwise) as a duly authorized officer of a Canadian Borrower and shall not be liable for any errors, omissions, delays or interruptions in the transmission of such instructions.

(g) Exculpation. No Applicable Lending Office of a Canadian Revolving Lender shall be responsible or liable for its failure to accept a Draft if the cause of such failure is, in whole or in part, due to the failure of a Canadian Borrower to provide the Drafts or the power of attorney described in paragraph (f) of this Section 2.10 to such Applicable Lending Office on a timely basis nor shall any Applicable Lending Office of a Canadian Revolving Lender be liable for any damage, loss or other claim arising by reason of any loss or improper use of any such Draft except loss or improper use arising by reason of the gross negligence or willful misconduct of such Applicable Lending Office.

(h) Rights of Canadian Revolving Lender as to Acceptances. Neither the Administrative Agent nor any Applicable Lending Office of a Canadian Revolving Lender shall have any responsibility as to the application of the proceeds by a Canadian Borrower of any discount of any Acceptances. For greater certainty, each Applicable Lending Office of a

Canadian Revolving Lender may, at any time, purchase Acceptances issued by a Canadian Borrower and may at any time and from time to time hold, sell, rediscount or otherwise dispose of any or all Acceptances accepted and/or purchased by it.

(i) Acceptance Equivalent Loans. Whenever a Canadian Borrower delivers a Drawing Notice to the Administrative Agent under this Agreement requesting the Canadian Revolving Lenders to accept Drafts, an Applicable Lending Office of a Canadian Revolving Lender which cannot or does not as a matter of policy accept Drafts (a “Non–Acceptance Canadian Lender”) shall, in lieu of accepting Drafts, make an Acceptance Equivalent Loan. On each date on which Drafts are to be accepted, subject to the same terms and conditions applicable to the acceptance of Drafts, any Non–Acceptance Canadian Lender that makes an Acceptance Equivalent Loan, upon delivery by a Canadian Borrower of an executed Discount Note payable to the order of such Non–Acceptance Canadian Lender, will remit to the Administrative Agent in immediately available funds for the account of such Canadian Borrower the Acceptance equivalent discount proceeds in respect of the Discount Notes issued by such Canadian Borrower to the Non–Acceptance Canadian Lender. Each Non–Acceptance Canadian Lender may agree, in lieu of receiving any Discount Notes, that such Discount Notes may be uncertificated and the applicable Acceptance Equivalent Loan shall be evidenced by a loan account which such Non–Acceptance Canadian Lender shall maintain in its name, and reference to such uncertificated Discount Notes elsewhere in this Agreement shall be deemed to include reference to the relevant Acceptance Equivalent Loan or loan account, as applicable.

(j) Terms Applicable to Discount Notes. The term “Acceptance” when used in this Agreement shall be construed to include Discount Notes and all terms of this Agreement applicable to Acceptances shall apply equally to Discount Notes evidencing Acceptance Equivalent Loans with such changes as may in the context be necessary (except that no Discount Note may be sold, rediscounted or otherwise disposed of by the Non–Acceptance Canadian Lender making Acceptance Equivalent Loans). For greater certainty:

(A) a Discount Note shall mature and be due and payable on the same date as the maturity date for Acceptances specified in the applicable Drawing Notice;

(B) an Acceptance Fee will be payable in respect of a Discount Note and shall be calculated at the same rate and in the same manner as the Acceptance Fee in respect of an Acceptance;

(C) a discount applicable to a Discount Note shall be calculated in the same manner and at the Discount Rate that would be applicable to Acceptances accepted by a Schedule II/ III Reference Lender pursuant to the applicable Drawing Notice;

(D) an Acceptance Equivalent Loan made by a Non–Acceptance Canadian Lender will be considered to be part of a Non–Acceptance Canadian Lender’s outstanding Acceptances for all purposes of this Agreement; and

(E) a Canadian Borrower shall deliver Discount Notes to each Non–Acceptance Canadian Lender and grants to each Non–Acceptance Canadian Lender a power of attorney in respect of the completion and execution of Discount Notes, each in accordance with Section 2.10(f).

(k) Prepayment of Acceptances and Discount Notes. No Acceptance or Discount Note may be repaid or prepaid prior to the maturity date of such Acceptance or Discount Note, except in accordance with the provisions of Section 2.18(e) or Section 8.

(l) Depository Bills and Notes Act. At the option of the Canadian Borrowers and any Applicable Lending Office of a Canadian Revolving Lender, Acceptances and Discount Notes under this Agreement to be accepted by such Applicable Lending Office may be issued in the form of depository bills and depository notes, respectively, for deposit with The Canadian Depository for Securities Limited pursuant to the Depository Bills and Notes Act (Canada). All depository bills and depository notes so issued shall be governed by the Depository Bills and Notes Act (Canada) and the provisions of this Section 2.10.

(m) Acceptance Fee. Each Canadian Borrower agrees to pay to each Applicable Lending Office of a Canadian Revolving Lender a fee (the "Acceptance Fee") in advance and in Canadian Dollars, at a rate per annum equal to the Applicable Margin for Revolving Loans which are Eurocurrency Loans, on the date of acceptance of each Acceptance. All Acceptance Fees shall be calculated on the face amount of the Acceptance issued and computed on the basis of the actual number of days in the term thereof and a year of 365 days. The Acceptance Fee shall be in addition to any other fees payable to each Applicable Lending Office of a Canadian Revolving Lender in connection with the issuance or discounting of such Acceptance. The discount rate for Acceptance Fees shall be calculated under terms customary to the practice of the Applicable Lending Offices of Canadian Revolving Lenders and shall be based upon a year of 365 days and the term of such Acceptance.

2.11 Swingline Commitment. (a) Subject to the terms and conditions hereof, each Swingline Lender agrees to make a portion of the credit otherwise available to the Company and any Domestic Subsidiary Borrower under the Domestic Revolving Commitments from time to time during the Revolving Commitment Period by making swing line loans ("Swingline Loans") in Dollars to the Company and any Domestic Subsidiary Borrower; provided that (i) the aggregate principal amount of Swingline Loans made by such Swingline Lender outstanding at any time shall not exceed the Swingline Commitment of such Swingline Lender then in effect (notwithstanding that the Swingline Loans outstanding at any time, when aggregated with any Swingline Lender's other outstanding Domestic Revolving Loans, may exceed such Lender's Swingline Commitment then in effect), (ii) the Company or the relevant Subsidiary Borrower shall not request any Swingline Loan if, after giving effect to the making of such Swingline Loan and the use of proceeds thereof, the aggregate amount of the Available Domestic Revolving Commitments would be less than zero and (iii) after giving effect to such borrowing and the use of proceeds thereof, (A) the Outstanding Amount of Borrowing Base Debt shall not exceed the Borrowing Base at such time, (B) the Total Revolving Extensions of Credit shall not exceed the Total Revolving Commitments at such time and (C) the Outstanding Amount of all Swingline Loans shall not exceed the Swingline Sublimit. During the Revolving Commitment Period, the Company and any Domestic Subsidiary Borrower may use the Swingline Commitment by borrowing, repaying and reborrowing, all in accordance with the terms and conditions hereof.

(b) The Swingline Loans may from time to time be (i) ABR Loans, (ii) Money Market Rate Loans or (iii) a combination thereof, as determined by the Company and notified to and, in the case of any Money Market Rate Loan, consented to by the relevant Swingline Lender in accordance herewith.

(c) The Company or relevant Subsidiary Borrower shall repay to the relevant Swingline Lender the then unpaid principal amount of each Swingline Loan advanced by such Swingline Lender on the earliest of (i) the date that is ten Business Days after the date of such

advance, (ii) the Revolving Termination Date then in effect and (iii) the Interest Payment Date with respect thereto.

2.12 Procedure for Swingline Borrowing: Refunding of Swingline Loans. (a) Whenever the Company or any Domestic Subsidiary Borrower desires that a Swingline Lender make Swingline Loans it shall give such Swingline Lender telephonic notice confirmed promptly in writing (which telephonic notice must be received by such Swingline Lender not later than 1:00 P.M., New York City time, on the proposed Borrowing Date), specifying (i) the amount and Type of Swingline Loan to be borrowed, (ii) with respect to any Money Market Rate Loan, the length of the Interest Period therefor and (iii) the requested Borrowing Date (which shall be a Business Day during the Revolving Commitment Period). Prior to any such notice, the Company or the relevant Subsidiary Borrower may request a quote from the relevant Swingline Lender as to the Money Market Rate that would apply to such Swingline Loan if it were to be a Money Market Rate Loan for the Interest Period specified by the Company or such Subsidiary Borrower, and such Swingline Lender shall promptly notify the Company or the relevant Subsidiary Borrower whether it is willing to make a Money Market Rate Loan and, if applicable, provide such a quote for such Interest Period. If the Company or such Subsidiary Borrower accepts such rate, such Swingline Loan shall be a Money Market Rate Loan for such Interest Period bearing interest at such rate. The relevant Swingline Lender shall promptly confirm such quote with respect to the Money Market Rate Loan to be made in writing. Each borrowing under the Swingline Commitment shall be in an amount equal to \$25,000,000 or a whole multiple of \$1,000,000 in excess thereof. Not later than 3:00 P.M., New York City time, on the Borrowing Date specified in a notice in respect of Swingline Loans, such Swingline Lender shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the amount of the Swingline Loan to be made by such Swingline Lender. The Administrative Agent shall make the proceeds of such Swingline Loan available to the Company or relevant Subsidiary Borrower on such Borrowing Date by depositing such proceeds in the account of the Company or relevant Subsidiary Borrower with the Administrative Agent or such other account as the Company or the relevant Subsidiary Borrower may specify to the Administrative Agent in writing on such Borrowing Date in immediately available funds. Such Swingline Lender shall not make any Swingline Loan in the period commencing on the first Business Day after it receives written notice from the Administrative Agent that one or more of the conditions precedent contained in Section 5.2 shall not on such date be satisfied, and ending when such conditions are satisfied. The Administrative Agent shall immediately notify the Swingline Lender upon becoming aware that such conditions in Section 5.2 are thereafter satisfied. Such Swingline Lender shall not otherwise be required to determine that, or take notice whether, the conditions precedent set forth in Section 5.2 have been satisfied in connection with the making of any Swingline Loan. Notwithstanding the foregoing, the Company and any Swingline Lender may at any time and from time to time enter into agreements which provide for procedures for soliciting, extending and funding Swingline Loans to the Company or any Subsidiary Borrower which differ from those specified herein.

(b) Each Swingline Lender, at any time and from time to time in its sole and absolute discretion may, on behalf of the Company or relevant Subsidiary Borrower (each of which hereby irrevocably directs each Swingline Lender to act on its behalf), on one Business Day's notice given by such Swingline Lender to the Administrative Agent no later than 12:00 Noon, New York City time, request each Domestic Revolving Lender to make, and each Domestic Revolving Lender hereby agrees to make, a Domestic Revolving Loan, in an amount equal to such Domestic Revolving Lender's Domestic Revolving Percentage of the aggregate amount of the Swingline Loans advanced by such Swingline Lender (the "Refunded Swingline Loans") outstanding on the date of such notice, to repay such Swingline Lender. Each Domestic Revolving Lender shall make the amount of such Domestic Revolving Loan available to the Administrative Agent at the Funding Office in immediately available funds, not later than 10:00 A.M., New York City time, one Business Day after the date of such notice. The proceeds of such Domestic Revolving Loans

shall be immediately made available by the Administrative Agent to the relevant Swingline Lender for application by such Swingline Lender to the repayment of the Refunded Swingline Loans.

(c) If prior to the time a Domestic Revolving Loan would have otherwise been made pursuant to Section 2.12(b), one of the events described in Section 8(f) shall have occurred and be continuing with respect to the Company or if for any other reason, as determined by a Swingline Lender in its sole discretion, Domestic Revolving Loans may not be made as contemplated by Section 2.12(b), each Domestic Revolving Lender shall, on the date such Domestic Revolving Loan was to have been made pursuant to the notice referred to in Section 2.12(b), purchase for cash an undivided participating interest in the then outstanding Swingline Loans by paying to the relevant Swingline Lender an amount (the "Swingline Participation Amount") equal to (i) such Domestic Revolving Lender's Domestic Revolving Percentage times (ii) the sum of the aggregate principal amount of Swingline Loans advanced by such Swingline Lender(s) then outstanding that were to have been repaid with such Domestic Revolving Loans, and any Swingline Loans that are Money Market Rate Loans shall be automatically converted to ABR Loans on such date.

(d) Whenever, at any time after a Swingline Lender has received from any Domestic Revolving Lender such Lender's Swingline Participation Amount, such Swingline Lender receives any payment on account of the Swingline Loans, such Swingline Lender will distribute to such Lender its Swingline Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Lender's pro rata portion of such payment if such payment is not sufficient to pay the principal of and interest on all Swingline Loans advanced by such Swingline Lender(s) then due); provided, however, that in the event that such payment received by a Swingline Lender is required to be returned, such Domestic Revolving Lender will return to such Swingline Lender any portion thereof previously distributed to it by such Swingline Lender.

(e) Each Domestic Revolving Lender's obligation to make the Loans referred to in Section 2.12(b) and to purchase participating interests pursuant to Section 2.12(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (i) any setoff, counterclaim, recoupment, defense or other right that such Domestic Revolving Lender or the Company or any Subsidiary Borrower may have against the Swingline Lender, the Company or any Subsidiary Borrower or any other Person for any reason whatsoever, (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 5, (iii) any adverse change in the condition (financial or otherwise) of the Company or any Subsidiary Borrower, (iv) any breach of this Agreement or any other Loan Document by the Company, any Subsidiary Borrower, any other Loan Party or any other Lender or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.13 New or Successor Swingline Lender; Swingline Commitments. The Company may (a) terminate the Swingline Commitment of any Swingline Lender for any reason upon not less than three Business Days prior written notice to the Administrative Agent and such Swingline Lender, (b) add additional Swingline Lenders (with the consent of such Lender) and (c) increase (with the consent of such Lender) or decrease the Swingline Commitment of any existing Swingline Lender at any time upon notice to the Administrative Agent in accordance with the provisions of this Section 2.13. If the Company shall decide to add a new Swingline Lender under this Agreement, then the Company may appoint from among the Domestic Revolving Lenders a new Swingline Lender, with the consent of the Administrative Agent (such consent not to be unreasonably withheld), whereupon such Lender shall become a Swingline

Lender under this Agreement and the other Loan Documents with the rights, powers and duties of a Swingline Lender hereunder. Upon the termination of the Swingline Commitments of a Swingline Lender, the Company shall pay to the terminated Swingline Lender all principal and accrued interest on outstanding Swingline Loans owing to such terminated Swingline Lender. The acceptance of any appointment as a Swingline Lender hereunder in accordance with this Agreement or the increase of the Swingline Commitment of any existing Swingline Lender, shall be evidenced by an agreement entered into by such Swingline Lender in a form reasonably satisfactory to the Company, such Swingline Lender and the Administrative Agent and, from and after the effective date of such agreement, such new or successor lender of Swingline Loans shall become a "Swingline Lender" hereunder or such increased Swingline Commitment shall become effective. The Administrative Agent shall promptly notify the Lenders of the effectiveness of any addition of a Swingline Lender, or any increased Swingline Commitment pursuant to this Section 2.13.

2.14 Competitive Bid Procedure. (a) Subject to the terms and conditions set forth herein, from time to time during the Revolving Commitment Period the Company may request Competitive Bids and may (but shall not have any obligation to) accept Competitive Bids and borrow Competitive Loans in Dollars; provided that, after giving effect to such borrowing and the use of proceeds thereof, (i) the Outstanding Amount of Borrowing Base Debt shall not exceed the Borrowing Base at such time and (ii) the Total Revolving Extensions of Credit shall not exceed the Total Revolving Commitments at such time. To request Competitive Bids, the Company shall give the Administrative Agent written notice (or telephonic notice promptly confirmed in writing) by delivery of a Competitive Bid Request not later than 12:00 Noon New York City time (A) four Business Days prior to the requested Borrowing Date, in the case of Eurocurrency Competitive Loans, or (B) one Business Day prior to the requested Borrowing Date, in the case of Fixed Rate Loans. Each such Competitive Bid Request shall specify (1) the amount (which shall be a minimum of \$50,000,000) and Type of the requested Competitive Loans, (2) the requested Borrowing Date and (3) the requested Interest Period applicable thereto; provided that the Company may request offers to make Competitive Loans for more than one Interest Period or for multiple Types of Competitive Loans in a single Competitive Bid Request.

(b) Promptly following receipt of a Competitive Bid Request conforming to the requirements of this Section (but, in any event, no later than 3:00 p.m. New York City time, on the date of receipt thereof), the Administrative Agent shall notify the Revolving Lenders of the details thereof, inviting the Revolving Lenders to submit Competitive Bids.

(c) Each Revolving Lender (or any Applicable Lending Office of such Lender) may (but shall not have any obligation to) make one or more Competitive Bids to the Company in response to a Competitive Bid Request. Each Competitive Bid by a Revolving Lender must be in the form of Exhibit J and must be received by the Administrative Agent at its office specified in Section 10.2 not later than 9:30 A.M., New York City time, three Business Days before the proposed Borrowing Date, in the case of Eurocurrency Competitive Loans, or 9:30 A.M., New York City time, on the proposed Borrowing Date, in the case of Fixed Rate Loans. Competitive Bids that do not conform substantially to Exhibit J may be rejected by the Administrative Agent, and the Administrative Agent shall notify the applicable Lender as promptly as practicable if such bid is rejected. Each Competitive Bid shall specify (i) the principal amount (which shall be a minimum of \$5,000,000 and which may equal the entire principal amount of the Competitive Loans requested by the Company) of the Competitive Loan or Loans that the Lender is willing to make, (ii) the Competitive Bid Rate or Rates at which the Lender is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof. A Competitive Bid may set forth up to five separate offers by a quoting Lender with respect to

each Interest Period specified in a Competitive Bid Request. A Competitive Bid submitted pursuant to this paragraph (c) shall be irrevocable.

(d) The Administrative Agent shall promptly (and, in any event, by no later than 10:00 A.M., New York City time (i) three Business Days before the proposed Borrowing Date, in the case of Eurocurrency Competitive Loans, and (ii) on the proposed Borrowing Date, in the case of Fixed Rate Loans) notify the Company of the Competitive Bid Rate and the principal amount specified in each Competitive Bid and the identity of the Lender that shall have made such Competitive Bid and, as soon as practical thereafter, shall provide the Company with a copy of all Competitive Bids (including rejected bids).

(e) Subject only to the provisions of this paragraph, the Company may accept or reject any Competitive Bid. The Company shall notify the Administrative Agent by telephone, promptly confirmed in writing by delivery of a Competitive Bid Accept/Reject Letter to the Administrative Agent, whether and to what extent it has decided to accept or reject each Competitive Bid not later than 10:30 A.M., New York City time (x) three Business Days before the proposed Borrowing Date, in the case of Eurocurrency Competitive Loans, and (y) on the proposed Borrowing Date, in the case of Fixed Rate Loans; provided that (i) the failure of the Company to give such notice shall be deemed to be a rejection of each Competitive Bid, (ii) the Company shall not accept a Competitive Bid of a particular Type made at a particular Competitive Bid Rate if the Company rejects a Competitive Bid for Loans of such Type made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Company shall not exceed the aggregate amount of the requested Competitive Loans specified in the related Competitive Bid Request, (iv) to the extent necessary to comply with clause (iii) above, the Company may accept Competitive Bids at the same Competitive Bid Rate in part, which acceptance, in the case of multiple Competitive Bids at such Competitive Bid Rate, shall be made (as nearly as possible) pro rata in accordance with the amount of each such Competitive Bid with such amounts rounded (as nearly as possible) to integral multiples of \$1,000,000, in a manner determined by the Company, and (v) except pursuant to clause (iv) above, no Competitive Bid shall be accepted for a Competitive Loan made by a Lender unless such Competitive Loan is in a minimum principal amount of \$5,000,000. A notice given by the Company pursuant to this paragraph shall be irrevocable.

(f) The Administrative Agent shall promptly (and, in any event, by 11:00 A.M., New York City time (i) three Business Days before the proposed Borrowing Date, in the case of Eurocurrency Competitive Loans, and (ii) on the proposed Borrowing Date, in the case of Fixed Rate Loans) notify each bidding Lender whether or not its Competitive Bid has been accepted (and, if so, the amount and Competitive Bid Rate so accepted), and each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Competitive Loan in respect of which its Competitive Bid has been accepted.

(g) If the Administrative Agent shall elect to submit a Competitive Bid in its capacity as a Lender, it shall submit such Competitive Bid directly to the Company at least one half of an hour earlier than the time by which the other Lenders are required to submit their Competitive Bids to the Administrative Agent pursuant to paragraph (c) of this Section.

(h) The Company shall repay each outstanding Competitive Loan on the last day of the Interest Period therefor.

2.15 Facility Fees, etc. (a) The Company agrees to pay to the Administrative Agent for the account of each Revolving Lender a facility fee for the period from and including the Closing Date

(or such later date as such Lender shall become a Lender hereunder) to the day on which all Revolving Extensions of Credit of such Lender have been paid in full and the Revolving Commitments of such Lender have been terminated, computed at the Facility Fee Rate on the average daily amount of the Revolving Commitments of such Lender (whether used or unused) or, if such Revolving Commitments have been terminated, on the daily average Revolving Extensions of Credit of such Lender during the related Fee Payment Period for which payment is made, payable in arrears on each Fee Payment Date, commencing on the first such date to occur after the date hereof.

(b) The Company agrees to pay to the Administrative Agent the fees in the amounts and on the dates as set forth in any fee agreements with the Administrative Agent.

2.16 Termination, Reduction or Reallocation of Revolving Commitments. (a) The Company shall have the right, upon not less than three Business Days' notice to the Administrative Agent, to terminate the Revolving Commitments under any Revolving Facility or, from time to time, to reduce the amount of the Revolving Commitments under any Revolving Facility; provided that no such termination or reduction of Revolving Commitments shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Loans and Swingline Loans made on the effective date thereof, the Total Revolving Extensions of Credit would exceed the Total Revolving Commitments or the Revolving Extensions of Credit under any Revolving Facility would exceed the Revolving Commitments under such Revolving Facility. Any such reduction shall be in an amount equal to \$250,000,000, or a whole multiple of \$25,000,000 in excess thereof, and shall reduce permanently such Revolving Commitments under such Facility then in effect. Each notice delivered by the Company pursuant to this Section 2.16 shall be irrevocable; provided, that a notice to terminate any Revolving Commitments delivered by the Company may state that such notice is conditioned upon the effectiveness of other credit facilities or a Change of Control, in which case, such notice may be revoked by the Company (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Notwithstanding the foregoing, the revocation of a termination notice shall not affect the Company's obligation to indemnify any Lender in accordance with Section 2.27 for any loss or expense sustained or incurred as a consequence thereof.

(b) The Company shall have the right, upon not less than three Business Days' notice to the Administrative Agent, to require Revolving Lenders under the Canadian Revolving Facility and/or the Multicurrency Revolving Facility to reallocate their Revolving Commitments thereunder to the Domestic Revolving Facility; provided that, after giving effect to any such reallocation, the Total Canadian Revolving Extensions of Credit shall not exceed the Total Canadian Revolving Commitments and the Total Multicurrency Revolving Extensions of Credit shall not exceed the Total Multicurrency Revolving Commitments. Any such reallocation shall be in an amount equal to \$25,000,000, or a whole multiple of \$1,000,000 in excess thereof. Any such reallocation shall reduce the Revolving Commitment of Lenders under the Canadian Revolving Facility or the Multicurrency Revolving Facility, as applicable, pro rata in accordance with their existing Revolving Commitment under such Facility at such time and increase such Revolving Lender's Domestic Revolving Commitment by such amount; provided that if such reallocation would result in amounts being payable by the Company or any Subsidiary Borrower to any Lender under Section 2.25 or Section 2.26, such Lender shall change its Applicable Lending Office to avoid such result. On the date of any such reallocation, (i) each relevant Revolving Lender shall make available to the Administrative Agent such amounts in immediately available funds as the Administrative Agent shall determine is necessary in order to cause, after giving effect to such increased Domestic Revolving Commitments and the application of such amounts to prepay Domestic Revolving Loans of other relevant Domestic Revolving Lenders, the Domestic Revolving Loans to be held ratably by all Domestic Revolving Lenders in accordance with their respective Domestic Revolving Commitments after giving effect to such increase, (ii)

the Company and any relevant Subsidiary Borrower shall be deemed to have prepaid and reborrowed all outstanding Domestic Revolving Loans and (iii) the Company and any relevant Subsidiary Borrower shall pay to the relevant Domestic Revolving Lenders the amounts, if any, payable under Section 2.27 as a result of such prepayment.

(c) The Company may at any time or from time to time after the Closing Date, by notice to the Administrative Agent and the relevant Revolving Lenders, request that one or more of the Revolving Lenders under the Domestic Revolving Facility reallocate a portion of their respective Domestic Revolving Commitments to the Canadian Revolving Facility or the Multicurrency Revolving Facility; provided that, after giving effect to any such reallocation and any prepayment of the Domestic Revolving Loans (which may include a non pro rata prepayment of the Domestic Revolving Lenders agreeing to such reallocation), the Domestic Revolving Extensions of Credit shall not exceed the Domestic Revolving Commitments. Each notice from the Company pursuant to this paragraph (c) shall set forth the requested amount of such reallocation and date of such reallocation (which shall be at least three Business Days after the date of such request) and shall also set forth the agreement of the relevant Domestic Revolving Lenders to such reallocation. Domestic Revolving Lenders agreeing to reallocate a portion of their Domestic Revolving Commitments to such other Revolving Facility shall have such portion of their Domestic Revolving Commitment reallocated as provided in such notice. On the date of any such reallocation, (i) each relevant Revolving Lender shall make available to the Administrative Agent such amounts in immediately available funds as the Administrative Agent shall determine is necessary in order to cause, after giving effect to such reallocation and the application of such amounts to prepay Revolving Loans under the relevant Revolving Facility or Facilities, the Revolving Loans under each Revolving Facility to be held ratably by all Revolving Lenders under such Facility in accordance with their respective Revolving Commitments under such Revolving Facility after giving effect to such reallocation, (ii) the Company and any relevant Subsidiary Borrower shall be deemed to have prepaid and reborrowed all outstanding Revolving Loans under the relevant Facility or Facilities and (iii) the Company and any relevant Subsidiary Borrower shall pay to the relevant Revolving Lenders the amounts, if any, payable under Section 2.27 as a result of such prepayment(s). Notwithstanding anything in this clause (c) to the contrary, no Domestic Revolving Lender shall be obligated to transfer any portion of its Domestic Revolving Commitments to the Canadian Revolving Facility or the Multicurrency Revolving Facility unless such Revolving Lender agrees (it being understood that any Lender that is not a Qualifying Canadian Lender shall not be entitled to a gross-up under Section 2.26).

2.17 Optional Prepayments. The Company and any relevant Subsidiary Borrower may at any time and from time to time prepay the Loans, in whole or in part, without premium or penalty (except as provided in Section 2.24(b)), upon irrevocable notice delivered to the Administrative Agent no later than 12:00 Noon, New York City time, three Business Days prior thereto, in the case of Eurocurrency Loans, and no later than 12:00 Noon, New York City time, on the day of such prepayment, in the case of ABR Loans or Canadian Base Rate Loans, which notice shall specify the applicable Facility and the date and amount of prepayment and whether the prepayment is of Eurocurrency Loans, ABR Loans or Canadian Base Rate Loans; provided, that (a) if a Eurocurrency Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Company or relevant Subsidiary Borrower shall also pay any amounts owing pursuant to Section 2.27 and (b) no Competitive Loan may be prepaid without the consent of the Lender thereof except for any prepayment in connection with a Change of Control or in order to cure an Event of Default; provided, further, that such notice to prepay the Loans delivered by the Company may state that such notice is conditioned upon the effectiveness of other credit facilities or a Change of Control, in either case, which such notice may be revoked by the Company (by further notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Notwithstanding the foregoing, the revocation of a termination notice shall not

affect the Company's obligation to indemnify any Lender in accordance with Section 2.27 for any loss or expense sustained or incurred as a consequence thereof. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with (except in the case of Revolving Loans or Swingline Loans that are ABR Loans or Canadian Base Rate Loans) accrued interest to such date on the amount prepaid. Partial prepayments of Term Loans and Revolving Loans shall be in an integral multiple of 1,000,000 of the Currency of such Loan and no less than the Dollar Equivalent of \$25,000,000. Partial prepayments of Swingline Loans shall be in an aggregate principal amount of \$10,000,000 or a whole multiple thereof.

2.18 Mandatory Prepayments. (a) If any event requiring a Mandatory Prepayment pursuant to Section 7 shall occur, the Company shall notify the Administrative Agent of any such Mandatory Prepayment no later than 12:00 Noon, New York City time, one Business Day prior thereto. To the extent that the holders of the Permitted Additional Notes do not accept any repurchase offer in connection with a Mandatory Prepayment, the Company shall be permitted, at its option, to (i) retain the amounts subject to such rejected offer or (ii) apply such amounts to optionally prepay the outstanding Term Loans pursuant to Section 2.17. If more than one Eurocurrency Tranche is outstanding, such prepayment shall be applied to such tranches in the order specified by the Company or, if not specified, to the tranches starting with the shortest remaining Interest Periods.

(b) Amounts to be applied in connection with prepayments of the outstanding Term Loans pursuant to this Section 2.18 shall be applied, first, to ABR Loans and, second, to Eurocurrency Loans and, in each case, in accordance with Section 2.24(b). Each prepayment of the Term Loans under this Section 2.18 shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid and without premium or penalty (except as provided in Section 2.24(b) with respect to Mandatory Prepayments required pursuant to Section 7.4(f)). If no Term Loans are outstanding, such remaining amounts shall be retained by the Company and its Subsidiaries.

(c) On each Fee Payment Date, the Administrative Agent shall determine the Dollar Equivalent of the aggregate outstanding Multicurrency Revolving Extensions of Credit as of the last day of the related Fee Payment Period. If, as of the last day of any Fee Payment Period, the Dollar Equivalent of the aggregate outstanding Multicurrency Revolving Extensions of Credit exceed the Multicurrency Revolving Commitments then in effect by 5% or more, then the Administrative Agent shall notify the Company and within five Business Days of such notice, the Company or the relevant Subsidiary Borrower shall prepay Multicurrency Revolving Loans in an aggregate principal amount at least equal to such excess; provided that the failure of the Administrative Agent to determine the Dollar Equivalent of the aggregate outstanding Multicurrency Revolving Extensions of Credit as provided in this Section 2.18 shall not subject the Administrative Agent to any liability hereunder.

(d) On each Fee Payment Date, the Administrative Agent shall determine the Dollar Equivalent of the aggregate outstanding Domestic Revolving Extensions of Credit (based on the Dollar Equivalent of the Outstanding Amount of any Letter of Credit denominated in a Currency other than Dollars as of the last day of the related Fee Payment Period). If, as of the last day of any Fee Payment Period, the aggregate outstanding Domestic Revolving Extensions of Credit exceed the Domestic Revolving Commitments then in effect by 5% or more, then the Administrative Agent shall notify the Company and within five Business Days of such notice, the Company or the relevant Subsidiary Borrower shall prepay Domestic Revolving Loans or Swingline Loans or Collateralize outstanding Letters of Credit in an aggregate principal amount at least equal to such excess; provided that the failure of the Administrative Agent to determine

the Dollar Equivalent of the aggregate outstanding Domestic Revolving Extensions of Credit as provided in this Section 2.18 shall not subject the Administrative Agent to any liability hereunder.

(e) On each Fee Payment Date, the Administrative Agent shall determine the Dollar Equivalent of the aggregate outstanding Canadian Revolving Extensions of Credit as of the last day of the related Fee Payment Period. If, as of the last day of any Fee Payment Period, the Dollar Equivalent of the aggregate outstanding Canadian Revolving Extensions of Credit exceed the Canadian Revolving Commitments then in effect by 5% or more, then the Administrative Agent shall notify the Company and within five Business Days of such notice, the Company or the relevant Subsidiary Borrower shall prepay Canadian Revolving Loans in an aggregate principal amount at least equal to such excess; provided that the failure of the Administrative Agent to determine the Dollar Equivalent of the aggregate outstanding Canadian Revolving Extensions of Credit as provided in this Section 2.18 shall not subject the Administrative Agent to any liability hereunder.

2.19 Conversion and Continuation Options. (a) The Company or any Subsidiary Borrower may elect from time to time to convert Eurocurrency Loans denominated in Dollars to ABR Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 11:00 A.M., New York City time, on the third Business Day preceding the proposed conversion date, provided that any such conversion of Eurocurrency Loans that is not made on the last day of an Interest Period with respect thereto shall be subject to Section 2.27. The Company or any Subsidiary Borrower may elect from time to time to convert ABR Loans to Eurocurrency Loans denominated in Dollars by giving the Administrative Agent prior irrevocable notice of such election no later than 12:00 Noon, New York City time, on the third Business Day preceding the proposed conversion date (which notice shall specify the length of the initial Interest Period therefor); provided that no ABR Loan under a particular Facility may be converted into a Eurocurrency Loan denominated in Dollars when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Facility Lenders in respect of such Facility have determined in its or their sole discretion not to permit such conversions. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender, the Company and any relevant Subsidiary Borrower thereof.

(b) Any Eurocurrency Loan may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Company or relevant Subsidiary Borrower giving irrevocable notice to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in Section 1.1, of the length of the next Interest Period(s) to be applicable to such Loans; provided that no Eurocurrency Loan denominated in Dollars under a particular Facility may be continued as such when any Event of Default has occurred and is continuing and the Administrative Agent has or the Majority Facility Lenders in respect of such Facility have determined in its or their sole discretion not to permit such continuations (and the Administrative Agent shall notify the Company within a reasonable amount of time of any such determination); and provided, further, that if the Company or such Subsidiary Borrower shall fail to give any required notice as described above in this paragraph such Loans shall be automatically continued as a Eurocurrency Loan or an ABR Loans, as applicable, on the last day of such then expiring Interest Period and, in the case of any Eurocurrency Loan, shall have an Interest Period of the same duration as such expiring Interest Period. Upon receipt of any such notice (or any such automatic continuation), the Administrative Agent shall promptly notify each relevant Lender, the Company and any relevant Subsidiary Borrower thereof.

2.20 Limitations on Eurocurrency Tranches. Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions and continuations of Eurocurrency Loans and all

selections of Interest Periods shall be in such amounts and be made pursuant to such elections so that no more than (a) 20 Eurocurrency Tranches shall be outstanding at any one time with respect to the Term Facility (and any Incremental Term Loan Facility) and (b) 30 Eurocurrency Tranches shall be outstanding at any one time with respect to the Revolving Facilities.

2.21 Interest Rates and Payment Dates. (a) Each Eurocurrency Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to, in the case of Revolving Loans or Term Loans, the Eurocurrency Rate determined for such Interest Period plus the Applicable Margin.

(b) Each Eurocurrency Competitive Loan shall bear interest at a rate per annum equal to the Eurocurrency Base Rate applicable to such Loan plus (or minus, as applicable) the Margin.

(c) Each ABR Loan shall bear interest at a rate per annum equal to the ABR plus the Applicable Margin.

(d) Each Canadian Base Rate Loan shall bear interest of a rate per annum equal to the Canadian Base Rate plus the Applicable Margin.

(e) Each Fixed Rate Loan shall bear interest at the Fixed Rate applicable to such Loan.

(f) Each Money Market Rate Loan shall bear interest during the Interest Period applicable thereto at a rate per annum equal to the Money Market Rate applicable to such Loan.

(g) (i) If all or a portion of the principal amount of any Loan or Reimbursement Obligation shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to (x) in the case of the Loans, the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this Section plus 2% per annum or (y) in the case of Reimbursement Obligations, the rate applicable to ABR Loans under the Domestic Revolving Facility plus 2% per annum, and (ii) if all or a portion of any interest payable on any Loan or Reimbursement Obligation or any facility fee, Letter of Credit Fee, Acceptance Fee or prepayment premium payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to ABR Loans or Canadian Base Rate Loans, as applicable under the relevant Facility unless such overdue amount is denominated in an Optional Currency, in which case such overdue amount shall bear interest of a rate per annum equal to the highest rate then applicable under this Agreement to Multicurrency Revolving Loans denominated in such Optional Currency plus 2% per annum (or, in the case of any such other amounts that do not relate to a particular Facility, the rate then applicable to ABR Loans under the Domestic Revolving Facility plus 2% per annum), in each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (as well after as before judgment).

(h) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (g) of this Section shall be payable from time to time on demand.

2.22 Computation of Interest and Fees. (a) Interest and fees payable pursuant hereto shall be calculated on the basis of a 360-day year for the actual days elapsed, except that (i) with respect

to ABR Loans the rate of interest on which is calculated on the basis of the Prime Rate or the US Base Rate (Canada) or Canadian Base Rate Loans or Acceptance Equivalent Loans, the interest thereon and all Acceptance Fees shall be calculated on the basis of a 365– (or 366–, as the case may be, except in the case of Acceptances or rates calculated based on the CDOR Rate) day year for the actual days elapsed, (ii) interest and fees payable with respect to Multicurrency Revolving Loans denominated in Pounds Sterling shall be calculated on the basis of a 365– (or 366–, as the case may be) day year for the actual days elapsed and (iii) interest and fees payable with respect to Multicurrency Loans denominated in any other Optional Currency shall be calculated on the basis of a 365– (or 366–, as the case may be) day year for the actual days elapsed to the extent consistent with market practice. For purposes of disclosure pursuant to the Interest Act (Canada), the annual rates of interest or fees to which the rates of interest or fees provided in this Agreement and the other Loan Documents (and stated herein or therein, as applicable, to be computed on the basis of a 360 day year in respect of Loans denominated in Dollars and a 365 day year in respect of Loans denominated in Canadian Dollars or any other period of time less than a calendar year) are equivalent to the rates so determined multiplied by the actual number of days in the applicable calendar year and divided by 360 or 365, as applicable, or such other period of time, respectively. The Administrative Agent shall as soon as practicable notify the Company or relevant Subsidiary Borrower and the relevant Lenders of each determination of a Eurocurrency Rate. Any change in the interest rate on a Loan resulting from a change in the ABR, Canadian Base Rate or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Company or relevant Subsidiary Borrower and the relevant Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Company, any Subsidiary Borrower and the Lenders in the absence of manifest error. The Administrative Agent shall, at the request of the Company or any Subsidiary Borrower, deliver to the Company or such Subsidiary Borrower a statement showing the quotations used by the Administrative Agent in determining any interest rate pursuant to Section 2.22(a).

2.23 Inability to Determine Interest Rate: Illegality. (a) If prior to the first day of any Interest Period:

(i) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Company or the relevant Subsidiary Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurocurrency Rate for such Interest Period, or

(ii) the Administrative Agent shall have received notice from the Majority Facility Lenders in respect of the relevant Facility that the Eurocurrency Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period, or

(iii) the Administrative Agent determines (which determination shall be conclusive and binding upon the Company or the relevant Subsidiary Borrower) that deposits in the applicable Currency are not generally available in the applicable market (any Optional Currency affected by the circumstances described in clause (i), (ii) or (iii) is referred to as an “Affected Foreign Currency”);

the Administrative Agent shall give telecopy or telephonic notice thereof to the Company and any relevant Subsidiary Borrower and the relevant Lenders as soon as practicable thereafter. If such notice is given (A) pursuant to clause (i) or (ii) of this Section 2.23(a) in respect of Eurocurrency Loans denominated in Dollars, then (1) any Eurocurrency Loans denominated in Dollars under the relevant Facility requested to be made on the first day of such Interest Period shall be made as ABR Loans, (2) any ABR Loans that were to have been converted on the first day of such Interest Period to Eurocurrency Loans denominated in Dollars under the relevant Facility shall be continued as ABR Loans and (iii) any outstanding Eurocurrency Loans denominated in Dollars under the relevant Facility shall be converted, on the last day of the then-current Interest Period, to ABR Loans and (B) in respect of any Multicurrency Revolving Loans denominated in an Optional Currency, then (1) any Multicurrency Revolving Loans in an Affected Foreign Currency requested to be made on the first day of such Interest Period shall not be made and (2) any outstanding Multicurrency Revolving Loans in an Affected Foreign Currency shall be converted into Eurocurrency Loans denominated in Dollars. Until such relevant notice has been withdrawn by the Administrative Agent, no further Eurocurrency Loans denominated in Dollars under the relevant Facility or Multicurrency Revolving Loans in an Affected Foreign Currency shall be made or continued as such, nor shall the Company or any Subsidiary Borrower have the right to convert ABR Loans under the relevant Facility to Eurocurrency Loans denominated in Dollars.

(b) If prior to a borrowing by way of the issuance of Acceptances, the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Company and the relevant Canadian Borrower) that, by reason of circumstances affecting the relevant money market, there is no market for Acceptances, then:

(i) the Administrative Agent shall give telecopy or telephonic notice thereof to the Company and each Canadian Borrower and the relevant Lenders as soon as practicable thereafter, and

(ii) the right of a Canadian Borrower to request an issuance of Acceptances shall be suspended until the Administrative Agent determines that the circumstances causing such suspension no longer exist and the Administrative Agent so notifies the Canadian Borrowers and the affected Lenders,

(iii) any Acceptances requested to be issued at such time shall not be issued and any notice relating to such Acceptances shall be deemed to be a notice requesting a borrowing by way of Canadian Base Rate Loans (as if such notice were given pursuant to Section 2.9). Until such relevant notice has been withdrawn by the Administrative Agent, no further Acceptances will be issued, nor shall the Company or any Canadian Borrower have the right to convert Canadian Base Rate Loans to Acceptances.

(c) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurocurrency Loans or to accept and purchase Acceptances as contemplated by this Agreement, such Lender shall give notice thereof to the Administrative Agent, the Company and any affected Subsidiary Borrower describing the relevant provisions of such Requirement of Law (and, if the Company shall so request, provide the Company with a memorandum or opinion of counsel of recognized standing (as selected by such Lender) as to such illegality), following which, (i) in the case of Eurocurrency Loans, (A) the commitment of such Lender hereunder to make Eurocurrency Loans, continue such Eurocurrency Loans as such and convert ABR Loans to Eurocurrency Loans shall forthwith be cancelled, (B) such Lender's outstanding Eurocurrency Loans denominated in Dollars shall be converted automatically on the last day of the then current Interest Periods with respect to such Loans (or within such earlier period as shall be required by

law) to ABR Loans and (C) such Lender's outstanding Eurocurrency Loans denominated in any Optional Currency shall be paid in full on the respective last days of the then current Interest Periods with respect to such Loans (or within such earlier period as shall be required by law) and (ii) in respect of Acceptances, (A) the commitment of such Lender hereunder to issue or accept Acceptances shall forthwith be cancelled and (B) the full face amount of such Lender's outstanding Acceptances shall be repaid in full on the last day of the then current maturity dates with respect to such Acceptances (or within such earlier period as shall be required by law) or if not so repaid, then the full face amount thereof shall be converted to Canadian Base Rate Loans.

If any such conversion or prepayment of a Eurocurrency Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Company or the relevant Subsidiary Borrower whose Loan is converted or prepaid shall pay to such Lender such amounts, if any, as may be required pursuant to Section 2.27.

(d) If any provision of this Agreement or any of the other Loan Documents would obligate any Canadian Borrower to make any payment of interest with respect to any of the Canadian Revolving Extensions of Credit or other amount payable to the Administrative Agent or any Canadian Revolving Lender in an amount or calculated at a rate which would be prohibited by any Requirement of Law or would result in a receipt by the Administrative Agent or such Canadian Revolving Lender of interest with respect to the Canadian Revolving Extensions of Credit at a criminal rate (as such terms are construed under any applicable law, including the *Criminal Code* (Canada)) then, notwithstanding such provision, such amount or rates shall be deemed to have been adjusted with retroactive effect to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by any applicable law or so result in a receipt by the Administrative Agent or such Canadian Revolving Lender of interest with respect to the Canadian Revolving Extensions of Credit at a criminal rate, such adjustment to be effected, to the extent necessary, as follows:

(i) first, by reducing the amount or rates of interest required to be paid to the Administrative Agent or the affected Canadian Revolving Lender under Section 2.21; and

(ii) thereafter, by reducing any fees, commissions, premiums and other amounts required to be paid to the Administrative Agent or the affected Canadian Revolving Lender which would constitute interest with respect to the Canadian Revolving Extensions of Credit for purposes of any applicable law, including Section 347 of the *Criminal Code* (Canada).

Notwithstanding the foregoing, and after giving effect to all adjustments contemplated thereby, if the Administrative Agent or any Canadian Revolving Lender shall have received an amount in excess of the maximum permitted by any applicable law, including section 347 of the *Criminal Code* (Canada) and the *Interest Act* (Canada), then the applicable Canadian Borrower shall be entitled, by notice in writing to the Administrative Agent or the affected Canadian Revolving Lender, to obtain reimbursement from the Administrative Agent or such Canadian Revolving Lender in an amount equal to such excess, and pending such reimbursement, such amount shall be deemed to be an amount payable by the Administrative Agent or such Canadian Revolving Lender to such Canadian Borrower. Any amount or rate of interest referred to in this Section 2.23(d) shall be determined in accordance with generally accepted actuarial practices and principles as an effective annual rate of interest over the term that any Canadian Revolving Commitment remains outstanding on the assumption that any charges, fees or expenses that fall within the meaning of "interest" (as defined in or construed by any applicable law, including the *Criminal Code* (Canada)) shall, if they relate to a specific period of time, be pro-rated over that period of time and otherwise be pro-rated over the period from the Closing Date to the Revolving Termination Date and for the purpose of the *Criminal Code* (Canada), in the event of a dispute, a

certificate of a Fellow of the Canadian Institute of Actuaries appointed by the Administrative Agent shall be conclusive for the purposes of such determination.

2.24 Pro Rata Treatment and Payments; Evidence of Debt. (a) Each borrowing of Term Loans or Revolving Loans under any Revolving Facility by the Company or any Subsidiary Borrower from the Lenders hereunder, each payment by the Company on account of any facility fee and any reduction of the Commitments of the Lenders shall be made pro rata according to the respective Term Percentages or Revolving Percentages, as the case may be, of the relevant Lenders except to the extent required or permitted pursuant to Sections 2.16(b), 2.16(c), 2.29, 2.30 and 2.33.

(b) Each payment (including each prepayment) by the Company on account of principal of and interest on the Term Loans shall be made pro rata according to the respective outstanding principal amounts of the Term Loans then held by the Term Lenders except to the extent required or permitted pursuant to Section 2.29. The amount of each principal prepayment of the Term Loans shall be applied to reduce the then remaining installments of the Term Loans as directed by the Company. Amounts paid on account of the Term Loans may not be reborrowed. In the event that the Term Loans are paid in whole or in part by the Company pursuant to Sections 2.17, 2.29, 7.4(f) or 10.1(c) or after acceleration thereof following an Event of Default, the Company shall pay to the relevant Term Lenders a prepayment premium on the principal amount so repaid as follows: (a) the Applicable Premium if such repayment occurs on or prior to the second anniversary of the Closing Date and (b) 1.00% if such repayment occurs after the second anniversary of the Closing Date but on or prior to the third anniversary of the Closing Date.

(c) Each payment (including each prepayment) by the Company or any Subsidiary Borrower on account of principal of and interest on the Revolving Loans under any Revolving Facility shall be made pro rata according to the respective outstanding principal amounts of the Revolving Loans under such Revolving Facility then held by the Revolving Lenders under such Revolving Facility except to the extent required or permitted pursuant to Sections 2.16(b), 2.16(c), 2.29, 2.30 and 2.33. Except as otherwise provided in Section 8, each such payment shall be paid in the relevant currency in which such Revolving Loan was made.

(d) All payments (including prepayments) to be made by the Company or any Subsidiary Borrower hereunder, whether on account of principal, interest, fees or otherwise, shall be made without setoff or counterclaim and shall be made prior to 3:00 P.M., New York City time, on the due date thereof to the Administrative Agent, for the account of the Lenders, at the Funding Office, in the applicable Currency and in immediately available funds, except that payment of fronting fees owing to any Issuing Lender shall be made directly to the relevant Issuing Lender. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurocurrency Loans and the Eurocurrency Competitive Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurocurrency Loan or a Eurocurrency Competitive Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(e) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its share of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Company or any Subsidiary Borrower a corresponding amount. If such amount is not made available to the Administrative Agent by the required time on the Borrowing Date therefor, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon, (A) in the case of amounts denominated in Dollars, at a rate up to the greater of (i) the Federal Funds Effective Rate and (ii) a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, and (B) in the case of amount denominated in any other Currency, at a rate determined by the Administrative Agent to be the cost to it of funding such amount, in each case for the period until such Lender makes such amount immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this paragraph shall be conclusive in the absence of manifest error. If such Lender's share of such borrowing is not made available to the Administrative Agent by such Lender within three Business Days after such Borrowing Date, the Administrative Agent shall also be entitled to recover such amount with interest thereon (A) in the case of amounts denominated in Dollars, at the rate per annum applicable to ABR Loans under the relevant Facility, (B) in the case of amounts denominated in Canadian Dollars, at the rate per annum applicable to Canadian Base Rate Loans under the relevant Facility or (C) in the case of amounts denominated in any other Currency, at a rate determined by the Administrative Agent to be the cost to it of funding such amount, on demand, from the Company or the relevant Subsidiary Borrower.

(f) Unless the Administrative Agent shall have been notified in writing by the Company or relevant Subsidiary Borrower prior to the date of any payment due to be made by the Company or such Subsidiary Borrower hereunder that the Company or such Subsidiary Borrower will not make such payment to the Administrative Agent, the Administrative Agent may assume that the Company or such Subsidiary Borrower is making such payment, and the Administrative Agent may, but shall not be required to, in reliance upon such assumption, make available to the Lenders their respective pro rata shares of a corresponding amount. If such payment is not made to the Administrative Agent by the Company or relevant Subsidiary Borrower within three Business Days after such due date, the Administrative Agent shall be entitled to recover, on demand, from each Lender to which any amount which was made available pursuant to the preceding sentence, (A) in the case of amounts denominated in Dollars, such amount with interest thereon at the rate per annum equal to the daily average Federal Funds Effective Rate and (B) in the case of amounts denominated in other Currencies, such amount with interest thereon at a rate per annum determined by the Administrative Agent to be the cost to it of funding such amount. Nothing herein shall be deemed to limit the rights of the Administrative Agent or any Lender against the Company or any Subsidiary Borrower.

(g) Notwithstanding anything to the contrary in this Section 2.24, proceeds of the Collateral that are applied to pay the Loans while a Notice of Acceleration is in effect shall be applied pursuant to Section 3.4 of the Collateral Trust Agreement.

(h) Notwithstanding anything to the contrary in this Section 2.24, following a Collateral Release Date and while a Notice of Acceleration is in effect, all payments and distributions by the Administrative Agent on account of Obligations shall be applied (except as otherwise agreed to by the Administrative Agent and the Majority Facility Lenders under each

Facility adversely effected thereby and, in the case of clause (vi), the Company) in the following order:

- (i) first, to pay Obligations in respect of any fees, expense reimbursements or indemnities then due to the Administrative Agent;
- (ii) second, to pay Obligations in respect of any fees, expense reimbursements or indemnities then due to the Lenders and Issuing Lenders;
- (iii) third, to pay interest then due and payable in respect of all Obligations;
- (iv) fourth, to pay or prepay principal payments (and, when applicable, to provide cash collateral) for all Obligations;
- (v) fifth, to pay all other Obligations; and
- (vi) sixth, as directed by the Company.

provided, however, that if sufficient funds are not available to fund all payments to be made in respect of any of the Obligations set forth in any of clauses (i) through (v) above, the available funds being applied with respect to any such Obligation (unless otherwise specified in such clause) shall be allocated to the payment of such Obligations ratably, based on the proportion of the Administrative Agent's, each Lender's and each Issuing Lender's interest in the aggregate outstanding Obligations described in such clauses.

(i) Each of the Company and the Subsidiary Borrowers agrees that, upon the request to the Administrative Agent by any Lender, the Company or the applicable Subsidiary Borrower will promptly execute and deliver to such Lender a promissory note of the Company or such Subsidiary Borrower evidencing any Term Loans or Revolving Loans, as the case may be, of such Lender, substantially in the forms of Exhibit U-1 or U-2, respectively (a "Term Note" or "Revolving Note", respectively), with appropriate insertions as to date and principal amount.

2.25 Requirements of Law. Except with respect to Taxes, which shall be governed exclusively by Section 2.26 of this Agreement and except with respect to Competitive Loans to which this Section 2.25 shall be inapplicable:

(a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender that is not otherwise included in the determination of the Eurocurrency Rate; or

(ii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount that such Lender deems material, of making, converting into, continuing or maintaining Eurocurrency Loans or

issuing or participating in Letters of Credit, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Company or the relevant Subsidiary Borrower shall pay such Lender, within 15 Business Days of receipt of notice from the relevant Lender as described below, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this paragraph, it shall promptly notify the Company and any relevant Subsidiary Borrower (with a copy to the Administrative Agent) of the event by reason of which it has become so entitled (including a reasonably detailed calculation of such amounts).

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder or under or in respect of any Letter of Credit to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, within 15 Business Days after submission by such Lender to the Company and any relevant Subsidiary Borrower (with a copy to the Administrative Agent) of a written request therefor (together with a reasonably detailed description and calculation of such amounts), the Company and any relevant Subsidiary Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such corporation for such reduction.

(c) A certificate as to any additional amounts payable pursuant to this Section submitted by any Lender to the Company and the relevant Subsidiary Borrower (with a copy to the Administrative Agent) shall be conclusive in the absence of manifest error. Notwithstanding anything to the contrary in this Section, the Company or relevant Subsidiary Borrower shall not be required to compensate a Lender pursuant to this Section for any amounts incurred more than six months prior to the date that such Lender notifies the Company or such Subsidiary Borrower of such Lender's intention to claim compensation therefor; provided that, if the circumstances giving rise to such claim have a retroactive effect, then such six-month period shall be extended to include the period of such retroactive effect. The obligations of the Company or relevant Subsidiary Borrower pursuant to this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.26 Taxes. (a) All payments made by the Company or any Subsidiary Borrower under this Agreement (other than in respect of any Competitive Loans as to which this Section 2.26(a) shall not apply) shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding (a) net income taxes and franchise taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent or any Lender as a result of a present or former connection between the Administrative Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document) and (b) any branch profit taxes imposed by the United States or any similar tax imposed by any other Governmental Authority. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") or Other Taxes are required to be withheld from any

amounts payable to the Administrative Agent or any Lender hereunder, (i) the Company or such Subsidiary Borrower (as applicable) shall make such deductions and shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable Laws and (ii) the amounts so payable to the Administrative Agent or such Lender hereunder shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement, provided, however, that neither the Company nor any Subsidiary Borrower shall be required to increase any such amounts payable to the Administrative Agent or any Lender with respect to any Non-Excluded Taxes except to the extent that any change in applicable law, treaty or governmental rule, regulation or governmental authorization after the time such Lender (including any new or successor Swingline Lender, Issuing Lender or Administrative Agent) becomes a party to this Agreement (“Change in Tax Law”), shall result in an increase in the rate of any deduction, withholding or payment from that in effect at the time such Lender becomes a party to this Agreement, in respect of payments to such Lender hereunder, but only to the extent of such increase. Notwithstanding anything to the contrary herein, neither the Company nor any Subsidiary Borrower shall be required to increase any amounts payable to the Administrative Agent or any Lender with respect to any Non-Excluded Taxes that are attributable to such Person’s failure to comply with the requirements of paragraph (d) or (e) of this Section 2.26 except as such failure relates to a Change in Tax Law rendering such Person legally unable to comply.

(b) In addition, the Company or any relevant Subsidiary Borrower shall pay any Other Taxes over to the relevant Governmental Authority in accordance with applicable law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Company or any Subsidiary Borrower, as promptly as possible thereafter the Company or such Subsidiary Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of an original official receipt received by the Company or such Subsidiary Borrower showing payment thereof. If the Company or any Subsidiary Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, the Company and each Subsidiary Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest, additions to tax, expenses or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure; provided, however, no such indemnification obligation shall arise if the failure to pay any Non-Excluded Taxes when due arose solely from or was caused solely by, directly or indirectly, any breach of any representation or covenant in this Agreement by the applicable Lender or the Administrative Agent. The indemnification payment under this Section 2.26(c) shall be made within 30 days after the date the Administrative Agent or such Lender (as the case may be) makes a written demand therefor (together with a reasonably detailed calculation of such amounts).

(d) Each Lender (or Transferee) (i) that is not a “U.S. Person” as defined in Section 7701(a)(30) of the Code (a “Non-U.S. Lender”) shall deliver to the Company and the Administrative Agent two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI, or, in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of “portfolio interest”, a statement substantially in the form of Exhibit Q and a Form W-8BEN, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from U.S. federal withholding tax on all payments by the Company or any Subsidiary Borrower under this Agreement and the other Loan Documents and (ii) that is a “U.S. Person” as defined in Section 7701(a)(30) of the Code shall deliver to the Company and the Administrative Agent (or in the case of a Participant, to the Lender from which the related

participation shall have been purchased) two properly completed and duly executed copies of U.S. Internal Revenue Service Form W-9. Such forms shall be delivered by each Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). Thereafter, each Lender shall, to the extent it is legally able to do so, deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Lender at any other time prescribed by applicable law or as reasonably requested by the Company. If any Commitment is reallocated in accordance with Section 2.16(b), then the relevant Revolving Lender (to whom such Commitment has been reallocated) shall deliver, on the effective date of such reallocation, all such forms that it is legally able to deliver. In the event of a Change in Tax Law, each Lender shall deliver all such forms that it is legally able to deliver, including any form claiming a reduced rate of U.S. federal withholding tax on payments by the Company or any Domestic Subsidiary Borrower under this Agreement and any other Loan Document. Each Non-U.S. Lender shall promptly notify the Company at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Company (and any other form of certification adopted by the U.S. taxing authorities for such purpose).

(e) With respect to each Subsidiary Borrower, a Lender or Transferee shall deliver to the Company (with a copy to the Administrative Agent), prior to the first date any payment is due to be paid from or by such Subsidiary Borrower to it hereunder, any form or certificate required in order that any payment by such Subsidiary Borrower under this Agreement or the other Loan Documents to such Lender may be made free and clear of, and without deduction or withholding for or on account of, any Non-Excluded Taxes imposed on such payment under the laws of the jurisdiction under which such Subsidiary Borrower is incorporated or organized. If any Commitment is reallocated in accordance with Section 2.16(c), then the relevant Revolving Lender (to whom such Commitment has been reallocated) shall deliver on the effective date of such reallocation, all such forms that it is legally able to deliver, including any form claiming a reduced rate of non-U.S. withholding tax on payments made by the relevant Subsidiary Borrower to such Revolving Lender under this Agreement and the other Loan Documents. In the event of a Change in Tax Law after the date such Subsidiary Borrower makes the first payment, a Lender or Transferee shall deliver all such required forms that it is legally able to deliver, including any form claiming a reduced rate of non-U.S. withholding tax on payments by such Subsidiary Borrower under this Agreement and the other Loan Documents.

(f) Notwithstanding any other provision hereof, neither the Company nor any Subsidiary Borrower shall have any obligation to pay any additional amounts pursuant to this Section 2.26 to any Canadian Revolving Lender lending to a Canadian Borrower in respect of any time after which such Canadian Revolving Lender has ceased to maintain its status as a Qualifying Canadian Lender, except in the event that the Canadian Revolving Lender has ceased to maintain its status as a Qualifying Canadian Lender due to a Change in Tax Law.

(g) If the Administrative Agent, any Transferee or any Lender determines, in its sole good faith discretion, that it has received a refund of any Non-Excluded Taxes or Other Taxes as to which it has been indemnified by the Company or any Subsidiary Borrower or with respect to which the Company or any Subsidiary Borrower has paid additional amounts pursuant to this Section 2.26, it shall pay over such refund to the Company or such Subsidiary Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Company or such Subsidiary Borrower under this Section 2.26 with respect to the Non-Excluded Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent, such Transferee or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Company or such

Subsidiary Borrower, upon the request of the Administrative Agent, such Transferee or such Lender, agrees to repay the amount paid over to the Company or such Subsidiary Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent, such Transferee or such Lender in the event the Administrative Agent, such Transferee or such Lender is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to (i) interfere with the right of the Administrative Agent, any Transferee or any Lender to arrange its tax affairs in whatever manner it sees fit, (ii) obligate the Administrative Agent, any Transferee or any Lender to claim any tax refund, (iii) require the Administrative Agent, any Transferee or any Lender to make available its tax returns (or any other information relating to its taxes or any computation in respect thereof which it deems in its sole discretion to be confidential) to the Company, any Subsidiary Borrower or any other Person, or (iv) require the Administrative Agent, any Transferee or any Lender to do anything that would in its sole discretion prejudice its ability to benefit from any other refunds, credits, reliefs, remissions or repayments to which it may be entitled.

(h) Each Assignee shall be bound by this Section 2.26.

(i) The agreements in this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.27 Indemnity. The Company or relevant Subsidiary Borrower agrees to indemnify each Lender for, and to hold each Lender harmless from, any actual loss or expense that such Lender may sustain or incur as a consequence of (a) default by the Company or relevant Subsidiary Borrower in making a borrowing of, conversion into or continuation of Eurocurrency Loans after the Company or such Subsidiary Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Company or relevant Subsidiary Borrower in making any prepayment of or conversion from Eurocurrency Loans after the Company or such Subsidiary Borrower has given a notice thereof in accordance with the provisions of this Agreement, (c) the making of a prepayment of Eurocurrency Loans (or the conversion of a Eurocurrency Loan into a Loan of a different Type) on a day that is not the last day of an Interest Period with respect thereto or (d) the assignment of any Eurocurrency Loan other than on the last day of an Interest Period therefor as a result of a request by the Company pursuant to Section 2.29. Such indemnification may include an amount up to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) that would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurocurrency market. A certificate as to any amounts payable pursuant to this Section submitted to the Company and the relevant Subsidiary Borrower by any Lender (together with a reasonably detailed calculation of such amounts) shall be conclusive in the absence of manifest error and shall be payable within 30 days of receipt of any such notice. The agreements in this Section 2.27 shall survive the termination of this Agreement and the payment of the Loans hereunder.

2.28 Change of Applicable Lending Office. Each Lender agrees that, upon the occurrence of any event giving rise to the operation of Section 2.25 or 2.26(a) with respect to such Lender, it will, if requested by the Company, use reasonable efforts (subject to overall policy considerations of such Lender) to designate another Applicable Lending Office for any Loans affected by such event with the object of avoiding or minimizing the consequences of such event; provided, that such designation is made on terms that, in the reasonable judgment of such Lender, do not cause such Lender

and its lending office(s) to suffer any material economic, legal or regulatory disadvantage; and provided, further, that nothing in this Section shall affect or postpone any of the obligations of the Company or any Subsidiary Borrower or the rights of any Lender pursuant to Section 2.25 or 2.26(a).

2.29 Replacement/Termination of Lenders. The Company shall be permitted to replace with a replacement financial institution or terminate the Commitments and repay any outstanding Loans of any Lender that (a) requests reimbursement for amounts owing pursuant to Section 2.25 or 2.26(a), (b) defaults in its obligation to make Loans hereunder, (c) fails to give its consent for any amendment or waiver requiring the consent of 100% of the Lenders or all affected Lenders (and such Lender is an affected Lender) or 100% of the Lenders under a particular Facility and for which Lenders holding at least 66 2/3% of the Loans and/or Commitments required for such vote have consented or (d) fails to give its consent to an extension of the Revolving Termination Date to which the Majority Facility Lenders under the Revolving Facility have consented; provided that (i) no Event of Default shall have occurred and be continuing at the time of such replacement, (ii) the replacement financial institution or the Company, as applicable, shall purchase or repay, at par plus accrued interest and accrued fees thereon, all Loans owing to such replaced or terminated Lender on or prior to the date of replacement or termination, (iii) the Company shall be liable to such replaced or terminated Lender under Section 2.27 if any Eurocurrency Loan owing to such replaced Lender shall be purchased or repaid other than on the last day of the Interest Period relating thereto, (iv) any replacement financial institution, if not a Lender, shall be reasonably satisfactory to the Administrative Agent, (v) any replaced Lender shall be obligated to make such replacement in accordance with the provisions of Section 10.6 (provided that the Company shall be obligated to pay the registration and processing fee referred to therein), (vi) until such time as such replacement shall be consummated, the Company shall pay all additional amounts (if any) required pursuant to Section 2.25 or 2.26(a), as the case may be, (vii) any such replacement, termination and/or repayment shall not be deemed to be a waiver of any rights that the Company, the Administrative Agent or any other Lender shall have against the replaced Lender and (viii) if such Lender is being replaced or terminated pursuant to clause (c) of this Section 2.29, the Company shall have paid to such Lender the prepayment premium, if any, that would be applicable at the date of such termination or replacement if such Lender had received a prepayment on such date pursuant to Section 2.17.

2.30 New Local Facilities. (a) The Company may at any time or from time to time after the Closing Date, by notice to the Administrative Agent and the Revolving Lenders, request the Revolving Lenders to designate a portion of their respective Revolving Commitments under any Revolving Facility to make Revolving Extensions of Credit denominated in Dollars and any Optional Currency in a jurisdiction outside of the United States pursuant to a newly established sub-facility or sub-facilities under any Revolving Facility or a separate revolving facility (each, a "New Local Facility"); provided that (i) both at the time of any such request and upon the effectiveness of any Local Facility Amendment referred to below, no Default or Event of Default shall have occurred and be continuing; provided further that no Lender shall be required to make Revolving Extensions of Credit in excess of its Revolving Commitment, and (ii) after giving effect to any such New Local Facility, the Domestic Revolving Extensions of Credit shall not exceed the Domestic Revolving Commitments, the Canadian Revolving Extensions of Credit shall not exceed the Canadian Revolving Commitments and the Multicurrency Revolving Extensions of Credit shall not exceed the Multicurrency Revolving Commitments. Each New Local Facility shall be in a minimum Dollar Equivalent amount of \$100,000,000. Each notice from the Company pursuant to this Section 2.30 shall set forth the requested amount and proposed terms of the relevant New Local Facility and the Revolving Facility or Facilities designated by the Company to be reduced as a result of the establishment of such New Local Facility. Revolving Lenders wishing to designate a portion of their Revolving Commitments under a designated Facility to a New Local Facility (each, a "New Local Facility Lender") shall have such portion of their Revolving Commitment under such Facility designated to such New Local Facility on a pro rata basis in accordance with the aggregate Revolving Commitments of the other New Local Facility Lenders;

provided that no Lender may so reallocate its Revolving Commitments to a New Local Facility if such reallocation would result in amounts being payable by the Company or any Subsidiary Borrower under Section 2.25 or Section 2.26 unless such Lender changes its Applicable Lending Office to avoid such a result or the Company otherwise consents. The designation of Revolving Commitments to any New Local Facility shall be made pursuant to an amendment (each, a "Local Facility Amendment") to this Agreement and, as appropriate, the other Loan Documents, executed by the Loan Parties, the Administrative Agent and each New Local Facility Lender. Notwithstanding anything in this Section 2.30 to the contrary, no Revolving Lender shall be obligated to transfer any portion of its Revolving Commitments to a New Local Facility unless it so agrees.

(b) Notwithstanding the terms of Section 10.1(a), any Local Facility Amendment may, without the consent of any other Lenders, effect such amendments to this Agreement and the other Loan Documents as may be necessary or appropriate, in the reasonable opinion of the Administrative Agent and the Company, to implement the provisions of this Section, a copy of which shall be made available to each Lender.

2.31 Incremental Term Loan Facilities. (a) The Company may from time to time notify the Administrative Agent that certain of the Lenders designated by the Company shall become Incremental Lenders and/or that additional lenders shall be added to this Agreement as Incremental Lenders with Commitments for the purpose of establishing an Incremental Term Loan Facility by executing and delivering to the Administrative Agent an Incremental Term Loan Activation Notice signed by such Lenders or such additional lenders and specifying (i) the respective Incremental Term Loan Commitment of such Incremental Lenders, (ii) the applicable Incremental Term Loan Closing Date, (iii) the applicable Incremental Term Loan Maturity Date, (iv) the amortization schedule for the applicable Incremental Term Loans, (v) the Currency of the applicable Incremental Term Loans, (vi) the Applicable Margin for the Incremental Term Loans to be made pursuant to such Incremental Term Loan Activation Notice, (vii) the borrower thereof (which shall be the Company or a Subsidiary Borrower) and (viii) any additional terms applicable to such Incremental Term Loans to be made pursuant to such Incremental Term Loan Activation Notice (in each case, as agreed between the Company and the Incremental Lenders providing such Incremental Term Loans), and otherwise duly completed; provided that (A) after giving effect to the incurrence of such Incremental Term Loans and use of proceeds thereof, no Default or Event of Default shall be continuing and the Borrowing Base Coverage Ratio shall be at least 1.00 to 1.00, (B) the Incremental Term Loan Maturity Date applicable to such Incremental Term Loans shall be no earlier than the Term Loan Maturity Date, (C) the weighted average life to maturity of such Incremental Term Loans shall be longer than the weighted average life to maturity of the Term Loans then outstanding and (D) if any terms added to such Incremental Term Loans pursuant to the foregoing clause (viii) (other than in respect of interest rates, fees, call features or premiums) are less favorable to the Company and its Subsidiaries than the terms of this Agreement at such time, the Company and the Administrative Agent shall have entered into an amendment of this Agreement to include such additional terms for the benefit of all Lenders hereunder.

(b) Each Incremental Lender that is a signatory to an Incremental Term Loan Activation Notice severally agrees, on the terms and conditions of this Agreement, to make a term loan (an "Incremental Term Loan") to the Company or the applicable Subsidiary Borrower on the Incremental Term Loan Closing Date specified in such Incremental Term Loan Activation Notice in a principal amount equal to the Incremental Term Loan Commitment of such Incremental Lender specified in such Incremental Term Loan Activation Notice. Nothing in this Section 2.31 shall be construed to obligate any Lender to execute an Incremental Term Loan Activation Notice.

(c) The Company shall give the Administrative Agent irrevocable written (or telephonic promptly confirmed in writing) notice of the borrowing of any Incremental Term Loans under any Incremental Term Loan Facility (which notice must be received by the Administrative Agent prior to 12:00 Noon, New York time, (i) three Business Days prior to the applicable Incremental Term Loan Closing Date, in the case of Eurocurrency Loans, or (ii) one Business Day prior to the applicable Incremental Term Loan Closing Date, in the case of ABR Loans), specifying (A) the amount and Type of Incremental Term Loans to be borrowed, (B) the applicable Incremental Term Loan Closing Date and (C) in the case of Eurocurrency Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Period therefor. Each borrowing under any Incremental Term Loan Facility shall be in an amount equal to at least minimum amount specified in the relevant Incremental Term Loan Activation Notice. Upon receipt of any such notice with respect to an Incremental Term Loan Facility, the Administrative Agent shall promptly notify each relevant Incremental Lender thereof. Each relevant Incremental Lender will make its respective Incremental Term Loan available to the Administrative Agent for the account of the Company at the office of the Administrative Agent specified in Section 10.2 prior to 12:00 Noon, New York City time, on the applicable Incremental Term Loan Closing Date in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Company or the relevant Subsidiary Borrower by the Administrative Agent as the Company or such Subsidiary Borrower may direct with the aggregate of the amounts made available to the Administrative Agent by the applicable Lenders and in like funds as received by the Administrative Agent. The provisions of this paragraph shall be subject to any applicable limitations or requirements in the relevant Incremental Term Loan Activation Notice.

(d) Notwithstanding the terms of Section 10.1(a), the Company and the Administrative Agent shall be entitled to enter into any amendments to this Agreement that the Administrative Agent believes are necessary to appropriately include, or provide for, the integration of any Incremental Term Loans under this Agreement and matters required by clause (D) of the proviso to Section 2.31(a) (including, if applicable, in connection with the establishment of a Permitted Additional Senior Facility).

2.32 Incremental Revolving Commitments/Facilities. (a) The Company may from time to time notify the Administrative Agent that certain of the Lenders designated by the Company and/or that additional lenders shall be added to this Agreement as Incremental Lenders with Commitments for the purpose of either increasing the existing Revolving Commitments under any Revolving Facility (a "Revolving Commitment Increase") or establishing an Incremental Revolving Facility by executing and delivering to the Administrative Agent an Incremental Revolving Activation Notice signed by such Lenders or such additional lenders and specifying (i) the respective Incremental Revolving Loan Commitments of such Incremental Lenders, (ii) the applicable Incremental Revolving Facility Closing Date or Revolving Commitment Increase Date, and (iii) with respect to any Incremental Revolving Facility (A) the applicable Incremental Revolving Loan Maturity Date, (B) the Currency or Currencies available under such Incremental Revolving Facility, (C) the borrower(s) thereunder (which may be the Company and any Subsidiary Borrowers), (D) the Applicable Margin and other fees applicable to Incremental Revolving Loans and other extensions of credit to be made available under such Incremental Revolving Facility, and (E) any additional terms applicable to such Incremental Revolving Facility, including the borrowing procedures related thereto (in each case, as agreed between the Company and the Incremental Lenders providing such Incremental Revolving Loans), and otherwise duly completed; provided that (1) after giving effect to such Revolving Commitment Increase or Incremental Revolving Facility (including the incurrence of any Incremental Revolving Loans on the applicable Revolving Commitment Increase Date or Incremental Revolving Facility Closing Date and use of proceeds thereof), no Default or Event of Default shall be continuing and the Borrowing Base Coverage

Ratio (assuming the applicable Incremental Revolving Facility is fully drawn) shall be at least 1.00 to 1.00, (2) the Incremental Revolving Loan Maturity Date applicable to such Incremental Revolving Facility shall be no earlier than the Revolving Termination Date then in effect, and (3) if any terms added to such Incremental Revolving Facility pursuant to the foregoing clause (E) (other than in respect of interest rates, fees, call features or premiums) are less favorable to the Company and its Subsidiaries than the terms of this Agreement at such time, the Company and the Administrative Agent shall have entered into amendments to this Agreement to include such additional terms for the benefit of all Lenders hereunder.

(b) Each Incremental Lender that is a signatory to an Incremental Revolving Loan Activation Notice severally agrees, on the terms and conditions of this Agreement, to make revolving credit loans (each, an “Incremental Revolving Loan”) to the Company and/or the applicable Subsidiary Borrowers from time to time on or after the Incremental Revolving Loan Closing Date or Revolving Commitment Increase Date specified in such Incremental Revolving Loan Activation Notice in an aggregate principal amount outstanding at any time up to but not exceeding the amount of the Incremental Revolving Commitment of such Incremental Lender specified in such Incremental Revolving Loan Activation Notice, subject to the terms of this Agreement and the applicable Incremental Revolving Loan Activation Notice. Nothing in this Section 2.32 shall be construed to obligate any Lender to execute an Incremental Revolving Loan Activation Notice.

(c) On any Revolving Commitment Increase Date, in the event any Revolving Loans under the relevant Revolving Facility are then outstanding, (i) each relevant Incremental Revolving Lender shall make available to the Administrative Agent such amounts in immediately available funds as the Administrative Agent shall determine is necessary in order to cause, after giving effect to such increased Revolving Commitments and the application of such amounts to prepay Revolving Loans under the relevant Revolving Facility of other relevant Revolving Lenders under the relevant Revolving Facility, the Revolving Loans under the relevant Revolving Facility to be held ratably by all Revolving Lenders under the relevant Revolving Facility in accordance with their respective Revolving Commitments under the relevant Revolving Facility after giving effect to such increase, (ii) the Company and any relevant Subsidiary Borrower shall be deemed to have prepaid and reborrowed all outstanding Revolving Loans under the relevant Revolving Facility and (iii) the Company and any relevant Subsidiary Borrower shall pay to the relevant Revolving Lenders the amounts, if any, payable under Section 2.27 as a result of such prepayment.

(d) Notwithstanding the terms of Section 10.1(a), the Company and the Administrative Agent shall be entitled to enter into any amendments to this Agreement that the Administrative Agent believes are necessary to appropriately include, or provide for the integration of, any Revolving Commitment Increase or any Incremental Revolving Facility under this Agreement and matters required by clause (3) of the proviso to Section 2.32(a) (including, if applicable, in connection with the establishment of a Permitted Additional Senior Facility).

2.33 Revolving Termination Date Extension. (a) The Company may at any time and from time to time, by notice to the Administrative Agent, request a one-year or two-year extension of the Revolving Termination Date and, at the Company’s option, amend the Applicable Margins for the Revolving Facilities in connection with such request; provided that no Default or Event of Default has occurred and is continuing as of the date of such request. Upon receipt of any such notice the Administrative Agent shall promptly notify each Revolving Lender thereof. Each Revolving Lender shall respond to such request in writing within 30 calendar days after such request and any failure of a Revolving Lender to respond shall be deemed to be a denial of such request. If the Majority Revolving

Lenders agree to such extension, the Revolving Termination Date shall be extended to the date specified in the Company's extension request and with the amended Applicable Margin, if any, specified in such extension request subject, with respect to each Non-Extending Lender, to the provisions of Section 2.33(b).

(b) If any Revolving Lender does not consent to any extension request pursuant to Section 2.33(a) (a "Non-Extending Lender") but the Majority Revolving Lenders agree to such extension (each such Lender, an "Extending Lender"), then (i) the Revolving Termination Date for each Extending Lender shall be extended to the date specified in the Company's extension request and, if applicable, the Applicable Margins amended with respect to the Extending Lenders only and (ii) the Revolving Commitments of each Non-Extending Lender and the existing Applicable Margins shall, subject to the terms of Section 2.29, continue until the Revolving Termination Date for such Non-Extending Lender in effect prior to such extension.

(c) Notwithstanding the terms of Section 10.1(a), the Company and the Administrative Agent shall be entitled to enter into any amendments to this Agreement that the Administrative Agent believes are necessary to appropriately reflect, or provide for the integration of, any extension of the Revolving Termination Date or change in Applicable Margins pursuant to this Section 2.33.

SECTION 3. LETTERS OF CREDIT

3.1 L/C Commitment. (a) Subject to the terms and conditions hereof, each Issuing Lender, in reliance on the agreements of the Domestic Revolving Lenders set forth in Section 3.4(a), agrees to issue letters of credit and, with the consent of such Issuing Lender, letters of guarantee (each a "Letter of Credit") for the account of the Company, any Domestic Subsidiary Borrower or any other Subsidiary on any Business Day during the Revolving Commitment Period in such form as may be reasonable and customary for the purpose thereof; provided that (i) no Issuing Lender shall issue any Letter of Credit if, after giving effect to such issuance, (A) the Outstanding Amount of all Letters of Credit issued by such Issuing Lender would exceed such Issuing Lender's L/C Commitment then in effect, (B) the aggregate amount of the Available Domestic Revolving Commitments would be less than zero, (C) the Outstanding Amount of all Letters of Credit would exceed the L/C Sublimit then in effect, (D) the Outstanding Amount of Borrowing Base Debt would exceed the Borrowing Base at such date or (E) the Total Revolving Extensions of Credit would exceed the Total Revolving Commitments then in effect and (ii) the Company shall be a co-applicant, and jointly and severally liable with respect to, each Letter of Credit issued for the account of a Subsidiary that is not a Subsidiary Borrower. Each Letter of Credit shall (x) be denominated in Dollars or, if agreed by the Issuing Lender, any Optional Currency and (y) expire no later than the date that is one year after the latest Revolving Termination Date in effect at the time such Letter of Credit is issued (or such later date as the relevant Issuing Lender shall agree).

(b) No Issuing Lender shall at any time be obligated to issue any Letter of Credit if such issuance would conflict with, or cause such Issuing Lender or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law.

3.2 Procedure for Issuance of Letter of Credit. The Company or any Subsidiary Borrower may from time to time request that any Issuing Lender issue a Letter of Credit by delivering to such Issuing Lender at its address for notices specified herein an Application therefor, completed to the reasonable satisfaction of such Issuing Lender, and such other certificates, documents and other papers and information as the Issuing Lender may reasonably request. Upon receipt of any Application, the relevant Issuing Lender will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and

shall promptly issue the Letter of Credit requested thereby (but in no event shall any Issuing Lender be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed to by the relevant Issuing Lender and the Company or relevant Subsidiary Borrower. The relevant Issuing Lender shall furnish a copy of such Letter of Credit to the Company or relevant Subsidiary Borrower promptly following the issuance thereof. The relevant Issuing Lender shall promptly furnish to the Administrative Agent notice of the issuance of each Letter of Credit (including the amount thereof). No Issuing Lender shall issue any Letter of Credit in the period commencing on the first Business Day after it receives written notice from the Administrative Agent that one or more of the conditions precedent contained in Section 5.2 shall not on such date be satisfied, and ending when such conditions are satisfied. The Administrative Agent shall immediately notify the Issuing Lenders upon becoming aware that such conditions in Section 5.2 are thereafter satisfied. The Issuing Lenders shall not otherwise be required to determine that, or take notice whether, the conditions precedent set forth in Section 5.2 have been satisfied in connection with the issuance of any Letter of Credit.

3.3 Fees and Other Charges. The Company will pay a fee (the "Letter of Credit Fee") on the average daily undrawn and unexpired amount of all outstanding Letters of Credit during each Fee Payment Period at a per annum rate equal to the Applicable Margin then in effect with respect to Eurocurrency Loans under the Domestic Revolving Facility, shared ratably among the Domestic Revolving Lenders and payable in arrears for each Fee Payment Period on the related Fee Payment Date. In addition, the Company shall pay a fronting fee in an amount agreed separately with each Issuing Lender on the average daily undrawn and unexpired amount of each Letter of Credit during each Fee Payment Period issued by such Issuing Lender (other than any Existing Letter of Credit), payable in arrears for each Fee Payment Period on the related Fee Payment Date. For the purposes of the foregoing calculations, the average daily undrawn and unexpired amount of any Letter of Credit denominated in an Optional Currency for any Fee Payment Period shall be calculated by multiplying (i) the average daily undrawn and unexpired amount of such Letter of Credit (expressed in the Optional Currency in which such Letter of Credit is denominated) by (ii) the Exchange Rate for each such Optional Currency in effect on the first Business Day of the related Fee Payment Period or by such other method that the Administrative Agent and the Company may agree.

3.4 L/C Participations. (a) Each Issuing Lender irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce such Issuing Lender to issue Letters of Credit, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from such Issuing Lender, on the terms and conditions set forth below, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Domestic Revolving Percentage in such Issuing Lender's obligations and rights under and in respect of each Letter of Credit issued, and the amount of each draft paid, by such Issuing Lender thereunder. Each L/C Participant agrees with each Issuing Lender that, if a draft is paid under any Letter of Credit issued by such Issuing Lender for which the Issuing Lender is not reimbursed in full by the Company or other applicant in accordance with the terms of this Agreement, such L/C Participant shall pay to such Issuing Lender upon demand at such Issuing Lender's address for notices specified herein an amount equal to such L/C Participant's Domestic Revolving Percentage of the Dollar Equivalent amount of such draft, or any part thereof, that is not so reimbursed (calculated, in the case of any Letter of Credit denominated in an Optional Currency, as of the Reimbursement Date therefor). Each L/C Participant's obligation to pay such amount shall be absolute and unconditional and shall not be affected by any circumstance, including (i) any setoff, counterclaim, recoupment, defense or other right that such L/C Participant may have against any Issuing Lender, the Company, any Subsidiary Borrower or any other Person for any reason whatsoever, (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 5, (iii) any adverse change in the condition (financial or otherwise) of the Company

or any Subsidiary Borrower, (iv) any breach of this Agreement or any other Loan Document by the Company, any Subsidiary Borrower, any other Loan Party or any other L/C Participant or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

(b) If any amount required to be paid by any L/C Participant to any Issuing Lender pursuant to Section 3.4(a) in respect of any unreimbursed portion of any payment made by the Issuing Lender under any Letter of Credit is paid to any Issuing Lender within three Business Days after the date such payment is due, such L/C Participant shall pay to any Issuing Lender on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal Funds Effective Rate during the period from and including the date such payment is required to the date on which such payment is immediately available to the relevant Issuing Lender, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to Section 3.4(a) is not made available to the relevant Issuing Lender by such L/C Participant within three Business Days after the date such payment is due, such Issuing Lender shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to ABR Loans under the Domestic Revolving Facility. A certificate of the relevant Issuing Lender submitted to any L/C Participant with respect to any amounts owing under this Section shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after any Issuing Lender has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with Section 3.4(a), such Issuing Lender receives any payment related to such Letter of Credit (whether directly from the Company or other applicant or otherwise, including proceeds of collateral applied thereto by such Issuing Lender), or any payment of interest on account thereof, such Issuing Lender will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by such Issuing Lender shall be required to be returned by such Issuing Lender, such L/C Participant shall return to such Issuing Lender the portion thereof previously distributed by such Issuing Lender to it.

3.5 Reimbursement Obligation of the Company. If any draft is paid under any Letter of Credit, the Company or other applicant shall reimburse the Issuing Lender for the amount of the draft so paid, not later than 3:00 P.M., New York City time on the Business Day immediately following the day that the Company receives notice of payment of such draft (such date, the "Reimbursement Date"). Each such payment shall be made to the relevant Issuing Lender at its address for notices referred to herein in Dollars or the applicable Optional Currency and in immediately available funds; provided that, in the case of any Letter of Credit denominated in an Optional Currency, if such payment, or obligation to make such payment, in an Optional Currency would subject the Administrative Agent, the relevant Issuing Bank or any Domestic Revolving Lender to any stamp duty, ad valorem charge or any similar tax that would not be payable if such payment were paid or required to be paid in Dollars, the Company or the relevant Subsidiary Borrower shall, at its option, (A) pay the amount of such tax to the Administrative Agent, the relevant Issuing Lender or the relevant Lender or (B) pay the Dollar Equivalent of such draft (calculated as of the Reimbursement Date); provided, further that if such payment is not made on the applicable Reimbursement Date the obligation to pay such draft shall be permanently converted into an obligation to pay the Dollar Equivalent amount of such draft (calculated as of such Reimbursement Date). Interest shall be payable on any such amounts from the Reimbursement Date until payment in full at the rate set forth in Section 2.21(g).

3.6 Obligations Absolute. The obligations of the Company and any relevant Subsidiary Borrower under this Section 3 shall be absolute and unconditional under any and all

circumstances and irrespective of any setoff, counterclaim or defense to payment that the Company or such Subsidiary Borrower, as the case may be, may have or have had against any Issuing Lender, any beneficiary of a Letter of Credit or any other Person. The Company and each relevant Subsidiary Borrower also agrees with each Issuing Lender that such Issuing Lender shall not be responsible for, and the Reimbursement Obligations under Section 3.5 of the Company and any relevant Subsidiary Borrower shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Company or such Subsidiary Borrower, as the case may be, and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Company or such Subsidiary, as the case may be, against any beneficiary of such Letter of Credit or any such transferee. No Issuing Lender shall be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Issuing Lender. The Company and each relevant Subsidiary Borrower agrees that any action taken or omitted by any Issuing Lender under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct, shall be binding on the Company or such Subsidiary Borrower and shall not result in any liability of such Issuing Lender to the Company or such Subsidiary Borrower.

3.7 Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the relevant Issuing Lender shall promptly notify the relevant Borrower or relevant Subsidiary Borrower of the date and amount thereof. The responsibility of the relevant Issuing Lenders to the Company or relevant Subsidiary Borrower in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are substantially in conformity with such Letter of Credit.

3.8 Applications. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 3, the provisions of this Section 3 shall apply.

3.9 Existing Letters of Credit. On and as of the Closing Date the letters of credit and letters of guarantee set forth on Schedule 3.9 (the "Existing Letters of Credit") will constitute Letters of Credit under this Agreement and for the purposes hereof will be deemed to have been issued for the account of the Company on the Closing Date and each issuer thereof shall be deemed to be an Issuing Lender hereunder solely for the purposes of Sections 3.3, 3.4, 3.5, 3.6, 3.7, 3.8 and 3.10 (whether or not such issuer is otherwise an Issuing Lender hereunder).

3.10 Collateral. The Company may at its option at any time and from time to time Collateralize any Letter of Credit (with the consent of the relevant Issuing Lender). In addition, on or prior to the date that is five Business Days prior to the Revolving Termination Date then in effect, the Company shall (or shall cause the relevant Subsidiary to) Collateralize any Letter of Credit with an expiration date occurring after such Revolving Termination Date. Any Letter of Credit that is Collateralized as provided in this Section 3.10 shall cease to be a "Letter of Credit" outstanding hereunder effective on the date of such Collateralization and, accordingly, the rights and obligations of Domestic Revolving Lenders in respect thereof (including pursuant to Section 3.4) shall terminate.

3.11 New Issuing Lenders; L/C Commitments. (a) The Company may from time to time (i) terminate any Issuing Lender as an Issuing Lender hereunder (on a prospective basis only) for any reason upon written notice to the Administrative Agent and such Issuing Lender, (ii) add additional

Issuing Lenders hereunder and (iii) increase or decrease the L/C Commitment of any existing Issuing Lender. If the Company shall decide to add a new Issuing Lender under this Agreement, then the Company may appoint from among the Revolving Lenders (or an Applicable Lending Office thereof) a new Issuing Lender, with the consent of the Administrative Agent (such consent not to be unreasonably withheld), whereupon such new issuer of Letters of Credit shall be granted the rights, powers and duties of an Issuing Lender hereunder, and the term "Issuing Lender" shall mean such new issuer of Letters of Credit effective upon such appointment. The acceptance of any appointment as an Issuing Lender hereunder in accordance with this Agreement or an increase of the L/C Commitment of any existing Issuing Lender, shall be evidenced by an agreement entered into by such new issuer of Letters of Credit or existing Issuing Lender, as applicable, in a form reasonably satisfactory to such Issuing Lender, the Company and the Administrative Agent and, from and after the effective date of such agreement, such new issuer of Letters of Credit shall become an "Issuing Lender" hereunder or such increased L/C Commitment shall become effective. After the termination of an Issuing Lender hereunder, the terminated Issuing Lender shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Lender under this Agreement and the other Loan Documents with respect to Letters of Credit issued by it prior to such replacement or termination, but shall not issue additional Letters of Credit. The Administrative Agent shall promptly notify the Lenders of the effectiveness of any replacement or addition of an Issuing Lender, or any changed L/C Commitment pursuant to this Section 3.11.

(b) Any Issuing Lender may, in its discretion, arrange for one or more Letters of Credit to be issued by an Applicable Lending Office thereof, in which case, such Applicable Lending Office shall be an "Issuing Lender" hereunder.

SECTION 4. REPRESENTATIONS AND WARRANTIES

To induce the Lenders to enter into this Agreement and to make the Loans and issue or participate in the Letters of Credit and make other extensions of credit hereunder the Company hereby represents and warrants to each Lender that:

4.1 Financial Condition. The consolidated financial statements of the Company included in its Annual Report on Form 10-K/A, for the twelve-month period ended December 31, 2005 (the "2005 10-K") and in its Quarterly Report on Form 10-Q for the three- and nine-month periods ended September 30, 2006 (the "Third Quarter 2006 10-Q"), each as amended on or before the Closing Date and filed with the SEC, present fairly, in all material respects, in accordance with GAAP, the financial condition and results of operations of the Company and its Subsidiaries as of, and for, (a) the twelve-month period ended on December 31, 2005 and (b) the three- and nine-month periods ended September 30, 2006, respectively; provided that the foregoing representation shall not be deemed to have been materially incorrect if, in the event of a subsequent restatement of such financial statements, the changes reflected in such restatement(s) are not materially adverse to the rights and interests of the Lenders under the Loan Documents (taking into account the creditworthiness of the Company and its Subsidiaries, taken as a whole, and the value of the Borrowing Base at such time).

4.2 No Change. Between the date of filing with the SEC of the Third Quarter 2006 10-Q and the Closing Date, there has been no development or event which has had a Material Adverse Effect.

4.3 Existence. Each Loan Party (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (b) has the power and authority to conduct the business in which it is engaged and (c) is duly qualified and in good standing in each jurisdiction where it is required to be so qualified and in good standing, except to the extent all failures with respect to the

foregoing clauses (a), (b) and (c) could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.4 Power; Authorization; Enforceable Obligations. Each Loan Party has the requisite power and authority to execute, deliver and perform its obligations under each Loan Document to which it is a party and has taken all necessary corporate or other action to authorize the execution, delivery and performance thereof and has duly executed and delivered each Loan Document to which it is a party and each such Loan Document constitutes a legal, valid and binding obligation of such Person enforceable against each such Person in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

4.5 No Legal Bar. The execution, delivery and performance of this Agreement and the other Loan Documents, the issuance of Letters of Credit, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or any Contractual Obligation of any Loan Party, except to the extent all such violations could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.6 Litigation. Except as set forth, or contemplated, in the 2005 10-K, the Quarterly Report on Form 10-Q/A of the Company for the three-month period ended March 31, 2006 filed with the SEC, the Quarterly Report on Form 10-Q/A of the Company for the three- and six-month periods ended June 30, 2006 filed with the SEC, the Third Quarter 2006 10-Q or the Current Report on Form 8-K of the Company dated December 5, 2006 filed with the SEC, no litigation, investigation, proceeding or arbitration is pending, or to the best of the Company's knowledge, is threatened against the Company or any Significant Guarantor as of the Closing Date that could reasonably be expected to have a Material Adverse Effect.

4.7 No Default. As of the Closing Date, neither the Company nor any Significant Guarantor is in default under any of its material Contractual Obligations, except where such default could not reasonably be expected to have a Material Adverse Effect.

4.8 Ownership of Property. As of the Closing Date, the Company and each Initial Subsidiary Guarantor, as applicable, has title in fee simple to the Mortgaged Property and has good title to all of its other property; provided that the foregoing representation shall not be deemed to have been incorrect, if (a) the property with respect to which the Company or an Initial Subsidiary Guarantor cannot make such representation has a Net Book Value of less than \$250,000,000 or (ii) with respect to defects in title to any real property, such defects are cured no later than 180 days after the Closing Date or such defects could not reasonably be expected to detract from the current use or operation of the affected real property in any material respect. In addition, to the extent that any defect in title to any Mortgaged Property is insured against in any title insurance policy for the benefit of the Collateral Trustee, such defect shall not be taken into account for purposes of the preceding sentence up to the amount of such insurance coverage.

4.9 Intellectual Property. As of the Closing Date, the Company and each Initial Subsidiary Guarantor own, or are licensed to use, all Intellectual Property necessary for the operation of their respective businesses as currently conducted and as proposed to be conducted, except where the failure to own or be licensed could not reasonably be expected to have a Material Adverse Effect.

4.10 Federal Regulations. No part of the proceeds of any Loans, and no other extensions of credit hereunder, will be used for any purpose that violates the provisions of Regulation T, U or X of the Board.

4.11 ERISA. Each Plan, the Company and its Subsidiaries are in compliance with all material provisions of ERISA and all material applicable provisions of the Code, except to the extent that all failures to be in compliance could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.12 Investment Company Act; Other Regulations. No Loan Party is an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

4.13 Subsidiary Guarantors; Pledged Equity. As of the Closing Date, the information set forth on Schedule 1.1D and Schedule 4.13 is true and correct in all material respects; provided that the foregoing representation shall not be deemed to be materially incorrect unless the failure of such representation to be correct results in property having a Net Book Value in excess of \$250,000,000 being excluded from the Borrowing Base.

4.14 Security Documents. (a) The Security Agreement and each Mortgage is effective to create in favor of the Collateral Trustee, for the benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral described therein; provided that the foregoing representation shall not be deemed to have been incorrect if (i) such Security Documents are not effective with respect to Collateral having an aggregate Net Book Value of less than \$250,000,000, (ii) with respect to any Mortgaged Property, such failure is cured no later than 180 days from the Closing Date or (iii) at any time after the Closing Date, the Borrowing Base Coverage Ratio is at least 1.25 to 1.00 (calculated on a pro forma basis assuming such Collateral for which the Security Documents are not so effective is excluded from the Borrowing Base).

(b) As of the Closing Date, the UCC financing statements listed in Schedule 5.1(h), and the recordation of the Mortgages in the recording offices listed in Schedule 1.1E, are all the filings, recordings and registrations (other than filings required to be made in the United States Patent and Trademark Office) that are necessary to establish a legal, valid and perfected security interest in favor of the Collateral Trustee (for the benefit of the Secured Parties) in respect of all Collateral in which the Lien granted pursuant to the Security Documents on the Closing Date may be perfected by filing, recording or registering in the United States (or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, refile, recording, rerecording, registration or reregistration is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements; provided that the foregoing representation shall not be deemed to have been incorrect to the extent any security interest is not perfected with respect to Collateral having an aggregate Net Book Value of less than \$250,000,000.

4.15 Environmental Laws. The Company and each Mortgaged Property, and operations thereon, are in compliance in all material respects with all applicable Environmental Laws, except to the extent failure to comply would not reasonably be expected to have a Material Adverse Effect.

SECTION 5. CONDITIONS PRECEDENT

5.1 Conditions to Effectiveness. This Agreement and the obligation of each Lender to make extensions of credit requested to be made by it hereunder shall be effective upon (1) the

execution and delivery by the Company to the Administrative Agent of a notice authorizing such effectiveness (which notice shall include Schedule 1.1A and the Company's acceptance of the Commitments described therein) and (2) written confirmation by the Administrative Agent to the Company confirming that the following conditions have been satisfied:

- (a) Credit Agreement; Security Documents. The Administrative Agent or the Collateral Trustee, as applicable, shall have received:
- (i) this Agreement (or, in the case of any relevant Lender, an Addendum) executed and delivered by the Administrative Agent, the Company and each Person listed on Schedule 1.1A;
 - (ii) the Security Agreement, executed and delivered by the Company and each Initial Subsidiary Guarantor;
 - (iii) the Guarantee, executed and delivered by the Company and each Initial Subsidiary Guarantor;
 - (iv) the Trademark Security Agreement, executed and delivered by the Company and the Collateral Trustee;
 - (v) a Mortgage with respect to each property listed on Schedule 1.1E under the heading "Closing Date Mortgages", executed and delivered by the owner of the Mortgaged Property covered thereby; and
 - (vi) the Collateral Trust Agreement, executed and delivered by the Collateral Trustee, the Administrative Agent, the Company and each Initial Subsidiary Guarantor.
- (b) Borrowing Base. The Administrative Agent shall have received a Borrowing Base Certificate, which calculates the Borrowing Base as of September 30, 2006, demonstrating that the Outstanding Amount of Borrowing Base Debt (calculated on a pro forma basis after giving effect to the incurrence, and the use of proceeds, of any Borrowing Base Debt on the Closing Date) does not exceed the Borrowing Base.
- (c) Lien Searches. The Administrative Agent shall have received the results of a recent lien search in respect of the Company and each Initial Subsidiary Guarantor, from the jurisdiction in which such Loan Party is located for purposes of the Uniform Commercial Code of the relevant state(s).
- (d) Fees. All fees required to be paid on the Closing Date (as separately agreed by the Company and the lead arrangers or the other agents identified on the cover page to this Agreement) shall have been paid.
- (e) Closing Certificate; Certified Certificate of Incorporation; Good Standing Certificates. The Administrative Agent shall have received (i) a certificate of each Loan Party, dated the Closing Date, substantially in the form of Exhibit N, with appropriate insertions and attachments, including the certificate of incorporation (or equivalent organizational document) of each Loan Party, certified by the relevant authority of the jurisdiction of organization of such Loan Party, (ii) a long form good standing certificate for each Loan Party from its jurisdiction of organization and (iii) a certificate of the Company, dated the Closing Date, to the effect that the conditions set forth in Section 5.2 have been satisfied.

(f) Legal Opinions. The Administrative Agent shall have received the executed legal opinion of (i) Simpson Thacher & Bartlett LLP, New York counsel to the Company and its Subsidiaries, substantially in the form of Exhibit P-1 and (ii) in-house counsel to the Company and its Subsidiaries, substantially in the form of Exhibit P-2.

(g) Pledged Stock; Stock Powers; Pledged Notes. The Collateral Trustee shall have received (i) the certificates representing the shares of Capital Stock described on Schedule 4.13 (in each case, to the extent such Capital Stock is certificated and constitutes a "certificated security" under the UCC), together with an undated stock power for each such certificate executed in blank by a duly authorized officer of the pledgor thereof and (ii) each promissory note described on Schedule 5.1(g), together with an undated endorsement for each such promissory note executed in blank by a duly authorized officer of the pledgor thereof.

(h) Filings, Registrations and Recordings. The Collateral Trustee shall have received each Uniform Commercial Code financing statement listed on Schedule 5.1(h) in proper form for filing.

5.2 Conditions to Each Extension of Credit. The agreement of each Lender to make any Loan and the agreement of any Issuing Lender to issue any Letter of Credit (or amendment thereto increasing the face amount thereof) requested to be made or issued by it on any date (including its initial extension of credit) is subject to the satisfaction of the following conditions precedent as of the date of such Loan or the date of any request to issue (or amend to increase the face amount of) such Letter of Credit:

(a) Representations and Warranties. Each of the representations and warranties made by the Company in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date (except to the extent such representations and warranties relate to an earlier date (including those set forth in Sections 4.2, 4.6, 4.7, 4.8, 4.9, 4.13 and 4.14(b)), in which case, such representations and warranties shall have been true and correct in all material respects as of such earlier date).

(b) No Event of Default. No Event of Default shall have occurred and be continuing on such date, before and after giving effect to the extensions of credit requested to be made on such date and the use of proceeds thereof.

(c) No Pro Forma Default. No Default shall be continuing after giving effect to the extensions of credit requested to be made on such date and the use of proceeds thereof; provided that, if any Default has occurred and is continuing on such date prior to the application of such proceeds, the Company shall have identified such Default in the request for such extension of credit and shall have represented to the Administrative Agent in such request that the proceeds of such extension of credit shall be used to cure such Default prior to such Default becoming an Event of Default.

(d) Borrowing Base Compliance. The Outstanding Amount of Borrowing Base Debt, after giving effect to the extensions of credit requested to be made on such date and the use of proceeds thereof, shall not exceed the Borrowing Base in effect as of such date.

(e) No Subsidiary Borrower Bankruptcy Events. With respect to any Loan made to or Letter of Credit issued for the account of any Subsidiary Borrower, (i) such Subsidiary Borrower shall not have (A) commenced any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency,

reorganization or relief of debtors (1) seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or (B) made a general assignment for the benefit of its creditors; or (ii) there shall not be commenced against such Subsidiary Borrower any case, proceeding or other action of a nature referred to in clause (i) above that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 90 days.

Each borrowing, or issuance of a Letter of Credit (or amendment thereto increasing the face amount thereof) hereunder shall constitute a representation and warranty by the Company as of the date of such borrowing or the date of such issuance of a Letter of Credit, that the conditions contained in this Section 5.2 have been satisfied.

SECTION 6. AFFIRMATIVE COVENANTS

The Company hereby agrees that, so long as the Commitments remain in effect, any Letter of Credit or Acceptance remains outstanding or any Loan, Reimbursement Obligations, interest or fee payable hereunder is owing to any Lender:

6.1 Company Financial Statements. The Company shall deliver to the Administrative Agent, audited annual financial statements and unaudited quarterly financial statements of the Company within 15 days after the Company is required to file the same with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act (or, if the Company is not required to file annual financial statements or unaudited quarterly financial statements with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act, then within 15 days after the Company would be required to file the same with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act if it had a security listed and registered on a national securities exchange); provided, that the foregoing time period shall automatically be extended to the earlier of (a) the date that is five days prior to the date of the occurrence of any "event of default" (or any comparable term) under any of the Existing Notes as a result of the failure by the Company to provide annual or quarterly financial statements to the extent required under the related Existing Notes Indenture and (b) in the case of audited annual financial statements, within 240 days after the end of the Company's fiscal year, and in the case of unaudited quarterly financial statements, within 220 days after the end of each of the first three quarterly periods of each fiscal year; provided, further, that the such financial statements shall be deemed to be delivered upon the filing with the SEC of the Company's Form 10-K or Form 10-Q for the relevant fiscal period.

6.2 Subsidiary Financial Statements. The Company shall deliver (a) statutory audited consolidated annual financial statements for each of FMCC, Ford South Africa, Land Rover Holdings and Volvo, (b) statutory audited annual financial statements for each of Ford Argentina, Ford Canada, Grupo Ford, Ford Mexico and Land Rover and (c) during any period when the Capital Stock of any other Foreign Pledgee has an Eligible Value of greater than \$0, the statutory audited annual financial statements for such Foreign Pledgee (commencing with the statements that have been used as the basis for such Eligible Value), in each case, promptly after the same become available; provided that, if any such financial statements are not delivered within 240 days after the end the fiscal year of the relevant Subsidiary, the Eligible Value of the Capital Stock of such Person (or, in the case of Grupo Ford, the Eligible Value of the Grupo Ford Intercompany Note) shall be deducted from the Borrowing Base until such statements have been delivered to the Administrative Agent but the failure to deliver such financial statements shall not otherwise constitute a Default or an Event of Default hereunder.

6.3 Compliance and Borrowing Base Certificates. The Company shall deliver to the Administrative Agent:

(a) concurrently with the delivery of any financial statements pursuant to Section 6.1, a Compliance Certificate of a Responsible Officer (i) stating that, to the best of such Responsible Officer's knowledge, no Default or Event of Default has occurred and is continuing as of the date of such certificate, except as specified in such certificate, and (ii) unless the lesser of (1) the Total Available Revolving Commitment (including any unused commitment under any Incremental Revolving Facility or any Permitted Additional Senior Facility) and (2) the excess of (x) the Borrowing Base as of such date over (y) the Borrowing Base Debt at such date is equal to or greater than \$4,000,000,000, containing a calculation of Available Liquidity as of the last day of the fiscal period covered by such financial statements;

(b) not later than ten Business Days after the delivery of any financial statements pursuant to Section 6.1 (commencing with the delivery of financial statements of the Company for the second full fiscal quarter ended after the Closing Date), a Borrowing Base Certificate duly executed by a Responsible Officer setting forth a calculation of the Borrowing Base and the PDMP Ratio as of the end of the most recent fiscal quarter covered by such financial statements; provided, that, if the delivery of financial statements pursuant to Section 6.1 is delayed beyond 75 days from the end of the relevant fiscal year (in the case of annual statements) or 50 days from the end of the relevant fiscal quarter (in the case of quarterly statements), the Company shall use internal unaudited balance sheets and income statements as necessary to calculate the Borrowing Base and the Canadian Borrowing Base on an interim basis pending delivery of such financial statements and shall deliver an interim Borrowing Base Certificate based upon such Borrowing Base calculation to the Administrative Agent no later than such 75th or 50th day, as applicable (and in such case upon delivery of audited annual or definitive quarterly financial statements, the Company shall recalculate the Borrowing Base and the Canadian Borrowing Base using such audited or definitive financial statements, as the case may be, and provide a revised Borrowing Base Certificate within ten Business Days following such delivery).

6.4 Maintenance of Business; Existence. The Company will continue to engage primarily in the automotive business and preserve, renew and keep in full force and effect its corporate existence and take all reasonable actions to maintain all rights necessary for the normal conduct of its business, except to the extent that failure to do so would not have a Material Adverse Effect

6.5 Maintenance of Property; Insurance. The Company will, and will cause each Significant Guarantor to, maintain, as appropriate, with insurance companies that the Company believes (in the good faith judgment of the management of the Company) are financially sound and responsible at the time the relevant coverage is placed or renewed, insurance in amounts (after giving effect to any self-insurance which the Company believes (in the good faith judgment of management of the Company) is reasonable and prudent in light of the size and nature of its business) and against at least such risks (and with such risk retentions) as the Company believes (in the good faith judgment of the management of the Company) are reasonable in light of the size and nature of its business.

6.6 Notices. Promptly upon a Responsible Officer of the Company becoming aware thereof, the Company will give notice to the Administrative Agent of the occurrence of any Default or Event of Default. Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Company or the relevant Subsidiary proposes to take with respect thereto.

6.7 Additional Collateral, etc. (a) Within 30 days after the formation or acquisition of any Additional Subsidiary Guarantor (or the making of a single investment or a series of related investments having a value (determined by reference to Net Book Value, in the case of an investment of assets) of \$500,000,000 or more in the aggregate by the Company or a Subsidiary Guarantor, directly or indirectly, in a Domestic Subsidiary (other than an Excluded Subsidiary) that is not a Subsidiary Guarantor that results in such Domestic Subsidiary becoming an Additional Subsidiary Guarantor), the Company shall (or shall cause the relevant Subsidiary to) (i) execute and deliver to the Collateral Trustee such amendments or supplements to the Security Agreement as the Administrative Agent deems necessary to grant to the Collateral Trustee, for the benefit of the Secured Parties, a perfected security interest in the Capital Stock of such Additional Subsidiary Guarantor (or Domestic Subsidiary receiving such investment(s)), (ii) deliver to the Collateral Trustee the certificates, if any, representing such Capital Stock (to the extent constituting “certificated securities” under the UCC), together with undated stock powers, in blank, executed and delivered by a duly authorized officer of the relevant Loan Party, and (iii) cause such Additional Subsidiary Guarantor (or Domestic Subsidiary receiving such investment(s)) (A) to become a party to the Security Agreement, the Guarantee and the Collateral Trust Agreement, (B) to take such actions as necessary to grant to the Collateral Trustee for the benefit of the Secured Parties a valid, perfected security interest in the Collateral described in the Security Agreement with respect to such Additional Subsidiary Guarantor (or Domestic Subsidiary receiving such investment(s)), including the filing of Uniform Commercial Code financing statements in such jurisdictions as may be required by law.

(b) Within 30 days after the formation or acquisition any new Foreign Subsidiary the Capital Stock of which is owned directly by the Company or any Subsidiary Guarantor (other than the Capital Stock of any Excluded Subsidiary or any other Subsidiary to the extent the ownership interest in such Subsidiary has a Net Book Value of \$500,000,000 or less), the Company shall (or shall cause the relevant Subsidiary to) promptly (i) execute and deliver to the Administrative Agent such amendments or supplements to the Security Agreement as the Collateral Trustee or the Administrative Agent deems necessary to grant to the Collateral Trustee, for the benefit of the Secured Parties, a perfected security interest in a portion of the Capital Stock of such new Foreign Subsidiary that is owned by the Company or such Subsidiary Guarantor (provided that in no event shall more than 66% of the total outstanding Voting Stock of any such new Foreign Subsidiary be required to be so pledged unless the Company in its sole discretion otherwise agrees) and (ii) deliver to the Collateral Trustee the certificates, if any, representing such Capital Stock, together with undated stock powers, in blank, executed and delivered by a duly authorized officer of the Company or the relevant Subsidiary Guarantor, and take such other action as may be reasonably requested by the Collateral Trustee or the Administrative Agent in order to perfect the Collateral Trustee’s security interest therein (provided that in no event shall such actions require the execution or delivery of a pledge agreement or similar instrument governed by any law other than the laws of the State of New York).

(c) The Company shall use its commercially reasonable efforts to (i) grant a security interest in the Capital Stock of any newly-formed or after-acquired joint venture (or a holding company parent thereof) owned directly by the Company or a Subsidiary Guarantor if the amount recorded by the Company or such Subsidiary Guarantor as its investment in such joint venture exceeds \$250,000,000 and (ii) in the case of any domestic joint venture in which the Company directly or indirectly owns at least 80% of the voting or economic interest, to cause such joint venture to become a Subsidiary Guarantor (in each case, it being understood that such efforts shall not require any economic or other significant concession with respect the terms of such joint venture arrangements).

(d) Within 60 days of the occurrence thereof, the Company will notify the Collateral Trustee and the Administrative Agent of any changes to the name, jurisdiction of incorporation or legal form of the Company or any Subsidiary Guarantor.

(e) The Company shall use reasonable efforts to deliver to the Administrative Agent no later than 180 days from the Closing Date (i) a pledge agreement in favor of the Collateral Trustee with respect to the Capital Stock of Volvo and Grupo Ford described on Schedule 4.13 governed by the law of the jurisdiction where such Person is domiciled and an opinion of local counsel as to perfection and enforceability thereof, in each case reasonably satisfactory to the Administrative Agent, (ii) a reliance letter addressed to the Administrative Agent and the Lenders in respect of an opinion of Blake, Cassels & Graydon LLP, Canadian counsel to the Company, in favor of the Company with respect to certain collateral securing obligations of Ford Canada under the Ford Canada Intercompany Note and the Ford Canada Intercompany Payable, in each case reasonably satisfactory to the Administrative Agent, (iii) a Mortgage with respect to each property listed on Schedule 1.1E under the heading "Post-Closing Date Mortgages," executed and delivered by the owner of the Mortgaged Property covered thereby and (iv) for each Mortgaged Property and each property listed on Schedule 6.7(e) under the heading "Canadian Mortgages," (A) either (1) lenders' title insurance insuring the Collateral Trustee and satisfying the requirements of Schedule 6.7(e) hereof or (2) title reports and updated boundary surveys and (B) opinions of local counsel reasonably satisfactory to the Administrative Agent (the items in this clause (iv) and the foregoing clause (iii), the "Real Estate Deliverables" and, together with the items in the foregoing clauses (i) and (ii), collectively the "Post-Closing Deliverables"). If any of the Post-Closing Deliverables are not provided within such 180-day period (A) the Applicable Margin shall be increased by 0.25% until such time as all outstanding Post-Closing Deliverables are delivered and (B) the Borrowing Base will be reduced by the Eligible Value of the Capital Stock for which a Post-Closing Deliverable is outstanding or by the Eligible Value of the Eligible PDMP PP&E for which a Real Estate Deliverable is outstanding (it being understood that the failure to deliver any Post-Closing Deliverable shall not constitute a Default or an Event of Default).

(f) The Company shall promptly take such steps as the Administrative Agent may reasonably request in order to grant, preserve, protect and perfect the validity and priority of the security interests created or intended to be created in the Collateral. Notwithstanding anything to the contrary herein or in any other Loan Document, neither the Company nor any Subsidiary Guarantor shall be required to perfect the security interests granted by it in any Collateral by any means other than by (a) execution, delivery and recordation of a Mortgage, (b) filings pursuant to the Uniform Commercial Code of the relevant State(s) (including with respect to fixtures covered by any Mortgage) or equivalent filings under local jurisdictions to the extent required with respect to the pledge of the Capital Stock of any member of the Restricted Pledgee Group, (c) delivery to the Collateral Trustee to be held in its possession of each promissory note listed on Schedule 5.1(g), together with an undated endorsement for each such promissory note executed in blank by a duly authorized officer of the pledgor thereof, and, to the extent certificated and constituting "certificated securities" under the UCC, Capital Stock listed on Schedule 4.13 or required to be pledged pursuant to Section 6.7(a), together with an undated stock power for each such certificate executed in blank by a duly authorized officer of the pledgor thereof, (d) delivery of each other promissory note or certificated Capital Stock and constituting "certificated securities" under the UCC constituting Collateral to the extent such promissory note evidences Indebtedness, or such Capital Stock has a Net Book Value, in excess of \$250,000,000, together with an undated endorsement or stock power for each such promissory note or certificate, as applicable, executed in blank by a duly authorized officer of the pledgor thereof and (e) filing with the United States Patent and Trademark Office against trademarks listed on Schedule 1.1F.

(g) At the request of the Company and notwithstanding Section 10.1(a), the Administrative Agent shall negotiate with the Company in good faith to amend Schedule 1.1B to include a Borrowing Base Amount calculation for any asset of the Company or any Subsidiary that does not have a Borrowing Base Amount at the time such asset becomes Collateral (including the Advance Percentage related thereto and any eligibility or other requirements the Administrative Agent deems reasonably necessary for a determination thereof consistent with the criteria used in determining Borrowing Base Amounts as of the Closing Date).

SECTION 7. NEGATIVE COVENANTS

The Company hereby agrees that, so long as the Commitments remain in effect, any Letter of Credit or Acceptance remains outstanding or any Loan, Reimbursement Obligations, interest or fee payable hereunder is owing to any Lender:

7.1 Borrowing Base. The Company shall not permit the Outstanding Amount of Borrowing Base Debt at any time to exceed the Borrowing Base in effect at such time for any period of five consecutive Business Days.

7.2 Available Liquidity. The Company shall not permit Available Liquidity to be less than \$4,000,000,000 at any time.

7.3 Liens. Prior to the Collateral Release Date, the Company will not, nor will it permit any Subsidiary Guarantor to, create, incur, assume or suffer to exist any Lien upon any of the Collateral except Permitted Liens.

7.4 Restricted Group Debt. Prior to the Collateral Release Date, none of Volvo, any of its Subsidiaries or any member of the Restricted Pledge Group will incur Indebtedness or provide a Material Guarantee, except:

(a) Indebtedness of the type described in clause (g) of the definition of Permitted Liens;

(b) Indebtedness incurred under working capital facilities entered into in the ordinary course of business;

(c) Indebtedness owing to the Company or any Subsidiary; provided that any such Indebtedness owing to a Subsidiary that is not a Subsidiary Guarantor shall be subordinated in right of payment to any Indebtedness owing by Volvo or any of its Subsidiaries or such member of the Restricted Pledge Group to the Company or any Subsidiary Guarantor;

(d) Indebtedness consisting of subsidized loans made, or guaranteed, by a governmental or quasi-governmental entity (including any international organization or agency);

(e) Indebtedness outstanding as of the Closing Date and any Permitted Refinancing thereof;

(f) in the case of any member of the Restricted Pledge Group, any additional Indebtedness; provided that (i) the Borrowing Base Coverage Ratio after giving pro forma effect to the incurrence and application of proceeds thereof is at least 1.15 to 1.00 and (ii) any dividends received by the Company from the proceeds of any such Indebtedness in excess of \$250,000,000 are reinvested in the Company's business within 15 months or, to the extent not so reinvested, are

applied as a Mandatory Prepayment pursuant to Section 2.18(a) (together with any applicable prepayment premium provided in Section 2.24(b)); and

(g) in the case of Volvo and its Subsidiaries, additional Material Guarantees and Indebtedness in an Outstanding Amount with respect to all such Material Guarantees and Indebtedness not to exceed \$1,000,000,000 at any time;

provided, in each case, that the Outstanding Amount of such Indebtedness or Material Guarantees shall reduce the Eligible Value (but not below zero) of the Capital Stock or intercompany notes of such Person that constitute Collateral as provided in Schedule 1.1B.

7.5 Asset Sale Restrictions.

(a) Receivables and Inventory. The Company shall not, and shall not permit any Subsidiary Guarantor to, Dispose of any receivables or inventory included in the Borrowing Base, except in the ordinary course of business.

(b) Non-Core Assets. The Company shall not, nor shall it permit any Subsidiary to (i) Dispose of all or any portion of the Capital Stock (including by way of merger), or all or substantially all of the assets, of Jaguar, Land Rover, Aston Martin, Automotive Components Holdings, and/or Automobile Protection Corp., or Dispose of the Jaguar Trade Name or Land Rover Trade Name, unless in each case, the Net Cash Proceeds thereof are reinvested in the business of the Company within 15 months of such Disposition or, to the extent not so reinvested, are applied as a Mandatory Prepayment pursuant to Section 2.18(a); provided that if Land Rover is not Disposed of with Jaguar in an integrated transaction, the Disposition of all or any portion of the Capital Stock (including by way of merger) or all or substantially all the assets of Land Rover shall only be permitted if the Borrowing Base Coverage Ratio, after giving pro forma effect to such Disposition and the application of the proceeds thereof, is at least 1.25 to 1.00 or (ii) Dispose of the Land Rover Trade Name except in connection with a Disposition of Land Rover pursuant to clause (i).

(c) Volvo. The Company shall not, nor shall it permit any Subsidiary to, Dispose of (i) all or any portion of the Capital Stock (including by way of merger) or to Dispose of (other than in the ordinary course of business or to another Subsidiary or the Company) more than 20% of the then Consolidated Total Assets of Volvo (initially determined based upon the audited financial statements of Volvo for the fiscal year ending December 31, 2005 and, commencing with the delivery of financial statements of Volvo delivered pursuant to Section 6.2, based upon the most recent consolidated balance sheet of Volvo contained therein) in a single transaction or a series of related transactions, unless (A) after giving pro forma effect to such Disposition and the application of proceeds thereof, the Borrowing Base Coverage Ratio is at least 1.25 to 1.00, (B) the greater of (1) 50% of the Net Cash Proceeds thereof and (2) the amount of such proceeds necessary so that, after giving pro forma effect to such Disposition and application of proceeds thereof, the Borrowing Base Coverage Ratio is at least 1.25 to 1.00, are applied as a Mandatory Prepayment pursuant to Section 2.18(a) and (C) the remaining Net Cash Proceeds of such Disposition are reinvested in the business of the Company within 15 months of such Disposition or, to the extent not so reinvested, are applied as Mandatory Prepayment pursuant to Section 2.18(a) or (ii) the Volvo Trade Name except in connection with a Disposition of all or substantially all of the Capital Stock or assets of Volvo.

(d) Ford Motor Credit. The Company shall not permit any Disposition or issuance of the Capital Stock of FMCC that results in the Company owning, directly or indirectly, less than

49% of the outstanding Capital Stock of FMCC. The Company shall not permit any other Disposition or issuance of the Capital Stock of FMCC unless (i) in the case of a primary offering of Capital Stock of FMCC, the Net Cash Proceeds of such Disposition are reinvested in the business of FMCC within 15 months of such Disposition or, to the extent not so reinvested, are applied as a Mandatory Prepayment pursuant to Section 2.18(a) and (ii) in the case of a Disposition of the Capital Stock of FMCC by the Company or any Subsidiary thereof, the Net Cash Proceeds thereof in an amount equal to the product of the Eligible Value of such Capital Stock constituting Eligible FMCC Pledged Equity and the Advance Percentage therefor as set forth in the most recent Borrowing Base Certificate delivered to the Administrative Agent are applied as a Mandatory Prepayment pursuant to Section 2.18(a).

(e) Ford Global Technologies. The Company shall not permit the Disposition of all or any portion of the Capital Stock (including by way of merger), or all or substantially all of the assets, of Ford Global Technologies, LLC, except pursuant to Section 7.7(b)(i).

(f) Principal Trade Names. The Company shall not Dispose of any Principal Trade Name.

(g) Other Principal Trade Names. The Company shall not Dispose of any Other Principal Trade Name unless (i) after giving pro forma effect to such Disposition and the application of proceeds thereof, the Borrowing Base Coverage Ratio is at least 1.00 to 1.00 and (ii) the greater of (A) 50% of the Net Cash Proceeds thereof and (B) the amount of such proceeds necessary so that, after giving pro forma effect to such Disposition and application of proceeds thereof, the Borrowing Base Coverage Ratio is at least 1.00 to 1.00, are applied as a Mandatory Prepayment pursuant to Section 2.18(a).

(h) Material PDMP. The Company shall not, nor shall it permit, any Subsidiary Guarantor to Dispose of any PDMP having a Net Book Value in excess of \$250,000,000 in a single transaction or a series of related transactions unless (i) after giving pro forma effect to such Disposition and the application of proceeds thereof, the Borrowing Base Coverage Ratio is at least 1.00 to 1.00 and (ii) the Eligible Value of the Eligible PDMP PP&E is reduced as provided in Schedule 1.1B.

(i) Other Material Assets. The Company shall not, nor shall it permit any Subsidiary Guarantor to Dispose of any other Collateral not otherwise covered in paragraphs (a) through (h) above (other than in the ordinary course of business) having a Net Book Value equal to or greater than \$500,000,000 in a single transaction or a series of related transactions unless (i) after giving pro forma effect to such Disposition and the application of proceeds therefrom, the Borrowing Base Coverage Ratio is at least 1.15 to 1.00 and (ii) Net Cash Proceeds thereof are reinvested in the business of the Company within 15 months of such Disposition or, if not so reinvested, are applied as a Mandatory Prepayment pursuant to Section 2.18(a).

Notwithstanding anything in this Section 7.5 to the contrary, (A) any Disposition described in paragraphs (b), (c), (g), (h) or (i) above shall be permitted if (1) 100% of the Net Cash Proceeds of such Disposition are applied as a Mandatory Prepayment pursuant to Section 2.18(a) and (2) at least 75% of the consideration for such Disposition is in the form of cash or cash equivalents and (B) any Disposition described in this Section 7.5 shall be permitted if such Disposition is to the Company, any Subsidiary Guarantor or, in the case of paragraph (b), any wholly-owned Subsidiary of the Company. In addition it is understood that the Company and its Subsidiaries may otherwise Dispose of their assets except to the extent expressly restricted pursuant to this Section 7.5 and Sections 7.7 and 7.9.

7.6 Restricted Payments. The Company will not (i) pay any dividend (other than dividends payable solely in stock of the Company) on, or redeem, retire or purchase, for cash consideration, its common stock (including any Class B stock, "Common Stock"), (ii) optionally prepay, repurchase, redeem or otherwise optionally satisfy or defease with cash or cash equivalents any Material Unsecured Indebtedness or any Permitted Second Lien Debt and (iii) so long as any Term Loans (or any secured refinancing thereof) are outstanding, make any cash payments to holders of convertible debt securities with respect to the conversion value of any convertible debt securities upon the conversion thereof (any such payment referred to in clauses (i), (ii) and (iii), a "Restricted Payment"), other than:

- (a) repurchases of shares of Common Stock upon the exercise of stock options or warrants for such Common Stock;
- (b) repurchases of shares of Common Stock from officers, directors and employees or any executive or employee savings or compensation plans;
- (c) derivatives or forward purchase agreements entered into to hedge obligations to repurchase Capital Stock under paragraphs (a) and (b) of this Section 7.6 or in connection with the issuance of convertible debt securities;
- (d) any Permitted Refinancing of Material Unsecured Indebtedness or any Permitted Second Lien Debt; provided that a certificate of a Responsible Officer of the Company is delivered to the Administrative Agent at least five Business Days (or such shorter period as the Administrative Agent may reasonably agree) prior to the incurrence of such Indebtedness, together with a reasonably detailed description of the material terms and conditions of such Indebtedness or drafts of the documentation relating thereto, stating that the Company has determined in good faith that such terms and conditions satisfy the foregoing requirement and such terms and conditions shall be deemed to satisfy the foregoing requirement unless the Administrative Agent notifies the Company within such period that it disagrees with such determination (including a reasonable description of the basis upon which it disagrees);
- (e) any Restricted Payments constituting redemption or other prepayment of Material Unsecured Indebtedness having a scheduled final maturity prior to the Term Loan Maturity Date; provided that such redemption or prepayment occurs no earlier than the date that is six months prior to such scheduled final maturity;
- (f) additional Restricted Payments in an aggregate amount not to exceed \$250,000,000 during any fiscal year and \$500,000,000 in the aggregate;
- (g) additional redemptions or prepayments of Material Unsecured Indebtedness or Permitted Second Lien Debt in an aggregate amount not to exceed \$250,000,000 during any fiscal year and \$500,000,000 in the aggregate; and
- (h) additional Restricted Payments at any time after January 1, 2010 in an amount not to exceed the Cumulative Growth Amount at such time.

7.7 Fundamental Changes.

- (a) The Company will not merge or consolidate with any other Person or sell or convey all or substantially all of its assets to any Person unless no Default or Event of Default is continuing after giving effect to such transaction and (i) it shall be the continuing entity or (ii) (A) the Person formed by or surviving such merger or consolidation shall be an entity organized or

existing under the laws of the United States, any state thereof, or the District of Columbia that expressly assumes all the obligations of the Company under the Loan Documents pursuant to a supplement or amendment to this Agreement and each other Loan Document reasonably satisfactory to the Administrative Agent, (B) each Subsidiary Guarantor reaffirms its obligations under the Loan Documents and (C) the Administrative Agent shall have received an opinion of counsel reasonably satisfactory to the Administrative Agent and consistent with the opinions delivered on the Closing Date with respect to the Company.

(b) No Significant Guarantor shall merge or consolidate with any other Person or sell or convey all or substantially all of its assets to any Person unless (i) a the Company or another Subsidiary Guarantor shall be the continuing entity or shall be the transferee of such assets or (ii) in connection with an asset sale permitted by Section 7.5.

7.8 Negative Pledge. The Company will not itself, and will not permit any Manufacturing Subsidiary to, incur, issue, assume, guarantee or suffer to exist any notes, bonds, debentures or other similar evidences of indebtedness for money borrowed (notes, bonds, debentures or other similar evidences of indebtedness for money borrowed being herein called "Debt"), secured by pledge of, or mortgage or lien on, any Principal Domestic Manufacturing Property of the Company or any Manufacturing Subsidiary, or any shares of stock of or Debt of any Manufacturing Subsidiary (such mortgages, pledges and liens being hereinafter called "Pledge" or "Pledges"), without effectively providing that the Obligations (together with, if the Company shall so determine, any other Debt of the Company or of such Manufacturing Subsidiary then existing or thereafter created ranking equally with the Obligations) shall be secured equally and ratably with (or prior to) such secured Debt, so long as such secured Debt shall be so secured, unless, after giving effect thereto, the aggregate amount of all such secured Debt so secured plus all Attributable Debt of the Company and its Manufacturing Subsidiaries in respect of Sale and Leaseback Transactions would not exceed 5% of the Consolidated Net Tangible Automotive Assets; provided, however, that this Section 7.8 shall not apply to Debt secured by:

(a) Pledges of property of, or on any shares of stock of or Debt of, any corporation existing at the time such corporation becomes a Manufacturing Subsidiary;

(b) Pledges in favor of the Company or any Manufacturing Subsidiary;

(c) Pledges in favor of any governmental body to secure progress, advance or other payments pursuant to any contract or provision of any statute;

(d) Pledges of property, shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation) or to secure the payment of all or any part of the purchase price thereof or to secure any Debt incurred prior to, at the time of, or within 60 days after, the acquisition of such property or shares or Debt for the purpose of financing all or any part of the purchase price thereof; and

(e) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Pledge referred to in the foregoing clauses (a) to (d), inclusive; provided, however, that such extension, renewal or replacement Pledge shall be limited to all or a part of the same property, shares of stock or Debt that secured the Pledge extended, renewed or replaced (plus improvements on such property).

7.9 Sales and Leasebacks. The Company will not itself, and it will not permit any Manufacturing Subsidiary to, enter into any arrangement with any bank, insurance company or other lender or investor (not including the Company or any Manufacturing Subsidiary) or to which any such

lender or investor is a party, providing for the leasing by the Company or a Manufacturing Subsidiary for a period, including renewals, in excess of three years of any Principal Domestic Manufacturing Property which has been or is to be sold or transferred by the Company or such Manufacturing Subsidiary to such lender or investor or to any person to whom funds have been or are to be advanced by such lender or investor on the security of such Principal Domestic Manufacturing Property (herein referred to as a “Sale and Leaseback Transaction”) unless either:

(a) the Company or such Manufacturing Subsidiary could create Debt secured by a Mortgage pursuant to Section 7.8 on the Principal Domestic Manufacturing Property to be leased in an amount equal to the Attributable Debt with respect to such Sale and Leaseback Transaction without equally and ratably securing the Obligations; or

(b) the Company, within 120 days after the sale or transfer shall have been made by the Company or by a Manufacturing Subsidiary, applies an amount equal to the greater of:

(i) the net proceeds of the sale of the Principal Domestic Manufacturing Property leased pursuant to such arrangement; or

(ii) the fair market value of the Principal Domestic Manufacturing Property so leased at the time of entering into such arrangement (as determined by any two of the following: the Chairman of the Board of the Company, its President, any Executive Vice President of the Company, any Group Vice President of the Company, any Vice President of the Company, its Treasurer or its Controller);

to the retirement of Funded Debt of the Company; provided, however, that the amount to be applied to the retirement of Funded Debt of the Company shall be reduced by the principal amount of Funded Debt voluntarily retired by the Company within 120 days after such sale.

SECTION 8. EVENTS OF DEFAULT

If any of the following events shall occur and be continuing:

(a) the Company (or the relevant Subsidiary Borrower) shall fail to pay (i) any principal of any Loan, any Acceptance Obligation or any Acceptance Equivalent Loan when due, (ii) any interest, facility fee, Letter of Credit Fee, Acceptance Fee or any Reimbursement Obligation hereunder for a period of five Business Days after the same becomes due and payable or (iii) any other amount due and payable under any Loan Document for 30 days after receipt of notice of such failure by the Company from the Administrative Agent (other than, in the case of amounts in this clause (iii), any such amount being disputed by the Company in good faith); or

(b) any representation or warranty made or deemed made by the Company in any Loan Document or any certified statement furnished by the Company (including any Borrowing Base Certificate), shall prove to have been incorrect in any material respect on or as of the date made or deemed made or furnished; or

(c) the Company or any Significant Guarantor shall default in the observance or performance of (i) its agreements in Section 6.1, (ii) its agreements in Section 7.1 or Section 7.2 for a period of 20 consecutive days or (iii) any other agreement contained in this Agreement or any other Loan Document and, with respect to clause (iii) only, such default shall continue unremedied for a period of 30 days after notice thereof to the Company from the Administrative Agent; or

(d) the Company or any Significant Guarantor shall (i) default in making any payment of any principal of any Indebtedness or any Guarantee Obligation in respect of Indebtedness beyond the period of grace, if any; or (ii) default in making any payment of any interest on any such Indebtedness or Guarantee Obligation, in each case beyond the period of grace, if any; provided, that a default, event or condition described in clause (i) or (ii) of this paragraph (d) shall not at any time constitute an Event of Default unless, at such time, one or more defaults, events or conditions of the type described in clauses (i) or (ii) of this paragraph (d) shall have occurred and be continuing with respect to Indebtedness or any such Guaranty Obligation the aggregate outstanding principal amount of which exceeds \$1,000,000,000; or

(e) any Permitted Additional Notes, any Permitted Additional Senior Facilities, any Permitted Second Lien Debt or any other Indebtedness issued or guaranteed by the Company or any Significant Guarantor with an aggregate outstanding principal amount of \$1,000,000,000 or more shall have been accelerated by the holders thereof as a result of a default thereunder; or

(f) (i) the Company, any Significant Guarantor, FMCC, a Volvo Group Member or Ford Canada shall (A) commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors (1) seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or (B) make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Company, any Significant Guarantor, FMCC, a Volvo Group Member or Ford Canada any case, proceeding or other action of a nature referred to in clause (i) above that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 90 days; or

(g) (i) any Plan shall fail to satisfy the minimum funding standard required for any plan year or part thereof or a waiver of such standard or extension of any amortization period has been sought and rejected under Section 412 of the Code; (ii) any Plan is or shall have been terminated or is the subject of termination proceedings under ERISA; (iii) the PBGC shall have terminated a Plan or appointed a trustee to administer any Plan; (iv) any Plan shall have an accumulated funding deficiency which has not been waived; or (v) the Company or any Commonly Controlled Entity has incurred a liability to or on account of a Plan under Section 409, 502(i), 502(l), 515, 4062, 4063, 4064, 4069, 4201 or 4204 of ERISA or Section 4971 or 4975 of the Code; and (b) any of the foregoing has had a Material Adverse Effect; or

(h) one or more judgments or decrees shall be entered in the United States against the Company or any Significant Guarantor that is not vacated, discharged, satisfied, stayed or bonded pending appeal within 60 days, and involves a liability (not paid or fully covered by insurance as to which the relevant insurance company has not denied coverage) of either (a) \$100,000,000 or more, in the case of any single judgment or decree or (b) \$200,000,000 or more in the aggregate; or

(i) the Collateral Trust Agreement or any Security Document shall cease to be in full force and effect, or any Lien thereunder shall cease to be enforceable and perfected (other than pursuant to the terms hereof or any other Loan Document or as a result of acts or omissions by either Agent or any Lender), with respect to Collateral with a Net Book Value in excess of \$250,000,000; provided that the foregoing Event of Default shall only be applicable if the

Borrowing Base Coverage Ratio (calculated on a pro forma basis assuming such Collateral is not in the Borrowing Base) is less than 1.25 to 1.00; or

(j) the guarantee of any Significant Guarantor or of the Company contained in the Guarantee shall cease to be in full force and effect; or

(k) the occurrence of a Change of Control;

then, and in any such event, (A) if such event is an Event of Default specified in paragraph (f) above with respect to the Company, automatically the Commitments shall immediately terminate and the Loans and Acceptances (with accrued interest thereon) and all other amounts owing to the Lenders under this Agreement and the other Loan Documents (including all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Company declare the Revolving Commitments to be terminated forthwith, whereupon the Revolving Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Company, declare the Loans and Acceptances (with accrued interest thereon) and all other amounts owing to the Lenders under this Agreement and the other Loan Documents (including all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) to be due and payable forthwith, whereupon the same shall immediately become due and payable. With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to this paragraph, the Company or the relevant Subsidiary Borrower shall at such time deposit in a cash collateral account opened by the Administrative Agent an amount equal to 105% of the aggregate then undrawn and unexpired amount of such Letters of Credit (calculated, in the case of Letters of Credit denominated in Optional Currencies, at the Dollar Equivalent thereof on the date of acceleration). Subject to the Collateral Trust Agreement, amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Company and any Subsidiary Borrower hereunder and under the other Loan Documents. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Company and any Subsidiary Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Company or such Subsidiary Borrower (or such other Person as may be lawfully entitled thereto). Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived by the Company and each Subsidiary Borrower.

Whenever the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement shall have become immediately due and payable in accordance with clause (A) or clause (B) above, the Administrative Agent shall forthwith deliver a Notice of Acceleration to the Collateral Trustee; provided that, by written notice to the Company and the Administrative Agent, the Required Lenders may, for such periods and/or subject to such conditions as may be specified in such notice, withdraw any declaration of acceleration effected in accordance with clause (B) above. If a declaration of acceleration in accordance with clause (B) immediately preceding shall have been withdrawn in accordance with the proviso to the immediately preceding sentence, the Administrative Agent shall forthwith deliver to the Collateral Trustee a notice of cancellation of the respective Notice of Acceleration theretofore delivered to the Collateral Trustee.

Whenever the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement shall have become immediately due and payable in accordance with clause (A) or clause (B) above, each Specified Currency Loan shall be converted automatically into Dollars at the Exchange Rate in effect on date the Loans shall become so due and payable; provided, further that any Specified Currency Loan held by any Lender that is not paid in full on the Revolving Termination Date for such Lender shall be converted automatically into Dollars at the Exchange Rate in effect on such Revolving Termination Date.

SECTION 9. THE AGENTS

9.1 Appointment. (a) Each Lender hereby irrevocably designates and appoints the Administrative Agent as the agent of such Lender under this Agreement and the other Loan Documents, and each such Lender irrevocably authorizes the Administrative Agent, in such capacity, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent.

(b) The Administrative Agent and each Lender hereby irrevocably designates and appoints the Collateral Trustee as its agent under the Collateral Trust Agreement and the other Loan Documents, and irrevocably authorizes the Collateral Trustee, in such capacity, to (i) take such action on its behalf under the provisions of the Collateral Trust Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Collateral Trustee by the terms of the Collateral Trust Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto and (ii) enter into any and all Security Documents and the Collateral Trust Agreement and such other documents and instruments as shall be necessary to give effect to (A) the ranking and priority of Indebtedness and other extensions of credit and obligations contemplated by the Collateral Trust Agreement, (B) the security interests in the Collateral purported to be created by the Security Documents and (C) the other terms and conditions of the Collateral Trust Agreement. Each Lender further hereby agrees to be bound by the terms of the Collateral Trust Agreement to the same extent as if it were a party thereto and authorizes the Administrative Agent to enter into the Collateral Trust Agreement on its behalf. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Collateral Trustee shall not have any duties or responsibilities, except those expressly set forth in herein, in the Collateral Trust Agreement or in any other Loan Document to which it is a party, or any fiduciary relationship with the Administrative Agent or any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement, the Collateral Trust Agreement or any other Loan Document or otherwise exist against the Collateral Trustee.

9.2 Delegation of Duties. Each Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. No Agent shall be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

9.3 Exculpatory Provisions. Neither any Agent nor any of their respective officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except to the extent that any of the foregoing resulted from its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any Loan Party or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Agents under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of any Loan Party a party thereto to perform its obligations hereunder or thereunder. The Agents shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party.

9.4 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any instrument, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, e-mail, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including counsel to the Company), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders (or, if so specified by this Agreement, all Lenders or any other instructing group of Lenders specified in this Agreement) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders (or, if so specified by this Agreement, all Lenders or any other instructing group of Lenders specified in this Agreement), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

9.5 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default unless the Administrative Agent has received notice from a Lender or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders (or, if so specified by this Agreement, all Lenders or any other instructing group of Lenders specified in this Agreement); provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

9.6 Non-Reliance on Agents and Other Lenders. Each Lender expressly acknowledges that neither of the Agents nor any of their respective officers, directors, employees, agents, attorneys-in-fact or affiliates have made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of a Loan Party or any affiliate of a Loan Party,

shall be deemed to constitute any representation or warranty by any Agent to any Lender. Each Lender represents to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates and made its own decision to make its Loans and other extensions of credit hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of any Loan Party or any affiliate of a Loan Party that may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

9.7 Indemnification. The Lenders agree to indemnify each Agent in its capacity as such (to the extent not reimbursed by the Company or any Subsidiary Borrower and without limiting the obligation of the Company or any Subsidiary Borrower to do so), ratably according to their respective Aggregate Exposure Percentages in effect on the date on which indemnification is sought under this Section (or, if indemnification is sought after the date upon which the Commitments shall have terminated and the Loans shall have been paid in full, ratably in accordance with such Aggregate Exposure Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (whether before or after the payment of the Loans) be imposed on, incurred by or asserted against such Agent in any way relating to or arising out of, the Commitments, this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by such Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from such Agent's gross negligence or willful misconduct. The agreements in this Section shall survive the payment of the Loans and all other amounts payable hereunder.

9.8 Agent in Its Individual Capacity. Each Agent and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with any Loan Party as though such Agent were not an Agent. With respect to its Loans made or renewed by it, any Letter of Credit issued or participated in by it and any other extension of credit made by it hereunder, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

9.9 Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders and the Company. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall (unless an Event of Default under Section 8(a) or Section 8(f) with respect to the Company shall have occurred and be continuing) be subject to approval by the Company (which approval shall not be unreasonably withheld or delayed), whereupon such successor agent shall succeed to the

rights, powers and duties of the Administrative Agent, and the term “Administrative Agent” shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent’s rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Loans. If no successor agent has accepted appointment as Administrative Agent by the date that is 30 days following a retiring Administrative Agent’s notice of resignation, the retiring Administrative Agent may, on behalf of the Lenders and with the consent of the Company (such consent not to be unreasonably withheld and, which consent, shall not be required if an Event of Default under Section 8(a) or Section 8(f) with respect to the Company shall have occurred and be continuing), appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent’s resignation as Administrative Agent, the provisions of this Section 9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

9.10 Bookrunners, Lead Arrangers, Documentation Agents and Syndication Agents. None of the Syndication Agents or any of the bookrunners, lead arrangers, documentation agents or the agent identified on the cover page to this Agreement shall have any duties or responsibilities under this Agreement and the other Loan Documents in their respective capacities as such.

SECTION 10. MISCELLANEOUS

10.1 Amendments and Waivers. (a) Neither this Agreement, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this Section 10.1 or as otherwise expressly provided herein. The Required Lenders and the Company (on its own behalf and as agent on behalf of any other Loan Party party to the relevant Loan Document) may, or, with the written consent of the Required Lenders, the Administrative Agent and the Company (on its own behalf and as agent on behalf of any Loan Party party to the relevant Loan Document) may, from time to time, (i) enter into written amendments, supplements or modifications hereto and to the other Loan Documents for the purpose of adding any provisions to this Agreement or the other Loan Documents or changing in any manner the rights of the Lenders or of the Loan Parties hereunder or thereunder or (ii) waive, on such terms and conditions as the Required Lenders or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall:

(A) forgive or reduce any principal amount or extend the final scheduled date of maturity of any Loan, Acceptance or any Reimbursement Obligation or extend the scheduled date of any amortization payment in respect of any Term Loan (for the purpose of clarity each of the foregoing not to include any waiver of a mandatory prepayment), reduce the stated rate of any interest, fee or prepayment premium payable hereunder (except in connection with the waiver of applicability of any post–default increase in interest rates), or extend the scheduled date of any payment thereof, change the relative rights of the Secured Parties under the Collateral Trust Agreement in respect of payments or Collateral, or increase the amount or extend the expiration date of any Lender’s Revolving Commitment, in each case without the written consent of each Lender directly and adversely affected thereby;

(B) eliminate or reduce the voting rights of any Lender under this Section 10.1 without the written consent of such Lender;

(C) reduce any percentage specified in the definition of Required Lenders, consent to the assignment or transfer by or release of the Company of any of its rights and obligations under this Agreement and the other Loan Documents, release all or substantially all of the Collateral or release all or substantially all of the Subsidiary Guarantors from their obligations under the Guarantee or the Security Agreement (except as otherwise provided in the Loan Documents), in each case without the written consent of all Lenders;

(D) effect any amendment, modification or waiver that by its terms adversely affects the rights in respect of payment or Collateral of Lenders under any Revolving Facility differently from Lenders under any other Revolving Facility without the written consent of the Majority Facility Lenders in respect of each Revolving Facility adversely affected thereby;

(E) effect any amendment, modification or waiver that by its terms adversely affects the rights in respect of payment or Collateral of Lenders under the Revolving Facilities differently from Lenders under the Term Facility (or vice versa) without the written consent of the Majority Revolving Lenders (or the Majority Facility Lenders under the Term Facility, as applicable);

(F) reduce the percentage specified in the definition of Majority Facility Lenders with respect to any Facility without the written consent of all Lenders under such Facility or reduce the percentage specified in the definition of Majority Revolving Lenders without the written consent of all Revolving Lenders;

(G) after the Closing Date, amend, modify or waive any provision of Section 5.2 without the written consent of the Majority Revolving Lenders,

(H) amend, modify or waive any provision of Section 9 in a manner adverse to the Administrative Agent without the written consent of the Administrative Agent;

(I) amend, modify or waive any provision of Section 9 in a manner adverse to the Collateral Trustee without the written consent of the Collateral Trustee;

(J) amend, modify or waive any provision of Section 2.11, 2.12 or 2.13 without the written consent of each Swingline Lender;

(K) amend, modify or waive any provision of Section 3 without the written consent of each Issuing Lender; or

(L) amend, modify or waive any provision of Section 2.18(a) or the definition of Mandatory Prepayment in a manner that adversely affects the rights of the Term Lenders without the written consent of the Majority Facility Lenders under the Term Facility;

Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Loan Parties, the Lenders, the Administrative Agent and all future holders of the Loans. In the case of any waiver, the Loan Parties, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

(b) Notwithstanding the foregoing paragraph (a), without the consent of the Required Lenders, but subject to any consent required by paragraphs (A) through (K) above, (i) the terms of any Facility may be amended, modified or waived in any manner that does not adversely affect the rights or obligations of Lenders under any other Facility with the written consent of the Majority Facility Lenders in respect of such Facility and (ii) the Administrative Agent and the Company may amend, modify or supplement any provision of this Agreement or any other Loan Document (with, to the extent applicable, the consent of the Collateral Trustee) to (A) cure any ambiguity, omission, defect or inconsistency so long as such amendment, modification or supplement does not adversely affect the rights or obligations of any Lender or Issuing Lender, (B) provide additional Collateral for the Obligations and (c) to permit additional affiliates of the Company to guarantee the Obligations and/or provide Collateral therefor.

(c) Notwithstanding the foregoing, this Agreement may be amended with the written consent of the Administrative Agent, the Company and each of the Lenders providing the relevant Replacement Term Loans (as defined below) to permit the refinancing, replacement or modification of all outstanding Term Loans ("Replaced Term Loan") with one or more replacement term loan tranches hereunder (each, a "Replacement Term Loans"), provided that (i) the aggregate principal amount of such Replacement Term Loans shall not exceed the aggregate principal amount of such Replaced Term Loans, (ii) the weighted average life to maturity of such Replacement Term Loans shall not be shorter than the weighted average life to maturity of such Replaced Term Loans at the time of such refinancing and (iii) the Company shall have paid to the holders of the Replaced Term Loans the prepayment premium, if any, that would be applicable at the date of such refinancing, replacement or modification if such Lender had received a prepayment on such date pursuant to Section 2.17.

(d) In addition, notwithstanding the foregoing, this Agreement may be amended after the Closing Date without consent of the Lenders, so long as no Default or Event of Default shall have occurred and be continuing, as follows:

(i) to designate (w) any Domestic Subsidiary of the Company as a Domestic Subsidiary Borrower, (x) any Subsidiary of the Company organized under the laws of Canada or any province or territory thereof as a Canadian Borrower, (y) any Foreign Subsidiary organized or domiciled under the laws of the United Kingdom, Sweden or Germany as a Foreign Subsidiary Borrower under the Multicurrency Revolving Facility and (z) any other Foreign Subsidiary of the Company as a Foreign Subsidiary Borrower under a New Local Facility or any Incremental Revolving Facility upon (A) ten Business Days prior notice to the Administrative Agent (such notice to contain the name, primary business address and taxpayer identification number of such Subsidiary), (B) the execution and delivery by the Company, such Subsidiary and the Administrative Agent of a Joinder Agreement, substantially in the form of Exhibit R (each, a "Joinder Agreement"), providing for such Subsidiary to become a Subsidiary Borrower, (C) the agreement and acknowledgment by the Company and each other Subsidiary Guarantor that the Guarantee and the Security Agreement cover the Obligations of such Subsidiary, (D) the delivery to the Administrative Agent of corporate or other applicable resolutions, other corporate or other applicable documents, certificates and legal opinions in respect of such Subsidiary reasonably equivalent to comparable documents delivered on the Closing Date and (E) the delivery to the Administrative Agent of any documentation or other information reasonably requested by the Administrative Agent and necessary to satisfy obligations of the Lenders described in Section 10.18 or any applicable "know your customer" or other anti-money laundering Requirement of Law; and

(ii) to remove any Subsidiary as a Subsidiary Borrower upon (A) execution and delivery by the Company to the Administrative Agent of a written notification to such effect, (B) repayment in full of all Loans made to such Subsidiary Borrower, (C) repayment in full of all other amounts owing by such Subsidiary Borrower under this Agreement and the other Loan Documents and (D) the deposit in a cash collateral account opened by the Administrative Agent of an amount equal to 105% of the aggregate then undrawn and unexpired amount of all Letters of Credit issued for the account of such Subsidiary Borrower (calculated, in the case of Letters of Credit denominated in Optional Currencies, at the Dollar Equivalent thereof on the date of removal) (it being agreed that any such repayment shall be in accordance with the other terms of this Agreement).

10.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy or electronic transmission), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered, or three Business Days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice or electronic transmission, when received, addressed as follows in the case of the Company and the Administrative Agent, and as set forth in an administrative questionnaire delivered to the Administrative Agent in the case of the Lenders, or to such other address as may be hereafter notified by the respective parties hereto:

Company: Ford Motor Company
One American Road
Dearborn, MI 48126
Attention: Treasurer
Telecopy: 313-322-3359
Telephone: 313-322-3533

with a copy to: Ford Motor Company
One American Road
Dearborn, MI 48126
Attention: Secretary

Telecopy: 313-248-8713
Telephone: 313-323-2130

Administrative Agent for all notices: JPMorgan Chase Bank, N.A.
Loan & Agency Services
1111 Fannin Street, 10th Floor
Houston, TX 77002
Attention: Omar E. Jones
Telecopy: 713-750-2938
Telephone: 713-750-7912

with a copy to: JPMorgan Chase Bank, N.A.
270 Park Avenue, 15th Floor
New York, NY 10017
Attention: Vilma Francis
Telecopy: 212-270-4016
Telephone: 212-270-5484

with a further copy to: Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Daniel S. Dokos
Telecopy: (212) 310-8007
Telephone: (212) 310-8576

Administrative Agent for notices with respect to the Multicurrency Revolving Facility: JPMorgan Chase Bank, N.A.
125 London Wall, 9th Floor
London EC2Y 5AJ
United Kingdom
Attention: Steve Clarke
Fax: 44 20 7777 2360
Telephone: 44 20 7325 5424

Administrative Agent for notices with respect to the Canadian Revolving Facility: JPMorgan Chase Bank, N.A.
200 Bay Street, Suite 1800
Royal Bank Plaza, South Tower
Toronto, Ontario, Canada M5J 2J2
Attention: Drew McDonald
Telephone: (416) 981-9143
Facsimile: (416) 981-9138

provided that any notice, request or demand to or upon the Administrative Agent or the Lenders shall not be effective until received.

Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Section 2 or 3 unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Company may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

10.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of any Agent or any Lender, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.4 Survival of Representations and Warranties. All representations and warranties made hereunder, in the other Loan Documents and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the making of the Loans and other extensions of credit hereunder.

10.5 Payment of Expenses and Taxes. The Company agrees (a) to pay or reimburse the Administrative Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to,

this Agreement and the other Loan Documents and any other documents prepared in connection herewith or therewith, the syndication of the Facilities, the consummation and administration of the transactions contemplated hereby and thereby and any amendment or waiver with respect thereto, including, without limitation, (i) the reasonable fees and disbursements of Weil, Gotshal & Manges LLP and one local counsel in each relevant jurisdiction (which, for the avoidance of doubt, may include Canada, Sweden, Mexico, each jurisdiction where a Mortgaged Property is located and, without duplication, each other jurisdiction where a Subsidiary Borrower is organized) to be shared by the Administrative Agent and the Collateral Trustee, (ii) filing and recording fees and expenses and (iii) the charges of Intralinks, (b) to pay or reimburse the Administrative Agent and the Collateral Trustee for all their reasonable out-of-pocket costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement and the other Loan Documents, including the reasonable fees and disbursements of one primary counsel to the Administrative Agent, which counsel shall act on behalf of all Lenders (and if necessary or advisable one local counsel in each relevant jurisdiction (which, for the avoidance of doubt, may include Canada, Sweden, Mexico, each jurisdiction where a Mortgaged Property is located and, without duplication, each other jurisdiction where a Subsidiary Borrower is organized) to be shared by the Administrative Agent and the Collateral Trustee) and, in the event of any conflict of interest, if necessary or advisable one additional local counsel in each relevant jurisdiction to the Collateral Trustee and one additional primary counsel (and if necessary or advisable one local counsel in each relevant jurisdiction) to represent all Lenders (other than the Administrative Agent), (c) to pay, indemnify or reimburse each Lender, each Issuing Lender and the Administrative Agent for, and hold each Lender, each Issuing Lender and the Administrative Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and similar taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the other Loan Documents and any such other documents, and (d) to pay, indemnify or reimburse each Lender, each Issuing Lender, the Administrative Agent, their respective affiliates, and their respective officers, directors, partners, employees, advisors, agents, controlling persons and trustees (each, an “Indemnitee”) for, and hold each Indemnitee harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (other than with respect to taxes not specifically provided for herein, which shall be governed exclusively by Section 2.26 or with respect to the costs, losses or expenses which are of the type covered by Section 2.25 or Section 2.27) with respect to the execution, delivery, enforcement, performance and administration of this Agreement, the other Loan Documents and any such other documents, including, without limitation, any of the foregoing relating to the use of proceeds of the Loans or the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the Company or any of its Subsidiaries or any of the Mortgaged Properties and the reasonable fees and expenses of legal counsel in connection with claims, actions or proceedings by any Indemnitee against any Loan Party under any Loan Document (all the foregoing in this clause (d), collectively, the “Indemnified Liabilities”), provided, that the Company shall have no obligation hereunder to any Indemnitee with respect to Indemnified Liabilities to the extent such Indemnified Liabilities resulted from the gross negligence or willful misconduct of, or material breach of the Loan Documents by, such Indemnitee, any of its affiliates or its or their respective officers, directors, partners, employees, advisors, agents, controlling persons or trustees. Without limiting the foregoing, and to the extent permitted by applicable law, the Company agrees not to assert and to cause its Subsidiaries not to assert, and hereby waives and agrees to cause its Subsidiaries to waive, all rights for contribution or any other rights of recovery with respect to all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, under or related to Environmental Laws, that any of them might have by statute or otherwise against any Indemnitee unless the same shall have resulted from the gross negligence or willful misconduct of, or material breach of the Loan Documents by, such Indemnitee, any of its affiliates or its or their respective officers, directors, partners, employees, advisors, agents,

controlling persons or trustees. All amounts due under this Section 10.5 shall be payable not later than 30 Business Days after the party to whom such amount is owed has provided a statement or invoice therefor, setting forth in reasonable detail, the amount due and the relevant provision of this Section 10.5 under which such amount is payable by the Company. For purposes of the preceding sentence, it is understood and agreed that the Company may ask for reasonable supporting documentation to support any request to reimburse or pay out of pocket expenses, legal fees and disbursements and that the grace period to pay any such amounts shall not commence until such supporting documentation has been received by the Company. Statements payable by the Company pursuant to this Section 10.5 shall be submitted the Company at the address of the Company set forth in Section 10.2, or to such other Person or address as may be hereafter designated by the Company in a written notice to the Administrative Agent. The agreements in this Section 10.5 shall survive repayment of the Loans and all other amounts payable hereunder.

10.6 Successors and Assigns; Participations and Assignments. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any affiliate of an Issuing Lender that issues any Letter of Credit), except that (i) other than pursuant to Section 7.7, neither the Company nor any Subsidiary Borrower may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Company or any Subsidiary Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section.

(a) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees (each, an “Assignee”) all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans and/or Acceptances at the time owing to it) with the prior written consent (in each case, not to be unreasonably withheld or delayed) of:

(A) with respect to any Revolving Facility:

- (1) the Company;
- (2) the Administrative Agent;
- (3) each Material Issuing Lender at such time; and
- (4) each Material Swingline Lender at such time;

provided, that none of the foregoing consents in relation to any Revolving Facility shall be required for an assignment to a Revolving Lender or, in the case of the Company only, if an Event of Default under Section 8(a) or (f) has occurred and is continuing. Notwithstanding the proviso in the previous sentence, in no event shall a Qualifying Canadian Lender be entitled to assign its interest to any Person who is not a Qualifying Canadian Lender unless an Event of Default under Section 8(a) or (f) has occurred and is continuing.

(B) with respect to any Term Loan:

- (1) the Company; and
- (2) the Administrative Agent;

provided, that none of the foregoing consents in relation to any Term Loan shall be required for an assignment to a Lender, an affiliate of a Lender, an Approved Fund of a Lender or, in the case of the Company only, if an Event of Default under Section 8(a) or (f) has occurred and is continuing.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender, an affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender's Commitments or Loans under any Facility, the amount of the Commitments or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than, in the case of a Revolving Facility, \$10,000,000 or, in the case of the Term Facility, \$1,000,000 unless each of the Company and the Administrative Agent otherwise consent, provided that (1) no such consent of the Company shall be required if an Event of Default under Section 8(a) or (f) has occurred and is continuing and (2) such amounts shall be aggregated in respect of each Lender and its affiliates or Approved Funds, if any;

(B) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; and

(C) the Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an administrative questionnaire.

For the purposes of this Section 10.6, "Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course and that is administered or managed by (a) a Lender, (b) an affiliate of a Lender or (c) an entity or an affiliate of an entity that administers or manages a Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) below, from and after the effective date specified in each Assignment and Assumption the Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.25, 2.26, 2.27 and 10.5). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.6 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Company, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of and interest on the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Company, the Administrative Agent, the Issuing Lenders and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement,

notwithstanding notice to the contrary. The Register shall be available for inspection by the Company, at any reasonable time and from time to time upon reasonable prior notice. The portion of the Register that reflects the Revolving Facilities shall be available for inspection by any Issuing Lender and any Swingline Lender at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an Assignee, the Assignee's completed administrative questionnaire (unless the Assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) (i) Any Lender may, without the consent of the Company or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans and/or Acceptances owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (C) the Company, the Administrative Agent, the Issuing Lenders and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (D) no later than January 31 of each year, such Lender shall provide the Company with a written description of each participation of Loans, Acceptances and/or Commitments by such Lender during the prior year (it being understood that any failure to provide notice shall not render the participation invalid) and (E) if the Lender is a Canadian Revolving Lender, such Lender shall promptly (and, in any event, within one Business Day) provide the Company with information concerning any participation sold to a Person who is not a Qualifying Canadian Lender to allow the Canadian Borrowers to comply with their obligations to withhold and remit Canadian withholding tax. Any agreement pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 10.1(a) and (2) directly affects such Participant. Subject to paragraph (c)(ii) of this Section, the Company agrees that each Participant shall be entitled to the benefits of Sections 2.25, 2.26 and 2.27 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, and subject to paragraph (c)(ii) of this Section, each Participant also shall be entitled to the benefits of Section 10.7(b) as though it were a Lender, provided such Participant shall be subject to Section 10.7(a) as though it were a Lender. Notwithstanding anything to the contrary contained in this Section 10.6(c), in no event shall a Qualifying Canadian Lender be entitled to sell any participation in its interest in the Commitments or the Loans to any Person who is not a Qualifying Canadian Lender unless an Event of Default under Section 8(a) or (f) has occurred and is continuing. Notwithstanding anything to the contrary in this Section 10.6, each Lender (that is not a Qualifying Canadian Lender) shall have the right to sell one or more participations in all or any part of its Loans, Commitments or other Obligations to one or more lenders or other Persons that provide financing to such Lender in the form of sales and repurchases of participations without having to satisfy the foregoing requirements.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.25 or 2.26 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant. A Participant shall not be entitled to receive any funds directly from the Company in respect of Sections 2.25, 2.26, 2.27 or 10.7 unless such Participant shall have provided to Administrative Agent, acting for this purpose as an agent of the Company, such information as is required to be recorded in the Register pursuant to paragraph (b)(iv) above as if such Participant were a Lender. Any Participant shall not be entitled to the benefits of Section 2.26 unless such Participant complies with Section 2.26(d) and (e) as though it were a Lender.

(d) Any Lender may, without the consent of the Company or the Administrative Agent, at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or Assignee for such Lender as a party hereto.

(e) The Company, upon receipt of written notice from the relevant Lender, agrees to issue Notes to any Lender requiring Notes to facilitate transactions of the type described in paragraph (d) above.

(f) Notwithstanding the foregoing, any Conduit Lender may assign any or all of the Loans it may have funded hereunder to its designating Lender without the consent of the Company or the Administrative Agent and without regard to the limitations set forth in Section 10.6(b). Each of the Company, each Subsidiary Borrower, each Lender and the Administrative Agent hereby confirms that it will not institute against a Conduit Lender or join any other Person in instituting against a Conduit Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under any state bankruptcy or similar law, for one year and one day after the payment in full of the latest maturing commercial paper note issued by such Conduit Lender; provided, however, that each Lender designating any Conduit Lender hereby agrees to indemnify, save and hold harmless each other party hereto for any loss, cost, damage or expense arising out of its inability to institute such a proceeding against such Conduit Lender during such period of forbearance.

10.7 Adjustments; Set-off; Revolver Allocation. (a) Except to the extent that this Agreement expressly provides for payments to be allocated to a particular Lender or to the Lenders under a particular Facility, if any Lender (a "Benefitted Lender") shall, at any time after the Loans and other amounts payable hereunder shall immediately become due and payable pursuant to Section 8, receive any payment of all or part of the Obligations owing to it, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 8(f), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of the Obligations owing to such other Lender, such Benefitted Lender shall purchase for cash in Dollars from the other Lenders a participating interest in such portion of the Obligations owing to each such other Lender, or shall provide such other Lenders with the benefits of any such collateral, as shall be necessary to cause such Benefitted Lender to share the excess payment or benefits of such collateral ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without prior notice to the Company or any Subsidiary Borrower, any such notice being expressly waived by the Company and each Subsidiary Borrower to the extent permitted by applicable law, upon all amounts owing hereunder becoming due and payable (whether at the stated maturity, by acceleration or otherwise), to set off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of the Company or such Subsidiary Borrower, as the case may be. Each Lender agrees promptly to notify the Company and the Administrative Agent after any such setoff and application made by such Lender; provided that the failure to give such notice shall not affect the validity of such setoff and application.

(c) In the case of the Revolving Lenders, at any time when a Notice of Acceleration is in effect, notwithstanding anything to the contrary contained in Section 2.24 or the Collateral Trust Agreement, each payment received by the Administrative Agent pursuant to any Loan Document in respect of the Obligations of each Loan Party owing to any Revolving Lender and any Issuing Lender (the "Revolving Obligations"), and each distribution made by the Administrative Agent pursuant to any Loan Document in respect of Revolving Obligations, shall be distributed to the Revolving Lenders pro rata in accordance with their respective CAM Percentages. Any direct payment received by a Revolving Lender at any time when a Notice of Acceleration is in effect, including by way of set-off, in respect of the Revolving Obligations shall be paid over to the Administrative Agent for distribution to the Revolving Lenders in accordance with the provisions of the foregoing sentence. In furtherance of the foregoing and in order to effect the allocation of payments and distributions provided for in this paragraph (c), on the date of each such payment or distribution, each Revolving Lender shall be deemed to have sold and purchased participations in the Revolving Obligations and the unfunded Revolving Commitments under each Revolving Facility such that, following such deemed exchange, each Revolving Lender holds, directly or through its Applicable Lending Office, an interest in each one of the Revolving Loans and L/C Obligations and other extensions of credit under any Revolving Facility, and in the unfunded Revolving Commitments under each Revolving Facility, equal to such Revolving Lender's CAM Percentage on such date (the "CAM Exchange"). For purposes of calculating the appropriate amount to be exchanged in connection with the deemed exchange of interests pursuant to this paragraph, the interest in the Revolving Loans, L/C Obligations and other extensions of credit denominated in any Currency other than Dollars shall be converted into the Dollar Equivalent thereof on the date of exchange. Each Revolving Lender consents and agrees to the CAM Exchange, and each Revolving Lender agrees that the CAM Exchange shall be binding upon its successors and assigns and any Person that acquires a participation in its interests in any Revolving Loans, L/C Obligations and other extensions of credit under any Revolving Facility, or in any Revolving Commitment hereunder.

10.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Company and the Administrative Agent.

10.9 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such

prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.10 Integration. This Agreement and the other Loan Documents represent the entire agreement of the Company, the Administrative Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents (other than agreements between the Company and any Swingline Lender or any Issuing Lender contemplated by this Agreement and any Addendum executed and delivered on the Closing Date).

10.11 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

10.12 Submission to Jurisdiction: Waivers. Each of the Administrative Agent, the Lenders, the Company and the Subsidiary Borrowers hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) in the case of each Subsidiary Borrower, hereby irrevocably designates the Company (and the Company hereby irrevocably accepts such designation) as its agent to receive service of process in any such action or proceeding; and

(d) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages .

10.13 Judgment. The obligations of the Company or any Subsidiary Borrower in respect of this Agreement and the other Loan Documents due to any party hereto shall, notwithstanding any judgment in a currency (the "judgment currency") other than the currency in which the sum originally due to such party is denominated (the "original currency"), be discharged only to the extent that on the Business Day following receipt by such party of any sum adjudged to be so due in the judgment currency such party may in accordance with normal banking procedures purchase the original currency with the judgment currency; if the amount of the original currency so purchased is less than the sum originally due under such judgment to such party in the original currency, the Company or such Subsidiary Borrower, as the case may be, agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such party against such loss, and if the amount of the original currency so purchased exceeds the sum originally due to any party to this Agreement, such party agrees to remit to the Company such excess. The provisions of this Section 10.13 shall survive the termination of this Agreement and payment of the

obligations of the Company and the Subsidiary Borrowers under this Agreement and the other Loan Documents.

10.14 Acknowledgements. Each of the Company and the Subsidiary Borrowers hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Company or any Subsidiary arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Administrative Agent and the Lenders, on one hand, and the Company or any Subsidiary, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Company or any Subsidiary and the Lenders.

10.15 Releases of Guarantees and Liens. (a) Notwithstanding anything to the contrary contained herein or in any other Loan Document, the Administrative Agent is hereby irrevocably authorized by each Lender (without requirement of notice to or consent of any Lender except as expressly required by Section 10.1) to take, and the Administrative Agent hereby agrees to take promptly, any action requested by the Company having the effect of releasing, or evidencing the release of, any Collateral or Guarantee Obligations (including by instructing the Collateral Trustee to do so) (i) to the extent necessary to permit consummation of any transaction not prohibited by any Loan Document or that has been consented to in accordance with Section 10.1 or (ii) under the circumstances described in paragraph (b) below. For the avoidance of doubt any such action shall include directing the Collateral Trustee to take action under the Collateral Trust Agreement.

(b) At such time as the Loans, the Reimbursement Obligations and interest and fees owing hereunder shall have been paid in full, the Commitments have been terminated and no Letters of Credit shall be outstanding (or such Letters of Credit are Collateralized), the Obligations shall cease to be "Secured Obligations" under the Security Documents and the Administrative Agent shall provide notice to the Collateral Trustee thereof in accordance with Section 6.12(a)(A) of the Collateral Trust Agreement.

(c) The Collateral shall be released automatically on the first date (the "Collateral Release Date") on which each of the following has occurred: (a) the Index Debt has at least two of the following three ratings: at least Baa3 by Moody's, at least BBB- by Fitch and/or at least BBB- by S&P, (b) the Term Loans (including any Incremental Term Loans) shall have been paid in full and (c) the Company has delivered to the Administrative Agent and the Collateral Trustee a certificate of a Responsible Officer certifying that such conditions have been satisfied and stating that such certificate shall constitute a "Collateral Release Notice"; provided, however, that any guarantees and liens with respect to other Covered Debt and Permitted Second Lien Debt are released concurrently therewith. Within three Business Days following the receipt of a Collateral Release Notice, the Administrative Agent shall deliver to the Collateral Trustee the notice required pursuant to Section 6.12(a) (B) of the Collateral Trust Agreement.

10.16 Confidentiality. Each of the Administrative Agent and each Lender agrees to keep confidential all non-public information provided to it by any Loan Party, the Administrative Agent

or any Lender pursuant to or in connection with this Agreement ; provided that nothing herein shall prevent the Administrative Agent or any Lender from disclosing any such information (a) to the Administrative Agent, any other Lender or any affiliate thereof, (b) subject to an agreement to comply with the provisions of this Section (or other provisions at least as restrictive as this Section), to any actual or prospective Transferee or any pledgee referred to in Section 10.6(d) or any direct or indirect contractual counterparty (or the professional advisors thereto) to any swap or derivative transaction relating to the Company and its obligations, (c) to its employees, directors, trustees, agents, attorneys, accountants and other professional advisors or those of any of its affiliates for performing the purposes of a Loan Document, (d) upon the request or demand of any Governmental Authority or regulatory agency (including self-regulated agencies), (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, after notice to the Company if reasonably feasible, (f) if requested or required to do so in connection with any litigation or similar proceeding, after notice to the Company if reasonably feasible, (g) that has been publicly disclosed, (h) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about a Lender's investment portfolio in connection with ratings issued with respect to such Lender, or (i) in connection with the exercise of any remedy hereunder or under any other Loan Document.

10.17 WAIVERS OF JURY TRIAL. THE COMPANY, EACH SUBSIDIARY BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

10.18 USA Patriot Act. Each Lender hereby notifies the Company and each Subsidiary Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "USA Patriot Act"), it is required to obtain, verify and record information that identifies the Company and each Subsidiary Borrower, which information includes the name and address of the Company and each Subsidiary Borrower and other information that will allow such Lender to identify the Company and each Subsidiary Borrower in accordance with the USA Patriot Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

FORD MOTOR COMPANY

By: /s/ Ann Marie Petach

Name: Ann Marie Petach

Title: Vice President and Treasurer

JPMORGAN CHASE BANK, N.A., as Administrative
Agent

By: /s/ Robert P. Kellas
Name: Robert P. Kellas
Title: Vice President

“Advance Percentage” means:

- (a) with respect to Eligible Receivables, 75%;
- (b) with respect to Eligible Inventory, 60%;
- (c) with respect to Eligible Intercompany Notes (other than the Ford Canada Intercompany Note and the Ford Canada Intercompany Payable), 75%;
- (d) with respect to Eligible Foreign Pledged Equity, 75%;
- (e) with respect to Eligible FMCC Pledged Equity, 75%; and
- (f) with respect to Eligible Non-PDMP M&E, 40%.

“Average Bookkeeping Rate” means, as of any date of determination, (a) with respect to calculations of EBITDA, the average of the exchange rates for the conversion of the applicable currency to U.S. dollars determined by the Company as of the last business day of the immediately preceding fiscal quarters ended December 31st, March 31st, June 30th and September 30th, (b) with respect to calculations of debt, the exchange rate for the conversion of the applicable currency to U.S. dollars determined by the Company as of the last business day of the immediately preceding fiscal year and (c) with respect to all other calculations based on the Average Bookkeeping Rate, the average of the exchange rates for the conversion of the applicable currency to U.S. dollars determined by the Company as of the last business day of the immediately preceding four fiscal quarters. Each determination of the Average Bookkeeping Rate shall be made by the Company consistent with past practice and shall be conclusive absent manifest error.

“Borrowing Base Amount” means, as of any date of determination:

(a) with respect to Eligible Receivables, Eligible Inventory, Eligible Intercompany Notes (other than the Ford Canada Intercompany Note and the Ford Canada Intercompany Payable), Eligible Foreign Pledged Equity, Eligible FMCC Pledged Equity and Eligible Non-PDMP M&E, (i) the Eligible Value for such Eligible Collateral multiplied by (ii) the Advance Percentage for such Eligible Collateral;

(b) with respect to the Ford Canada Intercompany Note and the Ford Canada Intercompany Payable that constitute Eligible Intercompany Notes, the lesser of (i) the Canadian Borrowing Base and (ii) the Eligible Value of the Ford Canada Intercompany Note plus the Eligible Value of the Ford Canada Intercompany Payable;

(c) with respect to Eligible PDMP PP&E, the PDMP Capped Amount; provided that if there has been a decrease in the aggregate Net Book Value of Eligible PDMP PP&E from such value determined as of the Closing Date, the Borrowing Base Amount with respect to Eligible PDMP PP&E

¹ Unless otherwise defined herein, terms used herein and defined in the Credit Agreement to which this Schedule 1.1B is attached (the “Credit Agreement”) shall have the meanings given to them in the Credit Agreement.

shall be decreased by an amount equal to (x) the PDMP Ratio on the Closing Date multiplied by (y) the aggregate cumulative decrease in such Net Book Value from the Closing Date to such time;

(d) with respect to Eligible Intellectual Property, \$2,500,000,000; and

(e) with respect to Eligible Mazda Pledged Equity, the Eligible Value thereof.

“Canadian Borrowing Base” means, for Ford Canada as of any date of determination, the sum of (a) 75% multiplied by the Net Book Value of third-party accounts receivable of Ford Canada, (b) 60% multiplied by the Net Book Value of inventory of Ford Canada and (c) 40% multiplied by the Net Book Value of property, plant and equipment of Ford Canada, each as derived from the most recent audited annual or unaudited quarterly financial statements of the Company (or internal unaudited balance sheets and income statements in the case of a delay in providing the audited annual or definitive quarterly financial statements as contemplated by the Credit Agreement) that are the basis for the most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement; provided, however, that the “Canadian Borrowing Base” shall exclude any inventory, property, plant and equipment subject to any Canadian Material Permitted Consensual Lien, except that no inventory, property, plant and equipment subject to any Canadian Material Permitted Consensual Lien existing on the Closing Date shall be excluded from the “Canadian Borrowing Base” until the delivery of the first Borrowing Base Certificate required to be delivered after the Closing Date in accordance with the Credit Agreement.

“Canadian Customary Permitted Liens” means the Permitted Liens described in clauses (a), (b), (c) and (d) of the definition thereof (*mutatis mutandis*).

“Canadian Material Permitted Consensual Lien” means any lien on inventory, equipment, machinery or real estate of the kind described in clause (g), (h), (i), (j), (k) (to the extent securing the renewal, refinancing, replacing, refunding, amendment, extension or modification, as a whole or in part, of any indebtedness secured by a lien permitted by clause (g), (h), (i) or (j)), (s) or (t) of the definition of Permitted Liens (*mutatis mutandis*) to secure indebtedness for borrowed money (in a single transaction or a series of related transactions) if the Net Book Value (determined, in the case of each such lien, as of the date such lien is incurred) of the assets subject thereto is equal to \$100,000,000 or more, in the case of any such lien existing on the Closing Date, or \$50,000,000 or more, in the case of any such lien created or incurred after the Closing Date.

“Canadian Permitted Liens” means the Permitted Liens described in clauses (a) through (n) and (q) through (t) of the definition thereof (*mutatis mutandis*) and, in addition, Liens not otherwise permitted by the foregoing clauses securing obligations or other liabilities of Ford Canada or any of its Subsidiaries; provided that the Outstanding Amount of all such obligations and liabilities shall not exceed \$100,000,000 at any time.

“Customary Permitted Liens” means the Permitted Liens described in clauses (a), (b), (c), (d), (o) and (p) of the definition thereof.

“EBITDA” means, with respect to any Foreign Pledgee for any period, the consolidated operating income (or, with respect to Ford Mexico and Ford Canada, the operating income) of such Person for such period increased (to the extent deducted in determining operating income) by the sum (without duplication) of (a) depreciation expense of such Person for such period and (b) amortization expense of such Person for such period, in each case, as reflected on the most recent statutory audited annual financial statements that are the basis for the most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement; provided, however, that if operating income, depreciation expense

and/or amortization expense are not reflected in such financial statements, then “EBITDA” shall be determined as mutually agreed between the Administrative Agent and the Company in good faith based on such financial statements to reflect the equivalents of operating income, depreciation expense and/or amortization expense.

“Eligible Collateral” means Eligible Receivables, Eligible Inventory, Eligible Intercompany Notes, Eligible Foreign Pledged Equity, Eligible FMCC Pledged Equity, Eligible PDMP PP&E, Eligible Non-PDMP M&E, Eligible Intellectual Property and Eligible Mazda Pledged Equity.

“Eligible FMCC Pledged Equity” means, as of any date of determination, the equity interests of FMCC that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject to no prior Liens.

“Eligible Foreign Pledged Equity” means, as of any date of determination, the equity interests of each Foreign Pledgee that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject to no prior Liens; provided, however, that (a) the equity interests of Volvo and Ford Mexico shall not constitute “Eligible Foreign Pledged Equity” if, and for so long as, commencing with the date that is 180 days from the Closing Date, the Post-Closing Deliverables for such equity interests have not been satisfied (it being understood that such equity interests will become “Eligible Foreign Pledged Equity” at such time as such Post-Closing Deliverables have been satisfied) and (b) the equity interests of such Foreign Pledgee shall not constitute “Eligible Foreign Pledged Equity” if, and for so long as, the statutory audited annual financial statements for such Foreign Pledgee have not been delivered to the Administrative Agent to the extent and when required by the Loan Documents (it being understood that such equity interests will become “Eligible Foreign Pledged Equity” at such time as such financial statement have been delivered).

“Eligible Intellectual Property” means, as of any date of determination, the trademarks listed on Schedule 1.1F of the Credit Agreement hereto that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject only to Customary Permitted Liens.

“Eligible Intercompany Notes” means, as of any date of determination, each of the Volvo Intercompany Note, the Progress Ford Related Intercompany Note, the Ford Canada Intercompany Note, the Ford Canada Intercompany Payable, the Grupo Ford Intercompany Note, the Land Rover Intercompany Note (when issued) and the Volvo Restructured Intercompany Note (when issued), in each case that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject only to Permitted Liens described in clause (a) of the definition thereof; provided, however, that (a) with respect to the Progress Ford Related Intercompany Note, (i) the obligations of Ford Canada to the Company shall be secured by a security interest in the Progress Ford Intercompany Note, which security interest shall constitute a valid, perfected and enforceable security interest in favor of the Company, subject to no prior liens, (ii) Progress Ford shall directly own 100% of the equity interests of LR Capital Limited (Sarl) (“LR Capital”), (iii) LR Capital shall directly own 100% of the equity interests of LRC International Finance (Sarl) (“LRC Finance”), (iv) Land Rover shall have \$2.2 billion in principal amount owing to LRC Finance pursuant to an intercompany note (the “Land Rover Intermediate Intercompany Note”) and (v) none of Progress Ford, LR Capital and LRC Finance shall have any assets (other than (A) the equity interests of LR Capital, in the case of Progress Ford, (B) the equity interests of LRC Finance, in the case of LR Capital and (C) the Land Rover Intermediate Intercompany Note, in the case of LRC Finance) or any debt or other liabilities (other than those incidental to the maintenance of their existence or the ownership of the assets permitted to be owned by them pursuant to this clause (v) and, in the case of Progress Ford, the Progress Ford Intercompany Note), or shall conduct any business (other than the ownership of (A) the equity interests of LR Capital, in the case of Progress Ford, (B) the equity interests of LRC Finance, in the case of LR Capital and (C) the Land Rover Intermediate Intercompany Note, in

the case of LRC Finance), (b) with respect to the Ford Canada Intercompany Note, the obligations of Ford Canada to the Company shall be secured by a valid, perfected and enforceable security interest in favor of the Company in the accounts receivable, inventory and property, plant and equipment of Ford Canada included in the Canadian Borrowing Base (except that security interests with respect to real estate shall be limited to mortgages on the properties listed on Schedule 6.7(e) of the Credit Agreement under the heading “Canadian Mortgages”), subject only to Canadian Customary Permitted Liens in the case of accounts receivable and subject only to Canadian Permitted Liens in the case of inventory, property, plant and equipment, which security interest shall be pari passu with the security interest in such assets securing the Ford Canada Intercompany Payable, (c) with respect to the Ford Canada Intercompany Payable, the obligations of Ford Canada to the Company shall be secured by a valid, perfected and enforceable security interest in favor of the Company in the accounts receivable, inventory and property, plant and equipment of Ford Canada included in the Canadian Borrowing Base (except that security interests with respect to real estate shall be limited to mortgages on the properties listed on Schedule 6.7(e) of the Credit Agreement under the heading “Canadian Mortgages”), subject only to Canadian Customary Permitted Liens in the case of accounts receivable and subject only to Canadian Permitted Liens in the case of inventory, property, plant and equipment, which security interest shall be pari passu with the security interest in such assets securing the Ford Canada Intercompany Note and (d) with respect to the Volvo Restructured Intercompany Note, (i) the Company shall directly own 100% of the equity interests of Volvo Holding Company and (ii) Volvo Holding Company (and each holding company Subsidiary thereof) shall not have any assets (other than the Volvo Restructured Intercompany Note (or an equivalent loan to its holding company Subsidiary (the “Volvo Intermediate Intercompany Note”))), the equity interest of a holding company or the equity interests in Volvo) or any debt or other liabilities (other than those incidental to the maintenance of their existence or the ownership of the assets permitted to be owned by them pursuant to this clause (ii)), or shall conduct any business (other than ownership of the Volvo Restructured Intercompany Note, the equity interest of a holding company or the equity interests in Volvo).

“Eligible Inventory” means, as of any date of determination, the items classified by the Company as “inventory” in accordance with GAAP, including raw materials, work-in-process, finished goods, parts and supplies, that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject only to Permitted Liens; provided, however, that “Eligible Inventory” shall exclude any inventory subject to any Material Permitted Consensual Lien, except that no inventory subject to any Material Permitted Consensual Lien existing on the Closing Date shall be excluded from “Eligible Inventory” until the delivery of the first Borrowing Base Certificate required to be delivered after the Closing Date in accordance with the Credit Agreement.

“Eligible Mazda Pledged Equity” means, as of any date of determination, the Mazda Shares that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject to no prior liens; provided, however, that the Mazda Shares shall not constitute “Eligible Mazda Pledged Equity” if they are Excluded Property (as defined in the Security Agreement).

“Eligible Non-PDMP M&E” means, as of any date of determination, the items classified by the Company as “machinery” and “equipment” in accordance with GAAP (a) that do not constitute PDMP and (b) that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject only to Permitted Liens; provided, however, that “Eligible Non-PDMP M&E” shall exclude any machinery and equipment subject to any Material Permitted Consensual Lien, except that no machinery and equipment subject to any Material Permitted Consensual Lien existing on the Closing Date shall be excluded from “Eligible Non-PDMP M&E” until the delivery of the first Borrowing Base Certificate required to be delivered after the Closing Date in accordance with the Credit Agreement.

“Eligible PDMP PP&E” means, as of any date of determination, the items classified by the Company as “real estate”, “machinery” and “equipment” in accordance with GAAP (a) that constitute PDMP and (b) that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject only to Permitted Liens (except that security interests with respect to real estate shall be limited to mortgages on the properties listed on Schedule 1.1E of the Credit Agreement); provided, however, that real estate, machinery and equipment shall not constitute “Eligible PDMP PP&E” if, and for so long as, commencing with the date that is 180 days from the Closing Date, the Real Estate Post-Closing Deliverables for the applicable real estate on which such machinery and equipment are located has not been satisfied (it being understood that such real estate, machinery and equipment will become “Eligible PDMP PP&E” at such time as such Real Estate Post-Closing Deliverables have been satisfied); provided, further, that “Eligible PDMP PP&E” shall exclude any real estate, machinery and equipment subject to any Material Permitted Consensual Lien, except that no real estate, machinery and equipment subject to any Material Permitted Consensual Lien existing on the Closing Date shall be excluded from “Eligible PDMP PP&E” until the delivery of the first Borrowing Base Certificate required to be delivered after the Closing Date in accordance with the Credit Agreement.

“Eligible Receivables” means, as of any date of determination, the items classified by the Company as “accounts receivable” in accordance with GAAP (a) that are owing by a Person that is not a consolidated Affiliate of the Company and (b) that constitute Collateral and in which the Collateral Trustee has a valid, perfected and enforceable security interest, subject only to Customary Permitted Liens.

“Eligible Value” means, as of any date of determination:

- (a) with respect to Eligible Receivables, the Net Book Value of Eligible Receivables as derived from the general ledger of the Company that is the basis for the most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement;
- (b) with respect to Eligible Inventory, (i) the gross book value of Eligible Inventory as derived from the general ledger of the Company that is the basis for the most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement plus (ii) an amount equal to the Company’s LIFO adjustment for Eligible Inventory to the extent deducted in calculating the gross book value thereof plus (iii) an amount equal to the Company’s unrealized profit (UPI) adjustment for Eligible Inventory to the extent deducted in calculating the gross book value thereof;
- (c) with respect to Eligible Intercompany Notes:
 - (i) with respect to the Volvo Intercompany Note, the Ford Canada Intercompany Note and the Progress Ford Related Intercompany Note, the outstanding principal amount of such Eligible Intercompany Note on such date of determination; provided, however, that the Eligible Value for the Progress Ford Related Intercompany Note shall be \$0 if the Land Rover Intercompany Note shall constitute an Eligible Intercompany Note; provided, further, that the Eligible Value for the Volvo Intercompany Note shall be \$0 if the Volvo Restructured Intercompany Note shall constitute an Eligible Intercompany Note;
 - (ii) with respect to the Ford Canada Intercompany Payable, the amount owing (whether or not then due) to the Company on such date of determination;
 - (iii) with respect to the Grupo Ford Intercompany Note, the lesser of (A) the outstanding principal amount of such Eligible Intercompany Note on such date of determination and (B) the Eligible Value of the Eligible Foreign Pledged Equity of Ford

Mexico (prior to subtracting the outstanding principal amount of such Eligible Intercompany Note and prior to applying the Pledged Percentage as described in such calculation below);

(iv) with respect to the Land Rover Intercompany Note (when issued), the lesser of (A) the outstanding principal amount of such Eligible Intercompany Note on such date of determination and (B) \$1.3 billion; and

(v) with respect to the Volvo Restructured Intercompany Note (when issued), the lesser of (A) the outstanding principal amount of such Eligible Intercompany Note on such date of determination and (B) if the Volvo Intermediate Intercompany Note is denominated in Swedish Krona, the outstanding principal amount of the Volvo Intermediate Intercompany Note on such date of determination, as converted to U.S. dollars using the Average Bookkeeping Rates;

(d) with respect to Eligible Foreign Pledged Equity:

(i) with respect to Volvo, an amount equal to (A) the applicable Pledged Percentage multiplied by (B) (x) the 2 year average EBITDA of Volvo multiplied by five, minus (y) the outstanding amount of third-party debt owed by Volvo and its Subsidiaries (other than any debt owed by Volvo under the Revolving Facility in the event Volvo is a Foreign Subsidiary Borrower), minus (z) the outstanding amount of intercompany debt owed by Volvo and its Subsidiaries, excluding intercompany debt owing between Volvo and its Subsidiaries (i.e., debt that would be eliminated in preparing a consolidated financial statement for Volvo);

(ii) with respect to Ford Canada, an amount equal to (A) the applicable Pledged Percentage multiplied by (B) (w) the 2 year average EBITDA of Ford Canada multiplied by five, minus (x) the outstanding amount of third-party debt owed by Ford Canada, minus (y) the outstanding amount of intercompany debt owed by Ford Canada and its Subsidiaries, excluding intercompany debt owing between Ford Canada and its Subsidiaries (i.e., debt that would be eliminated in preparing a consolidated financial statement for Ford Canada), minus (z) the amount owing (whether or not then due) to the Company under the Ford Canada Intercompany Payable;

(iii) with respect to Ford Mexico, an amount equal to (A) the applicable Pledged Percentage multiplied by (B) (w) the 2 year average EBITDA of Ford Mexico multiplied by five, minus (x) the outstanding amount of third-party debt owed by Grupo Ford, Ford Mexico and their Subsidiaries, minus (y) the outstanding amount of intercompany debt owed by Grupo Ford, Ford Mexico and their Subsidiaries, excluding intercompany debt owing between Ford Mexico and its Subsidiaries (i.e., debt that would be eliminated in preparing a consolidated financial statement for Ford Mexico), minus (z) the outstanding amount of the Grupo Ford Intercompany Note;

(iv) with respect to Ford Argentina and Ford South Africa, an amount equal to (A) the applicable Pledged Percentage for such Foreign Pledgee multiplied by (B) (x) the 2 year average EBITDA of such Foreign Pledgee multiplied by three, minus (y) the outstanding amount of third-party debt owed by such Foreign Pledgee and its Subsidiaries, minus (z) the outstanding amount of intercompany debt owed by such Foreign Pledgee and its Subsidiaries, excluding intercompany debt owing between such

Foreign Pledgee and its Subsidiaries (i.e., debt that would be eliminated in preparing a consolidated financial statement for such Foreign Pledgee); and

(v) with respect to any other Foreign Pledgee not otherwise described above, an amount equal to (A) the applicable Pledged Percentage of such Foreign Pledgee multiplied by (B) (x) the 2 year average EBITDA of such Foreign Pledgee multiplied by five, minus (y) the outstanding amount of third-party debt owed by such Foreign Pledgee and its Subsidiaries, minus (z) the outstanding amount of intercompany debt owed by such Foreign Pledgee and its Subsidiaries, excluding intercompany debt owing between such Foreign Pledgee and its Subsidiaries (i.e., debt that would be eliminated in preparing a consolidated financial statement for such Foreign Pledgee);

(e) with respect to Eligible FMCC Pledged Equity, (i) at any time prior to an IPO of FMCC, an amount equal to (A) the applicable Pledged Percentage multiplied by (B) (w) the total stockholder's equity with respect to the Eligible FMCC Pledged Equity as reflected on the consolidated balance sheet of FMCC that is the basis for the most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement, minus (x) the Net Automotive Payable at such time, minus (y) 30% of the Net Book Value of the FMC Related Receivables at such time plus (z) the Net FMCC Payable at such time (in all cases (z) shall be limited to an amount no greater than (y)) and (ii) at any time after an IPO of FMCC, an amount equal to (A) the applicable Pledged Percentage multiplied by (B) the Market Value of such Eligible FMCC Pledged Equity;

(f) with respect to Eligible PDMP PP&E, the Net Book Value of the Eligible PDMP PP&E as derived from the general ledger of the Company that is the basis for the most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement;

(g) with respect to Eligible Non-PDMP M&E, the Net Book Value of the Eligible Non-PDMP M&E as derived from the general ledger of the Company that is the basis for the most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement; and

(h) with respect to Eligible Mazda Pledged Equity, if the Mazda Valuation Test is satisfied as of the date such Mazda Shares become Eligible Mazda Pledged Equity, an amount equal to (i) 75% multiplied by (ii) (A) the number of Mazda Shares constituting Eligible Mazda Pledged Equity multiplied by (B) the Market Value thereof (or, if the Mazda Valuation Test is not satisfied as of such date, such other value established by agreement of the Company and the Administrative Agent with the consent of the Required Lenders; provided, however, that the Eligible Value for the Eligible Mazda Pledged Equity shall be \$0 if the Mazda Valuation Test is not satisfied and the Required Lenders do not consent to such other value);

provided, however, that the Eligible Value for Eligible Collateral shall be adjusted on a pro forma basis (in each case using the values derived from the consolidated financial statements that were the basis for the then most recent Borrowing Base Certificate delivered to the Administrative Agent in accordance with the Credit Agreement) from time to time as provided in Section 7.4 and Section 7.5 of the Credit Agreement; provided, further, that for purposes of the calculations described in paragraphs (c)(i) (with respect to the Volvo Intercompany Note, the Progress Ford Related Intercompany Note and the Volvo Restructured Intercompany Note only) and (c)(iv) above, the Eligible Value for such Eligible Collateral shall be reduced on a dollar-for-dollar basis in connection with the sale (other than in the ordinary course of business) of more than 20% of the then total consolidated assets of Volvo or Land Rover Holdings, as applicable, in a single transaction or a series of related transactions, to the extent that the Net Cash

Proceeds of such sale are not reinvested in the business of Volvo and its Subsidiaries or Land Rover Holdings and its Subsidiaries, as applicable; provided, further, that for purposes of the calculations described in paragraphs (d) and (h) above, all amounts denominated in a foreign currency will be converted to U.S. dollars using the Average Bookkeeping Rate.

“FMC Related Receivables” means the following types of receivables purchased by or assigned to FMCC or its Subsidiaries from the Company or its Subsidiaries (other than FMCC and its Subsidiaries), or originated by FMCC or its Subsidiaries, each of which may be guaranteed (in whole or in part) by the Company or its Subsidiaries (other than FMCC and its Subsidiaries), and in each case subject to the Netting Agreement: receivables related to the sale of automotive parts and accessories (US, Canada, Europe and Asia Pacific), receivables related to the Ford Rent A Car (FRAC) program, receivables related to the company car program (US, Europe and Asia), receivables related to the chassis converter program (US) and receivables related to the used vehicle repurchase program (US, Canada and Europe); provided, however, that FMC Related Receivables shall not include any of the foregoing receivables that have been sold in an on– or off–balance sheet securitization or other structured finance transaction.

“FMCC Shares” means the common stock of FMCC.

“Ford Canada Intercompany Note” means the \$750,910,813 intercompany note from Ford Canada to the Company listed on Schedule 5.1(g) of the Credit Agreement.

“Ford Canada Intercompany Payable” means the \$1,900,000,000 intercompany payable from Ford Canada to the Company listed on Schedule 5.1(g) of the Credit Agreement.

“Foreign Pledgee” means Ford VHC AB (“Volvo”), Ford Capital B.V., Ford Espana S.A., Ford Automotive Holdings, Ford Deutschland Holding GmbH, Ford Motor Company, S.A. de C.V. (“Ford Mexico”), Ford Motor Company of Canada, Limited (“Ford Canada”), Ford Argentina S.C.A. (“Ford Argentina”) and Ford Motor Company of Southern Africa (Pty) Limited (“Ford South Africa”).

“Grupo Ford Intercompany Note” means the \$901,750,621 intercompany note from Grupo Ford to Ford Mexico Holdings, Inc. listed on Schedule 5.1(g) of the Credit Agreement.

“IPO” means the issuance by FMCC of FMCC Shares in an underwritten initial public offering (other than a public offering pursuant to a registration statement on Form S–8) pursuant to an effective registration statement filed with the SEC in accordance with the Securities Act of 1933.

“Land Rover” means Land Rover, a company organized in England and a wholly–owned Subsidiary of Land Rover Holdings.

“Land Rover Holdings” means Land Rover Holdings, a company organized in England and a wholly–owned Subsidiary of Ford Canada.

“Land Rover Intercompany Note” means the intercompany note or notes that are issued by Land Rover Holdings to the Company in connection with the restructuring of the Progress Ford Intercompany Note, on terms reasonably satisfactory to the Administrative Agent.

“Material Permitted Consensual Lien” means any lien on inventory, equipment, machinery or real estate of the kind described in clause (g), (h), (i), (j), (k) (to the extent securing the renewal, refinancing, replacing, refunding, amendment, extension or modification, as a whole or in part, of any indebtedness secured by a lien permitted by clause (g), (h), (i) or (j)), (s) or (t) of the definition of Permitted Liens to secure indebtedness for borrowed money (in a single transaction or a series of related transactions) if the

Net Book Value (determined, in the case of each such lien, as of the date such lien is incurred) of the assets subject thereto is equal to \$100,000,000 or more, in the case of any such lien existing on the Closing Date, or \$50,000,000 or more, in the case of any such lien created or incurred after the Closing Date.

“Market Value” means (a) for Mazda Shares, the average closing price of Mazda Shares on the Tokyo Stock Exchange as reported by Bloomberg (or, if not reported therein, another publication reasonably satisfactory to the Administrative Agent) for the last 10 trading days of the calendar quarter immediately preceding the date of determination thereof and (b) for FMCC Shares at any time after an IPO of FMCC, (x) if reported on the principal national securities exchange on which the same are then listed or admitted to trading, the average closing price of FMCC Shares, or (y) if designated as a national market system security by the NASD, the average of the last sale price of FMCC Shares, regular way, or if FMCC Shares are not so designated, the average of the reported closing bid and asked prices thereof as shown by the NASD automated quotation system, as the applicable prices are reported by Bloomberg (or, if not reported therein, another publication reasonably satisfactory to the Administrative Agent) for the last 10 trading days of the calendar quarter immediately preceding the date of determination thereof.

“Mazda Shares” means the common stock of Mazda Motor Corporation.

“Mazda Valuation Test” means a test that is satisfied if the average closing price of a Mazda Share in Japanese Yen on the Tokyo Stock Exchange as reported by Bloomberg (or, if not reported therein, another publication reasonably satisfactory to the Administrative Agent) as of the last trading day of each calendar quarter for the 8 calendar quarters immediately prior to the pledge of such Mazda Shares to the Collateral Trustee shall be equal to at least 80% of the closing price of a Mazda Share in Japanese Yen on the Tokyo Stock Exchange as reported by Bloomberg (or, if not reported therein, another publication reasonably satisfactory to the Administrative Agent) as of the last trading day immediately prior to the Closing Date.

“Net Automotive Payable” means at any time the excess, if any, of (a) the amounts owing (whether or not then due) to FMCC and its Subsidiaries from the Company and its Subsidiaries (other than FMCC and its Subsidiaries) over (b) the amounts owing (whether or not then due) to the Company and its Subsidiaries (other than FMCC and its Subsidiaries) from FMCC and its Subsidiaries, in each case subject to the Netting Agreement.

“Net FMCC Payable” means at any time the excess, if any, of (a) the amounts owing (whether or not then due) to the Company and its Subsidiaries (other than FMCC and its Subsidiaries) from FMCC and its Subsidiaries over (b) the amounts owing (whether or not then due) to FMCC and its Subsidiaries from the Company and its Subsidiaries (other than FMCC and its Subsidiaries), in each case subject to the Netting Agreement.

“Netting Agreement” means the Amended and Restated Agreement between the Company and FMCC, dated as of December 12, 2006.

“Pledged Percentage” means, with respect to any Eligible Foreign Pledged Equity or the Eligible FMCC Pledged Equity at any time, the percentage of the aggregate underlying economic value of the related issuer that is represented by the equity interest(s) of a Foreign Pledgee or FMCC, respectively, that satisfies the definition of Eligible Foreign Pledged Equity or Eligible FMCC Pledged Equity, as applicable, at such time.

“Progress Ford Intercompany Note” means the \$1.3 billion intercompany note from Progress Ford Sales Limited (“Progress Ford”) to Ford Canada listed on Schedule 5.1(g) of the Credit Agreement.

“Progress Ford Related Intercompany Note” means the \$1.3 billion intercompany note from Ford Canada to the Company listed on Schedule 5.1(g) of the Credit Agreement.

“Volvo Holding Company” means one or more wholly-owned direct Subsidiaries of the Company that directly, or indirectly through another wholly-owned Subsidiary, own 100% of Volvo.

“Volvo Intercompany Note” means the \$3,500,000,000 intercompany note from Volvo to the Company listed on Schedule 5.1(g) of the Credit Agreement.

“Volvo Restructured Intercompany Note” means the intercompany note or notes that are issued by Volvo Holding Company to the Company in connection with the restructuring of the Volvo Intercompany Note, on terms reasonably satisfactory to the Administrative Agent.

Notwithstanding anything herein to the contrary, the Volvo Intercompany Note, the Volvo Restructured Intercompany Note and the Eligible Pledged Equity of Volvo shall have an Eligible Value of \$0 at any time after an event of the type described in Section 8(f) of the Credit Agreement has occurred and is continuing with respect to Volvo, Volvo Car Holding Corporation or Volvo Car Corporation.

SCHEDULE 1.1D
INITIAL SUBSIDIARY GUARANTORS

<u>Legal Name</u>	<u>Type of Entity</u>	<u>Registered Organization (Yes/No)</u>	<u>Organizational Number</u>	<u>Federal Taxpayer Identification Number</u>	<u>State of Formation</u>	<u>Principal Place of Business</u>
3000 Schaefer Road Company	Corporation	Yes	144453	38 – 1906301	Michigan	Michigan
Ford European Holdings LLC	Limited Liability Company	Yes	2974559	38 – 3442908	Delaware	Michigan
Ford Global Technologies, LLC	Limited Liability Company	Yes	3593792	38 – 6058810	Delaware	Michigan
Ford Holdings LLC	Limited Liability Company	Yes	2206682	38 – 2890269	Delaware	Michigan
Ford International Capital Corporation*	Corporation	Yes	0673909	38 – 1885617	Delaware	Michigan
Ford Mexico Holdings, Inc.*	Corporation	Yes	3281198	38 – 3563830	Delaware	Michigan
Ford Motor Service Company	Corporation	Yes	486480	38 – 3364381	Michigan	Michigan
Ford Motor Vehicle Assurance Company, LLC	Limited Liability Company	Yes	4083499	38 – 3419908	Delaware	Michigan
Ford South America Holdings, LLC	Limited Liability Company	Yes	3080817	38 – 0549190	Delaware	Michigan
Ford Trading Company, LLC	Limited Liability Company	Yes	2919002	38 – 0549190	Delaware	Michigan
Ford Component Sales, L.L.C.	Limited Liability Company	Yes	2830472	38 – 3384550	Delaware	Michigan
Land Rover North America, Inc.	Corporation	Yes	2075961	22 – 2675556	Delaware	Michigan
Volvo Cars of North America, LLC	Limited Liability Company	Yes	0906002	31 – 1814807	Delaware	Michigan

* Guaranty has limited recourse to the pledged assets of the relevant entity.

SCHEDULE 1.1E
MORTGAGED PROPERTY

Closing Date Mortgages:

	<u>Owner/Entity of Record</u>	<u>Location Address</u>	<u>Recording Office</u>
1.	Ford Motor Co. / Kentucky Truck Plant	3001 Chamberlain Lane Louisville, KY 40232	Jefferson County Clerk 527 W. Jefferson, Room 204A Louisville, KY 40202
2.	Ford Motor Co. / Dearborn Truck Plant	3001 Miller Road Dearborn MI, 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
3.	Ford Motor Co. / Sharonville Plant	3000 Sharon Road Sharonville, OH 45241	Hamilton Country Recorder 138 East Court St., Room 101 Cincinnati, OH 45202
4.	Ford Motor Co. / Kansas City Assembly Plant	8121 Northeast Highway 69 Claycomo, MO 64119	Clay County Recorder of Deeds One Courthouse Square Administration Bldg. Liberty, MO 64068
5.	Ford Motor Co. / Michigan Truck Plant	38303 Michigan Ave Wayne, MI 48184	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
6.	Ford Motor Co. / Lima Engine Plant	1155 Bible Road Lima, OH 45801	Allen County Recorder 301 North Main Street, Room 204 Lima, OH 45801
7.	Ford Motor Co. / Chicago Assembly Plant	12600 S Torrence Ave Chicago, IL 60633	Cook County Recorder 118 North Clark St., Room 120 Chicago, IL 60602
8.	Ford Motor Co. / Van Dyke Plant	41111 Van Dyke Sterling Heights, MI 48314	Macomb County Register of Deeds 10 North Main Mt. Clemens, MI 48043
9.	Ford Motor Co. / Cleveland Engine Plant #1	17601 Brook Park Road Brook Park, OH 47331	Cuyahoga County Recorder 1219 Ontario Street Room 220 Cleveland, OH 44113
10.	Ford Motor Co. / Livonia Plant	35500 Plymouth Road Livonia, MI 48150	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
11.	Ford Motor Co. / Vehicle Operations General Office/New Model Product Development Center	17000 Oakwood Blvd Dearborn MI, 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
12.	Ford Motor Co. / Product Development Center	20901 Oakwood Blvd Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
13.	Ford Motor Co. / Allen Park Test Lab	1500 Enterprise Drive Allen Park, MI 48101	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
14.	Ford Motor Co. / Advanced Engineering Center	2400 Village Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
15.	Ford Motor Co. / Automotive Safety Center	1201 Village Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226

	<u>Owner/Entity of Record</u>	<u>Location Address</u>	<u>Recording Office</u>
16.	Ford Motor Co. / Crash Barrier Building	20000 Oakwood Blvd Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
17.	Ford Motor Co. / Automotive Transmission New Product Center	35500 Plymouth Road Livonia, MI 48150	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
18.	Ford Motor Co. / Building #1	20000 Rotunda Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
19.	Ford Motor Co. / Building #2	20000 Rotunda Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
20.	Ford Motor Co. / Building #3	20100 Rotunda Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
21.	Ford Motor Co. / Building #4	20200 Rotunda Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
22.	Ford Motor Co. / Building #5	20300 Rotunda, Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
23.	Ford Motor Co. / Certification Test Lab	20400 Oakwood Blvd Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
24.	Ford Motor Co. / Dearborn Proving Grounds	20050 Oakwood Blvd Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
25.	Ford Motor Co. / Engineering Computer Center	20600 Rotunda Drive Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
26.	Ford Motor Co. / Experimental Engine Building	20600 Oakwood Blvd Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
27.	Ford Motor Co. / Dynamometer Building	1701 Village Road Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
28.	Ford Motor Co. / Engineering Services Building	1451 Village Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
29.	Ford Motor Co. / Experimental Vehicle Building	20800 Oakwood Blvd Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
30.	Ford Motor Co. / Facilities Services Building	21500 Oakwood Blvd Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
31.	Ford Motor Co. / Gas Turbine Lab	1751 Village Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
32.	Ford Motor Co. / Michigan Proving Grounds	74240 Fisher Road Romeo, MI 48065	Macomb County Register of Deeds 10 North Main Mt. Clemens, MI 48043

	Owner/Entity of Record	Location Address	Recording Office
33.	Ford Motor Co. / Personnel & Administration Building	21500 Oakwood Blvd Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
34.	Ford Motor Co. / Powertrain and Fuel Systems Lab	2440 Village Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
35.	Ford Motor Co. / Scientific Research Lab	2101 Village Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
36.	Ford Motor Co. / Wind Tunnel #2-5	20500 Oakwood Blvd Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
37.	Ford Motor Co. / Conference and Events Center	1151 Village Road Dearborn, MI 48124	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
38.	Ford Motor Co. / World Headquarters Building	1 American Road Dearborn, MI 48126	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
39.	Ford Motor Co. / Ford Motor Credit Company Building	1 American Road Dearborn, MI 48126	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
40.	Ford Motor Co. / Brownstown – PRC	25555 Pennsylvania Road Romulus, MI 48174	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
41.	Ford Motor Co. / National PDC	11871 Middlebelt Road Livonia, MI 48150	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
42.	Ford Motor Co. / Dearborn Tool & Die Plant	3001 Miller Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
43.	Ford Motor Co. / Walton Hills Stamping Plant	7845 Northfield Road Walton Hills, OH 44146	Cuyahoga County Recorder 1219 Ontario Street Room 220 Cleveland, OH 44113
44.	Ford Motor Co./ Michigan Truck – Paint Plant	38547 Michigan Avenue Wayne, MI 48184	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
45.	Ford Motor Co./ Michigan Truck – Body Shop	38000 Van Born Road Wayne, MI 48184	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
46.	Ford of Canada / Windsor Engine Plant	1000 Henry Ford Centre Drive, Windsor, ON N9A 7E8, Canada	N/A
47.	Ford of Canada / Parts Distribution Centre	8000 Dixie Road Bramalea, ON L6T 2J7, Canada	N/A
48.	Ford of Canada / Ontario Truck Plant	Royal Windsor & Ford Drive, Oakville, ON L6J 5E7, Canada	N/A
49.	Ford of Canada / Oakville Assembly Plant	Periphery Road Oakville, ON L6J5C9, Canada	N/A

	<u>Owner/Entity of Record</u>	<u>Location Address</u>	<u>Recording Office</u>
50.	Ford of Canada / Ford of Canada Headquarters	The Canadian Road Oakville, ON L6J 5E4, Canada	N/A

Post-Closing Date Mortgages:

	<u>Owner/Entity of Record</u>	<u>Location Address</u>	<u>Recording Office</u>
1.	Ford Motor Co./ Romeo Engine Plant	701 East 32 Mile Road Romeo, MI 48065	Macomb County Register of Deeds 10 North Main Mt. Clemens, MI 48043
2.	Ford Motor Co./ Ohio Truck Plant	650 Miller Road Avon Lake, OH 44012	Lorain County Recorder 226 Middle Avenue Elyria, OH 44035
3.	Ford Motor Co./ Dearborn Engine Plant	3001 Miller Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
4.	Ford Motor Co./ Dearborn Stamping Plant	3001 Miller Road Dearborn, MI 48121	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
5.	Ford Motor Co./ Woodhaven Stamping Plant	20900 West Road Woodhaven, MI 48183	Wayne Country Register of Deeds 400 Monroe Detroit, MI 48226
6.	Ford Motor Co./ Chicago Stamping Plant	1000 East Lincoln Highway Chicago, IL 60411	Cook County Recorder 118 North Clark St., Room 120 Chicago, IL 60602

SCHEDULE 1.1F
PRINCIPAL TRADE NAMES

PRINCIPAL TRADE NAMES

<u>Principal Trade Name</u>	<u>App. No.</u>	<u>Filing Date</u>	<u>Reg. No.</u>	<u>Reg. Date</u>	<u>Status</u>	<u>Owner</u>
FORD	75/791223	2-Sep-1999	2884529	14-Sep-2004	Registered	Ford Motor Company
FORD	76/276458	23-Jun-2001	2591313	9-Jul-2002	Registered	Ford Motor Company
FORD	76/276250	23-Jun-2001	2620725	17-Sep-2002	Registered	Ford Motor Company
FORD	75/684950	16-Apr-1999	2435821	13-Mar-2001	Registered	Ford Motor Company
FORD	75/426509	30-Jan-1998	2324877	29-Feb-2000	Registered	Ford Motor Company
FORD	75/426510	30-Jan-1998	2324878	29-Feb-2000	Registered	Ford Motor Company
FORD	75/318112	1-Jul-1997	2151044	14-Apr-1998	Registered	Ford Motor Company
FORD	75/318191	1-Jul-1997	2208413	8-Dec-1998	Registered	Ford Motor Company
FORD	74/502268	21-Mar-1994	1874207	17-Jan-1995	Registered	Ford Motor Company
FORD	74/429898	26-Aug-1993	1868462	20-Dec-1994	Registered	Ford Motor Company
FORD	74/459531	18-Nov-1993	1871257	3-Jan-1995	Registered	Ford Motor Company
FORD	72/080525	31-Aug-1959	735475	31-Jul-1962	Registered	Ford Motor Company
FORD	74/459532	18-Nov-1993	1868251	20-Dec-1994	Registered	Ford Motor Company
FORD	74/459533	18-Nov-1993	1863728	22-Nov-1994	Registered	Ford Motor Company
FORD	74/459534	18-Nov-1993	1860957	1-Nov-1994	Registered	Ford Motor Company
FORD	74/459530	18-Nov-1993	1862561	15-Nov-1994	Registered	Ford Motor Company
FORD	74/459539	18-Nov-1993	2100574	30-Sep-1997	Registered	Ford Motor Company
FORD	74/459538	18-Nov-1993	1859783	25-Oct-1994	Registered	Ford Motor Company
FORD	72/002776	16-Feb-1956	643185	26-Mar-1957	Registered	Ford Motor Company
FORD	72/041632	2-Dec-1957	663771	1-Jul-1958	Registered	Ford Motor Company

Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
FORD	72/057947	27-Aug-1958	688483	17-Nov-1959	Registered	Ford Motor Company
FORD	73/666492	15-Jun-1987	1474889	2-Feb-1988	Registered	Ford Motor Company
FORD	73/802743	26-May-1989	1575166	2-Jan-1990	Registered	Ford Motor Company
FORD	73/802764	26-May-1989	1574366	2-Jan-1990	Registered	Ford Motor Company
FORD	73/802765	26-May-1989	1574747	2-Jan-1990	Registered	Ford Motor Company
FORD	74/657592	28-Mar-1995	2007196	8-Oct-1996	Registered	Ford Motor Company
FORD	74/231430	17-Dec-1991	1741469	22-Dec-1992	Registered	Ford Motor Company
FORD	74/657593	28-Mar-1995	2034369	28-Jan-1997	Registered	Ford Motor Company
FORD	74/658388	28-Mar-1995	2005281	1-Oct-1996	Registered	Ford Motor Company
FORD	74/735607	28-Sep-1995	1973145	7-May-1996	Registered	Ford Motor Company
FORD	75/035012	20-Dec-1995	2045664	18-Mar-1997	Registered	Ford Motor Company
FORD	75/035042	20-Dec-1995	2304426	28-Dec-1999	Registered	Ford Motor Company
FORD	75/077982	25-Mar-1996	2018005	19-Nov-1996	Registered	Ford Motor Company
FORD	75/164698	12-Sep-1996	2063517	20-May-1997	Registered	Ford Motor Company
FORD	75/164745	12-Sep-1996	2059525	6-May-1997	Registered	Ford Motor Company
FORD	75/183730	18-Oct-1996	2089375	19-Aug-1997	Registered	Ford Motor Company
FORD	78/622109	4-May-2005	3046210	17-Jan-2006	Registered	Ford Motor Company
FORD	78/622129	4-May-2005	3046211	17-Jan-2006	Registered	Ford Motor Company
FORD in Script — old v1	75/442222	28-Feb-1998	2205899	24-Nov-1998	Registered	Ford Motor Company
FORD in Script — old v1	71/041417	26-Mar-1909	74530	20-Jul-1909	Registered	Ford Motor Company
FORD in Script — old v1	71/041079	10-Apr-1909	74765	10-Aug-1909	Registered	Ford Motor Company

<u>Principal Trade Name</u>	<u>App. No.</u>	<u>Filing Date</u>	<u>Reg. No.</u>	<u>Reg. Date</u>	<u>Status</u>	<u>Owner</u>
FORD in Script — old v1	71/086955	28–May–1915	115500	20–Feb–1917	Registered	Ford Motor Company
FORD in Script — old v1	71/086954	28–May–1915	119956	25–Dec–1917	Registered	Ford Motor Company
FORD in Script — old v1	71/246606	30–Mar–1927	232051	30–Aug–1927	Registered	Ford Motor Company
FORD in Script — old v1	71/268595	25–Jun–1928	250230	4–Dec–1928	Registered	Ford Motor Company
FORD in Script — old v1	71/270542	3–Aug–1928	257500	11–Jun–1929	Registered	Ford Motor Company
FORD in Script — old v1	71/270584	4–Aug–1928	260470	27–Aug–1929	Registered	Ford Motor Company
FORD in Script — old v1	71/270583	4–Aug–1928	266453	21–Jan–1930	Registered	Ford Motor Company
FORD in Script — old v1	71/270581	4–Aug–1928	266454	21–Jan–1930	Registered	Ford Motor Company
FORD in Script — old v1	71272328	13–Sep–1928	266822	4–Feb–1930	Registered	Ford Motor Company
FORD in Script — old v1	71/398427	13–Oct–1937	361140	11–Oct–1938	Registered	Ford Motor Company
FORD in Script — old v1	71/399182	1–Nov–1937	361142	11–Oct–1938	Registered	Ford Motor Company
FORD in Script — old v1	427019	30–Dec–1939	377814	14–May–1940	Registered	Ford Motor Company
FORD in Script — old v1	71/427020	30–Dec–1939	377815	14–May–1940	Registered	Ford Motor Company
FORD in Script — old v1	71/427018	30–Dec–1939	380164	13–Aug–1940	Registered	Ford Motor Company
FORD in Script — old v1	71/431678	8–May–1940	383960	30–Dec–1980	Registered	Ford Motor Company
FORD in Script — old v1	71/427017	30–Dec–1939	386932	29–Apr–1941	Registered	Ford Motor Company
FORD in Script — old v1	71/447182	19–Sep–1941	395731	9–Jun–1942	Registered	Ford Motor Company
FORD in Script — old v1	73/802762	26–May–1989	1577830	16–Jan–1990	Registered	Ford Motor Company
FORD in Script — old v1	73/802766	26–May–1989	1577668	16–Jan–1990	Registered	Ford Motor Company
FORD in Script — old v1	73/802767	26–May–1989	1574367	2–Jan–1990	Registered	Ford Motor Company
FORD in Script — old v1	74/429886	26–Aug–1993	1836944	17–May–1994	Registered	Ford Motor Company

<u>Principal Trade Name</u>	<u>App. No.</u>	<u>Filing Date</u>	<u>Reg. No.</u>	<u>Reg. Date</u>	<u>Status</u>	<u>Owner</u>
FORD in Script — old v1	74/459671	18–Nov–1993	1861632	8–Nov–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/459537	18–Nov–1993	1858536	18–Oct–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/459557	18–Nov–1993	1863707	22–Nov–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/459672	18–Nov–1993	1862507	15–Nov–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/459673	18–Nov–1993	1861820	8–Nov–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/459674	18–Nov–1993	1862563	15–Nov–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/459675	18–Nov–1993	2092385	2–Sep–1997	Registered	Ford Motor Company
FORD in Script — old v1	74/459562	18–Nov–1993	1862593	15–Nov–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/459563	18–Nov–1993	1863889	22–Nov–1994	Registered	Ford Motor Company
FORD in Script — old v1	74/657594	28–Mar–1995	2034370	28–Jan–1997	Registered	Ford Motor Company
FORD in Script — old v1	75/035007	20–Dec–1995	1997209	27–Aug–1996	Registered	Ford Motor Company
FORD in Script — old v1	75/164692	12–Sep–1996	2061633	13–May–1997	Registered	Ford Motor Company
FORD in Script — old v1	75/249529	28–Feb–1997	2105604	14–Oct–1997	Registered	Ford Motor Company
FORD in Script — old v1	75/249528	28–Feb–1997	2105603	14–Oct–1997	Registered	Ford Motor Company
FORD in Script in Oval	75/249541	28–Feb–1997	2107510	21–Oct–1997	Registered	Ford Motor Company
FORD in Script in Oval	75/318192	1–Jul–1997	2152612	21–Apr–1998	Registered	Ford Motor Company
FORD in Script in Oval	75/035014	20–Dec–1995	1995792	20–Aug–1996	Registered	Ford Motor Company
FORD in Script in Oval	73/538378	17–May–1985	1399080	1–Jul–1986	Registered	Ford Motor Company
FORD in Script in Oval	74/429889	26–Aug–1993	1872617	10–Jan–1995	Registered	Ford Motor Company
FORD in Script in Oval	74/441535	29–Sep–1993	1861801	8–Nov–1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459551	18–Nov–1993	1855519	27–Sep–1994	Registered	Ford Motor Company

Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
FORD in Script in Oval	74/459552	18-Nov-1993	1861631	8-Nov-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459555	18-Nov-1993	1863599	22-Nov-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459553	18-Nov-1993	1884819	21-Mar-1995	Registered	Ford Motor Company
FORD in Script in Oval	74/459556	18-Nov-1993	1858537	18-Oct-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459558	18-Nov-1993	1863708	22-Nov-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459559	18-Nov-1993	1861819	8-Nov-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459560	18-Nov-1993	2088473	19-Aug-1997	Registered	Ford Motor Company
FORD in Script in Oval	74/459561	18-Nov-1993	1862562	15-Nov-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459565	18-Nov-1993	1862594	15-Nov-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459564	18-Nov-1993	1858695	18-Oct-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/459554	18-Nov-1993	1863888	22-Nov-1994	Registered	Ford Motor Company
FORD in Script in Oval	74/502267	21-Mar-1994	1874206	17-Jan-1995	Registered	Ford Motor Company
FORD in Script in Oval	74/735606	28-Sep-1995	1973144	7-May-1996	Registered	Ford Motor Company
FORD in Script in Oval	75/020525	15-Nov-1995	1997203	27-Aug-1996	Registered	Ford Motor Company
FORD in Script in Oval	75/020547	15-Nov-1995	2088654	19-Aug-1997	Registered	Ford Motor Company
FORD in Script in Oval	75/020573	15-Nov-1995	1997205	27-Aug-1996	Registered	Ford Motor Company
FORD in Script in Oval	75/164697	12-Sep-1996	2067343	3-Jun-1997	Registered	Ford Motor Company
FORD in Script in Oval	75/164727	12-Sep-1996	2063518	20-May-1997	Registered	Ford Motor Company
FORD in Script in Oval	75/183729	18-Oct-1996	2095239	9-Sep-1997	Registered	Ford Motor Company
FORD in Script in Oval	75/183752	18-Oct-1996	2063550	20-May-1997	Registered	Ford Motor Company
FORD in Script in Oval	74/677597	19-May-1995	1949274	16-Jan-1996	Registered	Ford Motor Company

Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
FORD in Script in Oval	78/337825	8-Dec-2003	2982130	2-Aug-2005	Registered	Ford Motor Company
FORD in Script in Oval	78/495317	6-Oct-2004			Pending	Ford Motor Company
FORD in Script in Oval in Blue	75/831222	19-Oct-1999	2601810	30-Jul-2002	Registered	Ford Motor Company
FORD in Script in Oval in Rectangle	73/537662	15-May-1985	1400808	15-Jul-1986	Registered	Ford Motor Company
FORD in Script in Oval Reverse	74/265103	13-Apr-1992	1738379	8-Dec-1992	Registered	Ford Motor Company
LINCOLN	75/442223	28-Feb-1998	2204133	17-Nov-1998	Registered	Ford Motor Company
LINCOLN	75/478843	4-May-1998	2234340	23-Mar-1999	Registered	Ford Motor Company
LINCOLN	75/419707	20-Jan-1998	2292103	16-Nov-1999	Registered	Ford Motor Company
LINCOLN	75/249531	28-Feb-1997	2107509	21-Oct-1997	Registered	Ford Motor Company
LINCOLN	73/401444	1-Nov-1982	1311148	25-Dec-1984	Registered	Ford Motor Company
LINCOLN	75/684951	16-Apr-1999	2326565	7-Mar-2000	Registered	Ford Motor Company
LINCOLN	71/544440	16-Dec-1947	511662	28-Jun-1949	Registered	Ford Motor Company
LINCOLN	74/429887	26-Aug-1993	1900768	20-Jun-1995	Registered	Ford Motor Company
LINCOLN	74/441531	29-Sep-1993	1858609	18-Oct-1994	Registered	Ford Motor Company
LINCOLN	74/459543	18-Nov-1993	1895870	30-May-1995	Registered	Ford Motor Company
LINCOLN	74/459667	18-Nov-1993	1909928	8-Aug-1995	Registered	Ford Motor Company
LINCOLN	74/459548	18-Nov-1993	1893096	9-May-1995	Registered	Ford Motor Company
LINCOLN	74/459544	18-Nov-1993	1934658	14-Nov-1995	Registered	Ford Motor Company
LINCOLN	74/459545	18-Nov-1993	1950011	23-Jan-1996	Registered	Ford Motor Company
LINCOLN	74/459546	18-Nov-1993	1934659	14-Nov-1995	Registered	Ford Motor Company
LINCOLN	74/459549	18-Nov-1993	1950012	23-Jan-1996	Registered	Ford Motor Company

Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
LINCOLN	75/077983	25-Mar-1996	2018006	19-Nov-1996	Registered	Ford Motor Company
LINCOLN	75/077984	25-Mar-1996	2018007	19-Nov-1996	Registered	Ford Motor Company
LINCOLN	75/145828	6-Aug-1996	2040815	25-Feb-1997	Registered	Ford Motor Company
LINCOLN	75/848381	15-Nov-1999	2433244	6-Mar-2001	Registered	Ford Motor Company
LINCOLN (Stylized)	71/174171	24-Jan-1923	170692	5-Jan-1968	Registered	Ford Motor Company
MERCURY	75/318005	1-Jul-1997	2153903	28-Apr-1998	Registered	Ford Motor Company
MERCURY	75/684952	16-Apr-1999	2324484	29-Feb-2000	Registered	Ford Motor Company
MERCURY	74/429897	26-Aug-1993	1836946	17-May-1994	Registered	Ford Motor Company
MERCURY	74/460201	18-Nov-1993	1926997	17-Oct-1995	Registered	Ford Motor Company
MERCURY	74/460051	18-Nov-1993	1921868	26-Sep-1995	Registered	Ford Motor Company
MERCURY	74/460199	18-Nov-1993	1942013	19-Dec-1995	Registered	Ford Motor Company
MERCURY	74/460177	18-Nov-1993	1947905	16-Jan-1996	Registered	Ford Motor Company
MERCURY	74/460178	18-Nov-1993	1957016	20-Feb-1996	Registered	Ford Motor Company
MERCURY	74/460179	18-Nov-1993	1957017	20-Feb-1996	Registered	Ford Motor Company
MERCURY	74/460222	18-Nov-1993	1899012	13-Jun-1995	Registered	Ford Motor Company
MERCURY	74/460180	18-Nov-1993	1994327	20-Aug-1996	Registered	Ford Motor Company
MERCURY	74/468028	9-Dec-1993	1960799	5-Mar-1996	Registered	Ford Motor Company
MERCURY	75/145829	6-Aug-1996	2040816	25-Feb-1997	Registered	Ford Motor Company
MERCURY	78/472296	24-Aug-2004			Pending	Ford Motor Company
MERCURY (Stylized)	71/409350	8-Aug-1938	365585	14-Mar-1939	Registered	Ford Motor Company
FORD MUSTANG	74/602729	23-Nov-1994	2194488	13-Oct-1998	Registered	Ford Motor Company

Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
FORD MUSTANG	75/035011	20-Dec-1995	2068810	10-Jun-1997	Registered	Ford Motor Company
FORD MUSTANG & Horse & Bars Device	74/602712	23-Nov-1994	2190167	22-Sep-1998	Registered	Ford Motor Company
MUSTANG	75/249548	28-Feb-97	2101717	30-Sep-97	Registered	Ford Motor Company
MUSTANG	75/249543	28-Feb-97	2101714	30-Sep-97	Registered	Ford Motor Company
MUSTANG	78/150685	05-Aug-02	2770412	30-Sep-03	Registered	Ford Motor Company
MUSTANG	73533611	22-Apr-85	1467208	01-Dec-87	Registered	Ford Motor Company
MUSTANG	74/429895	26-Aug-93	1922186	26-Sep-95	Registered	Ford Motor Company
MUSTANG	74/460170	18-Nov-93	1858362	18-Oct-94	Registered	Ford Motor Company
MUSTANG	74/460181	18-Nov-93	1914604	29-Aug-95	Registered	Ford Motor Company
MUSTANG	74/460173	18-Nov-93	1910094	08-Aug-95	Registered	Ford Motor Company
MUSTANG	74/460172	18-Nov-93	1917997	12-Sep-95	Registered	Ford Motor Company
MUSTANG	74/459669	18-Nov-93	1918103	12-Sep-95	Registered	Ford Motor Company
MUSTANG	74/459670	18-Nov-93	1858696	18-Oct-94	Registered	Ford Motor Company
MUSTANG	74/467634	09-Dec-93	1975210	21-May-96	Registered	Ford Motor Company
MUSTANG	74/467633	09-Dec-93	1997313	27-Aug-96	Registered	Ford Motor Company
MUSTANG	75/020566	15-Nov-95	1995783	20-Aug-96	Registered	Ford Motor Company
MUSTANG	75/020568	15-Nov-95	1998459	03-Sep-96	Registered	Ford Motor Company
MUSTANG	75/035004	20-Dec-95	1995791	20-Aug-96	Registered	Ford Motor Company
MUSTANG	75/035016	20-Dec-95	1995793	20-Aug-96	Registered	Ford Motor Company
MUSTANG	75/105462	16-May-96	2111765	11-Nov-97	Registered	Ford Motor Company
MUSTANG	75/105461	16-May-96	2109925	28-Oct-97	Registered	Ford Motor Company

Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
MUSTANG	75/105460	16-May-96	2032384	21-Jan-97	Registered	Ford Motor Company
MUSTANG	75/164690	12-Sep-96	2059520	06-May-97	Registered	Ford Motor Company
MUSTANG	75/164696	12-Sep-96	2061634	13-May-97	Registered	Ford Motor Company
MUSTANG	75/164744	12-Sep-96	2059524	06-May-97	Registered	Ford Motor Company
MUSTANG	78/965274	31-Aug-06			Pending	Ford Motor Company
MUSTANG & Horse & Bars Device	74/602716	23-Nov-94	2175903	28-Jul-98	Registered	Ford Motor Company
MUSTANG 350 GT Configuration	75/603700	11-Dec-98	2733631	08-Jul-03	Registered	Ford Motor Company
MUSTANG Bottle Configuration	74/602720	23-Nov-94	2041086	25-Feb-97	Registered	Ford Motor Company
MUSTANG COBRA	75/423961	27-Jan-98	2203019	10-Nov-98	Registered	Ford Motor Company
MUSTANG COBRA	74/516957	25-Apr-94	2191112	22-Sep-98	Registered	Ford Motor Company
MUSTANG Convertible Configuration	75/603706	11-Dec-98	2722928	10-Jun-03	Registered	Ford Motor Company
MUSTANG GT-R	78/364566	09-Feb-04			Pending	Ford Motor Company
MUSTANG Horse & Bars Device	74/178102	20-Jun-91	1686288	12-May-92	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459536	18-Nov-93	1915963	05-Sep-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459569	18-Nov-93	1917683	12-Sep-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459575	18-Nov-93	1921847	26-Sep-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459567	18-Nov-93	1917841	12-Sep-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459568	18-Nov-93	1909960	08-Aug-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459571	18-Nov-93	1917974	12-Sep-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459572	18-Nov-93	1917996	12-Sep-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459573	18-Nov-93	1918040	12-Sep-95	Registered	Ford Motor Company

<u>Principal Trade Name</u>	<u>App. No.</u>	<u>Filing Date</u>	<u>Reg. No.</u>	<u>Reg. Date</u>	<u>Status</u>	<u>Owner</u>
MUSTANG Horse & Bars Device	74/459574	18-Nov-93	1918102	12-Sep-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/459566	18-Nov-93	1865873	06-Dec-94	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/467734	09-Dec-93	1975212	21-May-96	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/467733	09-Dec-93	2000190	10-Sep-96	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/467682	09-Dec-93	1975211	21-May-96	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/467651	09-Dec-93	1980012	11-Jun-96	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/472997	20-Dec-93	1942031	19-Dec-95	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/516999	25-Apr-94	1991704	06-Aug-96	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	74/577360	23-Sep-94	1975419	21-May-96	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	75/020527	15-Nov-95	2000111	10-Sep-96	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	75/164743	12-Sep-96	2065287	27-May-97	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	75/183751	18-Oct-96	2070085	10-Jun-97	Registered	Ford Motor Company
MUSTANG Horse & Bars Device	75/183754	18-Oct-96	2070087	10-Jun-97	Registered	Ford Motor Company
MUSTANG Running Horse Device	73/590492	28-Mar-86	1416549	11-Nov-86	Registered	Ford Motor Company
MUSTANG Running Horse Device	75/318188	01-Jul-97	2156985	12-May-98	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/460066	18-Nov-93	1975199	21-May-96	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/460174	18-Nov-93	1858363	18-Oct-94	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/460162	18-Nov-93	1917842	12-Sep-95	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/460195	18-Nov-93	1859697	25-Oct-94	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/463326	24-Nov-93	1922085	26-Sep-95	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/460161	18-Nov-93	1918041	12-Sep-95	Registered	Ford Motor Company

Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
MUSTANG Running Horse Device	74/462573	24-Nov-93	1918104	12-Sep-95	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/460160	18-Nov-93	1858697	18-Oct-94	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/462972	24-Nov-93	1975202	21-May-96	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/472999	20-Dec-93	1922192	26-Sep-95	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/658387	28-Mar-95	2111045	04-Nov-97	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/658390	28-Mar-95	2239097	13-Apr-99	Registered	Ford Motor Company
MUSTANG Running Horse Device	74/658389	28-Mar-95	2016456	12-Nov-96	Registered	Ford Motor Company
MUSTANG Running Horse Device	75/020565	15-Nov-95	2000115	10-Sep-96	Registered	Ford Motor Company
MUSTANG Running Horse Device	75/020570	15-Nov-95	2000118	10-Sep-96	Registered	Ford Motor Company
MUSTANG Running Horse Device	75/164726	12-Sep-96	2070024	10-Jun-97	Registered	Ford Motor Company
MUSTANG Running Horse Device	75/164728	12-Sep-96	2067344	03-Jun-97	Registered	Ford Motor Company
MUSTANG Running Horse Device	75/164742	12-Sep-96	2067346	03-Jun-97	Registered	Ford Motor Company
MUSTANG Running Horse Device	78/965242	31-Aug-06			Pending	Ford Motor Company
MUSTANG Running Horses, Four	74/526172	18-May-94	2175226	21-Jul-98	Registered	Ford Motor Company
MUSTANG Shadowed Running Horse Device	74/475080	23-Dec-93	2070156	10-Jun-97	Registered	Ford Motor Company
MUSTANG Shadowed Running Horse Device	74/658391	28-Mar-95	2034378	28-Jan-97	Registered	Ford Motor Company
TRADE DRESS MUSTANG TAILLIGHTS	76/598672	21-Jun-04	3052329	31-Jan-06	Registered	Ford Motor Company
TRADE DRESS OF MUSTANG C-SCOOP	76/598674	21-Jun-04	3052331	31-Jan-06	Registered	Ford Motor Company
TRADE DRESS OF MUSTANG HEADLIGHTS	76/598561	21-Jun-04	3064774	07-Mar-06	Registered	Ford Motor Company
	76/598673	21-Jun-04	3052330	31-Jan-06	Registered	Ford Motor Company

OTHER PRINCIPAL TRADE NAMES

Other Principal Trade Name	App. No.	Filing Date	Reg. No.	Reg. Date	Status	Owner
FORD EXPLORER	74/706993	27-Jul-1995	1958163	20-Feb-1996	Registered	Ford Motor Company
EXPLORER	75/424069	27-Jan-98	2196097	13-Oct-98	Registered	Ford Motor Company
EXPLORER	75/318004	01-Jul-97	2153902	28-Apr-98	Registered	Ford Motor Company
EXPLORER	73/306648	20-Apr-81	1193137	06-Apr-82	Registered	Ford Motor Company
EXPLORER	74/429890	26-Aug-93	1845751	19-Jul-94	Registered	Ford Motor Company
EXPLORER	74/460059	18-Nov-93	1909154	01-Aug-95	Registered	Ford Motor Company
EXPLORER	74/460189	18-Nov-93	2014679	12-Nov-96	Registered	Ford Motor Company
EXPLORER	74/468026	09-Dec-93	2292940	16-Nov-99	Registered	Ford Motor Company
EXPLORER	74/468002	09-Dec-93	1905010	11-Jul-95	Registered	Ford Motor Company
EXPLORER	75/020574	15-Nov-95	2064621	27-May-97	Registered	Ford Motor Company
EXPLORER SPORT	74/514307	19-Apr-94	1882071	07-Mar-95	Registered	Ford Motor Company
EXPLORER SPORT TRAC	75/580621	02-Nov-98	2435705	13-Mar-01	Registered	Ford Motor Company
EXPLORER XLS	75/528818	31-Jul-98	2520546	18-Dec-01	Registered	Ford Motor Company
F-150	75/318148	01-Jul-97	2151046	14-Apr-98	Registered	Ford Motor Company
F-150	74/462962	24-Nov-93	2044023	11-Mar-97	Registered	Ford Motor Company
F-150	74/462567	24-Nov-93	1893178	09-May-95	Registered	Ford Motor Company
F-150	74/462961	24-Nov-93	2044022	11-Mar-97	Registered	Ford Motor Company
F-150	74/640056	01-Mar-95	2003682	24-Sep-96	Registered	Ford Motor Company
F-150	74/706997	27-Jul-95	1958166	20-Feb-96	Registered	Ford Motor Company
F-150	75/388214	12-Nov-97	2198520	20-Oct-98	Registered	Ford Motor Company
F-150 Configuration	75/604081	11-Dec-98	2733633	08-Jul-03	Registered	Ford Motor Company

<u>Other Principal Trade Name</u>	<u>App. No.</u>	<u>Filing Date</u>	<u>Reg. No.</u>	<u>Reg. Date</u>	<u>Status</u>	<u>Owner</u>
F-150 HERITAGE	78/227715	19-Mar-03			Pending	Ford Motor Company
F-150 PLATINUM	77/026074	20-Oct-06			Pending	Ford Motor Company
F-150 SUPER CAB Configuration	75/603777	11-Dec-98	2720229	03-Jun-03	Registered	Ford Motor Company
F-250	76/114799	23-Aug-00	2485114	04-Sep-01	Registered	Ford Motor Company
F-250/F-350 GRILLE TRADE DRESS	78/759326	22-Nov-05			Pending	Ford Motor Company
F-350	76/114782	23-Aug-00	2490569	18-Sep-01	Registered	Ford Motor Company
F-450	78/589061	17-Mar-05			Pending	Ford Motor Company
F-550	78/589065	17-Mar-05			Pending	Ford Motor Company
F-750	78/589067	17-Mar-05			Pending	Ford Motor Company
F-SERIES	78/338321	09-Dec-03	3096400	23-May-06	Registered	Ford Motor Company

SCHEDULE 4.13
PLEDGED EQUITY

<u>Subsidiary/Affiliate</u>	<u>Record Owner</u>	<u>Total No. of Issued and Outstanding Shares/Interests</u>	<u>Certificates Delivered at Closing</u>	<u>No. Shares/Interest Being Pledged</u>	<u>Percent of Total No. of Shares/Interest Being Pledged</u>
3000 Schaefer Road Company	Ford Motor Company	10 shares of Preferred Stock	1	10 shares of Preferred Stock	100%
Ford European Holdings LLC	Ford Motor Company	1,001 shares of Membership Interest	3	1,001 shares of Membership Interest	100%
Ford Global Technologies, LLC	Ford Motor Company	N/A	[non-certificated membership interest]	Membership Interest	100%
Ford Holdings LLC	Ford Motor Company	N/A	[non-certificated membership interest]	Membership Interest	100%
Ford International Capital Corporation	Ford Motor Company	1,000 shares of Class A Voting Common	A-1	660 Class A Voting Common	66%
		1,519 shares of Class B Non-voting Common	B-1	1,002 Class B Non-voting Common	66%
Ford Mexico Holdings, Inc.	Ford Motor Company	1,000 shares of Common Stock	2	660 shares of Common Stock	66%
Ford Motor Service Company	Ford Motor Company	10 shares of Common Stock	1	10 shares of Common Stock	100%
Ford Motor Vehicle Assurance Company, LLC	Ford Motor Company	100 shares of Membership Interest	1	100 shares of Membership Interest	100%
Ford South America Holdings, LLC	Ford Motor Company	N/A	[non-certificated membership interest]	Membership Interest	100%
Ford Motor Credit Company	Ford Holdings, LLC	250,000 shares of Common Stock	3&5	250,000 shares of Common Stock	100%
Ford Trading Company, LLC	Ford Motor Company	N/A	[non-certificated membership interest]	Membership Interest	100%
Ford Component Sales, L.L.C.	Ford Motor Company	N/A	[non-certificated membership interest]	Membership Interest	100%
Land Rover North America, Inc.	Ford Motor Company	50,875 shares of Common Stock	3	50,875 shares of Common Stock	100%

<u>Subsidiary/Affiliate</u>	<u>Record Owner</u>	<u>Total No. of Issued and Outstanding Shares/Interests</u>	<u>Certificates Delivered at Closing</u>	<u>No. Shares/Interest Being Pledged</u>	<u>Percent of Total No. of Shares/Interest Being Pledged</u>
Volvo Cars of North America, LLC	Ford Motor Company	N/A	[non-certificated membership interest]	Membership Interest	100%
Closed Joint Stock Company Ford Motor Company [Ford Motor Company ZAO] (Russia)	Ford Motor Company	13,720,994 shares of Common Stock (99.996%)	[non-certificated shares]	9,055,856 shares of Common Stock	66%
Ford Capital B.V. (The Netherlands)	Ford Motor Company	255,140 shares of Euro 454 each 632,392 shares of Euro 102 each	[non-certificated shares]	168,392 shares of Euro 454 each 417,378 shares of Euro 102 each	66%
Ford Espana S.A. (Spain)	Ford Motor Company	53,895,700 quotas	[non-certificated shares]	35,571,162 quotas	66%
Ford Motor Company Brasil Ltda. (Brazil)	Ford Global Technologies, LLC	847,120,002 quotas	[non-certificated shares]	559,099,201 quotas	66%
Ford Automotive Holdings (England)	Ford International Capital Corporation	693,773,370 shares of Ordinary Stock	18	457,890,424 shares of Ordinary Stock	66%
Ford Motor Company S.A. de C.V. (Mexico)	Grupo Ford S. de R.L. de C.V.	12,844,500 shares of Series "A"	1	7,706,700 shares of Series "A"	66% of the aggregate of all series of shares (without regard to series)
		2,375,054,958 shares of Series "B"	8	1,726,055,758 shares of Series "B"	
		647,946,943 shares of Series "B" 1987	17	388,768,166 shares of Series "B" 1987	
		1,981,200,000 shares of Series "B" 1991	19	1,188,720,000 shares of Series "B" 1991	
Grupo Ford S. de R.L. de C.V. ² (Mexico)	Ford Mexico Holdings, Inc.	2 social parts valued at \$3,000	8	1 social part valued at \$1,980	66%

1 To be re-certificated post-closing to deliver a replacement certificate representing 1 social part valued at \$1,980.

<u>Subsidiary/Affiliate</u>	<u>Record Owner</u>	<u>Total No. of Issued and Outstanding Shares/Interests</u>	<u>Certificates Delivered at Closing</u>	<u>No. Shares/Interest Being Pledged</u>	<u>Percent of Total No. of Shares/Interest Being Pledged</u>
Ford Deutschland Holdings Gmbh (Germany)	Ford European Holdings, LLC	1 Ordinary share (77,205,100 euros)	[non-certificated shares]	1 Ordinary share (77,205,100 euros)	100%
		4 Preferred shares (each 100 euros)		4 Preferred shares (each 100 euros)	
Ford Motor Company of Canada, Limited (Canada)	Ford Motor Company	3,965,806 shares of Common Stock	C-2	2,617,432 shares of Common Stock	66%
		97,799 shares of Preferred Stock	P-2	64,548 shares of Preferred Stock	66%
Ford Motor Company of Southern Africa (Pty) Limited ² (South Africa)	Ford Motor Company	1,554,900 shares of Ordinary C stock	36	699,705 shares of Ordinary C	
			41	326,529 shares of Ordinary C	66%
Ford Argentina S.C.A. (Argentina)	Ford South America Holdings, LLC	55,880,537 shares of common stock	1	55,605,843 shares of common stock (99.51%)	100%
	3000 Schaefer Road Company		2	274,694 shares of common stock (0.49%)	
Ford Motor de Venezuela ³ (Venezuela)	Ford Motor Company	10,480,000 shares of Class A	A-13	6,916,800 shares of Class A	66%
		1,720,000 shares of Class B	A-15	1,135,200 of Preferred Class B	66%

2 Prior to confirmation by the Company that it has ownership of 1,554,900 shares of Ordinary C stock, the pledge will be limited to 923,610 shares of Ordinary C stock, consisting of all shares represented by certificate no. 36, and 223,905 of the shares represented by certificate no. 41.

3 To be re-certificated post-closing to deliver certificates representing 6,916,800 shares of Class A and 1,135,200 shares of Class B.

<u>Subsidiary/Affiliate</u>	<u>Record Owner</u>	<u>Total No. of Issued and Outstanding Shares/Interests</u>	<u>Certificates Delivered at Closing</u>	<u>No. Shares/Interest Being Pledged</u>	<u>Percent of Total No. of Shares/Interest Being Pledged</u>
Ford VHC AB (Sweden)	Ford Motor Company	100,000 shares of Class A Common Stock with 34% voting rights 900,000 shares of Class B Common Stock with 66% voting rights	B-1	900,000 shares of Class B Common Stock with 66% voting rights	100% of Class B Common Stock
PAG Import, Inc (Japan)	Ford Motor Company	10,794,802 shares of Common Stock	4	7,124,570 shares of Common Stock	66%
Volvo Auto Italia SpA ⁴ (Italy)	Ford Motor Company	420,000 ordinary shares	44	277,200 ordinary shares	66%

⁴ To be re-certificated post-closing to deliver replacement certificate representing 277,200 ordinary shares.

SCHEDULE 5.1(G)
PLEGDED NOTES

<u>Borrower/Obligor</u>	<u>Obligee</u>	<u>Amount</u>	<u>Type of Indebtedness</u>	<u>Relevant Contract</u>
Ford VHC AB	Ford Motor Company	\$3.5 billion	Intercompany Debt	Term Loan Agreement dated November 29, 2006 with Ford Motor Company Promissory Note by Ford VHC AB in favor of Ford Motor Company dated November 29, 2006
Ford Motor Company of Canada, Limited	Ford Motor Company	\$1.3 billion	Intercompany Debt	Amended and Restated Promissory Note by Ford Motor Company of Canada, Limited to Ford Motor Company dated as of December 15, 2006
Ford Motor Company of Canada, Limited	Ford Motor Company	\$750,910,813	Intercompany Debt	Amended and Restated Promissory Note by Ford Motor Company of Canada, Limited to Ford Motor Company dated as of December 15, 2006
Ford Motor Company of Canada, Limited	Ford Motor Company	\$1.9 billion	Intercompany Payable	Amended and Restated Receivables Agreement by and between Ford Motor Company of Canada, Limited and Ford Motor Company dated as of December 15, 2006
Progress Ford	Ford Motor Company of Canada, Limited	\$1.3 billion	Intercompany Debt	Amended and Restated Promissory Note by Progress Ford Sales, Limited to Ford Motor Company of Canada, Limited dated as of December 15, 2006
Grupo Ford S de RL de CV	Ford Mexico Holdings, Inc.	\$901,750,620.85 ⁶	Intercompany Debt	Acknowledgement of Debt Agreement dated December 6, 2006 by and among Grupo Ford, Nuevo Grupo Ford and Ford Mexico Holdings, Inc. Promissory Note by Grupo Ford to Ford Mexico Holdings, Inc. dated as of December 6, 2006

⁶ Pledged to secure guarantee of Ford Mexico Holdings, Inc.

FORD MOTOR COMPANY AND SUBSIDIARIES
CALCULATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS (a)
(in millions)

	For the Years Ended December 31				
	2006	2005	2004	2003	2002
Earnings					
Income before income taxes and cumulative effects of changes in accounting principles (b)	\$(15,051)	\$ 1,079	\$ 4,109	\$ 914	\$ 4,036
Less: Equity in net (income)/loss of affiliates included in income before income taxes	(426)	(303)	(240)	(155)	137
Adjusted income	(15,477)	776	3,869	759	4,173
Adjusted fixed charges (c)	9,321	9,091	9,136	9,996	10,977
Earnings	<u>\$ (6,156)</u>	<u>\$ 9,867</u>	<u>\$13,005</u>	<u>\$10,755</u>	<u>\$15,150</u>
Combined Fixed Charges and Preferred Stock Dividends					
Interest expense (d)	\$ 8,841	\$ 8,484	\$ 8,528	\$ 9,236	\$10,128
Interest portion of rental expense (e)	329	514	565	524	448
Preferred Stock dividend requirements of majority owned subsidiaries and trusts	—	—	—	190	353
Fixed charges	9,170	8,998	9,093	9,950	10,929
Ford Preferred Stock dividend requirements (f)	—	—	—	—	22
Total combined fixed charges and Preferred Stock dividends	<u>\$ 9,170</u>	<u>\$ 8,998</u>	<u>\$ 9,093</u>	<u>\$ 9,950</u>	<u>\$10,951</u>
Ratios					
Ratio of earnings to fixed charges (g)	(g)	1.1	1.4	1.1	1.4
Ratio of earnings to combined fixed charges and Preferred Stock dividends (g)	(g)	1.1	1.4	1.1	1.4

- (a) Discontinued operations are excluded from all amounts.
- (b) Income before taxes includes equity income from unconsolidated subsidiaries.
- (c) Fixed charges, as shown above, adjusted to exclude the amount of interest capitalized during the period and Preferred Stock dividend requirements of majority owned subsidiaries and trusts. (Capitalized interest (in millions): 2006 — \$58; 2005 — \$67; 2004 — \$57; 2003 — \$63; 2002 — \$46)
- (d) Includes interest, whether expensed or capitalized, and amortization of debt expense and discount or premium relating to any indebtedness.
- (e) One-third of all rental expense is deemed to be interest.
- (f) Preferred Stock dividend requirements of Ford Motor Company were increased to an amount representing the pre-tax earnings which would be required to cover such dividend requirements based on Ford Motor Company's effective income tax rates.
- (g) Earnings for 2006 were inadequate to cover fixed charges by \$15.3 billion.

SUBSIDIARIES OF FORD MOTOR COMPANY AS OF FEBRUARY 21, 2007*

Organization	Jurisdiction
3000 Schaefer Road Company	Michigan, U.S.A.
AutoAlliance International, Inc.	Delaware, U.S.A.
Ford Capital B.V.	The Netherlands
Ford Motor Company (Belgium) N.V.	Belgium
Ford Nederland B.V.	The Netherlands
Ford Espana S.A.	Spain
Ford Italia S.p.A.	Italy
Groupe FMC France SAS	France
FMC Automobiles SAS	France
Volvo Espana S.L.	Spain
Ford European Holdings LLC	Delaware, U.S.A.
Ford Deutschland Holding GmbH	Germany
Ford-Werke GmbH	Germany
Volvo Car Germany GmbH	Germany
Ford Global Technologies, LLC	Delaware, U.S.A.
Ford Motor Company Brasil Ltda.	Brazil
Ford Holdings LLC	Delaware, U.S.A.
Ford Motor Credit Company	Delaware, U.S.A.
CAB East Holdings, LLC	Delaware, U.S.A.
Ford Credit Auto Lease, LLC	Delaware, U.S.A.
Ford Credit Auto Lease Trust 2005-B	Delaware, U.S.A.
Ford Credit Auto Lease Trust 2006-A	Delaware, U.S.A.
FCALM Holdings, LLC	Delaware, U.S.A.
FCALM, LLC	Delaware, U.S.A.
Ford Credit Auto Receivables Two LLC	Delaware, U.S.A.
Ford Credit Auto Owner Trust 2006-A	Delaware, U.S.A.
Ford Credit International, Inc.	Delaware, U.S.A.
FCE Bank plc	England
Ford Credit Canada Limited	Canada
Canadian Road Leasing Company	Canada
Ford Credit de Mexico S.A. de C.V.	Mexico
Ford Credit Floorplan Corporation	Delaware, U.S.A.
Ford Credit Floorplan, LLC	Delaware, U.S.A.
Ford Credit Floorplan Master Owner Trust A	Delaware, U.S.A.
Primus Automotive Financial Services, Inc	New York, U.S.A.
The American Road Insurance Company	Michigan, U.S.A.
Ford Motor Land Development Corporation	Delaware, U.S.A.
Ford International Capital Corporation	Delaware, U.S.A.
Ford Automotive Holdings	England
Blue Oval Holdings	England
Ford Motor Company Limited	England
Volvo Car UK Limited	England
Jaguar Limited	England
Jaguar Cars Limited	England
Ford Mexico Holdings, Inc.	Delaware, U.S.A.
Grupo Ford S. de R.L. de C.V.	Mexico
Ford Motor Company, S.A. de C.V.	Mexico

SUBSIDIARIES (Continued)

Organization	Jurisdiction
Ford Motor Company of Canada, Limited	Ontario, Canada
FLH Holding, Inc.	Ontario, Canada
Ford Lio Ho Motor Company Ltd.	Taiwan
Ford Motor Company of Australia Limited	Australia
Land Rover Holdings	England
Land Rover	England
Land Rover Exports Limited	England
Land Rover Group Limited (Located in Jersey)	England
Land Rover Italia SpA	Italy
Ford Motor Company of Southern Africa (Pty) Limited	South Africa
Ford Motor Company ZAO	Russia
Ford Motor Service Company	Michigan, U.S.A.
Gentle Winds Reinsurance, Ltd.	Cayman Islands
Ford Motor Vehicle Assurance Company, LLC	Delaware, U.S.A.
Ford Otomotiv Sanayi Anonim Sirketi (Otosan)	Turkey
Ford South America Holdings, LLC	Delaware, U.S.A.
Ford Argentina S.C.A.	Argentina
Ford Trading Company, LLC	Delaware, U.S.A.
Ford Motor de Venezuela, S.A.	Venezuela
Ford VHC AB	Sweden
Volvo Personvagnar Holding AB	Sweden
Volvo Personvagnar AB	Sweden
Volvo Personbilar Sverige Aktiebolag	Sweden
Land Rover North America, Inc.	Delaware, U.S.A.
PAG Import, Inc.	Japan
Volvo Cars of North America, LLC	Delaware, U.S.A.
Volvo Auto Italia SpA	Italy

320 Other U.S. Subsidiaries

363 Other Non-U.S. Subsidiaries

* Subsidiaries are not shown by name in the above list if, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Re: Ford Motor Company Registration Statements Nos. 33-39402, 33-54348, 33-55847, 33-62227, 333-02735, 333-20725, 333-31466, 333-37542, 333-46295, 333-47733, 333-52399, 333-56660, 333-57596, 333-57598, 333-58697, 333-65703, 333-70447, 333-71380, 333-74313, 333-85138, 333-87619, 333-87990, 333-104063, 333-104064, 333-105674, 333-113584, 333-113608, 333-115340, 333-123251, 333-123252, 333-132156, 333-138819, 333-138821 on Form S-8 and Nos. 333-75214 and 333-139149 on Form S-3.

We hereby consent to the incorporation by reference in the aforementioned Registration Statements of Ford Motor Company of our reports dated February 27, 2007 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appear in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Detroit, Michigan
February 28, 2007

FORD MOTOR COMPANY

Certificate of Secretary

The undersigned, Peter J. Sherry, Jr., Secretary of FORD MOTOR COMPANY, a Delaware corporation (the "Company"), DOES HEREBY CERTIFY that the following resolutions were adopted at a meeting of the Board of Directors of the Company duly called and held on February 27, 2007 and that the same are in full force and effect:

WHEREAS, pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, on February 27, 2007, Alan Mulally, President and Chief Executive Officer of the Company, and Donat R. Leclair, Jr., Executive Vice President and Chief Financial Officer of the Company, each executed certifications with respect to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 ("10-K Report"), which certifications are set forth in the 10-K Report; and

WHEREAS, such certifications were made, in part, on reliance of the assurances given by the Company's Disclosure Committee, co-chaired by Peter J. Daniel, Senior Vice President and Controller of the Company, and David G. Leitch, Senior Vice President and General Counsel of the Company, which committee is responsible for the preparation of the Company's annual and quarterly reports.

NOW, THEREFORE, BE IT:

RESOLVED, That the draft 10-K Report presented to this meeting to be filed with the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended, be and hereby is in all respects authorized and approved; that the directors and appropriate officers of the Company, and each of them, be and hereby are authorized to sign and execute in their own behalf, or in the name and on behalf of the Company, or both, as the case may be, the 10-K Report, and any and all amendments thereto, with such changes therein as such directors and officers may deem necessary, appropriate or desirable, as conclusively evidenced by their execution thereof; and that the appropriate officers of the Company, and each of them, be and hereby are authorized to cause the 10-K Report and any such amendments, so executed, to be filed with the Commission.

RESOLVED, That each officer and director who may be required to sign and execute the 10-K Report or any amendment thereto or document in connection therewith (whether in the name and on behalf of the Company, or as an officer or director of the Company, or otherwise), be and hereby is authorized to execute a power of attorney appointing P. J. Daniel, D. G. Leitch, P. J. Sherry, Jr., L. J. Ghilardi and R. Z. Richmond, and each of them, severally, his or her true and lawful attorney or attorneys to sign in his or her name, place and stead in any such capacity the 10-K Report and any and all amendments thereto and documents in connection therewith, and to file the same with the Commission, each of said attorneys to have power to act with or without the other, and to have full power and authority to do and perform in the name and on behalf of each of said officers and directors who shall have executed such power of attorney, every act whatsoever which such attorneys, or any of them, may deem necessary, appropriate or desirable to be done in connection therewith as fully and to all intents and purposes as such officers or directors might or could do in person.

WITNESS my hand as of this 27th day of February, 2007.

/s/ Peter J. Sherry, Jr.

Peter J. Sherry, Jr.
Secretary

(SEAL)

**POWER OF ATTORNEY WITH RESPECT TO
ANNUAL REPORT OF FORD MOTOR COMPANY ON
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2006**

Each of the undersigned, a director or officer of FORD MOTOR COMPANY, appoints each of P. J. Daniel, D. G. Leitch, P. J. Sherry, Jr., L. J. Ghilardi and R. Z. Richmond his or her true and lawful attorney and agent to do any and all acts and things and execute any and all instruments which the attorney and agent may deem necessary or advisable in order to enable FORD MOTOR COMPANY to comply with the Securities Exchange Act of 1934, and any requirements of the Securities and Exchange Commission, in connection with the Annual Report of FORD MOTOR COMPANY on Form 10-K for the year ended December 31, 2006 and any and all amendments thereto, as authorized at a meeting of the Board of Directors of FORD MOTOR COMPANY duly called and held on February 27, 2007 including, but not limited to, power and authority to sign his or her name (whether on behalf of FORD MOTOR COMPANY, or as a director or officer of FORD MOTOR COMPANY, or by attesting the seal of FORD MOTOR COMPANY, or otherwise) to such instruments and to such Annual Report and any amendments thereto, and to file them with the Securities and Exchange Commission. Each of the undersigned ratifies and confirms all that any of the attorneys and agents shall do or cause to be done by virtue hereof. Any one of the attorneys and agents shall have, and may exercise, all the powers conferred by this instrument.

Each of the undersigned has signed his or her name as of the 27th day of February, 2007:

/s/ William Clay Ford, Jr.
(William Clay Ford, Jr.)

/s/ John R. H. Bond
(John R. H. Bond)

/s/ Stephen G. Butler
(Stephen G. Butler)

/s/ Kimberly A. Casiano
(Kimberly A. Casiano)

/s/ Edsel B. Ford II
(Edsel B. Ford II)

/s/ Irvine O. Hockaday, Jr.
(Irvine O. Hockaday, Jr.)

/s/ Richard A. Manoogian
(Richard A. Manoogian)

/s/ Ellen R. Marram
(Ellen R. Marram)

/s/ Alan Mulally
(Alan Mulally)

/s/ Homer A. Neal
(Homer A. Neal)

/s/ Jorma Ollila
(Jorma Ollila)

/s/ John L. Thornton
(John L. Thornton)

/s/ Donat R. Leclair, Jr.
(Donat R. Leclair, Jr.)

/s/ Peter J. Daniel
(Peter J. Daniel)

CERTIFICATION

I, Alan Mulally, President and Chief Executive Officer of Ford Motor Company, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2006 of Ford Motor Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 27, 2007

/s/ Alan Mulally

Alan Mulally

President and Chief Executive Officer

CERTIFICATION

I, Donat R. Leclair, Jr., Executive Vice President and Chief Financial Officer of Ford Motor Company, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2006 of Ford Motor Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 27, 2007

/s/ Donat R. Leclair, Jr.

Donat R. Leclair, Jr.
Executive Vice President and Chief Financial
Officer

FORD MOTOR COMPANY
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Alan Mulally, President and Chief Executive Officer of Ford Motor Company (the "Company"), hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code that to my knowledge:

1. the Company's Annual Report on Form 10-K for the year ended December 31, 2006, to which this statement is furnished as an exhibit (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2007

/s/ Alan Mulally

Alan Mulally

President and Chief Executive Officer

FORD MOTOR COMPANY
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donat R. Leclair, Jr., Executive Vice President and Chief Financial Officer of Ford Motor Company (the "Company"), hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code that to my knowledge:

1. the Company's Annual Report on Form 10-K for the year ended December 31, 2006, to which this statement is furnished as an exhibit (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2007

/s/ Donat R. Leclair, Jr.

Donat R. Leclair, Jr.
Executive Vice President and Chief Financial
Officer

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