PROGRESS AND PRIORITIES

Ford Motor Company / 2007 Annual Report

OPERATING HIGHLIGHTS

	2007	2006
Sales and Revenues		
Worldwide wholesale unit volumes by automotive segment (in thousands)		
Ford North America	**2,836**	3,051
Ford South America	**436**	381
Ford Europe	**1,918**	1,846
Premier Automotive Group	**774**	730
Ford Asia Pacific and Africa/Mazda	**589**	589
Total	**6,553**	6,597
Sales and revenues (in billions)		
Automotive	**$ 154.4**	$ 143.3
Financial Services	**18.1**	16.8
Total	**$ 172.5**	$ 160.1
Financial Results		
Income/(loss) before taxes (in billions)		
Automotive	**$ (5.0)**	$ (17.0)
Financial Services	**1.2**	2.0
Total	**$ (3.8)**	$ (15.0)
Net income/(loss) (in billions)	**$ (2.7)**	$ (12.6)
Diluted net income/(loss) per share of Common and Class B Stock	**$ (1.38)**	$ (6.72)
Cash and Spending		
Automotive capital expenditures		
Amount (in billions)	**$ 6.0**	$ 6.8
As a percentage of automotive sales	**3.9%**	4.8%
Automotive cash at year end (in billions)		
Automotive gross cash (a)	**$ 34.6**	$ 33.9
– Cash net of automotive debt	**7.9**	4.1
Shareholder Value		
Dividends per share	**$ –**	$ 0.25
Total shareholder returns % (b)	**(10)%**	1%

(a) 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 have included 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"). As a result of our agreement with the UAW regarding retiree health care obligations, we do not expect to have significant short-term VEBA assets in 2008 and beyond

(b) Change in value of Ford stock assuming dividends are reinvested in Ford stock. (Source: Bloomberg).

ABOUT THE COMPANY

Contents

Ford, Lincoln and Mercury crossover utility vehicles such as the Ford Edge (above) led the fastest-growing market segment in the U.S. with a sales gain of 62 percent in 2007.

Ford Motor Company is a global industry leader that manufactures and distributes automobiles on six continents. Based in Dearborn, Michigan, with approximately 246,000 employees and 95 plants worldwide, its core and affiliated automotive brands include Ford, Lincoln, Mercury, Volvo and Mazda. Its automotive financing business is Ford Motor Credit Company.

The company operates as a globally integrated worldwide team with four key priorities: aggressively restructuring to operate profitably at the current demand and changing mix, accelerating development of new products customers want and value, financing its plan and improving its balance sheet, and working together effectively as a global team.

ON THE COVER

The Ford Blue Oval, seen here on the grille of the Ford Edge with HySeries Drive, is one of the most familiar brand symbols in the world. The company is building on the strength of the oval around the globe to achieve profitable worldwide growth. Environmental stewardship is a key element of that effort. The Ford Edge with HySeries Drive is the world's first drivable fuel cell hybrid electric vehicle with plug-in capability. A research demonstration vehicle, it is part of Ford's broader blueprint for sustainability that includes a wide range of actions for the near, mid and long term.

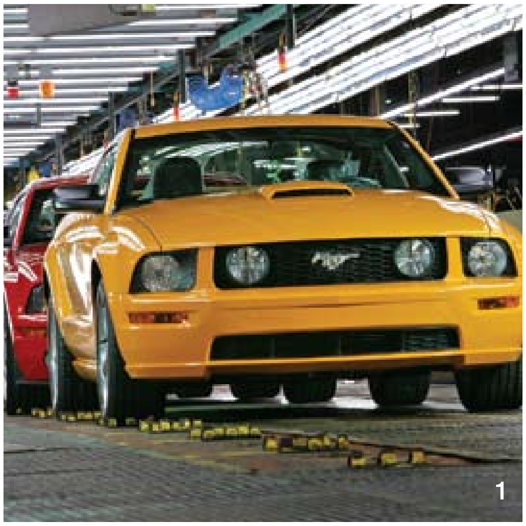
FORD WILL LAUNCH TWO EXCITING NEW ENTRIES INTO THE FAST-GROWING CROSSOVER SEGMENT IN 2008 – FORD FLEX IN NORTH AMERICA (ABOVE) AND FORD KUGA IN EUROPE (LEFT).

PROGRESS

Small cars are making big news these days as their sales outpace overall industry growth worldwide. Globally, small cars have reached nearly 45 percent of total industry sales, a level never before achieved. In the U.S., sales of small cars likely will grow by 25 percent to a record 3.4 million units by 2012. Ford Motor Company is positioning itself to take advantage of this trend with stylish, innovative and fuel-efficient smaller cars.

The 2008 Ford Fusion (top left) stands apart in the highly competitive midsize car segment in North America with a distinctive design and segment-leading quality, safety and affordability. With a new look and refined interior, the 2008 Ford Focus (top right) plays an important role in the company's resurging car portfolio in North America, continuing the momentum built by the successful Fusion. The Verve (center) is a concept car that makes clear the bold vision Ford has for the new small car it will introduce around the world as the Ford Fiesta. Designed and developed in Europe for sale in Europe, Asia, South Africa, Australia and the Americas between 2008 and 2010, the Fiesta is the first major product of Ford's new global product development process.

PRIORITIES



1

2

3

4

Ford plans to grow profitably by improving its cost structure, introducing exciting new products, strengthening its balance sheet and operating as a single global team. Progress toward these priorities in 2007 included:

1. **Ford was the only company in the J.D. Power and Associates 2007 Initial Quality Survey with five segment winners, including the Ford Mustang.**

2. **The award-winning Ford SYNC™ system – developed with Microsoft – connects people with a variety of portable communication devices in their vehicle and is on track to reach one million sales by early 2009.**

3. **Alan Mulally congratulates Kansas City Assembly Plant employee Patricia France at the launch of the 2008 Ford Escape and Mercury Mariner.**

4. **UAW Vice President Bob King (left) and Ford Vice President Marty Mulloy shake hands at the start of the 2007 negotiations. Mutual respect and teamwork resulted in a landmark national contract that will significantly improve the company's competitiveness and enable it to invest in new products and facilities.**

A MESSAGE FROM THE EXECUTIVE CHAIRMAN

PROGRESS AND PRIORITIES

The year 2007 marked a major turning point for Ford Motor Company.

We made significant progress toward our plan to return to profitability in North America and in our total Automotive operations in 2009. At the same time, we laid the foundation for future growth. Our efforts centered on improving our cost structure, introducing exciting new products, improving our balance sheet, and operating as a single global team.

The results were very encouraging.

With the exception of North America, all of our Automotive operations were profitable, excluding special items, and all achieved significant improvements. In North America, we made substantial progress on our plan to aggressively restructure in order to operate profitably. We continued to align capacity to demand, and reached an agreement with the United Auto Workers which significantly improves our competitiveness going forward.

Around the world, our new vehicles are being acclaimed for their styling, quality and safety. Environmental stewardship also is a key element of our revitalized product plans. In the near term, we are introducing EcoBoost, an affordable engine technology that will give our customers substantial fuel economy improvements at a competitive price. Longer term, we are investing in a variety of alternative fuel technologies to meet the energy and environmental challenges of the future.

We have also appointed the industry's first senior executive for sustainability and formed a Transformation Advisory Council to help us shape our thinking about future technologies and global trends. This group includes nationally known thought leaders from outside Ford who will come together several times a year with our own experts with the goal of making us the leader in sustainability.

The outlook for the automotive industry remains challenging. However, based on the progress we are making and the product portfolio we have coming, I believe we are starting to write an exciting new chapter in Ford history.

Under the outstanding leadership of Ford President and CEO Alan Mulally, our worldwide team continues to press forward urgently to achieve our priorities. We all share the same goal – creating exciting, desirable and responsible vehicles so we can grow our business profitably. By doing that we will create value for our shareholders, our communities and our world.

William Clay Ford, Jr.
Executive Chairman and Chairman of the Board
March 6, 2008

Bill Ford (left) and Alan Mulally are shown in front of the 60-foot-wide digital "powerwall" video screen Ford designers are using to bring new products to market faster, as well as the Ford Escape Hybrid Plug-In research vehicle, which the company is testing in partnership with Southern California Edison.

ONE TEAM, ONE PLAN, ONE GOAL…

ONE YEAR

Last year in this report I introduced you to the principles, practices and priorities Ford Motor Company began operating under after I joined the team in September 2006. I would like to take this opportunity to update you on the progress we made in our first full year and our plans for the future.

Although a financial statement is just a snapshot in time, the numbers we achieved in 2007 are encouraging. Our overall net loss of $2.7 billion represented an improvement of nearly $10 billion over 2006. Excluding special items, we achieved a pre-tax profit from continuing operations of $126 million. All of our Automotive operations were profitable outside of North America, excluding special items, as was our Financial Services sector, which earned a pre-tax profit of $1.2 billion.

Our worldwide Automotive revenue, excluding special items, was $155.8 billion in 2007, compared with $143.3 billion in 2006. Automotive gross cash (including cash and cash equivalents, net marketable securities, loaned securities and short-term Voluntary Employee Beneficiary Association (VEBA) assets) at December 31, 2007 was $34.6 billion, an increase of $700 million from the previous year-end.

As pleased as I am by these results, I am even more excited about the progress we are making behind the scenes in the key areas that I outlined last year.

ONE FORD

In last year's report, I described our efforts to fully leverage the tremendous worldwide resources of Ford. We offer a full line of products in a fiercely competitive global industry. To achieve profitable growth we need to take advantage of every potential economy of scale and best practice we can find. That means operating as one team around the world, with one plan and one goal – which is what we did in 2007.

We came together as a global team, working with mutual respect and trust. We looked at the difficult challenges we faced and created a plan that dealt with the reality of our situation. We set a goal that would create value for our extended family of customers, employees, suppliers, dealers and shareholders around the world.

And then we got to work.

ONE TEAM

When I arrived at Ford I was extremely impressed by the talent and dedication of its people. Since then, we have worked hard to unleash their full potential by building a real team and creating an atmosphere of trust.

We began with the senior leadership team, streamlining positions and moving several people up to head unified global organizations. For example, all of our product development operations worldwide now report to one person, Group Vice President of Global Product Development Derrick Kuzak. Our purchasing, manufacturing, quality, communications and several other functions also were given a global structure to make better use of the company's worldwide assets.

We added one of the most talented marketing executives in the industry, Jim Farley, as group vice president of Marketing and Communications. And we created the industry's first senior executive for sustainability, naming Sue Cischke as our senior vice president of Sustainability, Environment and Safety Engineering.

I meet with our senior leadership team once a week in a half-day session to review progress toward our goals and address any roadblocks. Individuals are held accountable for delivering results, but we work together as a global team to find the best solutions. Even though we are a relatively new team, we are already performing and operating at a high level, and we continue to improve.

The best example of what I mean when I talk about working together to make Ford a vibrant and successful company is our new agreement with the United Auto Workers. In November 2007, we signed a four-year national labor contract with our UAW partners that significantly improves our competitiveness going forward. This landmark agreement will enable us to invest in the new products that are a key element of our global plan.

ONE PLAN

Our worldwide team is focused on four key priorities: aggressively restructuring to operate profitably at the current demand and changing model mix, accelerating the development of new products that our customers want and value, funding our plan and improving our balance sheet, and elevating to a new level of performance our commitment to working together with all of our partners.

These are the same priorities I outlined in this report last year, and they will remain our priorities for the foreseeable future.

The highlights of our efforts in support of our plan in 2007 included:

- A reduction in capacity in North America to better match demand and improve productivity.
- $1.8 billion in cost savings (at constant volume, mix and exchange, excluding special items).
- Quality improvements that put us on par with the best in the business and earned us a number of strong endorsements from third parties such as *Consumer Reports* and J.D. Power and Associates.
- The launches of the new Ford Taurus, Taurus X, Focus, Mustang Bullitt, Mercury Sable and Ford F-Series Super Duty, which kept us on track to achieve our plan of making 70 percent of our North American lineup new or significantly upgraded by the end of 2008.
- In the U.S., Ford, Lincoln and Mercury crossover utility vehicles led the fastest-growing market segment with a sales gain of 62 percent.
- Ford Mustang convertible was the first sports car and first convertible ever to earn five stars – the highest possible safety rating – in all categories from the National Highway Traffic and Safety Administration. Ford Taurus, Taurus X and Mercury Sable also earned five-star rating crash-test ratings from NHTSA, as well as Top Safety Pick ratings from the Insurance Institute for Highway Safety.
- Ford Europe captured *Autocar* magazine's annual "Car Company of the Year" award.
- Ford Mondeo joined three other models – Ford Focus, Galaxy and S-MAX – with a five-star performance on the Euro NCAP Top 10 list, giving Ford Europe the highest number of vehicles in the top 10 for adult occupant protection.
- Ford South America sales were up 19 percent year-over-year.
- Ford China, where sales were up 26 percent, launched operations at our new assembly plant in Nanjing to produce small-car models for both Ford and Mazda.

The progress we made in 2007 validates our plan and encourages us to continue working toward our goal.

ONE GOAL

Our goal has not changed – we want to build products that are immensely desirable so that we can grow profitably. As we work toward that goal, you will see increasing numbers of new product introductions from us around the world.

In North America alone we will have six major launches this year, putting us over the top of our goal to deliver a 70 percent new showroom. This wave of new products includes the Ford Flex crossover, hybrid options for the Ford Fusion and Mercury Milan, the new flagship Lincoln MKS sedan, and the new

Ford's senior management team is leveraging the company's worldwide resources to achieve profitable growth. Front Row (L to R) Mike Bannister, Mark Fields, Alan Mulally, Lewis Booth, John Parker. Second Row (L to R) Bennie Fowler, Ray Day, Sue Cischke, Ziad Ojakli, Joe Laymon, Don Leclair. Third Row (L to R) Nick Smither, Derrick Kuzak, Joe Hinrichs, Jim Farley, Tony Brown, David Leitch.

F-150 will join the F-Series family, which has 31 consecutive years of truck leadership. Other new product launches in 2008 include the Ford Focus, Kuga crossover and Fiesta in Europe, Ford Mondeo in Asia and Ford Falcon in Australia.

As we go forward, the mix of vehicle models we offer will be much closer to where the market is going. For example, small cars have reached nearly 45 percent of total industry sales worldwide, a level never before achieved. We are positioning ourselves to take advantage of this trend with Ford Fiesta, an exiting new small car we will introduce in Europe, Asia, South Africa, Australia and the Americas between 2008 and 2010.

Importantly, the new vehicles we introduce around the world will offer improved fuel economy and reduced environmental impact. In the short term, we will feature hybrids, clean diesel engines, flexible-fuel ethanol vehicles and a turbocharged direct-injection system we call EcoBoost. EcoBoost provides up to 20 percent better fuel economy and 15 percent fewer CO_2 emissions, as well as superior performance. It will be available in half a million Ford, Lincoln and Mercury vehicles annually in North America during the next five years.

For the longer term, we are exploring the potential of plug-in hybrids, fuel cells, hydrogen internal combustion engines and other advanced technologies in laboratories and test fleets around the world. These actions are not only the right and responsible thing to do, they also will give our customers the kind of products they want and value.

LOOKING FORWARD

In many ways 2008 will be like 2007 – a year of transition. Our automotive operations will continue to improve, but will face the ongoing challenges of our highly competitive industry as well as a slowing U.S. economy. To help us deliver on our commitments in this difficult external environment, we will be taking further cost reduction actions in North America. In addition, we will continue to accelerate the flow of new products and adjust production to the changing business environment.

At the conclusion of my message last year I said that the results of our efforts would be more readily apparent in time. Our early results are now in, and they are promising. In the months ahead you will see more of the building blocks of the new Ford Motor Company start to emerge. As they do, I hope you will share in the excitement we feel as we work together to create a dynamic global enterprise growing profitably around the world.

One team, one plan, one goal – one Ford.

Alan Mulally

Alan Mulally
President and Chief Executive Officer
March 6, 2008

Classic cars such as the 1941 Lincoln Continental (above) have made Lincoln an icon of American luxury for more than 85 years.

THE LINCOLN MKX CROSSOVER (ABOVE) HELPED MAKE LINCOLN THE FASTEST GROWING LUXURY BRAND IN AMERICA IN 2007. THE EXCITEMENT CONTINUES IN 2008 WITH THE INTRODUCTION OF THE ALL-NEW FLAGSHIP SEDAN LINCOLN MKS (LEFT).

BOARD OF DIRECTORS AND EXECUTIVES*

Board of Directors

John R.H. Bond
(4)

Stephen G. Butler
(1,5)

Kimberly A. Casiano
(1,3,5)

Edsel B. Ford II
(3,4)

William Clay Ford, Jr.
(3,4)

Irvine O. Hockaday, Jr.
(1,5)

Richard A. Manoogian
(2,5)

Ellen R. Marram
(2,3,5)

Alan Mulally
(4)

Dr. Homer A. Neal
(3,4,5)

Jorma Ollila
(1,5)

Gerald L. Shaheen
(1,5)

John L. Thornton
(2,4,5)

Committee Memberships

(1) Audit
(2) Compensation
(3) Environmental and Public Policy
(4) Finance
(5) Nominating and Governance

Executive Officers Group

William Clay Ford, Jr.
Executive Chairman and Chairman of the Board

Alan Mulally
President and Chief Executive Officer

Michael E. Bannister
Executive Vice President, Chairman and Chief Executive Officer, Ford Motor Credit Company

Lewis W. K. Booth
Executive Vice President, Ford of Europe and Premier Automotive Group, and Chairman, Jaguar, Land Rover, Volvo and Ford of Europe

Mark Fields
Executive Vice President and President, The Americas

Donat R. Leclair, Jr.
Executive Vice President and Chief Financial Officer

John G. Parker
Executive Vice President, Asia Pacific and Africa/Mazda

James Farley, Jr.
Group Vice President, Marketing and Communications and U.S. Marketing, Sales and Service

John Fleming
Group Vice President, President and Chief Executive Officer, Ford of Europe

Joseph R. Hinrichs
Group Vice President, Global Manufacturing

Derrick M. Kuzak
Group Vice President, Global Product Development

Joe W. Laymon
Group Vice President, Human Resources and Labor Affairs

J Mays
Group Vice President, Design and Chief Creative Officer

Ziad S. Ojakli
Group Vice President, Government and Community Relations

Peter J. Daniel
Senior Vice President and Controller

David G. Leitch
Senior Vice President and General Counsel

Other Vice Presidents

Thomas K. Brown
Senior Vice President, Global Purchasing

Susan M. Cischke
Senior Vice President, Sustainability, Environment and Safety Engineering

Darryl B. Hazel
Senior Vice President and President, Customer Service Division

Fredrik Arp
President and Chief Executive Officer, Volvo Cars

Joseph Bakaj
Product Development, Ford of Europe

Stephen E. Biegun
International Governmental Affairs

Mei-Wei Cheng
President, Ford Motor (China) Ltd.

Raymond F. Day
Communications

Felicia J. Fields
Human Resources

Bennie W. Fowler
Quality

Louise K. Goeser
President and Chief Executive Officer, Ford of Mexico

Robert J. Graziano
Executive Vice President, Mazda Motor Corporation

Paul A. Mascarenas
North America Engineering

Martin J. Mulloy
Labor Affairs

Stephen T. Odell
Marketing, Sales and Service, Ford of Europe

Geoff P. Polites
Chief Executive Officer, Jaguar and Land Rover

Barb J. Samardzich
Powertrain Operations

Neil M. Schloss
Treasurer

Gerhard Schmidt
Research and Advanced Engineering

Robert L. Shanks
Controller, The Americas

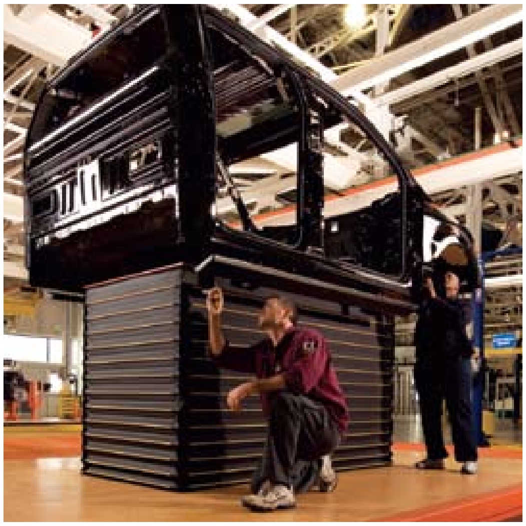
Nicholas J. Smither
Chief Information Officer

James P. Tetreault
Manufacturing, Ford of Europe

*As of March 6, 2008

BUILT FORD TOUGH

Built Ford Tough is more than just a slogan – it's a commitment to the durability and strength found in the more than 33 million F-Series pickups produced since 1948.



THE INNOVATIVE ALL-NEW 2009 F-150 CONTINUES THE "BUILT FORD TOUGH" TRADITION THAT HAS MADE IT THE BEST-SELLING TRUCK IN AMERICA FOR 31 YEARS.

FINANCIAL CONTENTS*

* Financial information contained herein (pages 10-123) is excerpted from the Ford Motor Company (referred to herein as "Ford", the "Company", "we", "our" or "us") Annual Report on Form 10-K for the year ended December 31, 2007, which is available on our website at www.ford.com.

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 or delivered to our customers. This is not the case, however, with respect to vehicles produced for sale to daily rental car companies that are subject to a guaranteed repurchase option or vehicles produced for use in our own fleet (including management evaluation vehicles). Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option are accounted for as operating leases, with lease revenue and profits recognized over the term of the lease. When we sell the 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-rate vehicle financing and leasing programs that we sponsor. Ford Credit records these payments as revenue, and, for contracts purchased prior to 2008, our Automotive sector made the related cash payments, over the expected life of the related finance receivable or operating lease. Effective January 1, 2008, to reduce ongoing Automotive obligations to Ford Credit and to be consistent with general industry practice, we began paying interest supplements and residual value support to Ford Credit on an upfront, lump-sum basis at the time Ford Credit purchases eligible contracts from dealers. See Note 1 of the Notes to the Financial Statements for a more detailed discussion of transactions and payments between our Automotive and Financial Services sectors. The Automotive sector records the estimated costs of marketing incentives, including dealer and retail customer cash payments (e.g., rebates) and costs of special-rate financing and leasing programs, as a reduction to revenue. These reductions to revenue are accrued at the later of the date the related vehicle sales to the dealer are recorded or at the date the incentive program is both approved and communicated.

Key Economic Factors and Trends Affecting the Automotive Industry

Excess Capacity. According to CSM Worldwide, an automotive research firm, in 2007 the estimated automotive industry global production capacity for light vehicles (about 85.4 million units) exceeded global production by about 16.8 million units. In North America and Europe, the two regions where the majority of revenue and profits are earned in the industry, excess capacity was an estimated 17% and 11%, respectively. According to production capacity data projected by CSM Worldwide, significant global excess capacity conditions could continue for several more years at an average of 18.4 million units per year during the 2008-2014 period.

Pricing Pressure. Excess capacity, coupled with a proliferation of new products being introduced in key segments by the industry, will keep pressure on manufacturers' ability to increase prices on their products. In addition, the incremental new U.S. manufacturing capacity of Japanese and Korean manufacturers in recent years has contributed, and is likely to continue to contribute, to the severe pricing pressure in that market. For example, in 2006, Toyota completed construction of an assembly plant in Texas that is capable of producing 150,000 full-size pickup trucks annually as of 2007, and is projected to be able to produce 200,000 full-size pick-up trucks beginning in 2008, according to CSM Worldwide. 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 relative weakness of the Japanese yen against the U.S. dollar, and more substantially against the euro, contributes 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.

Consumer Spending Trends. We expect, however, that a decline in or the inability to increase vehicle prices could be offset at least in part by the long-term trend of consumers' propensity to purchase higher-end, more expensive vehicles and/or vehicles with more features. In the United States, for example, consumers in the highest income brackets are buying more often and are more frequently buying upscale.

Emerging markets will also contribute an increasing share of global industry volume and revenue, as growth in wholesales (i.e., volume) will be greatest in emerging markets in the next decade. We believe, however, the mature automotive markets (e.g., North America, Western Europe, and Japan) will continue to be a significant driver of global industry revenue growth.

Health Care Expenses. In 2007, our health care expenses (excluding special items) for U.S. employees, retirees, and their dependents were $2.2 billion, with about $1.2 billion for postretirement health care and the balance for active employee health care and other retiree expense.

For 2008, our trend assumptions for U.S. health care costs include an initial trend rate of three percent. Over the long term, our steady-state trend rate assumption is five percent, reached in 2011; in any given year, however, the rate could be higher or lower. These assumptions reflect our ongoing focus on health care cost control (including eligibility management, employee education and wellness programs, competitive sourcing, and employee cost sharing) and an assessment of likely long-term trends. They do not include the impact of the recent Memorandum of Understanding with the UAW relating to retiree health care, discussed in detail in this Overview.

Commodity and Energy Price Increases. Commodity prices, particularly for steel and resins (which are our two largest commodity exposures and among the most difficult to hedge), have continued to increase during a period of strong global demand for these materials. In addition, energy prices also continued to increase significantly in 2007. In particular, gasoline prices in the United States rose to levels over $3.00 per gallon during 2007. Although prices have moderated somewhat, they are expected to remain at high levels. This has had an adverse effect on the demand for traditional full- and medium-sized SUVs 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, 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 and costs in foreign currencies, are not always able to price for depreciation of the U.S. dollar due to the extremely competitive pricing environment in the United States.

Other Economic Factors. Additional factors have recently affected the performance of the automotive industry. In the United States, 2007 was a period of a significant contraction in the housing market. As a result, spending on new residential construction declined by 16.9% (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. In addition, during the second half of 2007, the United States experienced a subprime mortgage contraction that resulted in an associated contraction throughout the world in other types of credit market activity, which impacted adversely certain of Ford Credit's capital market funding activities. The contraction of credit market activity appears to be continuing into 2008, which could result in higher costs of capital and generally reduced economic activity.

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 primarily of diesel 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. The payback from this pull-ahead demand, which may continue into 2008, contributed to a 30% year over year decline in sales of 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, and towards the end of achieving profitable growth in all markets, we have been focusing and continue to focus on the following four key priorities:

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

Aggressively Restructure to Operate Profitably at the Current Demand and Changing Model Mix

To compete more effectively in today's global marketplace, and particularly in North America, we have been executing 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. Key elements of our plan to restructure aggressively our Automotive business include the following:

Personnel reductions

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, over the last two years we have reduced by about 46,300 the employment levels in our Ford North America business unit. At December 31, 2007, our Ford North America business unit had approximately 23,700 salaried employees and 64,000 hourly employees (including 6,100 working at our ACH facilities), compared with approximately 34,500 salaried employees and 99,500 hourly employees (including 13,900 working at our ACH facilities) at December 31, 2005. Most of these reductions were the result of offers of early retirement or separation packages to U.S. employees, including Ford employees at our ACH plants.

Although we have achieved our previously announced goal to operate with between 55,000 to 60,000 hourly non-ACH employees in North America by the end of 2008, we have embarked on additional personnel reduction actions, as announced on January 24, 2008, to achieve even lower hourly employment levels in North America. With the UAW, we are implementing an additional enterprise-wide buyout program in two phases:

- The first phase is applicable to UAW-represented employees at select closed facilities (i.e., the Atlanta, St. Louis, Edison (NJ) and Norfolk Assembly Plants), with buyout offers running from January 22, 2008 to February 25, 2008. Employees who accept these offers generally will be separated by March 1, 2008.

- The second phase is applicable to all other UAW-represented employees, with buyout offers being made from February 19, 2008 to March 18, 2008. Employees who accept these offers will be separated beginning April 1, 2008, with most separations completed by June 30, 2008 and all completed by year-end 2008.

Capacity alignment

We also have reduced and realigned 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.

Since year-end 2005, we have reduced our North American manned capacity from 3.6 million units to 2.9 million units. Reducing our manned capacity in this manner allows us to achieve major cost savings and coordinates plant closures with planned product changes, which we believe is the best economic approach. We plan to reduce our manned capacity in North America by the end of the decade so that it closely matches projected sales of Ford, Lincoln and Mercury units.

As part of this reduction, we have closed or announced plans to close the following North American manufacturing facilities:

CLOSED:

- Atlanta Assembly Plant (closed in 2006);
- Essex Engine Plant (closed in 2007);
- Maumee Stamping Plant (closed in 2007);
- Norfolk Assembly Plant (closed in 2007);
- St. Louis Assembly Plant (closed in 2006);
- Windsor Casting Plant (idled in 2007); and
- Wixom Assembly Plant (closed in 2007).

TO BE CLOSED:

- Batavia Transmission Plant (to be closed in 2008);
- Twin Cities Assembly Plant (to be closed in 2009); and
- Cleveland Casting Plant (to be closed in 2010).

Additionally, we have sold or closed the ACH plants listed below, and plan to sell or close essentially all of the 11 remaining ACH plants by the end of 2008:

- Chesterfield (Michigan) Trim Plant, which produced seat foam, closed in 2006;
- Kansas City Regional Assembly, which performed final assembly of instrument panels, closed in 2006;
- El Jarudo (Mexico), which produced automotive fuel rails, was sold in 2007; and
- Converca (Mexico), which produced power transfer units, was sold in 2007.

New UAW Collective Bargaining Agreement

On November 3, 2007, we agreed in principle with the UAW on a new, four-year collective bargaining agreement ("CBA") and a separate memorandum of understanding relating to retiree health care benefits ("MOU", and together with the CBA, "Agreements"). The Agreements were ratified by our UAW-represented employees on November 14, 2007. The MOU is subject to several additional conditions, including court approval of a final settlement agreement and satisfactory accounting treatment of the retiree health care benefits obligation.

The Agreements will enable us to increase our competitiveness in the United States through reduced retiree health care costs, more competitive wages and benefits, and improved operational flexibility. Following are some of the significant terms of the Agreements.

Retiree Health Care Benefits. Pursuant to the MOU, we agreed with the UAW to permanently shift responsibility for providing retiree health care benefits for current and former UAW-represented employees (measured at $20.2 billion on our December 31, 2007 balance sheet) from the Company to a new retiree plan funded by a new independent Voluntary Employee Benefit Association Trust ("New VEBA"). The effective date of the MOU is anticipated to occur in the third quarter of 2008. This date is subject to, among other conditions, federal district court approval of the final settlement agreement relating to the MOU and SEC pre-clearance of the accounting treatment of the New VEBA and our retiree health care obligation. Implementation of the final settlement agreement relating to the MOU will not occur until the later of January 1, 2010 or exhaustion of any appeals to district court approval.

As part of the MOU, we established a Temporary Asset Account ("TAA") as of January 1, 2008 for purposes of segregating assets that will be transferred to the New VEBA. We are obligated to transfer the following assets to the TAA:

- cash of $2.73 billion, which we contributed to the TAA in January 2008;
- a $3 billion principal amount secured note, which will bear interest from January 1, 2008 at 9.5% per annum, mature on January 1, 2018, and be secured on a second-lien basis with the collateral we have pledged as part of our secured Credit Agreement;
- a $3.3 billion principal amount convertible note, which will bear interest from January 1, 2008 at 5.75% per annum, mature on January 1, 2013, and be convertible into Ford Common Stock at a conversion price of $9.20 per share; and
- deferred cash totaling $400 million, which represents the present value amount of 15 annual installment payments of $52.3 million commencing April 1, 2008 (initial payments made to the TAA, and remaining payments made directly to the New VEBA).

TAA assets together with any earnings thereon, and the assets of our existing internal health care VEBA ($3.74 billion at December 31, 2007) together with any earnings thereon, will be transferred to the New VEBA upon implementation of the final settlement agreement.

In addition to the foregoing payments to fund the New VEBA, we are obligated to continue to make payments for ongoing retiree health care costs during 2008 and 2009, which are estimated at a total present value of about $2.3 billion.

If and when the MOU is fully implemented, the financial impact of shifting to the New VEBA our obligations to provide retiree health care benefits for our current and former UAW-represented employees is estimated to be an improvement in our ongoing annual net cash flow of about $1 billion and (subject to final valuation assumptions) a reduction in our ongoing annual health care expense of about $2 billion.

Pension Enhancements. As part of the CBA, we agreed to enhance certain pension benefits for current and former UAW-represented employees. These enhancements include, but are not limited to, increases in the basic monthly pension benefit for both current and future retirees of $2.00 and $2.65, respectively, per year of credited service, and lump-sum payments to current retirees of up to $700 per year over the term of the CBA. These enhancements increased our pension benefit obligation for current and former UAW-represented employees by $1.6 billion at December 31, 2007.

Entry-Level Wage Structure. Certain newly-hired UAW-represented hourly employees (not to exceed at any time 20% of the total number of our UAW-represented employees, subject to certain exceptions discussed below) would have wage and benefit levels below those we are currently paying existing UAW-represented employees. These entry-level wage and benefit levels would be in the range of $26 to $31 per hour, which is about 50% of current levels (excluding retiree health care benefit costs), and are intended to be competitive with those provided by Japanese-based manufacturers to employees at their U.S. plants. In the event that the 20% limitation is reached, employees at entry-level wages could be elevated to the then-current traditional UAW wage level; importantly, however, the benefits (including cash balance pension benefits and defined contribution health care benefits) would remain unchanged for these elevated employees. In any event, neither entry-level employees hired into our Rawsonville or Sterling component plants, nor any entry-level employees hired to perform work in our facilities that was previously outsourced to suppliers but which is being brought back into our facilities from suppliers (i.e., "insourced"), will be counted against the 20% limitation.

Job Security. Our obligation to pay substantially full wages and benefits to idled UAW-represented employees ("Jobs Bank Benefits") continues, unless within two years from the date of the new CBA we offer an employee one job (in the case of employees at an idled facility) or two jobs (in the case of any other employee) at other Ford facilities and that employee declines to accept the other employment at the other facility or facilities. If these conditions are not met within the two-year period ending in November 2009, the employee will be entitled to receive Jobs Bank Benefits for the duration of the term of the current CBA until one additional alternate job offer is made.

Plant Closures. As part of our Way Forward plan, we announced plans to idle 16 North American manufacturing facilities by the end of 2012. As part of the Agreements, certain facilities that we had planned to idle will remain open, and we agreed not to close or sell any additional U.S. plants – beyond the manufacturing plants and ACH facilities (described above) that we had previously announced would be closed or sold – during the four-year term of the CBA.

Bonuses to UAW-Represented Hourly Employees. We agreed to provide a lump-sum payment of $3,000 to each UAW-represented hourly employee who is on our active rolls as of the date specified in the Agreements, as well as performance and other bonus payments in the future according to a specified schedule set forth in the Agreements. We accrued and paid most of this bonus obligation aggregating $157 million in the fourth quarter of 2007.

<u>Accelerate Development of New Products our Customers Want and Value</u>

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 are also committed to introducing new products that customers want and value and have most recently introduced or will introduce in the next several months the following new models and products:

- *Ford North America*: the all-new (for 2007) Ford Edge and Lincoln MKX crossover models, new versions of the 2007 Ford Expedition and Lincoln Navigator models, new 2008 models of our segment-leading Ford Super Duty trucks, new versions of the 2008 Ford Escape and Mercury Mariner compact sport utility vehicles and hybrids; new versions of the 2008 Ford Focus; the all-new 2009 Ford Flex full-size crossover model; the all-new 2009 Lincoln MKS full-size sedan; and new 2009 models of our segment-leading F-150 pickup trucks.

- *Ford Europe*: the all-new Mondeo large passenger car (launched in 2007), the new Focus medium passenger car and all-new Kuga 4x4 crossover vehicle (both to be launched in early 2008), followed later in the year by the launch of our new Fiesta compact car and a new sub-compact car.

- *Volvo*: for 2007, the all-new V70 estate (i.e., wagon) and XC70 crossover and the new V50 estate and S40 sedan, and, for 2008, the all-new XC60 crossover, one of the first entries in the small premium utility segment.

- *New Vehicle Technologies*: in 2007 we introduced in select models Ford SYNC – a fully-integrated, voice-activated in-car communications and entertainment system developed in association with Microsoft Corporation. By the end of 2008, we plan to have Ford SYNC available in nearly every Ford, Lincoln and Mercury model in North America. In 2009, we plan to introduce on the Lincoln MKS the first of our new EcoBoost family of gasoline engines. This engine technology combines turbo-boosting and direct fuel-injection, which will allow for engines with fewer cylinders or a smaller displacement so as to improve fuel economy by up to 20% and reduce CO_2 emissions by up to 15%, while at the same time improving or maintaining (as compared with larger engines) vehicle performance (i.e., torque or acceleration). Within the next five years we expect to produce around 500,000 vehicles with EcoBoost technology annually, which we believe will allow us to satisfy increasing consumer demand for improved fuel efficiency without sacrificing vehicle performance, and meet increasingly stringent government-mandated fuel economy and emission standards. In addition, we are continuing to invest in other 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. One goal, for example, is to reduce the average age of Ford-brand vehicles in North America by 35% by 2009 compared with 2006. 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 deploy 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.

As an example of how commonality can work for us, the new Fiesta compact car that we are introducing in Europe in 2008 also will be offered for sale in all major markets, including the United States, over the next few years.

Finance our Plan and Improve our Balance Sheet

As discussed in "Liquidity and Capital Resources – Automotive Sector" and in Note 16 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. During 2007, also as discussed in "Liquidity and Capital Resources – Automotive Sector" we took actions to reduce Automotive long-term debt by $2.7 billion and monetized our investments in certain non-core assets (e.g., Aston Martin Lagonda Group Limited ("Aston Martin") and Automotive Protection Corporation ("APCO")). At year-end 2007, we had total Automotive liquidity, consisting of gross cash and available credit facilities, of about $46.5 billion, 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.

Work Together Effectively as One Team

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

To facilitate this, our senior management team meets weekly 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 for 2008 at the low-end of the 14% to 15% range for Ford, Lincoln and Mercury brands.
- Cumulative reduction in annual operating costs for our Ford North America segment of about $5 billion (at constant volume, mix and exchange, and excluding special items) by the end of 2008 compared with 2005, with additional cost reductions in 2009 and beyond.

For a discussion of our liquidity needs and uses during this period, see "Liquidity and Capital Resources – Automotive Sector." For a discussion of the outlook for our 2008 full-year performance, see "Outlook."

RESULTS OF OPERATIONS

FULL-YEAR 2007 RESULTS OF OPERATIONS

Our worldwide net loss was $2.7 billion or $1.38 per share of Common and Class B Stock in 2007, an improvement of $9.9 billion from a loss of $12.6 billion or $6.72 per share in 2006.

Results by business sector for 2007, 2006, and 2005 are shown below (in millions):

	2007	2006	2005
Income/(Loss) before income taxes			
Automotive sector	$ (4,970)	$(17,040)	$ (3,899)
Financial Services sector	1,224	1,966	4,953
Total Company	(3,746)	(15,074)	1,054
Provision for/(Benefit from) income taxes (a)	(1,294)	(2,655)	(855)
Minority interests in net income/(loss) of subsidiaries (b)	312	210	280
Income/(Loss) from continuing operations	(2,764)	(12,629)	1,629
Income/(Loss) from discontinued operations	41	16	62
Cumulative effect of change in accounting principle (c)	—	—	(251)
Net income/(loss)	$ (2,723)	$(12,613)	$ 1,440

(a) See Note 19 of the Notes to the Financial Statements for disclosure regarding 2007 effective tax rate.
(b) Primarily related to Ford Europe's consolidated 41%-owned affiliate, Ford Otosan; the increase in 2007 primarily reflected the non-recurrence of the impact on deferred tax balances of tax law changes in Turkey. The pre-tax results for Ford Otosan were $551 million in 2007, $509 million in 2006, and $506 million in 2005.
(c) See Note 28 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 2007, 2006, and 2005 special items by segment or business unit (in millions):

	2007	2006	2005
Automotive Sector			
Ford North America			
Variable marketing – change in business practice (a)	$ (1,099)	$ —	$ —
Jobs Bank Benefits and personnel-reduction programs (b)	(749)	(4,760)	(401)
Pension curtailment charges	(180)	(2,741)	—
U.S. plant idlings (primarily fixed-asset write-offs)	—	(281)	—
Retiree health care curtailment gain	1,332	—	—
Fixed asset impairment charges	—	(2,200)	—
Visteon-related charges (primarily valuation allowance against employee-related receivables) (c)	—	—	(468)
Fuel-cell technology charges	—	—	(116)
Divestiture of non-core business	3	—	(59)
Changes in state non-income tax law	—	—	85
Total Ford North America	(693)	(9,982)	(959)
Ford South America			
Legal settlement relating to social welfare tax liability	—	110	—
Ford Europe			
Variable marketing – change in business practice (a)	(120)	—	—
Personnel-reduction programs	(90)	(84)	(510)
Plant idling/closure	(43)	—	—
Premier Automotive Group ("PAG")			
Asset impairment charges (d)	(2,400)	(1,600)	(1,300)
Personnel-reduction programs/Other	(187)	(378)	(245)
Variable marketing – change in business practice (a)	(140)	—	—
Net gains on certain undesignated hedges (relating to Jaguar and Land Rover)	143	—	—
Sale of Aston Martin	208	—	—
Ford Asia Pacific and Africa/Mazda			
Variable marketing – change in business practice (a)	(15)	—	—
Malaysia investment impairment	(10)	—	—
Personnel-reduction programs/Other – Asia Pacific	(13)	(65)	(33)
Personnel-reduction programs – AutoAlliance International, Inc. ("AAI")	—	(38)	—
Mazda pension transfer	—	115	—
Divestiture of non-core business (certain Australia dealerships)	—	—	14
Other Automotive			
Loss on conversion of 6.50% Cumulative Convertible Trust Preferred Securities (the "Trust Preferred Securities")	(632)	—	—
Gain on exchange of debt securities for equity	120	—	—
Divestiture of non-core businesses (primarily related to Kwik-Fit Group Limited)	—	—	152
Total Automotive sector	(3,872)	(11,922)	(2,881)
Financial Services Sector			
Divestiture of non-core business (The Hertz Corporation ("Hertz"))	—	—	1,499
Total	$(3,872)	$(11,922)	$(1,382)

(a) Represents a one-time, non-cash charge related to a change in our business practice for offering and announcing retail variable marketing incentives to our dealers. Generally, we accrue incentives for vehicles that we have produced based upon the incentive information we have communicated to our dealers. In the fourth quarter of 2007, we changed from a quarterly to an annual process for announcing and committing to our dealers that incentives will be available depending on various market factors. This triggered an acceleration of the recognition of incentive costs for vehicles in dealer stocks that had not been expected to be retailed during the previously-committed quarterly time frame, which resulted in the one-time charge to increase our reserve level; our ongoing cost run rate is not expected to change significantly.
(b) See Note 18 of the Notes to the Financial Statements for definition and discussion of Jobs Bank Benefits.
(c) See Note 20 of the Notes to the Financial Statements for discussion of Visteon-related charges.
(d) In the fourth quarter of 2007, we recorded an impairment charge to Volvo's goodwill of $2.4 billion. At December 31, 2007, the remaining balance of goodwill at Volvo was $1.4 billion. See Note 13 of the Notes to the Financial Statements for additional information regarding this impairment. Also see our "Critical Accounting Estimates" for a discussion of assumptions used in the measurement of impairments.

Included in *Provision for/(Benefit from) income taxes* are tax benefits of $1.5 billion, $2 billion, and $1.1 billion for 2007, 2006, and 2005, respectively, that we consider to be special items. These consist of the tax effects of the pre-tax special items listed above, the impact of changes in tax rate on deferred tax balances, and, in 2007, a $1.5 billion benefit reflecting the change in our deferred tax asset valuation allowance allocated to *Income/(Loss) from continuing operations* after taking into consideration income from *Accumulated other comprehensive income/(loss)* when determining whether sufficient future taxable income exists to realize deferred tax assets.

AUTOMOTIVE SECTOR RESULTS OF OPERATIONS

The discussion below of Automotive and Financial Services sector results of operations is on a pre-tax basis. Our results for interim periods are not necessarily indicative of results for a full year. We believe that the trends, particularly for year-over-year changes in profitability, cost changes and market share, generally are important and are indicative of the direction of our business unless our disclosures indicate otherwise.

2007 Compared with 2006

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

	2007	2006	2007 Over/(Under) 2006
The Americas			
Ford North America	$ (4,161)	$(15,992)	$ 11,831
Ford South America	1,172	661	511
Total The Americas	(2,989)	(15,331)	12,342
Ford Europe and PAG			
Ford Europe	744	371	373
PAG	(1,872)	(2,322)	450
Total Ford Europe and PAG	(1,128)	(1,951)	823
Ford Asia Pacific and Africa/Mazda			
Ford Asia Pacific and Africa	2	(250)	252
Mazda and Associated Operations	204	245	(41)
Total Ford Asia Pacific and Africa/Mazda	206	(5)	211
Other Automotive	(1,059)	247	(1,306)
Total	$ (4,970)	$(17,040)	$ 12,070

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

	Sales (in billions)				Wholesales (a) (in thousands)			
	2007	2006	2007 Over/(Under) 2006		2007	2006	2007 Over/(Under) 2006	
The Americas								
Ford North America	$ 69.4	$ 69.4	$ —	—%	2,836	3,051	(215)	(7)%
Ford South America	7.6	5.7	1.9	33	436	381	55	14
Total The Americas	77.0	75.1	1.9	3	3,272	3,432	(160)	(5)
Ford Europe and PAG								
Ford Europe	36.3	30.4	5.9	20	1,918	1,846	72	4
PAG	33.1	30.0	3.1	10	774	730	44	6
Total Ford Europe and PAG	69.4	60.4	9.0	15	2,692	2,576	116	5
Ford Asia Pacific and Africa/Mazda								
Ford Asia Pacific and Africa (b)	7.0	6.5	0.5	8	535	517	18	3
Mazda and Associated Operations (c)	1.0	1.3	(0.3)	(18)	54	72	(18)	(25)
Total Ford Asia Pacific and Africa/Mazda	8.0	7.8	0.2	3	589	589	—	—
Total	$154.4	$143.3	$ 11.1	8%	6,553	6,597	(44)	(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 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 205,000 and 159,000 units in 2007 and 2006, respectively. "Sales" above does not include revenue from these units.

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

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

	Market Share			Dealer-Owned Stocks (a) (in thousands)		
Market	2007	2006	2007 Over/(Under) 2006	2007	2006	2007 Over/(Under) 2006
U.S. (b)	14.6%	16.0%	(1.4) pts.	533	570	(37)
South America (b) (c)	10.7	11.5	(0.8)	36	40	(4)
Europe (b) (d)	8.6	8.5	0.1	317	322	(5)
PAG - U.S./Europe (d)	1.0/2.2	1.1/2.1	(0.1.)/0.1	39/64	34/67	5/(3)
Asia Pacific and Africa (b) (e) (f)	2.3	2.4	(0.1)	58	50	8

(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 estimated vehicle retail sales for our six major markets (Argentina, Brazil, Chile, Colombia, Ecuador, and Venezuela).
(d) European 2007 market share is based, in part, on estimated vehicle registrations for the 19 European markets we track (Britain, Germany, France, Italy, Spain, Austria, Belgium, Ireland, Netherlands, Portugal, Switzerland, Finland, Sweden, Denmark, Norway, Czech Republic, Greece, Hungary, and Poland).
(e) Asia Pacific and Africa 2007 market share is based on estimated vehicle retail sales for our 12 major markets (Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand, and Vietnam).
(f) Dealer-owned stocks for Asia Pacific and Africa include primarily Ford-brand vehicles as well as a small number of units distributed for other manufacturers.

Overall Automotive Sector

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

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

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

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

The Americas

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

Ford South America Segment. The increase in earnings is more than explained by higher net revenue and improved volume and mix, offset partially by unfavorable cost changes and the non-recurrence of a 2006 gain associated with a legal settlement relating to a social welfare tax liability. The unfavorable cost changes primarily reflected higher net product costs and higher manufacturing and engineering costs. The level of profitability that our Ford South America segment achieved in 2007 is not likely to be sustained over the next few years due in part to an expected increase in competition.

Ford Europe and PAG

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

PAG Segment. The improvement in earnings primarily reflected favorable cost changes, improved volume and mix, favorable net pricing, the effect of our sale of Aston Martin (primarily the gain on sale), and lower charges for personnel-reduction programs, offset partially by higher impairment charges related to PAG assets and changes in currency exchange rates. The favorable cost changes primarily reflected lower warranty-related costs (primarily the non-recurrence of adverse 2006 adjustments to Jaguar and Land Rover warranty accruals), overhead costs, and spending-related costs.

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 favorable cost changes, higher net pricing, and lower charges for personnel-reduction programs, offset partially by less favorable volume and mix. The favorable cost changes primarily reflected lower manufacturing and engineering costs, overhead costs, and net product costs.

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

Other Automotive

The decline in results primarily reflected higher interest expense and related costs associated with the higher debt levels that resulted from financing actions taken in the fourth quarter of 2006, the non-recurrence in Other Automotive of tax-related interest adjustments resulting from settlements with the Internal Revenue Service in 2006, and a loss on the conversion of 43% of our Trust Preferred Securities. These unfavorable factors were offset partially by higher interest income reflecting higher average cash balances, mark-to-market adjustments for changes in exchange rates on intercompany loans and related loan hedges, and a gain on the exchange of debt securities for equity that occurred in December 2007.

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	$(15,992)	$ (2,469)	$(13,523)
Ford South America	661	399	262
Total The Americas	(15,331)	(2,070)	(13,261)
Ford Europe and PAG			
Ford Europe	371	(437)	808
PAG	(2,322)	(1,634)	(688)
Total Ford Europe and PAG	(1,951)	(2,071)	120
Ford Asia Pacific and Africa/Mazda			
Ford Asia Pacific and Africa	(250)	42	(292)
Mazda and Associated Operations	245	255	(10)
Total Ford Asia Pacific and Africa/Mazda	(5)	297	(302)
Other Automotive	247	(55)	302
Total	$(17,040)	$ (3,899)	$(13,141)

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	$143.3	$153.5	$ (10.2)	(7)%	6,597	6,767	(170)	(3)%

____

(a) Wholesale unit volumes generally are reported on a where-sold basis, and include all Ford-badged units and units manufactured by Ford that are sold to other manufacturers, as well as units distributed for other manufacturers. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes. For a discussion of our revenue recognition policy for 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 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, AAI, beginning with the consolidation of AAI in the third quarter of 2005. See Note 14 of the Notes to the Financial Statements.

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

	Market Share			Dealer-Owned Stocks (a) (in thousands)		
Market	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 vehicle registrations for the 19 European markets we track (Britain, Germany, France, Italy, Spain, Austria, Belgium, Ireland, Netherlands, Portugal, Switzerland, Finland, Sweden, Denmark, Norway, Czech Republic, Greece, Hungary, and Poland).
(e) Asia Pacific and Africa 2006 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 primarily reflected the effect of Jobs Bank Benefits charges and higher personnel-reduction program charges in Ford North America ($4.3 billion), less favorable volume and mix – mainly lower market share, adverse product mix in Ford North America, and lower dealer stock levels – ($3.2 billion), pension curtailment charges ($2.7 billion), impairment charges related to our long-lived assets in Ford North America and Jaguar and Land Rover operations ($2.5 billion), and lower net pricing ($2 billion). These adverse factors were offset partially by favorable cost changes ($1.5 billion). 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 favorable cost changes primarily reflected lower manufacturing and engineering costs, pension and OPEB costs, and overhead costs.

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

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, less favorable volume and mix (mainly adverse product mix, lower market share, a reduction in dealer stock levels, and lower industry volumes), pension curtailment charges, lower 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 higher net pricing, improved 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, improved 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 higher 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 lower manufacturing and engineering costs, improved 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 less favorable 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, since then no longer had 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.

FINANCIAL SERVICES SECTOR RESULTS OF OPERATIONS

2007 Compared with 2006

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

	Revenues (in billions)			Income/(Loss) Before Income Taxes (in millions)		
	2007	2006	2007 Over/(Under) 2006	2007	2006	2007 Over/(Under) 2006
Ford Credit	$ 17.8	$ 16.5	$ 1.3	$ 1,215	$ 1,953	$ (738)
Other Financial Services	0.3	0.3	—	9	13	(4)
Total	$ 18.1	$ 16.8	$ 1.3	$ 1,224	$ 1,966	$ (742)

Ford Credit

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

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

- *On-balance sheet basis*. Includes the receivables and leases Ford Credit owns and securitized receivables and leases that remain on Ford Credit's balance sheet (includes other structured financings and factoring transactions that have features similar to securitizations);
- *Securitized off-balance sheet basis*. Includes receivables sold in securitization transactions that, when sold, do not remain on Ford Credit's balance sheet;
- *Managed basis*. Includes on-balance sheet 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, it generally reviews the performance of its serviced portfolio only to evaluate the effectiveness of its origination and collection activities. To evaluate the performance of these activities, Ford Credit monitors a number of measures, such as delinquencies, repossession statistics, losses on repossessions and the number of bankruptcy filings.

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

	December 31, 2007	December 31, 2006
On-Balance Sheet		
Finance receivables		
Retail installment	$ 73.3	$ 70.4
Wholesale	34.7	35.2
Other	3.4	3.8
Total finance receivables, net	111.4	109.4
Net investment in operating leases	29.7	25.9
Total on-balance sheet*	$ 141.1	$ 135.3
Memo: Allowance for credit losses included above	$ 1.1	$ 1.1
Securitized Off-Balance Sheet		
Finance receivables		
Retail installment	$ 6.0	$ 12.2
Wholesale	—	—
Other	—	—
Total finance receivables	6.0	12.2
Net investment in operating leases	—	—
Total securitized off-balance sheet	$ 6.0	$ 12.2
Managed		
Finance receivables		
Retail installment	$ 79.3	$ 82.6
Wholesale	34.7	35.2
Other	3.4	3.8
Total finance receivables, net	117.4	121.6
Net investment in operating leases	29.7	25.9
Total managed	$ 147.1	$ 147.5
Serviced	$ 148.0	$ 149.5

* At December 31, 2007 and 2006, includes finance receivables of $67.2 billion and $56.5 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, 2007 and 2006, includes net investment in operating leases of $18.9 billion and $15.2 billion, respectively, that have been included in securitizations that do not satisfy the requirements for accounting sale treatment. These underlying securitized assets are available only for payment of the debt or other obligations issued or arising in the securitization transactions; they are not available to pay Ford Credit's other obligations or the claims of Ford Credit's other creditors.

Managed receivables decreased from year-end 2006, primarily reflecting lower U.S. retail installment and wholesale receivables, offset partially by changes in currency exchange rates and higher U.S. net investment in operating leases.

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

	2007	2006	2007 Over/(Under) 2006
Charge-offs (in millions)			
On-Balance Sheet			
Retail installment and lease	$ 608	$ 465	$ 143
Wholesale	17	44	(27)
Other	7	14	(7)
Total on-balance sheet	$ 632	$ 523	$ 109
Reacquired Receivables (retail)*	$ —	$ 2	$ (2)
Securitized Off-Balance Sheet			
Retail installment and lease	$ 65	$ 84	$ (19)
Wholesale	—	—	—
Other	—	—	—
Total securitized off-balance sheet	$ 65	$ 84	$ (19)
Managed			
Retail installment and lease	$ 673	$ 551	$ 122
Wholesale	17	44	(27)
Other	7	14	(7)
Total managed	$ 697	$ 609	$ 88
Loss-to-Receivables Ratios			
On-Balance Sheet			
Retail installment and lease	0.60%	0.50%	0.10 pts.
Wholesale	0.05	0.12	(0.07)
Total including other	0.46%	0.39%	0.07 pts.
Managed			
Retail installment and lease	0.61%	0.51%	0.10 pts.
Wholesale	0.05	0.12	(0.07)
Total including other	0.47%	0.41%	0.06 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 and managed portfolios increased from a year ago. These increases, principally in the U.S. retail installment and lease portfolio, primarily reflected higher loss severity consistent with an increase in amount financed for vehicles repossessed in its portfolio, a higher mix of 72-month contracts and deterioration in used-vehicle prices.

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):

	2007	2006
Allowance for Credit Losses		
Balance, beginning of year	$ 1.1	$ 1.6
Provision for credit losses	0.6	0.1
Deductions		
Charge-offs before recoveries	1.1	1.0
Recoveries	(0.5)	(0.5)
Net charge-offs	0.6	0.5
Other changes, principally amounts related to finance receivables sold and translation adjustments	—	0.1
Net deductions	0.6	0.6
Balance, end of year	$ 1.1	$ 1.1
Allowance for credit losses as a percentage of end-of-period net receivables	0.77%	0.81%

Ford Credit's allowance for credit losses totaled $1.1 billion at December 31, 2007, including $88 million for assumption updates pertaining to loss performance trends. The allowance for credit losses is primarily a function of portfolio quality, historical loss performance and receivable levels. Ford Credit's allowance for credit losses reflects its high quality retail installment and lease portfolio. Certain of Ford Credit's key credit loss metrics (repossession ratio, over-60 day delinquency ratio and new bankruptcy filings) are near historically low levels.

In purchasing retail finance and lease contracts, Ford Credit uses a proprietary scoring system that classifies contracts using several factors, such as credit bureau information, FICO score, employment history, income, amount financed, vehicle value and contract term. As of December 31, 2007, about 4% of the outstanding U.S. retail finance and lease contracts in Ford Credit's serviced portfolio were classified as high risk, down from about 8% in 2000, consistent with its efforts to improve the quality of its portfolio.

2006 Compared with 2005

Details of full-year Financial Services sector *Revenues* and *Income/(Loss) before income taxes* for 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 25 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 *Income/(loss) before income taxes* during 2006.

Ford Credit

The decrease in Ford Credit's full-year earnings primarily reflected higher borrowing costs (about $800 million), higher depreciation expense (about $400 million), and the impact of lower average receivable levels in its managed portfolio (about $400 million). These were offset partially by market valuations, primarily related to non-designated derivatives (about $500 million) and reduced operating costs (about $100 million).

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.

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. Our long-term goal is to improve our core Automotive operations so that we have a high degree of certainty about our capability to generate cash from our operations. In addition, our strategy includes maintaining large gross cash balances, having a long-dated debt maturity profile, maintaining committed credit facilities, and funding long-term liabilities over time.

Gross Cash. Automotive gross cash includes cash and cash equivalents, net marketable securities, loaned securities and certain assets contained in a Voluntary Employee Beneficiary Association trust ("VEBA"), a trust which may be used to pre-fund certain types of company-paid benefits for U.S. employees and retirees. We have included 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"). As a result of our agreement with the UAW regarding retiree health care obligations (discussed in "Overview"), we do not expect to have significant short-term VEBA assets in 2008 and beyond. Gross cash as of December 31, 2007, 2006, and 2005 is detailed below (in billions):

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

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

(b) Pursuant to the MOU with the UAW (discussed in "Overview" above), in January 2008 we contributed $2.73 billion to a temporary asset account and invested $1.8 billion of short-term VEBA assets in longer-term instruments. These actions reduced Automotive gross cash by $4.5 billion.

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, tax-related transactions, acquisitions and divestitures, capital transactions with the Financial Services sector, dividends paid to shareholders, and other – primarily financing-related). Our key metrics are operating-related cash flow, which best represents the ability of our Automotive operations to generate cash, and Automotive gross cash. We believe the cash flow analysis reflected in the table below is useful to investors because it includes in operating-related cash flow elements that we consider to be related to our operating activities (e.g., capital spending) and excludes cash flow elements that we do not consider to be related to the ability of our operations to generate cash (e.g., tax refunds). This differs from a cash flow statement presented in accordance with generally accepted accounting principles ("GAAP") in the United States and differs from *Cash flows from operating activities of continuing operations*, the most directly comparable U.S. GAAP financial measure.

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

	2007	2006	2005
Gross cash at end of period	$ 34.6	$ 33.9	$ 25.1
Gross cash at beginning of period	33.9	25.1	23.6
Total change in gross cash	$ 0.7	$ 8.8	$ 1.5
Operating-related cash flows			
Automotive income/(loss) before income taxes	$ (5.0)	$ (17.0)	$ (3.9)
Special items	3.9	11.9	2.9
Capital expenditures	(6.0)	(6.8)	(7.1)
Depreciation and special tools amortization	6.8	7.1	6.9
Changes in receivables, inventory and trade payables	(0.7)	(2.0)	1.3
Other (a)	1.4	1.2	(1.4)
Total operating-related cash flows	0.4	(5.6)	(1.3)
Other changes in cash			
Cash impact of personnel-reduction programs and Jobs Bank Benefits accrual	(2.5)	(1.2)	(0.4)
Contributions to funded pension plans	(1.6)	(0.8)	(2.5)
Net effect of VEBA on gross cash	1.2	3.4	(0.2)
Capital transactions with Financial Services sector (b)	—	1.4	2.3
Tax payments, tax refunds and tax receipts from affiliates	2.6	0.3	0.3
Acquisitions and divestitures	1.1	0.2	5.3
Dividends to shareholders	—	(0.5)	(0.7)
Net proceeds from/(Payments on) Automotive sector debt	(0.6)	11.7	(0.5)
Other (c)	0.1	(0.1)	(0.8)
Total change in gross cash	$ 0.7	$ 8.8	$ 1.5

(a) Primarily expense and payment timing differences for items such as pension and OPEB, marketing, and warranty.
(b) Primarily dividends received from Ford Credit, excluding proceeds from Financial Services sector divestitures paid to the Automotive sector. Ford Credit suspended its regular dividend payments in 2007.
(c) In 2007, primarily 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 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):

	2007	2006	2005
Cash flows from operating activities of continuing operations	$ 8.7	$ (4.2)	$ 5.4
Items included in operating-related cash flows			
Capital expenditures	(6.0)	(6.8)	(7.1)
Net transactions between Automotive and Financial Services sectors*	(0.3)	(0.5)	(0.4)
Net cash flows from non-designated derivatives	1.1	0.2	—
Items not included in operating-related cash flows			
Cash impact of personnel-reduction programs and Jobs Bank Benefits accrual	2.5	1.2	0.4
Net (sales)/purchases of trading securities	(4.5)	6.8	0.6
Contributions to funded pension plans	1.6	0.8	2.5
VEBA cash flows (reimbursement for benefits paid)	(1.1)	(2.9)	(2.8)
Tax refunds, tax payments, and tax receipts from affiliates	(2.6)	(0.3)	(0.3)
Other	1.0	0.1	0.4
Operating-related cash flows	$ 0.4	$ (5.6)	$ (1.3)

* Primarily payables and receivables between the Automotive and Financial Services sectors in the normal course of business. For example, vehicle wholesale loans that are made by Ford Credit to Ford-owned dealers.

Debt and Net Cash. At December 31, 2007, our Automotive sector had total debt of $26.7 billion, compared with $29.8 billion a year ago. This reduction primarily reflected the conversion of 43% of our Trust Preferred Securities with an aggregate liquidation preference of $2.1 billion into shares of Ford Common Stock and the exchange of debt securities with an aggregate principal amount of $567 million for shares of Ford Common Stock.

At December 31, 2007, our Automotive sector had net cash (defined as gross cash less total debt) of $7.9 billion, compared with $4.1 billion at the end of 2006.

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

For a discussion of the impact of the agreement with the UAW to fund and discharge retiree health care liabilities on our debt and cash, see "Overview."

*Credit Facilities.** At December 31, 2007, we had $13.1 billion of contractually-committed credit facilities with financial institutions, including $11.5 billion pursuant to a senior secured credit facility (the "Credit Agreement") established in December 2006, $1.1 billion of global Automotive unsecured credit facilities, and about $500 million of local credit facilities available to foreign Automotive affiliates. At December 31, 2007, $11.9 billion of these facilities were available for use. Of the lines available for use, 95% (or $11.3 billion) are committed through December 15, 2011, and the remainder are committed for a shorter period of time. For further discussion of our committed credit facilities, see Note 16 of the Notes to the Financial Statements.

During the period 2007 through 2009, we expect cumulative Automotive operating-related cash outflows of about $7 billion to $8 billion, and cumulative cash expenditures for restructuring actions of $5 billion to $6 billion. This cash outflow primarily reflects the cash impact of accelerating interest supplement and lease support payments to Ford Credit beginning in 2008 (about $5 billion) described in "Outlook," anticipated 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 at $6 billion to $7 billion annually.

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 2007, we made $1.6 billion of cash contributions to our funded pension plans. During 2008, we expect to contribute to our worldwide pension plans (including Jaguar and Land Rover plans) $2.3 billion from available Automotive cash and cash equivalents. This amount includes about $400 million of benefit payments paid directly by us for unfunded plans. Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2008.

For a further discussion of our pension plans, see Note 24 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 over the past few years, its unsecured funding costs have increased over time. While Ford Credit continues to access the unsecured debt market when it makes sense to do so, Ford Credit has increased its use of securitization funding as it is presently more cost effective than unsecured funding and allows Ford Credit access to a broad investor base. Ford Credit plans to meet a significant portion of its 2008 funding requirements through securitizations, and to continue to 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 (e.g., Ford Credit's partnering in Brazil for retail financing and FCE Bank plc's ("FCE") partnering with various financial institutions in Europe for full service leasing and retail financing). Ford Credit is continuing to pursue and execute such alternative business arrangements.

---

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

Consistent with the overall market, Ford Credit was impacted by volatility in the asset-backed securities markets during the second half of 2007. Since August 2007, Ford Credit has experienced higher credit spreads and, in certain circumstances, shorter maturities in its public and private securitization issuances. Given present market conditions, Ford Credit expects that its credit spreads and the cost of renewing its committed liquidity programs will increase in 2008.

If there were reductions in the market capacity for the types of asset-backed securities used in Ford Credit's asset-backed funding, there could be increased risk to its available funding sources. As a result, Ford Credit may need to reduce the amount of receivables and operating leases it purchases or 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 Ford vehicles.

Debt and Cash. Ford Credit's total debt plus securitized off-balance sheet funding was $144.7 billion at December 31, 2007, $6.2 billion lower compared with a year ago. At December 31, 2007, Ford Credit's cash, cash equivalents and marketable securities (excluding marketable securities related to insurance activities) totaled $16.7 billion (including $4.7 billion to be used only to support on-balance sheet securitizations), compared with $21.8 billion at year-end 2006. In the normal course of its funding activities, Ford Credit may generate more proceeds than are necessary for its immediate funding needs. These excess amounts are maintained primarily as highly liquid investments, which provide liquidity for Ford Credit's short-term funding needs and give Ford Credit flexibility in the use of its other funding programs.

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

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 2007, Ford Credit continued to meet a significant portion of its funding requirements through securitizations because of their lower relative costs given its credit ratings (as described below) and the diversity of funding sources that they provide. Securitized funding (both on- and off-balance sheet, net of retained interests), as a percent of total managed receivables, was as follows at the end of each of the last three years: 2007 – 51%, 2006 – 48%, 2005 – 38%.

Ford Credit obtains short-term unsecured funding from the sale of floating rate demand notes under its Ford Interest Advantage program and by issuing unsecured commercial paper in the United States, Europe, and other international markets. At December 31, 2007, the principal amount outstanding of Ford Interest Advantage notes, which may be redeemed at any time at the option of the holders thereof without restriction, was $5.4 billion. At December 31, 2007, the principal amount outstanding of Ford Credit's unsecured commercial paper was about $500 million. 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 issuances for 2006 and 2007 and its planned issuances for 2008 (in billions):

	2008 Forecast	2007	2006
Public Term Funding			
Unsecured	$ 0 – 2	$ 6	$ 9
Securitizations (a)	8 – 14	6	14
Total public term funding	$ 8 – 16	$ 12	$ 23
Private Term Funding (b)	$ 10 – 20	$ 28	$ 29

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

The cost of securitizations and unsecured debt funding is based on a margin or spread over a benchmark interest rate. Spreads are typically measured in basis points. Ford Credit's asset-backed funding and unsecured long-term debt costs are based on spreads over U.S. Treasury securities of similar maturities, a comparable LIBOR or other comparable benchmark rates. Ford Credit's unsecured commercial paper funding costs are based on spreads to LIBOR. Ford Credit's floating rate demand notes funding costs are changed depending on market conditions. Prior to August 2007, Ford Credit's securitized funding spreads (which are based on the creditworthiness of the underlying securitized asset and enhancements) were not volatile, while its unsecured long-term spreads were volatile. Consistent with the overall market, Ford Credit was impacted by volatility in the asset-backed securities markets during the second half of 2007. Ford Credit experienced higher spreads for several of its committed liquidity programs as well as its public and private issuances. During 2007, Ford Credit's spreads on the fixed rate notes offered in its U.S. public retail securitizations ranged between six and eleven basis points during the first half of the year and between 37 and 43 basis points during the second half of the year over the relevant benchmark rates, while its U.S. unsecured long-term debt funding spreads as measured by the five-year credit default swap market have fluctuated between 219 and 750 basis points over LIBOR. In January 2008, Ford Credit completed a U.S. public retail securitization with spreads on the fixed rate notes between 80 and 110 basis points over the relevant benchmark rates.

Ford Credit's funding plan is subject to risks and uncertainties, many of which are beyond its control. If credit markets continue to constrain term securitization funding, Ford Credit will consider reducing its assets below the low-end of its projected managed receivables balance (i.e., below $130 billion).

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

Balance Sheet Liquidity Profile. Ford Credit defines its balance sheet liquidity profile as the cumulative contractual maturities of its finance receivables, investment in operating leases, and cash less the cumulative contractual debt maturities, over upcoming annual periods. The following table shows Ford Credit's balance sheet liquidity profile for the periods presented as of December 31, 2007 (in billions):

	Cumulative Contractual Maturities			
	2008	**2009**	**2010**	**2011 and Beyond**
Finance receivables (a), investment in operating leases (b) and cash (c)	$ 92.2	$ 123.1	$ 143.8	$ 158.9
Debt	(59.8)	(88.1)	(104.0)	(139.4)
Finance receivables, investment in operating leases and cash over/(under) debt	$ 32.4	$ 35.0	$ 39.8	$ 19.5

____
(a) Finance receivables net of unearned income.
(b) Investment in operating leases net of accumulated depreciation.
(c) Includes cash, cash equivalents and marketable securities (excludes marketable securities related to insurance activities).

Ford Credit's balance sheet is inherently liquid because of the short-term nature of its finance receivables, investment in operating leases, and cash. Contractual maturities of investment in operating leases consist primarily of depreciation over the remaining life of the lease and the expected residual value at lease termination.

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 refers to its shareholder's interest and its historical stockholder's equity as equity. Ford Credit calculates leverage on a financial statement basis and on a managed basis using the following formulas:

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

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

____
(a) Excluding marketable securities related to insurance activities.
(b) Primarily related to market valuation adjustments from derivatives due to movements in interest rates.

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

	December 31, 2007	December 31, 2006	December 31, 2005
Total debt	$ 139.4	$ 139.7	$ 133.4
Total equity	13.4	11.8	11.4
Financial statement leverage (to 1)	10.4	11.9	11.7

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

	December 31, 2007	December 31, 2006	December 31, 2005
Total debt	$ 139.4	$ 139.7	$ 133.4
Securitized off-balance sheet receivables outstanding	6.0	12.2	18.0
Retained interest in securitized off-balance sheet receivables	(0.7)	(1.0)	(1.4)
Adjustments for cash, cash equivalents and marketable securities (a)	(16.7)	(21.8)	(17.9)
Adjustments for hedge accounting (b)	—	(0.1)	(0.5)
Total adjusted debt	$ 128.0	$ 129.0	$ 131.6
Total equity (including minority interest)	$ 13.4	$ 11.8	$ 11.4
Adjustments for hedge accounting (b)	(0.3)	(0.5)	(0.7)
Total adjusted equity	$ 13.1	$ 11.3	$ 10.7
Managed leverage (to 1)	9.8	11.4	12.3

(a) Excluding marketable securities related to insurance activities.
(b) Primarily related to market valuation adjustments from derivatives due to movements in interest rates.

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 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 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 hedge accounting adjustments on both the numerator and denominator in order to exclude the interim effects of changes in market interest rates. Ford Credit believes the managed leverage measure provides its investors with meaningful information regarding management's decision-making processes.

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At December 31, 2007, Ford Credit's managed leverage was 9.8 to 1, compared with 11.4 to 1 a year ago. In 2006, Ford Credit paid cash dividends of $1.35 billion. In 2007, Ford Credit did not pay any distributions or dividends.

Total Company

Stockholders' Equity. Our stockholders' equity was $5.6 billion at December 31, 2007, improved by about $9.1 billion compared with December 31, 2006. The improvement primarily reflected favorable changes in *Accumulated other comprehensive income/(loss)*, the conversion of 43% of our Trust Preferred Securities into shares of Ford Common Stock, and favorable changes in *Retained earnings* due to the adoption of *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"), offset partially by 2007 net losses. See the Consolidated Statement of Stockholders' Equity in our Financial Statements for details of Comprehensive income/(loss), and Note 19 of the Notes to the Financial Statements for details of FIN 48.

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 and product portfolio strength, excess industry capacity and industry pricing pressure.

The following ratings actions were taken in the fourth quarter 2007:

Ford
- DBRS: In November 2007, DBRS changed Ford's trend to "Stable" from "Negative."
- Fitch: No ratings actions taken in Q4 2007.
- Moody's: In November 2007, Moody's changed Ford's outlook to "Stable" from "Negative."
- S&P: In November 2007, S&P changed Ford's outlook to "Stable" from "Negative."

Ford Credit
- DBRS: In November 2007, DBRS changed Ford Credit's trend to "Stable" from "Negative."
- Fitch: No ratings actions taken in Q4 2007.
- Moody's: In November 2007, Moody's changed Ford Credit's outlook to "Stable" from "Negative."
- S&P: In November 2007, S&P changed Ford Credit's outlook to "Stable" from "Negative."

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

NRSRO RATINGS*

	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)	Stable	B	R-4	Stable
Fitch	B	B-	BB	Negative	BB-	B	Negative
Moody's	B3	Caa1	Ba3	Stable	B1	NP	Stable
S&P	B	CCC+	B+	Stable	B**	B-3	Stable

____
* The SEC recognized Rating and Investment Information, Inc. ("R&I") and Japan Credit Rating Agency, Ltd. ("JCR") as NRSROs in May 2007 and September 2007 respectively. Both agencies assign long-term issue ratings to Ford Credit's February 2005 ¥160 billion 1.71% issuance which matures in February 2008. R&I assigns a rating of BB- with a negative outlook and JCR assigns a rating of B+ with a negative outlook.
** S&P rates FCE's long-term senior unsecured rating as B+, maintaining a one notch differential versus Ford Credit.

OUTLOOK

The following discussion of our 2008 outlook does not include the Jaguar and Land Rover operations that were held for sale as of the fourth quarter of 2007. These business units are not included in the forward-looking projections, and thus the 2007 data in this Outlook discussion also have been adjusted to exclude Jaguar and Land Rover results for purposes of year-over-year comparison.

Our current projection of first quarter 2008 vehicle production for certain segments is as follows (in thousands):

	First Quarter	
	Vehicle Production	2008 Over/(Under) 2007
Ford North America	685	(55)
Ford Europe	530	7
Volvo	112	(23)

We have set and communicated the following 2008 planning assumptions and operational metrics:

Planning Assumptions	Plan
Industry volume (SAAR incl. heavy trucks):	
U.S. (million units)	16.0
Europe (million units) (a)	17.6
Operational Metrics	
Compared with 2007:	
Quality	Improve
Automotive costs (b)	Improve by about $3 billion
U.S. market share (Ford and Lincoln Mercury)	Low end of 14-15% range
Absolute Amount:	
Operating-related cash flow	Negative
Capital spending	Around $6 billion

____
(a) The 19 markets we track in Europe.
(b) At constant volume, mix and exchange; excluding special items.

We expect our full-year 2008 Automotive pre-tax results, including special items, though still a loss, to be better than our 2007 results.

We remain committed to our plan to return to profitability in North America and in our total Automotive operations in 2009. We also remain committed to our plan to reduce annual North America operating costs by about $5 billion by the end of 2008 as compared with 2005. The following data summarize our progress to date, and provide additional detail regarding our plan to reduce North America Automotive operating costs by about $3 billion during 2008 in keeping with this goal (all at constant mix, volume, and exchange, and excluding special items) (in billions):

Net Product Costs	2006	2007	Projected 2008
Product adds	$ (0.9)	$ (2.0)	$ (0.6)
Commodities	(0.3)	(0.8)	(0.3) – (0.4)
Material cost reductions	1.2	0.8	0.9 – 1.2
Subtotal	$ —	$ (2.0)	$ 0 – 0.2
Structural / Other	1.5	2.6	2.6 – 3.0
Total	$ 1.5	$ 0.6	$ 2.6 – 3.2

$5 Billion

Our plan to achieve structural and other cost reductions in our North America Automotive operations in 2008 includes the following key elements:

- Another round of enterprise-wide buyout offers to our hourly UAW-represented employees and continued progress on reducing our manufacturing capacity, as described in "Overview;"
- Sale or closure of essentially all of the ACH businesses by the end of 2008;
- Continued reduction of salaried employment, primarily through attrition;
- Acceleration of global product development initiatives to leverage our global assets and technologies, as well as more efficient capital spending and product engineering;
- Efficiencies in advertising, merchandising and other overhead costs;
- Acceleration of vehicle complexity reductions, which also will assist material cost reduction efforts.

During the period 2007 through 2009, we expect cumulative Automotive operating-related cash outflows of $7 billion to $8 billion, and cumulative cash expenditures for personnel separations of $5 billion to $6 billion. The operating-related cash outflow primarily reflects the cash impact of accelerating interest supplement and lease support payments to Ford Credit beginning this year (about $5 billion) as described below, and anticipated operating losses in our Automotive sector through 2008. The cash outflows also reflect 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 (i.e., $6 billion to $7 billion annually). We do not expect the benefits of our recent labor agreement with the UAW to begin contributing meaningfully to our cash flow prior to 2010.

Within our Financial Services sector, we expect Ford Credit to be profitable in 2008, although at a lower level than in 2007. This is down from our outlook of "about equal" announced on January 24, 2008. Our revised outlook primarily reflects higher depreciation expense and severity as a result of continued auction market weakness. The lower earnings expected in 2008 compared with 2007 primarily reflect our expectation of higher credit losses, lower volume, higher net losses related to market valuation adjustments from derivatives, and higher depreciation expense, partially offset by higher margin and lower operating costs. At year-end 2008, we anticipate managed receivables to be in the range of $130 billion to $140 billion. This anticipated decrease in managed receivables levels primarily reflects the expected impact of net receivable liquidations and the implementation of alternative business arrangements and other strategic actions.

Effective January 1, 2008, to reduce ongoing Automotive obligations to Ford Credit and consistent with general industry practice, we began paying interest supplements and residual value support to Ford Credit on an upfront, lump-sum basis at the time Ford Credit purchases eligible contracts from dealers. This differs from our past practice of spreading these payments over the expected life of the contracts, which will continue for contracts purchased by Ford Credit prior to 2008 (at December 31, 2007, the outstanding amount of interest supplement and lease support payments owed to Ford Credit was $6.3 billion, which is expected to be paid by the end of 2011). The change to upfront, lump-sum payments for contracts purchased after 2007 is expected to result in the acceleration of payments totaling about $5 billion through 2009 that, under the past practice, otherwise would have been paid after 2009. This change will not have a significant impact on Ford Credit's income statement or statement of shareholder's interest/equity because Ford Credit will continue to recognize the income over the term of the contract.

Subject to Ford Credit's ability to execute its funding plan and maintain sufficient liquidity, Ford Credit plans to increase its managed leverage to about 11.5 to 1 by the end of 2008, up from 9.8 to 1 at year-end 2007, and pay dividend distributions beginning in 2008. These distributions will reflect Ford Credit's 2008 net income plus a return of capital reflecting the planned increase in leverage, as well as a projected smaller receivable base. Based upon these factors, we forecast the distributions to total about $5 billion through 2009.

U.S. economic conditions have softened during the course of 2007, with difficulties for the U.S. automotive industry primarily associated with three factors: significant declines in homebuilding, home sales, and home prices; further increases in oil and gasoline prices; and subprime mortgage contraction and associated contraction in other types of credit market activity. Sales of full-size pickup trucks are closely correlated with the housing sector; as the housing sector slows, we expect lower pickup truck sales. Together, these adverse factors increase the risk of recession. Additional concerns include the near-term impact of rising commodity prices (oil, steel, aluminum, and resins) and the ongoing weakness in the U.S. dollar.

Nevertheless, based on the assumptions and metrics set forth above, we expect our total Company full-year 2008 pre-tax results, including special items, to be a loss, though improved from 2007 results. We anticipate 2008 special items will be lower than 2007, and will include personnel separation costs of up to $1 billion.

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;
- An increase in or acceleration of market shift away from sales of trucks, sport utility vehicles, or other more profitable vehicles, particularly 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, change in ownership or control of, or alliances entered into by 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 health care and life insurance liabilities impairing our liquidity or financial condition;
- Inability to implement Memorandum of Understanding with UAW to fund and discharge retiree health care obligations because of failure to obtain court approval or otherwise;
- 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., CO_2), fuel economy, or other 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 results from a decrease in or cessation of government incentives;
- 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, market volatility, market disruption 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.

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 28 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 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.
- *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 12 years for the major U.S. plans). In 2007, the U.S. actual return on assets was 11%, which exceeded the expected return of 8.5%. The year-end 2007 weighted average discount rates for the U.S. and non-U.S. plans increased by 39 and 69 basis points, respectively. These differences resulted in an unamortized gain of about $6 billion (excluding Jaguar and Land Rover). 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 24 of the Notes to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Sensitivity Analysis. The December 31, 2007 pension funded status and 2008 expense are affected by year-end 2007 assumptions. 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):

		Increase/(Decrease) in:				
		December 31, 2007			2008 Expense	
Assumption*	Percentage Point Change	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.	$4,050/$(4,480)	$3,230/$(3,710)	$7,280/$(8,190)	$30/$(90)	$(170)/$220
Actual return on assets	+/- 1.0	430/(430)	210/(210)	640/(640)	(10)/10	(10)/10
Expected return on assets	+/- 1.0	—	—	—	(420)/420	(210)/210

* Excludes Jaguar and Land Rover.

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

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

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

- *Discount rates.* 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 short-duration plan assets.* The expected return on short-duration plan assets assumption reflects external investment managers' expectations of likely returns on short-duration VEBA assets over the next several years.
- *Expected return on long-duration plan assets.* The expected return on long-duration plan assets assumption reflects historical 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 assumptions reflect our long-term actual experience, outlook and assumed inflation.
- *Expected VEBA drawdowns.* The expected amount and timing of VEBA drawdowns is based on an assessment of hourly retiree benefit payments to be reimbursed, tax efficiency, cash availability, and our previously-discussed MOU with the UAW.
- *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 2007, the U.S. actual health care trend was 3%, which was less than the expected trend of 6%. The year-end 2007 weighted average discount rate for the U.S. increased by 47 basis points. These differences, as well as updates related to employee separation programs, resulted in an unamortized gain of about $4 billion. This amount is expected to be recognized as a component of net expense over the expected future years of service (approximately 14 years).

See Note 24 of the Notes to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Sensitivity Analysis. The December 31, 2007 OPEB funded status and 2008 expense are affected by year-end 2007 assumptions. 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):

		Effect on U.S. and Canadian Plans: Increase/(Decrease)	
Assumption	**Percentage Point Change**	**December 31, 2007 Funded Status and Equity**	**2008 Expense**
Discount rate	+/- 1.0 pt.	$3,190/$(3,940)	$(230)/$280
Health care cost trend rates — total expense	+/- 1.0	(3,490)/2,830	530/(430)
Health care cost trend rates — service and interest expense	+/- 1.0	(3,490)/2,830	310/(240)

Impairment of Goodwill and Long-Lived Assets

Nature of Estimates Required – Goodwill. Goodwill is not amortized, but is subject to periodic assessments of impairment. We test goodwill for impairment annually during the fourth quarter, or when changes in circumstances indicate that the carrying value may not be recoverable. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the implied fair value of goodwill (based on a purchase price allocation methodology) with its carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Restoration of a previously-recognized goodwill impairment loss is not allowed.

Nature of Estimates Required – Long-Lived Assets. Long-lived asset groups are tested for recoverability when changes in circumstances indicate the carrying value may not be recoverable. Events that trigger a test for recoverability include material adverse changes in the projected revenues and expenses, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. A test for recoverability also is performed when management has committed to a plan to sell or otherwise dispose of an asset group and the plan is expected to be completed within a year. Recoverability of an asset group is evaluated by comparing its carrying value to the future net undiscounted cash flows expected to be generated by the asset group. If the comparison indicates that the carrying value of an asset group is not recoverable, an impairment loss is recognized. The impairment loss is measured by the amount by which the carrying amount of the asset group exceeds the estimated fair value. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amount of those assets is depreciated over its remaining useful life. Restoration of a previously-recognized long-lived asset impairment loss is not allowed.

Assumptions and Approach Used. We estimate the fair value of a reporting unit or asset group based on market prices (i.e., the amount for which the asset could be bought by or sold to a third party), when available. When market prices are not available, we estimate the fair value of the reporting unit or asset group using the income approach and/or the market approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our operating results, approved business plans, expected growth rates, cost of capital, and tax rates. We also make certain assumptions about future economic conditions, interest rates, and other market data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods.

Changes in assumptions or estimates could materially affect the determination of fair value of an asset group, and therefore could affect the amount of potential impairment of the asset. The following assumptions are key to our income approach:

- *Business Projections* – We make assumptions about the level of product acceptance in the marketplace. These assumptions drive our planning assumptions for volumes, mix, and pricing. We also make assumptions about our cost levels (e.g., capacity utilization, cost performance, etc.). These assumptions are key inputs for developing our cash flow projections. These projections are derived using our internal business plans that are updated quarterly and reviewed by the Board of Directors;
- *Growth Rate* – A growth rate is used to calculate the terminal value of the business, and is added to the present value of the debt-free interim cash flows. The growth rate is the expected rate at which a business unit's earnings stream is projected to grow beyond the planning period;
- *Economic Projections* – Assumptions regarding general economic conditions are included in and affect our assumptions regarding industry sales and pricing estimates for our vehicles. These macro-economic assumptions include, but are not limited to, industry volumes, inflation, interest rates, prices of raw materials (commodities), and foreign currency exchange rates; and
- *Discount Rates* – When measuring a possible impairment, future cash flows are discounted at a rate that is consistent with a weighted average cost of capital for a potential market participant. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise, which is developed with the assistance of external financial advisors.

The market approach is one of the other primary methods used for estimating fair value of a reporting unit, asset, or asset group. This assumption relies on the market value (market capitalization) of companies that are engaged in the same or similar line of business.

See Notes 2, 12 and 13 of the Notes to the Financial Statements for more information regarding the costs and assumptions for impairment of goodwill and long-lived assets.

Sensitivity Analysis. Due to changes in business conditions (discussed in Note 13 of the Notes to the Financial Statements) our fourth quarter 2007 impairment testing of goodwill included changes in our assumptions used to measure the fair value of Volvo, a component of PAG. Specifically, we changed our business projections (most notably, lowering net revenues and new vehicle volumes), our projected growth rates, and our assumptions of economic projections (specifically foreign currency exchange rates). As a result, we recorded a $2.4 billion goodwill impairment.

After the impairment, $1.4 billion of goodwill remains in PAG related solely to Volvo. A worsening of the business climate would impact the assumptions we use in performing our future impairment tests and could result in additional impairment of goodwill. We estimate that a 0.5 percentage point decrease in the long-term growth rate would decrease the fair value estimate by about $250 million. A 0.5 percentage point increase in the discount rate assumption would decrease the fair value estimate by about $350 million.

Valuation of Deferred Tax Assets

Nature of Estimates Required. Deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards on a taxing jurisdiction basis. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes* ("SFAS No. 109"), requires a reduction of the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not (defined by SFAS No. 109 as a likelihood of more than 50 percent) such assets will not be realized. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

Assumptions and Approach Used. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, we record a valuation allowance. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. SFAS No. 109 states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets.

This assessment, which is completed on a taxing jurisdiction basis, takes into account a number of types of evidence, including the following:

- *Nature, frequency, and severity of current and cumulative financial reporting losses* – A pattern of objectively measured recent financial reporting losses is heavily weighted as a source of negative evidence. In certain circumstances, historical information may not be as relevant due to changed circumstances;

- *Sources of future taxable income* – Future reversals of existing temporary differences are heavily-weighted sources of objectively verifiable positive evidence. Projections of future taxable income exclusive of reversing temporary differences are a source of positive evidence only when the projections are combined with a history of recent profits and can be reasonably estimated. Otherwise, these projections are considered inherently subjective and generally will not be sufficient to overcome negative evidence that includes relevant cumulative losses in recent years, particularly if the projected future taxable income is dependent on an anticipated turnaround to profitability that has not yet been achieved. In such cases, we generally give these projections of future taxable income no weight for the purposes of our valuation allowance assessment pursuant to SFAS No. 109; and

- *Tax planning strategies* – If necessary and available, tax planning strategies would be implemented to accelerate taxable amounts to utilize expiring carryforwards. These strategies would be a source of additional positive evidence and, depending on their nature, could be heavily weighted.

See Note 19 of the Notes to the Financial Statements for more information regarding deferred tax assets.

Sensitivity Analysis. In 2006, our net deferred tax position at our U.S., Jaguar, and Land Rover entities changed from a net deferred tax liability position to a net deferred tax asset position. In our assessment of the need for a valuation allowance, and as required by SFAS No. 109, we heavily weighted the negative evidence of cumulative financial reporting losses in recent periods and the positive evidence of future reversals of existing temporary differences. Although a sizable portion of our North American losses in recent years were the result of charges incurred for restructuring actions, impairments, and other special items, even without these charges we still would have incurred significant operating losses. Accordingly, we considered our pattern of recent losses to be relevant to our analysis. Considering this pattern of recent relevant losses and the uncertainties associated with projected future taxable income exclusive of reversing temporary differences, we gave no weight to projections showing future U.S. taxable income for purposes of assessing the need for a valuation allowance. As a result of our assessment, we concluded that the net deferred tax assets at our U.S., Jaguar, and Land Rover entities required a full valuation allowance.

At December 31, 2006, we reported a $7.2 billion valuation allowance against our deferred tax assets (including $2.7 billion resulting from the adoption of 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)* ("SFAS No. 158")). During 2007, we recorded an additional valuation allowance for our U.S., Jaguar, and Land Rover entities of $1.4 billion (including about $700 million resulting from the adoption of FIN 48).

A return to profitability in our North America operations would result in a reversal of a portion of the valuation allowance relating to realized deferred tax assets, but we may not change our judgment of the need for a full valuation allowance on our remaining deferred tax assets. A sustained period of North America profitability could cause a change in our judgment about the realizability of the remaining deferred tax assets. In that case, it is likely that we would reverse some or all of the remaining deferred tax asset valuation allowance. However, as discussed above, since we have heavily weighted objectively measured recent financial reporting losses and given no weight to subjectively determined projections of future taxable income exclusive of reversing temporary differences, we have concluded as of December 31, 2007 and 2006 that it is more likely than not such deferred tax assets will not be realized (in whole or in part), and accordingly, we have recorded a full valuation allowance against the net deferred tax assets.

At December 31, 2007 and 2006, our deferred tax assets, net of the valuation allowances of $8.6 billion and $7.2 billion respectively, were $466 million and $2.2 billion, respectively. These net deferred tax assets related to operations outside North America where we believed it was more likely than not that these net deferred tax assets would be realized through future taxable earnings. Accordingly, no valuation allowance has been established on our remaining net deferred tax assets. Most notably, at December 31, 2007 and 2006, we continued to recognize a net deferred tax asset of $1.5 billion and $1.7 billion, respectively, in our U.K. Automotive operations, primarily based upon the tax return consolidation of our Automotive operations with our U.K. FCE operation. Our U.K. FCE operation has a long history of profitability and we believe it will provide a source of future taxable income that can be reasonably estimated. If, in the future, we are not able to consolidate FCE profits in the U.K., additional valuation allowances may be required. We will continue to assess the need for a valuation allowance in the future.

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 prospectively on a straight-line basis.

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 Ford Credit or return it to Ford Credit. Ford Credit's North America operating lease activity was as follows for each of the last three years (in thousands, except percentages):

	2007	2006	2005
Vehicle return volume	300	237	286
Return rate	79%	72%	67%

For rental repurchase vehicles, practically all vehicles have been returned to us.

Nature of Estimates Required. Each operating lease in our portfolio represents a vehicle we own that has been leased to a customer. At the time we purchase a lease, we establish an expected residual value for the vehicle. We estimate the expected residual value by evaluating historical auction values, historical return 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, 2007, 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 $60 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 2008 through 2011 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.

Allowance for Credit Losses

The allowance for credit losses is Ford Credit's estimate of the probable credit losses inherent in finance receivables and operating leases at the date of the balance sheet. 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 probable credit losses inherent in finance receivables and operating leases based on several factors.

Retail Installment and Lease Portfolio. The retail installment and lease portfolio is evaluated using a combination of models and management judgment, and is based on factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of our present portfolio (including vehicle brand, term, risk evaluation, and new/used vehicles), trends in historical and projected used vehicle values, and economic conditions. Estimates from models may not fully reflect losses inherent in the present portfolio, and an element of the allowance for credit losses is established for the imprecision inherent in loan loss models. Reasons for imprecision include changes in economic trends and conditions, portfolio composition and other relevant factors.

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 amount a customer owes Ford Credit when Ford Credit charges 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 estimating 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 retail and lease portfolio (in millions):

		Increase/(Decrease)	
Assumption	**Percentage Point Change**	**December 31, 2007 Allowance for Credit Losses**	**2007 Expense**
Repossession rates *	+/- 0.1 pt.	$40/$(40)	$40/$(40)
Loss severity	+/- 1.0	10/(10)	10/(10)

* 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.

Wholesale and Dealer Loan Portfolio. The wholesale and dealer loan portfolio is evaluated by segmenting individual loans into risk pools, which are determined by the risk characteristics of the loan (such as the amount of the loan, the nature of collateral, and the financial status of the dealer). The risk pools are analyzed to determine if individual loans are impaired, and an allowance is estimated for the expected loss of these loans.

Changes in Ford Credit's assumptions affect the *Provision for credit and insurance losses* on our income statement and the allowance for credit losses contained within *Finance receivables, net* and *Net investment in operating leases* on our balance sheet, in each case under the Financial Services sector.

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). This standard defines fair value, establishes a framework for measuring fair value in U.S. 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 us as of January 1, 2008. We are assessing the potential impact on present fair value measurement techniques, on our disclosures, and on our financial position.

In September 2006, the FASB issued SFAS No. 158. This standard has certain recognition and disclosure requirements that we adopted as of year-end December 31, 2006. Additionally, SFAS No. 158 requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. This requirement is not effective until December 2008. 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.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* ("SFAS No. 159"). This standard permits entities to measure certain financial assets and liabilities at fair value. The fair value option may be elected on an instrument by instrument basis and any election is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for us as of

January 1, 2008. We will adopt the fair value option for available-for-sale securities, which will result in a cumulative after-tax effect increase of approximately $12 million to the opening balance of *Retained earnings* as of January 1, 2008.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations ("SFAS No. 141R").* This standard establishes principles and requirements for how the acquirer recognizes and measures the acquired identifiable assets, assumed liabilities, noncontrolling interest in the acquiree, and acquired goodwill or gain from a bargain purchase. SFAS No. 141R also determines what information the acquirer must disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We are assessing the potential impact of this standard on our financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ("SFAS No. 160"). This standard establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for us as of January 1, 2009 with early adoption prohibited. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which this standard is initially applied. The presentation and disclosure requirements of this standard shall be applied retrospectively for all periods presented and will impact how we present and disclose noncontrolling interests and income from noncontrolling interests in our financial statements.

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 14 and 28, respectively, of the Notes to the Financial Statements.

Securitizations by Ford Credit

Securitization. Ford Credit securitizes finance receivables and net investment in operating leases through a variety of programs, utilizing amortizing, variable funding and revolving structures. 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. Both on- and off-balance sheet securitizations 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 other creditors and to insure that the cash flows on the securitized assets are available for the benefit of securitization investors. As a result, payments to securitization investors are based on the creditworthiness of the securitized assets and any enhancements, and not on Ford Credit's creditworthiness. Senior asset-backed securities issued by the SPEs generally receive the highest short-term credit ratings and among the highest long-term credit ratings from the rating agencies that rate them.

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

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 shares or shares of any of its affiliates. Ford Credit has no direct exposure to monoline insurance companies (i.e., insurance companies that operate in a single industry and guarantee the timely repayment of bond principal and interest in the event an issuer defaults).

Ford Credit retains interests in its securitization transactions, including senior and subordinated securities issued by the SPE, rights to cash held for the benefit of the securitization investors (for example, a reserve fund) and residual interests. Residual interests represent the right to receive collections on the securitized assets in excess of amounts needed to pay securitization investors and to pay other transaction participants and expenses. Ford Credit retains credit risk in securitizations because its retained interests include the most subordinated interests in the securitized assets, 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, 2007 and 2006, the total outstanding principal amount of finance receivables sold by Ford Credit in off-balance sheet securitizations was $6 billion and $12.2 billion, respectively. At December 31, 2007 and 2006, Ford Credit's retained interests in such sold receivables were $653 million and $990 million, respectively.

At December 31, 2007 and 2006, Ford Credit's total outstanding principal amount of finance receivables and net investment in operating leases included in on-balance sheet securitizations was $86.1 billion and $71.7 billion, respectively. The cash balances to be used only to support the on-balance sheet securitizations at December 31, 2007 and 2006, were approximately $4.7 billion and $3.7 billion, respectively. Debt issued that is payable only out of collections on the underlying securitized assets and related enhancements totaled $69.2 billion and $59.6 billion at December 31, 2007 and 2006, 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 non-securitized assets for credit losses on the securitized assets and have no right to require Ford Credit to repurchase their investments. Ford Credit does not guarantee any asset-backed securities and has no obligation to provide liquidity or make monetary contributions or contributions of additional assets to its SPEs either due to the performance of the securitized assets or the credit rating of its short-term or long-term debt. However, as the seller and servicer of the securitized assets, Ford Credit is obligated to provide certain kinds of support to its securitizations, which are customary in the securitization industry. These obligations consist of indemnifications, repurchase obligations on assets that do not meet eligibility criteria or that have been materially modified, the mandatory sale of additional assets in revolving transactions and, in some cases, servicer advances of interest shortfalls or other amounts.

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

- *Retail Securitization.* If the credit enhancement on any asset-backed security held by FCAR is reduced to zero, FCAR may not purchase any additional asset-backed securities and would wind down its operations. In addition, if credit losses or delinquencies in Ford Credit's portfolio of retail assets exceed specified levels, FCAR is not permitted to purchase additional asset-backed securities for so long as such levels are exceeded.
- *Retail Conduits.* If credit losses or delinquencies on the pool of assets held by a conduit exceed specified levels, or if the level of over-collateralization for such pool decreases below a specified level, Ford Credit will not have the right to sell additional pools of assets to that conduit.
- *Wholesale Securitization.* If the payment rates on wholesale receivables are lower than specified levels, or if there are significant dealer defaults, Ford Credit will be unable to obtain additional funding and any existing funding would begin to amortize.

- *Retail Warehouse.* If credit losses or delinquencies in Ford Credit's portfolio of retail assets exceed specified levels, Ford Credit will be unable to obtain additional funding from the securitization of retail installment sale contracts through its retail warehouse facility (i.e., a short-term credit facility under which draws are backed by the retail contracts).
- *Revolving and Variable Funding Note Structures in Europe.* If FCE fails to add the required amount of additional assets, or if cash reserves fall below certain levels, FCE will be unable to obtain additional funding through its revolving/variable funding note securitization programs and any existing funding would begin to amortize.

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

In addition to the specific transaction-related structural features discussed above, Ford Credit's securitization programs may be affected by the following factors: market disruption and volatility, the market capacity for Ford Credit and Ford Credit's sponsored investments, the general demand for the type of assets supporting the asset-backed securities, the availability of liquidity facilities, the amount and credit quality of assets available, the performance of assets in its previous securitizations, accounting and regulatory changes, and Ford Credit's credit ratings. 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, 2007 (in millions):

				Payments Due by Period			
	Automotive	Financial Services	Total	2008	2009-2010	2011-2012	2013 and Thereafter
On-balance sheet							
Long-term debt* (excluding capital leases)	$ 25,963	$ 114,478	$ 140,441	$ 33,242	$ 46,027	$ 26,219	$ 34,953
Interest payments relating to long-term debt	27,820	21,106	48,926	7,996	10,939	6,425	23,566
Capital leases	335	—	335	56	132	97	50
Off-balance sheet							
Purchase obligations	3,626	97	3,723	1,473	1,886	240	124
Operating leases	1,543	505	2,048	599	779	300	370
Total	$ 59,287	$ 136,186	$ 195,473	$ 43,366	$ 59,763	$ 33,281	$ 59,063

* Amount includes $521 million for the Automotive sector and $32.8 billion for the Financial Services sector for the current portion of long-term debt. See Note 16 of the Notes to the Financial Statements for additional discussion.

Liabilities recognized under FIN 48 for uncertain tax benefits of $2.1 billion (see Note 19 of the Notes to the Financial Statements) are excluded from the table above. Final settlement of a significant portion of these obligations will require bilateral tax agreements among us and various countries, the timing of which cannot be reasonably estimated.

For additional information regarding long-term debt, operating lease obligations, and pension and OPEB obligations, see Notes 16, 5 and 24, respectively, of the Notes to the Financial Statements.

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 "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 polices 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 23 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.

Quantitative and Qualitative Disclosures About Market Risk

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 foreign exchange forward and option contracts as of December 31, 2007 was an asset of $632 million compared to an asset of $705 million as of December 31, 2006. The potential decrease in fair value of foreign exchange forward and option contracts, assuming a 10% adverse change in the underlying foreign currency exchange rates, would be about $2.0 billion and $2.1 billion at December 31, 2007 and 2006, respectively.

Commodity Price Risk. Commodity price risk is the possibility that our financial results could be better or worse than planned because of changes in the prices of commodities used in the production of motor vehicles, 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). 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 of commodity forward and option contracts as of December 31, 2007 was an asset of $353 million compared to an asset of $750 million as of December 31, 2006. 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 $100 million and $200 million at December 31, 2007 and 2006, respectively.

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. At December 31, 2007, we had $33 billion in our Automotive investment portfolio, compared to $32.6 billion at December 31, 2006. 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, 2007, the value of our trading portfolio (including cash and cash equivalents) was $31.2 billion, which is $300 million higher than December 31, 2006. The value of our available-for-sale portfolio (including cash equivalents) was about $1.6 billion, which is about $50 million lower than December 31, 2006.

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 about $61 million and $24 million, respectively. This compares to $92 million and $23 million, respectively, as calculated as of December 31, 2006. 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.

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 23 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" and liquidity risk is discussed above in "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 insignificant.

Quantitative and Qualitative Disclosures About Market Risk

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 78% of its total on-balance sheet finance receivables at December 31, 2007. 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.

Quantitative and Qualitative Disclosures About Market Risk

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 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 2007 and 2006 was as follows (in millions):

	December 31, 2007	December 31, 2006
Pre-tax Cash Flow sensitivity given a one percentage point instantaneous increase in interest rates	$ (16)	$ (86)
Pre-tax Cash Flow sensitivity given a one percentage point instantaneous decrease in interest rates	16	86

Based on assumptions included in the analysis, sensitivity to a one percentage point instantaneous change in interest rates was lower at year-end 2007 than at year-end 2006. 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, replacement of maturing derivatives, exercise of options embedded in debt and derivatives, 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 23 of the Notes to the Financial Statements as of December 31, 2007 was $1.4 billion compared with $1.5 billion at December 31, 2006. For additional information on Ford Credit derivatives, please refer to the "Financial Services Sector" discussion in Note 23 of the Notes to the Financial Statements.

Consolidated Statement of Income

Ford Motor Company and Subsidiaries
For the Years Ended December 31, 2007, 2006, and 2005
(in millions, except per share amounts)

	2007	2006	2005
Sales and revenues			
Automotive sales	$ 154,379	$ 143,249	$ 153,413
Financial Services revenues	18,076	16,816	23,422
Total sales and revenues	172,455	160,065	176,835
Costs and expenses			
Automotive cost of sales	142,587	148,866	144,920
Selling, administrative and other expenses	21,169	19,148	24,588
Goodwill impairment	2,400	—	—
Interest expense	10,927	8,783	8,417
Financial Services provision for credit and insurance losses	668	241	483
Total costs and expenses	177,751	177,038	178,408
Automotive interest income and other non-operating income/(expense), net	1,161	1,478	1,247
Automotive equity in net income/(loss) of affiliated companies	389	421	285
Gain on sale of The Hertz Corporation ("Hertz") (Note 20)	—	—	1,095
Income/(Loss) before income taxes	(3,746)	(15,074)	1,054
Provision for/(Benefit from) income taxes (Note 19)	(1,294)	(2,655)	(855)
Income/(Loss) before minority interests	(2,452)	(12,419)	1,909
Minority interests in net income/(loss) of subsidiaries	312	210	280
Income/(Loss) from continuing operations	(2,764)	(12,629)	1,629
Income/(Loss) from discontinued operations (Note 20)	41	16	62
Income/(Loss) before cumulative effects of changes in accounting principles	(2,723)	(12,613)	1,691
Cumulative effects of changes in accounting principles (Note 28)	—	—	(251)
Net income/(loss)	$ (2,723)	$ (12,613)	$ 1,440
Average number of shares of Common and Class B Stock outstanding	1,979	1,879	1,846
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 21)			
Basic income/(loss)			
Income/(Loss) from continuing operations	$ (1.40)	$ (6.73)	$ 0.88
Income/(Loss) from discontinued operations	0.02	0.01	0.04
Cumulative effects of changes in accounting principles	—	—	(0.14)
Net income/(loss)	$ (1.38)	$ (6.72)	$ 0.78
Diluted income/(loss)			
Income/(Loss) from continuing operations	$ (1.40)	$ (6.73)	$ 0.86
Income/(Loss) from discontinued operations	0.02	0.01	0.03
Cumulative effects of changes in accounting principles	—	—	(0.12)
Net income/(loss)	$ (1.38)	$ (6.72)	$ 0.77
Cash dividends	$ —	$ 0.25	$ 0.40

The accompanying notes are part of the financial statements.

Sector Statement of Income

Ford Motor Company and Subsidiaries
For the Years Ended December 31, 2007, 2006, and 2005
(in millions, except per share amounts)

	2007	2006	2005
AUTOMOTIVE			
Sales	$ 154,379	$ 143,249	$ 153,413
Costs and expenses			
Cost of sales	142,587	148,866	144,920
Selling, administrative and other expenses	13,660	12,327	12,704
Goodwill impairment	2,400	—	—
Total costs and expenses	158,647	161,193	157,624
Operating income/(loss)	(4,268)	(17,944)	(4,211)
Interest expense	2,252	995	1,220
Interest income and other non-operating income/(expense), net	1,161	1,478	1,247
Equity in net income/(loss) of affiliated companies	389	421	285
Income/(Loss) before income taxes — Automotive	(4,970)	(17,040)	(3,899)
FINANCIAL SERVICES			
Revenues	18,076	16,816	23,422
Costs and expenses			
Interest expense	8,675	7,788	7,197
Depreciation	6,289	5,295	5,854
Operating and other expenses	1,220	1,526	6,030
Provision for credit and insurance losses	668	241	483
Total costs and expenses	16,852	14,850	19,564
Gain on sale of Hertz (Note 20)	—	—	1,095
Income/(Loss) before income taxes — Financial Services	1,224	1,966	4,953
TOTAL COMPANY			
Income/(Loss) before income taxes	(3,746)	(15,074)	1,054
Provision for/(Benefit from) income taxes (Note 19)	(1,294)	(2,655)	(855)
Income/(Loss) before minority interests	(2,452)	(12,419)	1,909
Minority interests in net income/(loss) of subsidiaries	312	210	280
Income/(Loss) from continuing operations	(2,764)	(12,629)	1,629
Income/(Loss) from discontinued operations (Note 20)	41	16	62
Income/(Loss) before cumulative effects of changes in accounting principles	(2,723)	(12,613)	1.691
Cumulative effects of changes in accounting principles (Note 28)	—	—	(251)
Net income/(loss)	$ (2,723)	$ (12,613)	$ 1,440
Average number of shares of Common and Class B Stock outstanding	1,979	1,879	1,846
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 21)			
Basic income/(loss)			
Income/(Loss) from continuing operations	$ (1.40)	$ (6.73)	$ 0.88
Income/(Loss) from discontinued operations	0.02	0.01	0.04
Cumulative effects of changes in accounting principles	—	—	(0.14)
Net income/(loss)	$ (1.38)	$ (6.72)	$ 0.78
Diluted income/(loss)			
Income/(Loss) from continuing operations	$ (1.40)	$ (6.73)	$ 0.86
Income/(Loss) from discontinued operations	0.02	0.01	0.03
Cumulative effects of changes in accounting principles	—	—	(0.12)
Net income/(loss)	$ (1.38)	$ (6.72)	$ 0.77
Cash dividends	$ —	$ 0.25	$ 0.40

The accompanying notes are part of the financial statements.

Consolidated Balance Sheet

Ford Motor Company and Subsidiaries
(in millions)

	December 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 35,283	$ 28,896
Marketable securities (Note 3)	5,248	21,472
Loaned securities (Note 3)	10,267	5,256
Finance receivables, net	109,053	106,863
Other receivables, net	8,210	7,067
Net investment in operating leases (Note 5)	33,255	29,787
Retained interest in sold receivables (Note 7)	653	990
Inventories (Note 8)	10,121	10,017
Equity in net assets of affiliated companies (Note 9)	2,853	2,790
Net property (Note 11)	36,239	36,055
Deferred income taxes	3,500	4,922
Goodwill and other net intangible assets (Note 13)	2,069	3,611
Assets of discontinued/held-for-sale operations	7,537	8,215
Other assets	14,976	13,255
Total assets	$ 279,264	$ 279,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables	$ 20,832	$ 21,214
Accrued liabilities and deferred revenue (Note 15)	74,738	80,058
Debt (Note 16)	168,530	171,832
Deferred income taxes	3,034	2,744
Liabilities of discontinued/held-for-sale operations	5,081	5,654
Total liabilities	272,215	281,502
Minority interests	1,421	1,159
Stockholders' equity		
Capital stock (Note 21)		
Common Stock, par value $0.01 per share (2,124 million shares issued and 6,000 million authorized)	21	18
Class B Stock, par value $0.01 per share (71 million shares issued and 530 million authorized)	1	1
Capital in excess of par value of stock	7,834	4,562
Accumulated other comprehensive income/(loss)	(558)	(7,846)
Treasury stock	(185)	(183)
Retained earnings/(Accumulated deficit)	(1,485)	(17)
Total stockholders' equity	5,628	(3,465)
Total liabilities and stockholders' equity	$ 279,264	$ 279,196

The accompanying notes are part of the financial statements.

Sector Balance Sheet

Ford Motor Company and Subsidiaries
(in millions)

	December 31, 2007	December 31, 2006
ASSETS		
Automotive		
Cash and cash equivalents	$ 20,678	$ 16,022
Marketable securities (Note 3)	2,092	11,310
Loaned securities (Note 3)	10,267	5,256
Total cash, marketable and loaned securities	33,037	32,588
Receivables, less allowances of $196 and $174	4,530	3,163
Inventories (Note 8)	10,121	10,017
Deferred income taxes	532	1,569
Other current assets	5,514	7,616
Current receivable from Financial Services (Note 1)	509	—
Total current assets	54,243	54,953
Equity in net assets of affiliated companies (Note 9)	2,283	2,029
Net property (Note 11)	35,979	35,786
Deferred income taxes	9,268	14,851
Goodwill and other net intangible assets (Note 13)	2,051	3,594
Assets of discontinued/held-for-sale operations	7,537	8,215
Other assets	5,614	3,206
Non-current receivable from Financial Services (Note 1)	1,514	—
Total Automotive assets	118,489	122,634
Financial Services		
Cash and cash equivalents	14,605	12,874
Marketable securities (Note 3)	3,156	10,162
Finance receivables, net (Note 4)	112,733	110,767
Net investment in operating leases (Note 5)	30,309	26,606
Retained interest in sold receivables (Note 7)	653	990
Equity in net assets of affiliated companies (Note 9)	570	761
Goodwill and other net intangible assets (Note 13)	18	17
Other assets	7,217	6,047
Receivable from Automotive (Note 1)	—	1,467
Total Financial Services assets	169,261	169,691
Intersector elimination	(2,023)	(1,467)
Total assets	$ 285,727	$ 290,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive		
Trade payables	$ 15,718	$ 15,346
Other payables	3,237	4,281
Accrued liabilities and deferred revenue (Note 15)	27,672	27,001
Deferred income taxes	2,671	3,138
Debt payable within one year (Note 16)	920	1,284
Current payable to Financial Services (Note 1)	—	640
Total current liabilities	50,218	51,690
Long-term debt (Note 16)	25,777	28,512
Other liabilities (Note 15)	41,676	48,291
Deferred income taxes	783	441
Net liabilities of discontinued/held-for-sale operations	5,081	5,654
Non-current payable to Financial Services (Note 1)	—	827
Total Automotive liabilities	123,535	135,415
Financial Services		
Payables	1,877	1,587
Debt (Note 16)	141,833	142,036
Deferred income taxes	6,043	10,827
Other liabilities and deferred income	5,390	4,766
Payable to Automotive (Note 1)	2,023	—
Total Financial Services liabilities	157,166	159,216
Minority interests	1,421	1,159
Stockholders' equity		
Capital stock (Note 21)		
Common Stock, par value $0.01 per share (2,124 million shares issued and 6,000 million authorized)	21	18
Class B Stock, par value $0.01 per share (71 million shares issued and 530 million authorized)	1	1
Capital in excess of par value of stock	7,834	4,562
Accumulated other comprehensive income/(loss)	(558)	(7,846)
Treasury stock	(185)	(183)
Retained earnings/(Accumulated deficit)	(1,485)	(17)
Total stockholders' equity	5,628	(3,465)
Intersector elimination	(2,023)	(1,467)
Total liabilities and stockholders' equity	$ 285,727	$ 290,858

The accompanying notes are part of the financial statements.

Consolidated Statement of Cash Flows

Ford Motor Company and Subsidiaries
For the Years Ended December 31, 2007, 2006, and 2005
(in millions)

	2007	2006	2005
Cash flows from operating activities of continuing operations			
Net cash flows from operating activities (Note 22)	$ 17,074	$ 9,622	$ 20,392
Cash flows from investing activities of continuing operations			
Capital expenditures	(6,022)	(6,848)	(7,516)
Acquisitions of retail and other finance receivables and operating leases	(55,681)	(59,793)	(54,024)
Collections of retail and other finance receivables and operating leases	45,498	41,502	48,257
Net acquisitions of daily rental vehicles	—	—	(1,552)
Purchases of securities	(11,423)	(23,678)	(11,883)
Sales and maturities of securities	18,660	18,456	8,735
Proceeds from sales of retail and other finance receivables and operating leases	708	5,120	17,288
Proceeds from sale of businesses	1,236	56	7,937
Cash paid for acquisitions	(26)	—	(2,031)
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(83)	(4)	(1,255)
Other	650	325	1,849
Net cash (used in)/provided by investing activities	(6,483)	(24,864)	5,805
Cash flows from financing activities of continuing operations			
Cash dividends	—	(468)	(738)
Sales of Common Stock	250	431	895
Purchases of Common Stock	(31)	(183)	(570)
Changes in short-term debt	919	(5,825)	(8,713)
Proceeds from issuance of other debt	33,113	58,258	24,559
Principal payments on other debt	(39,431)	(36,601)	(36,080)
Other	(62)	(339)	(153)
Net cash (used in)/provided by financing activities	(5,242)	15,273	(20,800)
Effect of exchange rate changes on cash	1,014	464	(496)
Net increase/(decrease) in cash and cash equivalents from continuing operations	6,363	495	4,901
Cash flows from discontinued operations			
Cash flows from operating activities of discontinued operations	26	(11)	49
Cash flows from investing activities of discontinued operations	—	—	(49)
Cash flows from financing activities of discontinued operations	—	—	—
Net increase/(decrease) in cash and cash equivalents	$ 6,389	$ 484	$ 4,901
Cash and cash equivalents at January 1	$ 28,896	$ 28,391	$ 22,806
Cash and cash equivalents of discontinued/held-for-sale operations at January 1	(2)	19	703
Net increase/(decrease) in cash and cash equivalents	6,389	484	4,901
Less: Cash and cash equivalents of discontinued/held-for-sale operations at December 31	—	2	(19)
Cash and cash equivalents at December 31	$ 35,283	$ 28,896	$ 28,391

The accompanying notes are part of the financial statements.

Sector Statement of Cash Flows

Ford Motor Company and Subsidiaries
For the Years Ended December 31, 2007, 2006, and 2005
(in millions)

	2007		2006		2005	
	Automotive	Financial Services	Automotive	Financial Services	Automotive	Financial Services
Cash flows from operating activities of continuing operations						
Net cash flows from operating activities (Note 22)	$ 8,725	$ 6,402	$ (4,172)	$ 7,316	$ 5,438	$ 6,912
Cash flows from investing activities of continuing operations						
Capital expenditures	(5,971)	(51)	(6,809)	(39)	(7,122)	(394)
Acquisitions of retail and other finance receivables and operating leases	—	(55,681)	—	(59,793)	—	(54,024)
Collections of retail and other finance receivables and operating leases	—	45,518	—	41,867	—	48,245
Net (increase)/decrease in wholesale receivables	—	1,927	—	6,113	—	4,751
Net acquisitions of daily rental vehicles	—	—	—	—	—	(1,988)
Purchases of securities	(2,628)	(8,795)	(4,068)	(19,610)	(5,714)	(6,169)
Sales and maturities of securities	2,686	15,974	4,865	13,591	5,106	3,629
Proceeds from sales of retail and other finance receivables and operating leases	—	708	—	5,120	—	17,288
Proceeds from sale of wholesale receivables	—	—	—	—	—	3,739
Proceeds from sale of businesses	1,079	157	56	—	280	7,657
Cash paid for acquisitions	(26)	—	—	—	(2,031)	—
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(83)	—	(4)	—	—	(1,255)
Investing activity from Financial Services	—	—	1,185	—	8,407	—
Investing activity to Financial Services	(18)	—	(1,400)	—	—	—
Other	1,070	(420)	18	307	387	1,462
Net cash (used in)/provided by investing activities	(3,891)	(663)	(6,157)	(12,444)	(687)	22,941
Cash flows from financing activities of continuing operations						
Cash dividends	—	—	(468)	—	(738)	—
Sales of Common Stock	250	—	431	—	895	—
Purchases of Common Stock	(31)	—	(183)	—	(570)	—
Changes in short-term debt	(90)	1,009	414	(6,239)	(115)	(8,598)
Proceeds from issuance of other debt	240	32,873	12,254	46,004	385	24,174
Principal payments on other debt	(837)	(38,594)	(758)	(35,843)	(758)	(35,322)
Financing activity from Automotive	—	18	—	1,400	—	—
Financing activity to Automotive	—	—	—	(1,185)	—	(8,407)
Other	61	(123)	(147)	(192)	(177)	24
Net cash (used in)/provided by financing activities	(407)	(4,817)	11,543	3,945	(1,078)	(28,129)
Effect of exchange rate changes on cash	506	508	104	360	(23)	(473)
Net change in intersector receivables/payables and other liabilities	(291)	291	1,321	(1,321)	(394)	394
Net increase/(decrease) in cash and cash equivalents from continuing operations	4,642	1,721	2,639	(2,144)	3,256	1,645
Cash flows from discontinued operations						
Cash flows from operating activities of discontinued operations	16	10	(11)	—	(22)	71
Cash flows from investing activities of discontinued operations	—	—	—	—	17	(66)
Cash flows from financing activities of discontinued operations	—	—	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	$ 4,658	$ 1,731	$ 2,628	$ (2,144)	$ 3,251	$ 1,650
Cash and cash equivalents at January 1	$ 16,022	$12,874	$ 13,373	$ 15,018	$ 10,117	$12,689
Cash and cash equivalents of discontinued/held-for-sale operations at January 1	(2)	—	19	—	24	679
Net increase/(decrease) in cash and cash equivalents	4,658	1,731	2,628	(2,144)	3,251	1,650
Less: Cash and cash equivalents of discontinued/held-for-sale operations at December 31	—	—	2	—	(19)	—
Cash and cash equivalents at December 31	$ 20,678	$ 14,605	$ 16,022	$ 12,874	$ 13,373	$15,018

The accompanying notes are part of the financial statements.

Consolidated Statement of Stockholders' Equity

Ford Motor Company and Subsidiaries
For the Years Ended December 31, 2007, 2006, and 2005
(in millions)

		Excess	Retained	Income/(Loss)				
	Capital Stock	of Par Value of Stock	Earnings/ (Accumulated Deficit)	Foreign Currency Translation	Employee Benefit Related	Derivative Instruments and Other	Other	Total
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 (net of $299 of tax benefit)	—	—	—	(3,684)	—	—	—	(3,684)
Net gain/(loss) on derivative instruments (net of $527 of tax benefit)	—	—	—	285	—	(1,264)	—	(979)
Minimum pension liability (net of $229 of tax benefit)	—	—	—	—	(425)	—	—	(425)
Net holding gain/(loss) (net of $30 of tax benefit)	—	—	—	—	—	(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	$ 19	$ 4,872	$ 13,064	$ 613	$ (4,396)	$ 103	$ (833)	$ 13,442
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 (net of $3 of tax benefit)	—	—	—	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 $31 of tax benefit)	—	—	—	—	—	(59)	—	(59)
Comprehensive income/(loss)								(8,051)
Adoption of Statement of Financial Accounting Standards No. 158 (net of $646 of tax benefit)	—	—	—	—	(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	$ 19	$ 4,562	$ (17)	$ 3,215	$ (11,582)	$ 521	$ (183)	$ (3,465)
YEAR ENDED DECEMBER 31, 2007								
Balance at beginning of year	$ 19	$ 4,562	$ (17)	$ 3,215	$ (11,582)	$ 521	$ (183)	$ (3,465)
Comprehensive income/(loss)								
Net income/(loss)	—	—	(2,723)	—	—	—	—	(2,723)
Foreign currency translation (net of $0 of tax)	—	—	—	1,780	—	—	—	1,780
Net gain/(loss) on derivative instruments (net of $126 of tax benefit)	—	—	—	2	—	(66)	—	(64)
Employee benefit related (net of $1,870 of tax)	—	—	—	—	5,620	—	—	5,620
Net holding gain/(loss) (net of $6 of tax benefit)	—	—	—	—	—	(48)	—	(48)
Comprehensive income/(loss)								4,565
Adoption of FASB Interpretation No. 48	—	—	1,255	—	—	—	—	1,255
Common Stock issued for debt conversion, employee benefit plans, and other	3	3,272	—	—	—	—	—	3,275
ESOP loan and treasury stock	—	—	—	—	—	—	(2)	(2)
Cash dividends	—	—	—	—	—	—	—	—
Balance at end of year	$ 22	$ 7,834	$ (1,485)	$ 4,997	$ (5,962)	$ 407	$ (185)	$ 5,628

The accompanying notes are part of the financial statements.

NOTE 1. PRINCIPLES OF PRESENTATION AND CONSOLIDATION

Principles of Presentation and Consolidation

Our financial statements are presented in accordance with generally accepted accounting principles ("GAAP") in the United States and are shown on a consolidated basis, and on a sector basis for Automotive and Financial Services. We believe the additional information provided in the sector statements enables the reader to better understand the operating performance, financial position, cash flows, and liquidity of our two very different businesses. The difference between the total assets and total liabilities as presented in our sector balance sheet and our consolidated balance sheet is the result of 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. The equity method of accounting is used for our investments in entities for which we do not have control or are not the primary beneficiary, but over whose operating and financial policies we have the ability to exercise significant influence.

To provide comparative prior-year balance sheets, certain amounts on our December 31, 2006 consolidated and sector balance sheets and related footnotes have been reclassified for operations held for sale in 2007. See Note 20 for information about our held-for-sale operations.

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 LLC ("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):

	2007		2006	
	Automotive	Financial Services	Automotive	Financial Services
Finance receivables, net (a)		$ 3.7		$ 3.9
Wholesale receivables/Other (b)		1.8		1.9
Net investment in operating leases (c)		0.7		0.8
Other assets (d)		1.2		0.7
Intersector receivables/(payables) (e)	$ 2.0	(2.0)	$ (1.5)	1.5

(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) Amounts owed to the Automotive sector by Ford Credit, or vice versa, under a tax sharing agreement.

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 $4.6 billion in 2007, $3.5 billion in 2006, and $3.3 billion in 2005. The Automotive sector had accrued in *Accrued liabilities and deferred revenue* $5.4 billion and $4.6 billion for interest supplements at December 31, 2007 and 2006, respectively, 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 at December 31, 2007 and 2006.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

Automotive sales consist primarily of revenue generated from the sale of vehicles. Sales are recorded when the risks and rewards of ownership are transferred to our customers (generally dealers and distributors). For the majority of our sales, 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 transfer, 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 transfer, 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, 2007 and 2006, included in *Accrued liabilities and deferred revenue* was \$3.2 billion and \$3.6 billion, respectively, and included in *Other current assets* was \$2.9 billion and \$3.2 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 (including direct financing leases) 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 rental payments on operating leases and 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*.

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. We generally estimate these accruals using marketing incentives that are approved as of the balance sheet date and are expected to be effective at the beginning of the subsequent period. 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.

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 direct 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.

Raw Material Arrangements

We negotiate prices for and facilitate the purchase of raw materials on behalf of our suppliers. These raw material arrangements, which take place independently of any purchase orders being issued to our suppliers, are negotiated at arms length and do not involve volume guarantees to either party. When we pass the risks and rewards of ownership to our suppliers, including inventory risk, market price risk, and credit risk for the raw material, we record both the cost of the

NOTE 2. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

raw material and the income from the subsequent sale to the supplier in *Automotive cost of sales*. When we retain the risks and rewards of ownership, we account for the raw material as *Inventory* on our balance sheet until the resulting vehicle is sold.

Warranty and Extended Service Plans

Estimated warranty costs and additional service actions are accrued for at the time the vehicle is sold to a dealer, including costs for basic warranty coverage on vehicles sold, product recalls, and other customer service actions. 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.

Government Grants and Loan Incentives

From time to time, 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. When recorded as a reduction of expense, grants and loan incentives are recorded as a reduction in *Automotive cost of sales*.

Foreign Currency Translation

The assets and liabilities of foreign subsidiaries using the local currency as their functional currency are translated to U.S. dollars using end-of-period exchange rates and any resulting translation adjustments are contained in *Accumulated other comprehensive income/(loss).* The net translation adjustments for 2007 and 2006 were an increase in net assets and *Accumulated other comprehensive income/(loss)* of $1.8 billion and $2.6 billion (net of tax of $0 for 2007 and $3 million benefit for 2006), respectively. In 2005, the net translation adjustment was a decrease in net assets and *Accumulated other comprehensive income/(loss)* of $3.7 billion (net of tax of $299 million). This 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 gains or losses arising from transactions denominated in currencies other than the functional currency of the locations, the effect of remeasuring 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 23. The net after-tax income effects of these adjustments were a gain of $217 million in 2007, a loss of $17 million in 2006, and a gain of $621 million in 2005.

Presentation of Sales and Sales-Related 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).

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*. Engineering, research and development, and advertising costs are expensed as incurred and were as follows (in billions):

	2007	2006	2005
Engineering, research and development	$ 7.5	$ 7.2	$ 8.0
Advertising	5.4	5.1	5.0

NOTE 2. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

Cash and Cash Equivalents

Cash and all highly-liquid investments with a maturity of 90 days or less at the date of purchase, including short-term time deposits, government agency securities, 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. We review our disbursement accounts and reclassify any aggregate negative balances to a liability account included in *Payables* on our balance sheet. See Note 7 for additional information regarding cash that supports Financial Services' on-balance sheet securitizations.

Marketable, Loaned and Other Securities

We classify securities as trading, available-for-sale, or held-to-maturity. Trading and available-for-sale securities are recorded at fair value, and held-to-maturity securities are recorded at amortized cost. 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. Realized gains and losses are accounted for using the specific identification method.

Unrealized gains and losses on trading securities, as well as realized gains and losses for all securities, are recorded in *Automotive interest income and other non-operating income/(expense), net* and *Financial Services revenues*. Unrealized holding gains and losses for available-for-sale securities are reported, net of tax, in *Accumulated other comprehensive income/(loss)*.

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 basis.

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 have securities as collateral in the amount of $10 billion and $4.4 billion for 2007 and 2006, respectively. These securities have not been pledged or sold. We have cash as collateral in the amount of $480 million and $931 million for 2007 and 2006, 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 as earned in *Automotive interest income and other non-operating income/(expense), net.*

Allowance for Credit Losses

The allowance for credit losses is our estimate of the probable credit losses inherent in finance receivables and operating leases at the date of the balance sheet and is included in *Finance receivables, net* and *Net investment in operating leases*. The allowance is based on factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of our present portfolio (including vehicle brand, term, risk evaluation, and new/used vehicles), trends in historical and projected used vehicle values and economic conditions. Additions to the allowance for credit losses are recorded as charges to the *Financial Services provision for credit and insurance losses.* Finance receivables and lease investments are charged to the allowance for credit losses at the earlier of the time an account is deemed to be uncollectible or the 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.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

Sales of Receivables

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

Ford Credit records its sales of receivables as off-balance sheet when each of the following criteria is met:

- The receivables are isolated from the transferor (i.e., Ford Credit transfers 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 its off-balance sheet transactions, Ford Credit generally uses a qualifying SPE or it sells the receivables to an independent entity. In either case, Ford Credit does not restrict the transferee from pledging or exchanging the receivables or beneficial interests.
- The transferor does not maintain control over the receivables (i.e., Ford Credit is not permitted to regain control over the transferred receivables or cause the return of specific receivables, other than through a "cleanup" call, an optional repurchase of the remaining transferred financial assets at a point where the cost of servicing the outstanding assets becomes burdensome in relation to the benefits).

For off-balance sheet sales of receivables, gains or losses are recognized in the period in which the sale occurs. Ford Credit retains 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)*. 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. Ford Credit does not retain any interests in the whole-loan sale transactions but continues to service the sold receivables.

In both off-balance sheet securitization transactions and whole-loan sales, Ford Credit also retains the servicing rights and generally receives a servicing fee. The fee is recognized as collected over the remaining term of the related sold finance receivables. Ford Credit establishes a servicing asset or liability when the servicing fee does not adequately compensate for retaining the servicing rights. 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 its balance sheet at the time the receivables are sold. Present value accretion is recognized in *Financial Services revenues*.

Depreciation and Amortization

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.

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

NOTE 2. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

with the tools 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.

Goodwill

Beginning with 2006, our policy is to perform annual testing of goodwill and certain other net intangible assets during the fourth quarter to determine whether any impairment has occurred. Goodwill impairment testing is also performed following an allocation of goodwill to a business to be disposed, or following a triggering event for the long-lived asset impairment test. Testing is conducted at the reporting unit level, which is generally the same level as our operating segments. To test for goodwill 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.

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.

Held-and-Used Long-Lived Assets. We monitor the carrying value of long-lived asset groups held and used 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's 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.

Use of Estimates

The preparation of financial statements in accordance with U.S. 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 AND OTHER SECURITIES

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

	2007				2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Automotive Sector								
Trading	$10,956	$ 37	$ 92	$10,901	$15,060	$ 27	$ 18	$15,069
Available-for-sale								
U.S. government	214	1	—	215	185	—	1	184
Mortgage-backed securities	575	6	1	580	595	1	3	593
Other debt securities	660	3	—	663	724	—	4	720
Subtotal	1,449	10	1	1,458	1,504	1	8	1,497
Total Automotive sector	$12,405	$ 47	$ 93	$12,359	$16,564	$ 28	$ 26	$16,566
Financial Services Sector								
Trading	$ 1	$ —	$ —	$ 1	$ 1	$ —	$ —	$ 1
Available-for-sale								
U.S. government	632	1	—	633	3,710	4	1	3,713
Government-sponsored enterprises	1,944	4	—	1,948	4,968	5	—	4,973
Mortgage-backed securities	324	2	1	325	263	1	4	260
Other debt securities	139	2	1	140	1,113	1	2	1,112
Equity securities	99	2	—	101	60	36	1	95
Subtotal	3,138	11	2	3,147	10,114	47	8	10,153
Held-to-maturity	8	—	—	8	8	—	—	8
Total Financial Serv ector	$ 3,147	$ 11	$ 2	$ 3,156	$10,123	$ 47	$ 8	$10,162

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

	Proceeds					
	Maturities			Sales		
	2007	2006	2005	2007	2006	2005
Automotive sector	$ —	$ 496	$ 321	$ 2,686	$ 4,369	$4,785
Financial Services sector	7,900	9,157	2,381	8,074	4,434	691

Realized gains and losses on sales of available-for-sale securities were as follows (in millions):

	Gains			Losses		
	2007	2006	2005	2007	2006	2005
Automotive sector	$ 10	$ 4	$ 2	$ 7	$ 22	$ 59
Financial Services sector	45	19	7	5	4	3

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, 2007 were as follows (in millions):

	Automotive		Financial Services			
	Available-for-Sale		Available-for-Sale		Held-to-Maturity	
Contractual Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 year	$ 51	$ 51	$ 2,384	$ 2,387	$ 1	$ 1
2-5 years	792	796	228	229	3	3
6-10 years	10	10	51	52	2	2
11 years and later	21	21	52	53	2	2
Mortgage-backed securities	575	580	324	325	—	—
Equity securities	—	—	99	101	—	—
Total	$ 1,449	$ 1,458	$ 3,138	$ 3,147	$ 8	$ 8

NOTE 3. MARKETABLE AND OTHER SECURITIES *(Continued)*

The fair value of our investments in an unrealized loss position at December 31, 2007, aggregated by investment category and length of time the investments have been in a continuous loss position, were as follows (in millions):

	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Automotive Sector						
Mortgage-backed securities	$ 8	$ —	$ 67	$ 1	$ 75	$ 1
Financial Services Sector						
Mortgage-backed securities	$ 9	$ —	$100	$ 1	$ 109	$ 1
Other debt securities	14	—	16	1	30	1
Total Financial Services sector	$ 23	$ —	$116	$ 2	$ 139	$ 2

Not included in the tables above are cost method investments totaling $82 million included in *Other assets*. Our largest cost method investment relates to our ownership in Primrose Cove Limited of $69 million, preferred shares of which we received as part of the sale of Aston Martin Lagonda Group Limited ("Aston Martin"). See Note 20 for further discussion of the sale of Aston Martin.

NOTE 4. FINANCE RECEIVABLES — FINANCIAL SERVICES SECTOR

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

	2007	2006
Retail	$ 75,442	$ 72,513
Wholesale	33,457	33,813
Other finance receivables	4,753	5,396
Total finance receivables	113,652	111,722
Allowance for credit losses	(948)	(995)
Other	29	40
Net finance and other receivables	$ 112,733	$ 110,767
Net finance receivables subject to fair value*	$ 107,432	$ 105,324
Fair Value	$ 103,954	$ 104,066

* At December 31, 2007 and 2006, excludes $5.3 billion and $5.4 billion, respectively, of certain receivables (primarily direct financing leases) that are not subject to fair value disclosure requirements.

Finance receivables that originated outside of the United States were $55.7 billion and $49.4 billion at December 31, 2007 and 2006, respectively. Other finance receivables consisted primarily of real estate, commercial and other collateralized loans and accrued interest. At December 31, 2007, finance receivables included $1.7 billion owed by the three customers with the largest receivables balances.

Included in net finance and other receivables at December 31, 2007 and 2006 were $67.2 billion and $56.5 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 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.

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

Future maturities of total finance receivables, including minimum lease rentals, are as follows (in millions):

	2008	2009	2010	Thereafter
Total finance receivables, including minimum lease rentals	$ 62,961	$ 20,965	$ 14,540	$ 14,041

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):

	2007	2006
Total minimum lease rentals to be received	$ 3,430	$ 3,516
Less: Unearned income	(512)	(504)
Loan origination costs	57	49
Estimated residual values	2,356	2,349
Less: Allowance for credit losses	(52)	(52)
Net investment in direct financing leases	$ 5,279	$ 5,358

The investment in direct financing leases primarily relates to the leasing of vehicles. Future maturities of minimum lease rentals, as included above, are as follows (in millions):

	2008	2009	2010	Thereafter
Minimum rentals on direct financing leases	$ 1,352	$ 1,012	$ 724	$ 342

NOTE 5. NET INVESTMENT IN OPERATING LEASES

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

	2007	2006
Automotive Sector		
Vehicles, net of depreciation	$ 2,946	$ 3,181
Financial Services Sector		
Vehicles and other equipment, at cost	38,956	33,974
Accumulated depreciation	(8,493)	(7,242)
Allowance for credit losses	(154)	(126)
Total Financial Services sector	30,309	26,606
Total	$ 33,255	$ 29,787

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 as follows (in millions):

	2007	2006	2005
Operating lease depreciation expense	$ 979	$ 1,384	$ 307

Included in *Automotive sales* are rents on operating leases. The amount contractually due for minimum rentals on operating leases is $100 million for 2008.

NOTE 5. NET INVESTMENT IN OPERATING LEASES *(Continued)*

Financial Services Sector

Included in *Net investment in operating leases* at December 31, 2007 and 2006 were interests of $18.9 billion and $15.2 billion, respectively, that have been included in securitizations that do not satisfy the requirements for accounting sale treatment. These net investments 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 as follows (in millions):

	2008	2009	2010	2011	2012	Thereafter
Minimum rentals on operating leases	$5,118	$3,584	$1,980	$ 641	$ 82	$ 250

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 as follows (in millions):

	2007	2006	2005
Operating lease depreciation expense	$ 6,212	$ 5,214	$ 5,666

NOTE 6. ALLOWANCE FOR CREDIT LOSSES — FINANCIAL SERVICES SECTOR

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):

	2007	2006	2005
Beginning balance	$ 1,121	$ 1,594	$ 2,471
Provision for credit losses	592	100	167
Total charge-offs and recoveries			
Charge-offs	(1,105)	(995)	(1,184)
Recoveries	470	470	478
Net charge-offs	(635)	(525)	(706)
Other changes, principally amounts related to finance receivables sold and translation adjustments	24	(48)	(338)
Ending balance	$ 1,102	$ 1,121	$ 1,594

NOTE 7. SALES OF RECEIVABLES — FINANCIAL SERVICES SECTOR

Servicing Portfolio

Ford Credit retains servicing rights for receivables sold in off-balance sheet securitization and whole-loan sale transactions. The servicing portfolio is summarized in the following table for the years ended December 31 (in millions):

	Retail
Servicing portfolio at December 31, 2005	$ 20,921
Receivables sales	5,531
Collections and re-acquired receivables	(12,218)
Servicing portfolio at December 31, 2006	14,234
Receivables sales	815
Collections and re-acquired receivables	(8,151)
Servicing portfolio at December 31, 2007	$ 6,898

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

Retained Interest in Securitized Assets

Components of retained interest in off-balance sheet securitized assets at December 31 included the following (in millions):

	2007	2006
Residual interest in securitization transactions	$ 466	$ 709
Restricted cash held for benefit of securitization investors	135	204
Subordinated securities	52	77
Retained interest in securitized assets	$ 653	$ 990

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 restricted cash held for investors is calculated based on the projected amortization of the cash and discounted at the transaction discount rate. In determining the fair value of residual interest in securitization transactions, Ford Credit discounts the projected cash flows retained at the transaction discount rates.

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):

	2007	2006	2005
Income on residual interests	$ 157	$ 137	$ 468
Servicing fees	122	198	376
Interest income on retained interests	34	32	327
Net gain on sale of receivables	5	88	87
Other	73	213	255
Investment and other income related to sales of receivables	$ 391	$ 668	$ 1,513

For the year ended December 31, 2007, Ford Credit utilized certain point-of-sale assumptions to value the residual interest in its retail transactions, which included a discount rate of 12.5%, prepayment speeds of 1.5% (which represent expected payments earlier than scheduled maturity dates), and net credit losses of 1.3% over the life of sold receivables. The weighted-average life of the underlying assets was 56.1 months. For the year ended December 31, 2006, Ford Credit utilized certain point-of-sale assumptions to value the residual interest in its 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 net credit losses of 0.1% to 2.3% over the life of sold receivables. The weighted-average life of the underlying assets was 45.8 months.

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

Cash Flow

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

	2007	2006	2005
Proceeds from sales of receivables and retained interests			
Proceeds from sales of retail receivables	$ 697	$ 4,863	$ 15,549
Proceeds from interest in sold wholesale receivables	—	—	3,739
Proceeds from revolving-period securitizations	—	217	1,349
Proceeds from sale of retained notes – retail	—	40	298
Total	$ 697	$ 5,120	$ 20,935
Cash flows related to net change in retained interest			
Interest in sold retail receivables	$ 401	$ 672	$ 708
Interest in sold wholesale receivables	—	—	2,684
Total	$ 401	$ 672	$ 3,392
Servicing fees			
Retail	$ 122	$ 198	$ 260
Wholesale	—	—	116
Total	$ 122	$ 198	$ 376
Other cash flows received on retained interests (which are reflected in securitization income)			
Retail	$ 147	$ 115	$ 276
Wholesale	—	—	507
Total	$ 147	$ 115	$ 783

During the fourth quarter of 2005, Ford Credit consolidated its 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 Ford Credit's 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.

Ford Credit repurchased $36 million, $36 million, and $43 million of receivables in 2007, 2006, and 2005, 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, 2007 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%	$ (5)	$ (9)
Estimated net credit loss rate	0.3% - 2.6%	(4)	(9)
Prepayment speed	0.8% - 1.5%	(2)	(2)

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, although changes in one factor may result in changes in another.

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

Outstanding delinquencies over 30 days related to the off-balance sheet securitized portfolio were $180 million and $208 million at December 31, 2007 and 2006, respectively. Credit losses, net of recoveries, were $65 million and $84 million for the years ended December 31, 2007 and 2006, respectively. Expected static pool credit losses related to outstanding securitized retail receivables were 1.1% at December 31, 2007. 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.

On-Balance Sheet Securitizations

At December 31, 2007 and 2006, finance receivables of $67.2 billion and $56.5 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, 2007 and 2006, net investment in operating leases of $18.9 billion and $15.2 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, 2007 and 2006, associated debt of $69.2 billion and $59.6 billion, respectively, is reported on Ford Credit 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, 2007 and 2006 were $4.7 billion and $3.7 billion, respectively. On-balance sheet securitizations generally use VIEs of which Ford Credit is the primary beneficiary.

NOTE 8. INVENTORIES

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

	2007	2006
Raw materials, work-in-process and supplies	$ 4,360	$ 4,334
Finished products	6,861	6,698
Total inventories under first-in, first-out method ("FIFO")	11,221	11,032
Less: Last-in, first-out method ("LIFO") adjustment	(1,100)	(1,015)
Total inventories	$ 10,121	$ 10,017

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

NOTE 9. EQUITY IN NET ASSETS OF AFFILIATED COMPANIES

The following table reflects our effective December 31, 2007 ownership percentages, and balances of equity method investments at December 31, 2007 and 2006 (in millions, except percentages):

	Ownership Percentages	Investment Balance 2007	Investment Balance 2006
Automotive Sector			
Mazda Motor Corporation ("Mazda")	33.4%	$ 1,322	$ 1,135
AutoAlliance (Thailand) Co., Ltd.	50.0%	202	157
Changan Ford Mazda Automobile Corporation, Limited	35.0%	183	140
Jiangling Motors Corporation, Limited	30.0%	159	136
Ford Motor Company Capital Trust II ("Trust II")	5.0%	155	155
Tenedora Nemak S.A. de C.V.	6.8%	76	74
Blue Diamond Truck, S. de R.L. de C.V.	49.0%	45	59
Getrag Asia Pacific GmbH & Co. KG	25.0%	25	—
Ballard Power Systems, Inc. ("Ballard")	11.2%	22	41
Centre for Engineering and Manufacturing Excellence Limited ("CEME")	33.3%	17	17
Changan Ford Mazda Engine Company, Ltd.	25.0%	15	26
NuCellsys Holding GmbH	50.0%	14	15
Ford Performance Vehicles Pty Ltd.	49.0%	7	5
Lindsay Cars Limited	49.0%	7	6
Blue Diamond Parts, LLC ("Blue Diamond Parts")	51.0%	5	8
OEConnection LLC	25.0%	5	6
Percepta, LLC	45.0%	5	7
Ford Malaysia Sdn. Bhd.	49.0%	2	9
Perth Auto Alliance Pty Ltd.	—%	—	8
Other	Various	17	25
Total Automotive sector		2,283	2,029
Financial Services Sector			
DFO Partnership	50.0%	468	575
Ford Credit South Africa (Pty) Limited	50.0%	42	37
AB Volvofinans	10.0%	38	127
RouteOne LLC	30.0%	19	20
Other	Various	3	2
Total Financial Services sector		570	761
Total		$ 2,853	$ 2,790

We received $216 million, $166 million, and $122 million of dividends from these affiliated companies for the years ended December 31, 2007, 2006, and 2005, respectively. The market value of our investment in Mazda and Ballard at December 31, 2007 was $2.4 billion and $68 million, respectively.

NOTE 10. SIGNIFICANT UNCONSOLIDATED AFFILIATES

Presented below is summarized financial information for Mazda and Blue Diamond Parts. Mazda is considered to be a significant unconsolidated affiliate in 2007, and both Mazda and Blue Diamond Parts were considered significant unconsolidated affiliates in 2005. Mazda and Blue Diamond Parts are accounted for under the equity method.

Mazda-Related Investments. Included in our *Automotive* e*quity in net assets of affiliated companies* at December 31, 2007 and 2006 was $1.3 billion and $1.1 billion, respectively, associated with our investment in Mazda. Our investment in Mazda included $207 million of goodwill included in *Automotive equity in net assets of affiliated companies* at December 31, 2007 and 2006. Dividends received from Mazda were $36 million, $20 million and $11 million for the years ended December 31, 2007, 2006, and 2005, respectively.

NOTE 10. SIGNIFICANT UNCONSOLIDATED AFFILIATES *(Continued)*

Summarized income statement information from Mazda's published financial statements, prepared in accordance with Japanese GAAP, for the twelve months ended September 30, 2007, 2006, and 2005 and summarized balance sheet information from Mazda's published financial statements at September 30, 2007, 2006, and 2005 is as follows (in millions):

	2007	2006	2005
Net sales	$ 28,108	$ 26,640	$ 26,555
Cost and expenses	26,763	25,395	25,696
Income from continuing operations	698	611	333
Net income	628	542	566
Total assets	$ 16,776	$ 15,008	$ 15,218
Total liabilities	12,430	11,408	12,207

Included in our *Automotive equity in net income/(loss) of affiliated companies* was the following income for the years ended December 31 (in millions):

	2007	2006	2005
Ford's share of Mazda's net income/(loss)	$ 189	$ 256	$ 148

Ford's share of Mazda's net income/(loss) in the table above represents our share of Mazda's results on a U.S. GAAP basis. There have been no events at Mazda subsequent to September 30, 2007 that would materially affect our balance sheet or income statement.

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. Blue Diamond Parts manages sourcing, merchandising, and distribution of various replacement parts. Included in our *Automotive equity in net assets of affiliated companies* at December 31, 2007 and 2006 was $5 million and $8 million, respectively, associated with our investment in Blue Diamond Parts. Dividends received from Blue Diamond Parts were $79 million, $87 million and $99 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Summarized income statement information from Blue Diamond Parts' financial statements for the twelve months ended December 31, 2007, 2006, and 2005 and summarized balance sheet information from Blue Diamonds Parts' financial statements at December 31, 2007, 2006, and 2005 is as follows (in millions):

	2007	2006	2005
Net service revenue	$ 184	$ 212	$ 187
Net other expenses	32	30	27
Income from continuing operations	152	181	160
Net income	151	180	158
Total assets	$ 72	$ 43	$ 56
Total liabilities	62	26	48

Included in our *Automotive equity in net income/(loss) of affiliated companies* was the following income for the years ended December 31 (in millions):

	2007	2006	2005
Ford's share of Blue Diamond Parts' net income/(loss)	$ 77	$ 89	$ 83

NOTE 11. NET PROPERTY AND RELATED EXPENSES

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

	2007	2006
Land	$ 764	$ 802
Buildings and land improvements	14,402	13,719
Machinery, equipment and other	45,303	43,913
Construction in progress	2,031	2,224
Total land, plant and equipment	62,500	60,658
Accumulated depreciation	(36,561)	(34,983)
Net land, plant and equipment	25,939	25,675
Special tools, net of amortization	10,040	10,111
Net Automotive sector property	35,979	35,786
Net Financial Services sector property	260	269
Total	$ 36,239	$ 36,055

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

	2007	2006	2005
Depreciation and other amortization	$ 3,474	$ 6,487	$ 4,180
Amortization of special tools	3,289	4,671	3,976
Total	$ 6,763	$ 11,158	$ 8,156
Maintenance and rearrangement	$ 2,014	$ 2,081	$ 1,894

NOTE 12. IMPAIRMENT OF LONG-LIVED ASSETS

During 2006, we projected a decline in net cash flows for the Ford North America segment, primarily reflecting lower market share assumptions and capacity reductions. 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 13. GOODWILL AND OTHER NET INTANGIBLES

Goodwill

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

	Automotive Sector				Financial Services Sector	
	Ford North America	Ford Europe	PAG	Total	Ford Credit	Total Company
Balances at December 31, 2006	$ 95	$ 35	$ 2,896	$ 3,026	$ 17	$ 3,043
Add: Goodwill balances classified as held for sale at December 31, 2006 (a)	112	—	2,684	2,796	—	2,796
Changes in goodwill:						
Goodwill acquired	11	—	—	11	—	11
Sale of Automotive Protection Corporation ("APCO") (b)	(112)	—	—	(112)	—	(112)
Sale of Aston Martin (c)	—	—	(434)	(434)	—	(434)
Other disposals	(17)	—	(6)	(23)	—	(23)
Adjustment related to Land Rover deferred taxes (c)	—	—	(230)	(230)	—	(230)
Volvo goodwill impairment (c)	—	—	(2,400)	(2,400)	—	(2,400)
Effect of foreign currency translation and other	—	2	288	290	1	291
Less: Goodwill balances classified as held for sale at December 31, 2007 (c)	—	—	(1,438)	(1,438)	—	(1,438)
Balances at December 31, 2007	$ 89	$ 37	$ 1,360	$ 1,486	$ 18	$ 1,504

(a) During 2007, APCO in Ford North America, Aston Martin subsidiaries in PAG, and Jaguar and Land Rover subsidiaries in PAG were classified as held for sale. As a result, the remaining balances reflecting originally purchased goodwill for these entities were reclassified at December 31, 2006 to *Assets of discontinued/held for sale* on our balance sheet.

(b) During the second quarter of 2007, we sold APCO. APCO was not an integrated component of our Ford North America reporting unit. The $112 million of APCO goodwill classified within *Assets of discontinued/held-for-sale operations* at December 31, 2006 was removed from our balance sheet upon the sale and is not included within our December 31, 2007 balance sheet.

(c) At December 31, 2006, our PAG reporting unit consisted of three integrated operations: Volvo, Jaguar and Land Rover, and Aston Martin. These operations shared, among other things, certain facilities and tooling, intellectual property, in-bound logistics, information technology services, and parts supply.
(i) *Sale of Aston Martin.* In the first quarter of 2007 we classified Aston Martin as a held-for-sale operation. Accordingly, we determined an appropriate allocation of goodwill for Aston Martin based on its fair value relative to the overall fair value of PAG. We used discounted cash flow and market methods of determining fair value, which resulted in $434 million of goodwill being allocated to Aston Martin. The goodwill remaining in our PAG reporting unit was tested at March 31, 2007, and no goodwill impairment was necessary. Aston Martin was sold in the second quarter of 2007.
(ii) *Land Rover Deferred Taxes.* During the second and third quarters of 2007, we settled tax matters related to the acquisition of Land Rover with the U.K. tax authorities. The final resolution resulted in an increase in deferred tax assets and a corresponding decrease in goodwill of $230 million.
(iii) *Jaguar and Land Rover Held for Sale.* In the fourth quarter of 2007, we classified Jaguar and Land Rover as a held-for-sale operation. Accordingly, we determined an appropriate allocation of PAG goodwill for Jaguar and Land Rover based on its fair value relative to the overall fair value of PAG. This resulted in $1.4 billion of PAG goodwill being allocated to Jaguar and Land Rover, which we classified within *Assets of discontinued/held-for-sale operations* at December 31, 2007.
(iv) *Volvo Goodwill Impairment*. After allocating goodwill to Jaguar and Land Rover in the fourth quarter of 2007, what remained in PAG was $3.8 billion of Volvo goodwill. Volvo goodwill was tested for impairment at December 31, 2007 by comparing the carrying value of the Volvo reporting unit to its estimated fair value using the same discounted cash flow and market methods used in the allocation of goodwill. As a result of this testing, we recorded a fourth quarter 2007 goodwill impairment charge of $2.4 billion in *Goodwill impairment*. Volvo's fair value had declined throughout 2007 primarily related to three factors. First, the weakening of the U.S. dollar resulted in lower sales revenues relative to euro and Swedish krona material costs; approximately 25% of Volvo vehicle sales are in the United States. Second, higher gas prices and other factors have caused a shift from larger to smaller vehicle segments in the United States and other markets. This has resulted in lower-than-planned volumes for new vehicles, especially high-margin SUVs. Third, to encourage sales in the face of lower-than-planned volumes for Volvo vehicles in the United States and other markets, we offered higher-than-anticipated marketing incentives on the sale of these vehicles. These higher marketing incentives led to a reduction in revenues and profits. The $1.4 billion goodwill balance at December 31, 2007 relates to Volvo. Further deterioration in Volvo's estimated fair value may result in additional impairment of this goodwill.

NOTE 13. GOODWILL AND OTHER NET INTANGIBLES *(Continued)*

Excluded from the table above is goodwill within *Automotive equity in net assets of affiliated companies* of $247 million and $249 million at December 31, 2007 and 2006, respectively.

Other Net Intangibles

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

	December 31, 2007			December 31, 2006		
	Gross Carrying Amount	Less: Accumulated Amortization	Net Intangible Assets	Gross Carrying Amount	Less: Accumulated Amortization	Net Intangible Assets
Automotive Sector						
Distribution Networks	$ 335	$ (103)	$ 232	$ 317	$ (89)	$ 228
Manufacturing and production incentive rights	297	(74)	223	246	—	246
Other	199	(89)	110	167	(73)	94
Total Automotive sector	831	(266)	565	730	(162)	568
Total Financial Services Sector	4	(4)	—	4	(4)	—
Total	$ 835	$ (270)	$ 565	$ 734	$ (166)	$ 568

Our identifiable net intangible assets are comprised of distribution networks with a useful life of 40 years, manufacturing and production incentive rights with a useful life of 4 years, and other intangibles with various amortization periods (primarily patents, customer contracts, technology, and land rights).

During the fourth quarter of 2007, Jaguar and Land Rover were classified as held for sale. Accordingly, we excluded from the table above and reclassified net intangible assets of $572 million and $526 million, primarily comprised of a non-amortizable tradename, within *Assets of discontinued/held-for-sale operations* at December 31, 2007 and 2006, respectively. In addition, we excluded from the table above and reclassified $4 million of net intangible assets related to Aston Martin to *Assets of discontinued/held-for-sale operations* at December 31, 2006.

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

	2007	2006	2005
Pre-tax amortization expense	$ 106	$ 66	$ 55

Excluding the impact of foreign currency translation, intangible asset amortization is forecasted to range from $95 million to $105 million per year for the next three years, and $20 million to $30 million thereafter.

NOTE 14. 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 necessarily 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, 2007 and 2006 balance sheets are consolidated VIE assets of $6.3 billion and $5.6 billion, respectively, for the Automotive sector and $82.4 billion and $69.5 billion, respectively, for the Financial Services sector. Included in Automotive consolidated VIE assets are $742 million and $488 million of cash and cash equivalents at December 31, 2007 and 2006, respectively. For the Financial Services sector, consolidated assets related to securitizations included $4.6 billion and $3.7 billion in cash and cash equivalents, and $77.8 billion and $65.8 billion of receivables and beneficial interests in net investment in operating leases at December 31, 2007 and 2006, respectively.

NOTE 14. VARIABLE INTEREST ENTITIES *(Continued)*

Automotive Sector

VIEs of which we are the primary beneficiary:

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.

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.

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.

We also hold interests in certain Ford and/or Lincoln Mercury dealerships. At December 31, 2007, we consolidated a portfolio of approximately 83 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 $18 million at December 31, 2007. For additional discussion of these letters of credit, see Note 28.

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 $357 million at December 31, 2007) to any potential losses, should they occur, associated with these VIEs is limited to equity investments.

NOTE 14. VARIABLE INTEREST ENTITIES *(Continued)*

Financial Services Sector

VIEs of which we are the primary beneficiary:

Ford Credit uses SPEs in a variety of 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 $76 million at December 31, 2007) 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. These SPEs are not consolidated by Ford Credit. All of these sales constitute sales for legal purposes, but some of the sales do not satisfy the requirement for accounting sale treatment. The outstanding balance of finance receivables was approximately $3.4 billion and $5.2 billion at December 31, 2007 and 2006, respectively.

NOTE 15. ACCRUED LIABILITIES AND DEFERRED REVENUE

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

	2007	2006
Automotive Sector		
Current		
Dealer and customer allowances and claims	$ 13,604	$ 12,283
Deferred revenue	4,093	4,558
Employee benefit plans	2,892	4,702
Other postretirement employee benefits ("OPEB")	457	566
Accrued interest	514	867
Pension	439	330
Other	5,673	3,695
Total Automotive current	27,672	27,001
Non-current		
OPEB	23,760	25,372
Pension	6,678	8,938
Dealer and customer allowances and claims	7,149	7,791
Employee benefit plans	934	1,600
Deferred revenue	1,989	2,045
Other	1,166	2,545
Total Automotive non-current	41,676	48,291
Total Automotive sector	69,348	75,292
Financial Services Sector	5,390	4,766
Total	$ 74,738	$ 80,058

NOTE 16. DEBT AND COMMITMENTS

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

	Interest Rates				Amount	
	Average Contractual (a)		Weighted Average (b)			
	2007	2006	2007	2006	2007	2006
Automotive Sector						
Debt payable within one year						
Short-term	5.4%	5.0%	5.4%	5.0%	$ 399	$ 499
Long-term payable within one year						
Senior indebtedness					521	785
Total debt payable within one year					920	1,284
Long-term debt payable after one year						
Senior indebtedness						
Notes and bank debt	7.2%	7.2%	7.2%	7.2%	22,902	23,522
Unamortized discount					(153)	(165)
Total senior indebtedness					22,749	23,357
Subordinated indebtedness	6.5%	6.5%	6.5%	6.5%	3,028	5,155
Total long-term debt payable after one year					25,777	28,512
Total Automotive debt					$ 26,697	$ 29,796
Fair value (c)					$ 22,729	$ 22,050
Financial Services Sector						
Short-term debt (d)						
Asset-backed commercial paper (e)					$ 13,518	$ 16,480
Other asset-backed short-term debt (e)					6,196	1,197
Ford Interest Advantage (f)					5,408	5,611
Unsecured commercial paper					526	400
Other short-term debt					1,707	2,489
Total short-term debt	5.5%	5.6%	5.7%	5.8%	27,355	26,177
Long-term debt (g)						
Senior indebtedness						
Notes payable within one year					12,656	17,450
Notes payable after one year (h)					51,623	56,521
Unamortized discount					(91)	(109)
Asset-backed debt (e)						
Notes payable within one year					20,121	17,330
Notes payable after one year					30,169	24,667
Total long-term debt	6.5%	6.1%	6.3%	5.9%	114,478	115,859
Total Financial Services debt					$ 141,833	$ 142,036
Fair value (c)					$ 138,434	$ 143,676

(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) For Financial Services sector, we consider any debt with an original maturity of 12 months or less to be short-term debt.
(e) Obligations issued or arising in securitizations that are payable only out of collections on the underlying securitized assets and related enhancements.
(f) The Ford Interest Advantage program consists of our floating rate demand notes.
(g) For Financial Services sector, we consider any debt with an original maturity of more than 12 months to be long-term debt.
(h) Includes $11 million and $14 million payable to affiliated companies at December 31, 2007 and 2006, respectively.

Debt maturities at December 31, 2007 were as follows (in millions):

Total debt maturities	2008	2009	2010	2011	2012	Thereafter	Total
Automotive sector	$ 920	$ 649	$ 807	$ 159	$ 98	$ 24,064	$ 26,697
Financial Services sector	60,132	28,566	16,137	16,871	9,188	10,939	141,833

NOTE 16. DEBT AND COMMITMENTS *(Continued)*

On December 7, 2007, pursuant to an agreement entered into on December 4, 2007, we issued an aggregate of 62,000,761 shares of Ford Common Stock, par value $0.01 per share, in exchange for $441,991,000 principal amount of our $6\frac{3}{8}\%$ Debentures due February 1, 2029 and $124,943,000 principal amount of our $6\frac{5}{8}\%$ Debentures due October 1, 2028 (collectively, the "Debentures"), beneficially owned by an institutional holder of the Debentures. We did not receive any cash proceeds as a result of the exchange of Ford Common Stock for the Debentures, which have been retired and cancelled. As a result of the exchange, we recorded a pre-tax gain of $120 million in *Automotive interest income and other non-operating income/(expense), net.*

Senior Convertible Indebtedness

At December 31, 2007, we have outstanding $4.95 billion in principal amount of unsecured Senior Convertible Notes (the "Convertible Notes") that mature in 2036. The Convertible Notes pay interest semiannually at a rate of 4.25% per annum. The Convertible Notes are convertible into shares of Ford 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 Ford 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 also may terminate the conversion rights at any time on or after December 20, 2013 if the closing price of Ford Common Stock exceeds 140% of the then-prevailing conversion price for twenty trading days during any consecutive thirty trading day period.

Subordinated Convertible Indebtedness

At December 31, 2007, Ford Motor Company Capital Trust II ("Trust II"), a subsidiary trust, had outstanding 6.50% Cumulative Convertible Trust Preferred Securities with an aggregate liquidation preference of $2.9 billion (the "Trust Preferred Securities"). The sole assets of Trust II are $3 billion of 6.50% Junior Subordinated Convertible Debentures due 2032 of Ford Motor Company (the "Subordinated Debentures"). As of January 15, 2007, the Subordinated Debentures had become redeemable at our option. We guarantee the payment of all distribution and other payments of the Trust 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.

On August 3, 2007, pursuant to an exchange or conversion offer made by Trust II and Ford to holders of Trust Preferred Securities, holders of 42,543,071 then-outstanding Trust Preferred Securities with an aggregate liquidation preference of $2.1 billion elected to convert such securities into an aggregate 194,494,157 shares of Ford Common Stock. The conversion offer provided for a premium of 1.7468 additional shares of Ford Common Stock, over the 2.8249 shares of Ford Common Stock into which each Trust Preferred Security was convertible pursuant to its conversion terms. As a result of the exchange, we recorded a pre-tax loss of $632 million in *Automotive interest income and other non-operating income/(expense), net*.

NOTE 16. DEBT AND COMMITMENTS *(Continued)*

Credit Facilities*

Automotive Sector

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, 2007, $10.9 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 company for Volvo, Ford Motor Company of Canada, Limited ("Ford Canada") and Grupo Ford S. de R.L. de C.V. (a Mexican subsidiary); 66% to 100% of the stock of all major first tier foreign subsidiaries (including Volvo); and certain domestic intellectual property, including trademarks.

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 Ford Common and Class B Stock, subject to certain limited exceptions. In addition, the Credit Agreement contains a liquidity covenant requiring us to maintain a minimum of $4 billion in the aggregate of domestic cash, cash equivalents, loaned and marketable securities and short-term 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, which reflects our Jaguar and Land Rover operations (in billions, except percentages):

	Eligible Value (a)	Advance Rate	Borrowing Base
U.S. receivables	$ 0.6	75%	$ 0.5
U.S. inventory	3.0	60%	1.8
Pledge of intercompany notes	8.3	N/A	4.9
Pledge of equity in Ford Credit and certain foreign subsidiaries (net of intercompany transactions)	10.2	75%	7.6
U.S. property, plant and equipment subject to indenture limitation	7.1	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	$ 41.6		$ 22.3

(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, 2007; equity of Ford Credit is based on its book value at December 31, 2007, net of certain intercompany transactions, and equity in other subsidiaries is based on a multiple of their two-year average EBITDA less debt.

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

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

NOTE 16. DEBT AND COMMITMENTS *(Continued)*

Based on the Borrowing Base value of $22.3 billion and the total outstanding amount of debt secured by collateral of $7.5 billion, the resulting collateral coverage ratio is 2.96. 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 1.12.

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, 2007, we had $1.6 billion of other Automotive credit facilities with financial institutions, including $1.1 billion of worldwide Automotive unsecured credit facilities and about $500 million of local credit facilities to foreign Automotive affiliates. Of the lines available for use, 51% (or about $500 million) are committed through June 30, 2009, including 37% (or about $400 million) which are committed through December 31, 2011. The worldwide credit facilities may be used, at Ford's option, by any of its direct or indirect, majority-owned subsidiaries on a guaranteed basis. All of the worldwide 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.

Financial Services Sector

Credit Facilities. At December 31, 2007, Ford Credit and its majority-owned subsidiaries, including FCE Bank, plc ("FCE"), had $3 billion of contractually-committed unsecured credit facilities with financial institutions, of which $2.1 billion were available for use. Of the lines available for use, 56% (or about $1.1 billion) are committed through June 30, 2009, including 19% (or about $400 million) which are committed through December 31, 2011. Of the $3 billion, $500 million constitute Ford Credit bank lines (of which about $200 million are worldwide) and $2.5 billion are FCE bank lines (of which $2.4 billion are worldwide). The Ford Credit worldwide credit facilities may be used, at Ford Credit's option, by any of its direct or indirect, majority-owned subsidiaries. Similarly, the FCE worldwide credit facilities may be used, at FCE's option, by any of FCE's direct or indirect, majority-owned subsidiaries. Ford Credit or FCE, as the case may be, will guarantee any such borrowings. All of the worldwide 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 could limit Ford Credit's ability to obtain funding.

In addition, at December 31, 2007, banks provided $17.2 billion of contractually-committed liquidity facilities to support Ford Credit's two on-balance sheet, asset-backed commercial paper programs; $16.9 billion supported Ford Credit's retail securitization program ("FCAR") and $300 million supported Ford Credit's Motown Notes[SM] wholesale securitization program ("Motown Notes"). Of the contractually-committed liquidity facilities, 48% (or $8 billion) are committed through June 30, 2012, and the remainder are committed for a shorter period of time. Utilization of each of these facilities is subject to conditions specific to each program and Ford Credit having a sufficient amount of eligible assets for securitization. The FCAR program must be supported by liquidity facilities equal to at least 100% of its outstanding balance. At December 31, 2007, $16.7 billion of FCAR's bank liquidity facilities were available to support FCAR's asset-backed commercial paper, subordinated debt or FCAR's purchase of Ford Credit's asset-backed securities, and the remaining $200 million of bank liquidity facilities were available to support FCAR's purchase of Ford Credit's asset-backed securities. The Motown Notes program must be supported by liquidity facilities equal to at least 5% of its outstanding balance. The Motown Notes program bank liquidity facilities are available to support the issuance of Motown Notes, but these facilities cannot be accessed directly to fund the purchase of Ford Credit's wholesale receivables. Ford Credit is not presently issuing Motown Notes and does not intend to use this program in the foreseeable future as there is presently a lack of investor demand for extendible commercial paper. At December 31, 2007, the outstanding balances were $13.7 billion for the FCAR program and zero for the Motown Notes program.

Committed Liquidity Programs. Ford Credit and its subsidiaries, including FCE, have entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits ("conduits") and other financial institutions, whereby such parties are contractually committed, at Ford Credit's option, to purchase from Ford Credit's eligible retail or wholesale assets or to purchase or make advances under asset-backed securities backed by retail or wholesale assets for proceeds up to $30.8 billion at December 31, 2007 ($18.1 billion retail and $12.7 billion wholesale) of which $10 billion

NOTE 16. DEBT AND COMMITMENTS *(Continued)*

are commitments to FCE. These committed liquidity programs have varying maturity dates, with $21.2 billion having maturities within the next twelve months (of which $3.4 billion relates to FCE commitments), and the balance having maturities between February 2009 and September 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, 2007, $17.1 billion of these commitments were in use. These programs are extremely liquid funding sources as Ford Credit is able to obtain funding from available capacity generally within two days. 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 Ford Credit's 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 committed liquidity program for the purchase of up to $6 billion of unrated asset-backed securities, of which $4 billion is committed through 2009 that at Ford Credit's 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 and minimum net worth requirements), and credit rating triggers that could limit Ford Credit's ability to obtain funding. At December 31, 2007, Ford Credit had $3.9 billion of outstanding funding in this program.

NOTE 17. SHARE-BASED COMPENSATION

At December 31, 2007, 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.

We have stock-based compensation 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 units thereunder are exercisable. All outstanding stock-based compensation under the 1990 LTIP continues to be governed by the terms and conditions of the existing agreements for those grants. Grants may continue to be made under the 1998 LTIP through April 2008.

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, 2007, the number of unused shares carried forward was 88.1 million shares.

Upon stock-settled compensation exercises and awards, shares were either new issues or were issued from treasury stock. We do not expect to repurchase a significant number of shares for treasury stock during 2008.

Stock Options

We measure the fair value of the majority of our stock options 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.

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 in *Selling, administrative, and other expenses* using a three-year cliff vesting methodology.

NOTE 17. SHARE-BASED COMPENSATION *(Continued)*

Stock option activity was as follows:

Stock Option Activity	2007 Shares (millions)	2007 Weighted-Average Exercise Price	2006 Shares (millions)	2006 Weighted-Average Exercise Price	2005 Shares (millions)	2005 Weighted-Average Exercise Price
Outstanding, beginning of year	255.6	$ 17.83	245.2	$ 18.72	245.4	$ 19.13
Granted	16.3	7.56	29.1	7.89	27.6	12.46
Exercised*	(1.2)	7.61	(0.5)	7.55	(3.7)	9.14
Forfeited (including expirations)	(23.4)	14.00	(18.2)	14.26	(24.1)	17.13
Outstanding, end of year	247.3	17.57	255.6	17.83	245.2	18.72
Exercisable, end of year	205.6	19.38	203.2	19.81	191.9	20.61

* Exercised at option price ranging from $7.12 to $7.83 during 2007, option price of $7.55 during 2006, and option price ranging from $7.40 to $12.53 during 2005.

The total fair value of options that vested during the years ended December 31 was as follows (in millions):

	2007	2006	2005
Fair value of vested options	$ 81	$ 93	$ 145

We have 205.6 million fully-vested stock options, with a weighted-average exercise price of $19.38 and remaining term of 3.8 years. We expect 40.9 million stock options (after forfeitures), with a weighted-average exercise price of $8.63 and remaining term of 8.4 years to vest in the future. There is no intrinsic value for unvested and vested options at December 31, 2007.

We received about $9 million from the exercise of stock options in 2007. The tax benefit realized was *de minimis*. An equivalent of about $11 million in treasury shares and new issues were used to settle exercised options. For options exercised during the years ended December 31, 2007, 2006, and 2005, the difference between the fair value of the common shares issued and their respective exercise price was about $1 million, $1 million, and $9 million, respectively.

Compensation cost was as follows (in millions):

	2007	2006	2005
Compensation cost	$ 75	$ 77	$ 116
Taxes	(18)	(19)	(23)
Compensation cost, net of taxes	$ 57	$ 58	$ 93

As of December 31, 2007, there was about $30 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 2007 follows:

	Shares (millions)	Weighted-Average Grant-Date Fair Value
Non-vested beginning of year	52.4	$3.22
Granted	16.3	3.57
Vested	(22.6)	3.62
Forfeited (including expirations)	(4.4)	3.65
Non-vested end of year	41.7	3.09

NOTE 17. SHARE-BASED COMPENSATION *(Continued)*

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

	2007	2006	2005
Fair value per option	$ 3.57	$ 2.07	$ 4.44
Assumptions:			
Annualized dividend yield	—%	4.9%	3.2%
Expected volatility	39.2%	39.7%	41.9%
Risk-free interest rate	4.8%	4.9%	4.4%
Expected option term (in years)	6.5	6.5	7.0

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

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares (millions)	Weighted-Average Life (years)	Weighted-Average Exercise Price	Shares (millions)	Weighted-Average Exercise Price
$ 6.84 - $10.58	66.2	7.4	$ 7.85	32.3	$ 7.96
10.62 - 15.81	50.2	6.5	13.02	42.4	13.12
15.91 - 23.88	80.9	2.6	20.05	80.9	20.05
23.97 - 35.79	49.4	2.3	30.86	49.4	30.86
41.03 - 42.52	0.6	0.3	41.42	0.6	41.42
Total options	247.3			205.6	

Restricted Stock Units

We grant performance and time-based restricted stock units to employees under the 1998 LTIP. Restricted stock units awarded in stock ("RSU-stock") provide the recipients with the right to shares of stock after a restriction period. Outstanding RSU-stock are either strictly time-based or a combination of performance and time-based. The restriction periods vary dependent upon the specific grant (1-5 years). The fair value of the units is the average of the high and low market price of our Common Stock on the grant date.

Time-based RSU-stock awards issued in 2006 and prior vest at the end of the restriction period. The expense is taken equally over the restriction period. For time-based RSU-stock awards issued in 2007, the awards vest under the graded vesting method. One-third of the RSU-stock awards vest after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. The expense is recognized in accordance with this graded vesting method. Under both methods, at the end of the restriction period, the RSU-stock is fully expensed in *Selling, administrative, and other expenses*.

Performance RSU-stock have a performance period (usually 1-3 years) and a restriction period (usually 1-3 years). Compensation expense for these awards is not recognized until it is probable and estimable. Expense is then recognized over the performance and restriction periods based on the fair market value of Ford stock at grant date**.**

RSU-stock activity during 2007 was as follows:

	Shares (millions)	Weighted-Average Grant-Date Fair value	Aggregate Intrinsic Value (millions)
Outstanding, beginning of year	3.8	$ 7.92	
Granted	15.8	7.55	
Vested	(1.2)	7.83	
Forfeited	(0.8)	7.58	
Outstanding, end of year	17.6	7.61	$ 118
RSU-stock expected to vest	16.9	N/A	113

NOTE 17. SHARE-BASED COMPENSATION *(Continued)*

The fair value and intrinsic value of RSU-stock during 2007, 2006, and 2005 were as follows (in millions, except per RSU amounts):

	2007	2006	2005
Fair value			
Granted	$ 119	$ 28	$ 3
Weighted average grant date (per RSU)	7.55	7.83	10.12
Vested	9	8	5
Intrinsic value			
Vested	8	5	2

Compensation cost was as follows (in millions):

	2007	2006	2005
Compensation cost	$ 76	$ 15	$ 6
Taxes	(27)	(5)	(2)
Compensation cost, net of taxes	$ 49	$ 10	$ 4

As of December 31, 2007, there was approximately $54 million in unrealized compensation cost related to non-vested RSU-stock. This expense will be recognized over a weighted average period of 1.4 years.

Other Share-Based Awards

Pursuant to the 1998 LTIP we also grant other share-based awards to select executives and other key employees, in addition to stock options and restricted stock units. These awards include restricted stock, cash awarded restricted stock units, performance stock rights, 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 cost was as follows (in millions):

	2007	2006	2005
Compensation cost	$ 9	$ 19	$ 24
Taxes	(3)	(7)	(8)
Compensation cost, net of taxes	$ 6	$ 12	$ 16

NOTE 18. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES

Automotive Sector

General

We began implementing a number of different employee separation actions during 2006, our accounting for which is dependent on the design of the individual benefit action.

Jobs Bank Benefits Reserve

As part of our plan to reduce and realign vehicle assembly capacity and related manufacturing to bring it more in line with demand and shifting customer preferences, we announced plans to close a number of North American manufacturing facilities. Additionally, we plan to sell or close essentially all of the remaining Automotive Components Holdings, LLC ("ACH") plants. Hourly employees working at these U.S. plants 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 2003 collective bargaining agreement with the UAW expired in September 2007. The new 2007 collective bargaining agreement continues a job security program, pursuant to which we are required to pay idled employees who meet certain conditions a portion of their wages and benefits for a specified period of time.

NOTE 18. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES *(Continued)*

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. This agreement is scheduled to expire in September 2008. We refer to these benefits under the UAW and CAW agreements as "Jobs Bank Benefits."

The Jobs Bank Benefits reserve includes an amount for benefits expected to be provided in their present form under the current UAW and CAW collective bargaining agreements. The Jobs Bank Benefits provided to our hourly employees at facilities that will be closed by 2010 are expensed when it becomes probable that the employees will be permanently idled.

We recorded the expense in *Automotive cost of sales*, and the following table summarizes the activity in the related Jobs Bank Benefits reserve:

	Reserve (in millions)		Number of employees	
	Full Year 2007	Full Year 2006	Full Year 2007	Full Year 2006
Beginning balance	$ 1,036	$ —	10,728	—
Additions to Jobs Bank/Transfers from voluntary separation program (i.e., rescissions)	232	2,583	2,220	25,849
Voluntary separations and relocations	(311)	(1,445)	(4,632)	(15,121)
Benefit payments and other adjustments	(140)	(102)	—	—
Ending balance	$ 817	$ 1,036	8,316	10,728

The reserve balance above 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.

Separation Actions

The cost of voluntary employee separation actions is recorded at the time of an employee's acceptance, unless the acceptance requires explicit approval by the Company. The costs of conditional voluntary separations are accrued when all conditions are satisfied. The costs of involuntary separation programs are accrued when management has approved the program and the affected employees are identified.

UAW Voluntary Separations. During 2006, we offered voluntary separation packages to our entire UAW hourly workforce, established a reserve for the costs associated with this action., and recorded an expense in *Automotive cost of sales.* The following table summarizes the activity in the related separation reserve:

	Reserve (in millions)		Number of employees	
	Full Year 2007	Full Year 2006	Full Year 2007	Full Year 2006
Beginning balance	$ 2,435	$ —	26,351	—
Voluntary acceptances	—	3,240	—	36,623
Payments/Terminations	(1,912)	(788)	(21,587)	(10,084)
Rescissions	(298)	(17)	(3,390)	(188)
Ending balance	$ 225	$ 2,435	1,374	26,351

The 2007 ending balance in the reserve represents, in part, the cost of separation packages for employees (1,374 shown in the table above) who accepted a retirement package and ceased duties, but who will remain on our employment rolls until they reach retirement eligibility. The reserve for these employees will be released over the period through the end of 2009. The remaining balance of the reserve reflects costs associated with employee tuition programs.

NOTE 18. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES *(Continued)*

*Other Employee Separation Action*s. Most salaried employee separations within the United States were completed by the end of the first quarter of 2007, and were achieved through early retirements, voluntary separations, and involuntary separations where necessary. These actions resulted in pre-tax charges of $154 million and $22 million in 2007 and 2006, respectively, reported in *Automotive cost of sales* and *Selling, administrative and other expenses*.

The following table shows pre-tax charges for other hourly and salaried employee separation actions for the full year 2007 and 2006 (in millions). These charges are reported in *Automotive cost of sales* and *Selling, administrative and other expenses*.

	Full Year	
	2007	2006
Ford Canada	$ 223	$ 14
Ford Europe	45	109
PAG	44	160
Ford Asia Pacific and Africa	5	61

The charges above exclude costs for pension and OPEB. See Note 24 for employee separation costs related to pension and OPEB.

Financial Services Sector

Business Restructuring - Germany

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 included the consolidation of branches into district offices and reduced ongoing costs. We recognized pre-tax charges of $30 million in 2006. In 2007, we released $12 million of the reserve related to lower-than-expected separations and paid out $14 million. The costs associated with the business restructuring were charged to *Selling, administrative and other expenses*. The restructuring was completed in 2007.

The table below summarizes the activity in the reserve as of December 31, 2007 and 2006 (in millions):

	December 31	
	2007	2006
Liability at beginning of period	$ 31	$ —
(Released)/Accrued during period	(12)	30
Paid during period	(14)	—
Foreign currency translation	2	1
Liability at end of period	$ 7	$ 31

Separation Actions

In 2007, we recognized pre-tax charges of $45 million in *Selling, administrative and other expenses* for employee separation actions in the United States and Canada. These actions were associated with Ford Credit's North American business transformation initiative (i.e., the consolidation of its North American branches into its seven existing business centers).

These charges exclude costs for pension and OPEB. See Note 24 for employee separation costs related to pension and OPEB.

NOTE 19. 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:

	2007	2006	2005
Income/(Loss) before income taxes, excluding equity in net results of affiliated companies accounted for after-tax (in millions)			
U.S.	$ (6,374)	$(15,814)	$ 40
Non-U.S.	2,225	335	743
Total	$ (4,149)	$(15,479)	$ 783
Provision for/(Benefit from) income taxes (in millions)			
Current			
Federal	$ (39)	$ —	$ 26
Non-U.S.	313	372	764
State and local	1	(8)	43
Total current	275	364	833
Deferred			
Federal	(1,710)	(4,281)	(762)
Non-U.S.	410	1,112	(822)
State and local	(269)	150	(104)
Total deferred	(1,569)	(3,019)	(1,688)
Total	$ (1,294)	$ (2,655)	$ (855)
Reconciliation of effective tax rate			
U.S. tax at statutory rate	35%	35%	35%
Non-U.S. income taxes	1	1	(11)
State and local income taxes	4	2	(4)
Deductible dividends	—	1	(20)
General business credits	6	1	(15)
Dispositions and restructurings	(6)	—	16
Medicare prescription drug benefit	2	1	(13)
Repatriation of foreign earnings under *The American Jobs Creation Act of 2004*	—	—	(33)
Prior year settlements and claims	1	3	(50)
Tax-related interest	(2)	—	—
Other	3	(1)	(13)
Valuation allowance	(13)	(26)	—
Effective rate	31%	17%	(108)%

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.

NOTE 19. INCOME TAXES *(Continued)*

The components of deferred tax assets and liabilities at December 31 were as follows (in millions):

	2007	2006
Deferred tax assets*		
Employee benefit plans	$ 10,020	$ 12,723
Net operating loss carryforwards	2,095	3,132
Tax credit carryforwards	1,169	2,649
Dealer and customer allowances and claims	2,436	2,572
Other foreign deferred tax assets	3,364	2,379
Allowance for credit losses	1,655	1,696
All other	2,873	3,531
Total gross deferred tax assets	23,612	28,682
Less: valuation allowance	(8,560)	(7,180)
Total net deferred tax assets	15,052	21,502
Deferred tax liabilities*		
Leasing transactions	5,694	7,610
Depreciation and amortization (excluding leasing transactions)	3,877	4,082
Finance receivables	866	2,631
All other	4,149	4,973
Total deferred tax liabilities	14,586	19,296
Net deferred tax assets/(liabilities)	$ 466	$ 2,206

* Includes Jaguar and Land Rover.

Operating loss carryforwards for tax purposes were $3.5 billion at December 31, 2007. A substantial portion of those losses have a remaining carryforward period beyond 2015; the remaining losses will begin to expire in 2008. Tax credits available to offset future tax liabilities are $1.2 billion. A substantial portion of these credits have a remaining carryforward period of 10 years or more. 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 $8.6 billion against the net deferred tax asset.

We adopted the provisions of Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48") on January 1, 2007. As a result of the implementation of FIN 48, we recorded an increase of $1.3 billion to *Retained earnings*. The favorable impact to *Retained earnings* was primarily the result of recognizing a receivable of approximately $1.5 billion associated with refund claims and related interest for prior years that met 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 Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies* and could not be recognized until the contingency lapsed. The amount of unrecognized tax benefits at January 1, 2007 was $1.9 billion. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	2007
Balance at January 1	$ 1,947
Increase – tax positions in prior periods	226
Increase – tax positions in current period	105
Decrease – tax positions in prior periods	(264)
Settlements	(266)
Lapse of statute of limitations	(37)
Foreign currency translation adjustment	99
Balance at December 31	$ 1,810

The amount of unrecognized tax benefits at December 31, 2007 that would affect the effective tax rate if recognized was $837 million.

NOTE 19. INCOME TAXES *(Continued)*

We do not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next twelve months.

Examinations by tax authorities have been completed through 2004 in the United Kingdom, 1999 in Germany, 2000 in Sweden, 2002 in Canada, and 2003 in the United States. Although examinations have been completed in these jurisdictions, various unresolved transfer pricing disputes exist for years dating back to 1994.

Effective with the adoption of FIN 48, we have elected to recognize accrued interest related to unrecognized tax benefits and tax related penalties in the *Provision for/(Benefit from) income taxes* on our consolidated income statement. During 2007, we recorded approximately $62 million in interest and penalties to our consolidated income statement. As of December 31, 2007, we had recorded a liability of $216 million for the payment of tax related interest and penalties.

NOTE 20. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS

Automotive Sector

Discontinued Operations

APCO. In the second quarter of 2007, the management team of APCO, together with Trident IV, L.P., a private equity fund managed by Stone Point Capital LLC, purchased APCO from us. This transaction was the result of our ongoing strategic review of our operations. As a result of the transaction, we realized a pre-tax gain of $51 million (net of transaction costs and working capital adjustments), reported in *Income/(Loss) from discontinued operations*.

The assets and liabilities of APCO that were classified as a discontinued operation at December 31, 2006 are summarized as follows (in millions):

	December 31, 2006
Assets	
Cash and cash equivalents	$ —
Receivables	20
Net property	8
Goodwill	112
Other assets	16
Total assets of the discontinued operations	$ 156
Liabilities	
Payables	$ 16
Other liabilities	22
Total liabilities of the discontinued operations	$ 38

The results of all discontinued Automotive sector operations are as follows (in millions):

	2007	2006	2005
Sales	$ 13	$ 59	$ 64
Operating income/(loss) from discontinued operations	$ 2	$ 23	$ 20
Gain/(Loss) on discontinued operations	51	3	13
(Provision for)/Benefit from income taxes	(18)	(10)	(12)
Income/(Loss) from discontinued operations	$ 35	$ 16	$ 21

At December 31, 2007, there were no significant assets or liabilities remaining on our balance sheet related to discontinued operations.

NOTE 20. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS *(Continued)*

Held-for-Sale Operations

Jaguar and Land Rover. During 2007, management committed to sell Jaguar and Land Rover in order to restructure our core Automotive operations and build liquidity. Any transaction that we enter into would be expected to close during the second quarter of 2008. Accordingly, we have reported Jaguar and Land Rover as held for sale and have ceased depreciating its long-lived assets.

The assets and liabilities of Jaguar and Land Rover classified as held-for-sale operations are summarized as follows (in millions):

	December 31, 2007	December 31, 2006
Assets		
Receivables	$ 758	$ 590
Inventories	1,530	1,404
Net property	2,246	2,119
Goodwill and other net intangibles*	2,010	3,210
Pension assets	696	3
Other assets	297	122
Total assets of the held-for-sale operations	$ 7,537	$ 7,448
Liabilities		
Payables	$ 2,395	$ 2,202
Pension liabilities	19	380
Warranty liabilities	645	759
Other liabilities	2,022	2,050
Total liabilities of the held-for-sale operations	$ 5,081	$ 5,391

* For further discussion of goodwill allocated to Jaguar and Land Rover, see Note 13.

Aston Martin. In 2007, Ford Motor Company and its subsidiary, Jaguar Cars Limited, completed the sale of our 100% interest in Aston Martin. As a result of the sale, we recognized a pre-tax gain of $181 million (net of transaction costs and working capital adjustments) reported in *Automotive interest income and other non-operating income/(expense), net*.

The assets and liabilities of Aston Martin that were classified as a held-for-sale operation at December 31, 2006 are summarized as follows (in millions):

	December 31, 2006
Assets	
Cash and cash equivalents	$ (2)
Receivables	80
Inventories	93
Net property	251
Other net intangibles	4
Other assets	22
Total assets of the held-for-sale operations	$ 448
Liabilities	
Payables	$ 106
Warranty liabilities	38
Other liabilities	64
Total liabilities of the held-for-sale operations	$ 208

NOTE 20. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS *(Continued)*

Converca Plant. In 2007, we sold to the Linamar Corporation the major part of our Converca plant, a component of ACH in Mexico, which produces power transfer units. As a result of the transaction, ACH reported a pre-tax gain on the sale of $3 million, net of transaction costs and liabilities assumed, reported in *Automotive interest income and other non-operating income/(expense), net.*

The Converca assets sold in 2007 that were classified as a held-for-sale operation at December 31, 2006 are summarized as follows (in millions):

	December 31, 2006
Assets	
Inventories	$ 15
Net property	50
Total assets of the held-for-sale operation	$ 65

El Jarudo Plant. In 2007, we completed a sale agreement with Cooper-Standard Automotive Inc. for our El Jarudo plant, a component of ACH in Mexico, which produces fuel rails, fuel charging assemblies, and spring lock connectors. As a result of the sale, we recognized a *de minimis* pre-tax loss.

European dealerships. In 2007, Ford Motor Company and its subsidiary, FIECO Holdings GmbH, completed the sale of its interest in three European dealerships to MVC Automotive Group B.V. As a result of the transaction, we recognized a pre-tax loss on the sale of $14 million, net of transaction costs and recognition of foreign currency translation adjustments. This was reported in *Automotive interest income and other non-operating income/(expense), net.*

The assets and liabilities of the three dealerships classified as held-for-sale operations at December 31, 2006 are summarized as follows (in millions):

	December 31, 2006
Assets	
Receivables	$ 25
Inventories	46
Net property	14
Other assets	1
Total assets of the held-for-sale operations	$ 86
Liabilities	
Payables	$ 11
Other liabilities	6
Total liabilities of the held-for-sale operations	$ 17

Beanstalk Group, LLC ("Beanstalk"). In 2005, we completed the sale of Beanstalk and 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.

Asia Pacific and Africa/Mazda dealerships. In 2005, we completed the sale of certain consolidated dealerships in the Ford Asia Pacific and Africa/Mazda segment and recognized a pre-tax gain of $14 million reflected in *Automotive interest income and other non-operating income/(expense), net*.

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.

NOTE 20. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS *(Continued)*

We also completed the exchange of 8.3 million shares in Ballard for an equity interest (50%) in NuCellsys Holding GmbH, a 50/50 joint venture with Daimler AG ("Daimler"). 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. At December 31, 2007, our remaining ownership interest in Ballard was 11.2%. In the first quarter of 2008, Ford and Daimler entered into a restructuring agreement with Ballard to sell Ballard's automotive fuel unit to Ford and Daimler. As a result, Ford recorded a loss of about $70 million in the first quarter of 2008.

Acquisitions

Troller Veiculos Especiais LTDA ("Troller"). In December 2006, we purchased 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. In accordance with the purchase agreement, we paid $27 million (including interest) in 2007. The remaining balance, which has been classified as debt, will be paid over the course of three years. As part of the transaction related to this acquisition, we have recorded an intangible asset of $246 million.

Visteon Corporation ("Visteon"). In 2005, we finalized an agreement with 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	$ 881
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	$ (1,349)

* 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.

ACH. ACH has entered into non-binding or conditional agreements for the sale of five of its businesses. The following table lists the businesses and their primary products:

Sheldon Road plant	Heating, ventilating and cooling assemblies; heat exchangers; and manual control panel components
Milan plant	Fuel tanks and bumper fascias
Nashville, Tulsa, and VidrioCar (Mexico) plants	Automotive and architectural glass products
Sandusky plant	Lighting components
Saline plant	Cockpit module, instrument panel, door trim and floor console products

Each of these sales is conditional on a successful negotiation by the buyer of labor terms with the UAW, which had not been completed by year-end. Therefore, none was classified as held for sale at December 31, 2007.

NOTE 20. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS *(Continued)*

In addition, on January 23, 2008, ACH entered into a definitive agreement for the sale of the driveshaft assets at the Monroe plant to Neapco Drivelines, LLC, following the successful negotiation by the buyer of labor terms with the UAW.

Land Rover. 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

Triad Financial Corporation ("Triad"). During the second quarter of 2005, we completed the sale of Triad. Triad specialized in automobile retail installment sales contracts with borrowers who generally would not be expected to qualify, based on their credit worthiness, for traditional financing sources such as those provided by commercial banks or automobile manufacturers' affiliated finance companies primarily through non-Ford dealerships. In 2005, Ford Credit recognized a $4 million after-tax gain on disposal of discontinued operations. During the fourth quarter of 2007, Ford Credit received additional proceeds primarily based on better-than-anticipated securitized portfolio performance, pursuant to a contractual agreement entered into at the closing of the sale, and recognized in *Financial Services revenues* an additional $6 million after-tax gain on disposal of discontinued operations.

The results of all discontinued Financial Services sector operations are as follows (in millions):

	2007	2006	2005
Revenues	$ —	$ —	$ 118
Operating income/(loss) from discontinued operations	$ —	$ —	$ 59
Gain/(Loss) on discontinued operations	10	—	(16)
(Provision for)/Benefit from income taxes	(4)	—	(2)
Income/(Loss) from discontinued operations	$ 6	$ —	$ 41

At December 31, 2007 and 2006, there were no significant assets or liabilities remaining on our balance sheet related to discontinued operations.

Held-for-Sale Operations

Hertz. 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 28.

At December 31, 2007 and 2006, there were no assets or liabilities on our balance sheet related to held-for-sale operations.

Other Dispositions

AB Volvofinans ("Volvofinans"). In 2007, we sold a majority of our interest in Volvofinans, an unconsolidated subsidiary that finances the sale of Volvo and Renault vehicles through Volvo dealers in Sweden. As a result of the transaction, we received $157 million as proceeds from the sale and recognized a pre-tax gain of $51 million reported in *Financial Services revenues*.

NOTE 21. CAPITAL STOCK AND AMOUNTS PER SHARE

All general voting power is vested in the holders of Common Stock and Class B Stock. Holders of our Common Stock have 60% of the general voting power and holders of our 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 16, 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 16, 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 16, Trust Preferred Securities with an aggregate liquidation preference of $2.9 billion are outstanding, following the conversion of 42,543,071 of Trust Preferred Securities on August 3, 2007. 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 Trust Preferred Security (equivalent to a conversion price of $17.70 per share). Conversion of all shares of such Trust Preferred Securities would result in the issuance of 162 million shares of our Common Stock.

As discussed in Note 16, on December 7, 2007, we issued an aggregate of 62,000,761 shares of Ford Common Stock in exchange for about $442 million principal amount of our 6 ⅜% Debentures due February 1, 2029 and about $125 million principal amount of our 6 ⅝% Debentures due October 1, 2028.

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 RSU-stock awards, 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):

	2007	2006	2005
Basic and Diluted Income/(Loss)			
Basic income/(loss) from continuing operations attributable to Common Stock and Class B Stock	$ (2,764)	$(12,629)	$ 1,629
Effect of dilutive senior convertible notes (a)	—	—	—
Effect of dilutive convertible preferred securities (b)	—	—	213
Diluted income/(loss) from continuing operations attributable to Common Stock and Class B Stock	$ (2,764)	$(12,629)	$ 1,842
Diluted Shares			
Average shares outstanding	1,979	1,879	1,846
Restricted and uncommitted-ESOP shares	(1)	(2)	(3)
Basic shares	1,978	1,877	1,843
Net dilutive options and restricted and uncommitted ESOP shares (c)	—	—	10
Dilutive senior convertible notes (a)	—	—	—
Dilutive convertible preferred securities (b)	—	—	282
Diluted shares	1,978	1,877	2,135

____
In 2007, 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 Trust Preferred Securities through August 2, 2007. As of August 3, 2007, following the conversion of about 43 million of our Trust Preferred Securities, 162 million shares and the related income effect are not included in the calculation.
(c) 14 million contingently issuable shares.

NOTE 22. OPERATING CASH FLOWS

The reconciliation of *Net income/(loss)* to cash flows from operating activities of continuing operations is as follows (in millions):

	2007		
	Automotive	Financial Services	Total
Net income/(loss)	$ (3,480)	$ 757	$ (2,723)
(Income)/Loss of discontinued operations	(35)	(6)	(41)
Depreciation and special tools amortization	6,763	6,289	13,052
Amortization of intangibles	106	—	106
Other amortization	57	521	578
Net losses/(earnings) from equity investments in excess of dividends received	(175)	—	(175)
Provision for credit/insurance losses	—	668	668
Foreign currency adjustments	206	—	206
Net (gain)/loss on sale of businesses	(172)	(7)	(179)
Net (gain)/loss on debt conversions	512	—	512
Net (gain)/loss on pension and OPEB curtailment	(1,164)	—	(1,164)
(Gain)/Loss on goodwill impairment	2,400	—	2,400
Stock option expense	70	6	76
Cash changes in operating assets and liabilities were as follows:			
Provision for deferred income taxes	(880)	(4,597)	(5,477)
Decrease/(Increase) in accounts receivable and other assets	313	(268)	45
Decrease/(Increase) in inventory	371	—	371
Increase/(Decrease) in accounts payable and accrued and other liabilities	(1,041)	2,389	1,348
Net sales/(purchases) of trading securities	4,537	2	4,539
Other	337	648	985
Cash flows from operating activities of continuing operations	$ 8,725	$ 6,402	$ 15,127

	2006		
	Automotive	Financial Services	Total
Net income/(loss)	$ (13,912)	$ 1,299	$ (12,613)
(Income)/Loss of discontinued operations	(16)	—	(16)
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	1,622	657	2,279
Decrease/(Increase) in inventory	(695)	—	(695)
Increase/(Decrease) in accounts payable and accrued and other liabilities	7,112	(578)	6,534
Net sales/(purchases) of trading securities	(6,762)	(9)	(6,771)
Other	(99)	362	263
Cash flows from operating activities of continuing operations	$ (4,172)	$ 7,316	$ 3,144

NOTE 22. OPERATING CASH FLOWS *(Continued)*

	2005		
	Automotive	Financial Services	Total
Net income/(loss)	$ (1,884)	$ 3,324	$ 1,440
(Income)/Loss of discontinued operations	(21)	(41)	(62)
Cumulative effects of changes in accounting principles	251	—	251
Depreciation and special tools amortization	8,156	5,854	14,010
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	(2,083)	(727)	(2,810)
Decrease/(Increase) in inventory	(94)	—	(94)
Increase/(Decrease) in accounts payable and accrued and other liabilities	2,306	(2,343)	(37)
Net sales/(purchases) of trading securities	(579)	(50)	(629)
Other	293	(172)	121
Cash flows from operating activities of continuing operations	$ 5,438	$ 6,912	$ 12,350

The reconciliation between total sector and consolidated cash flows from operating activities of continuing operations is as follows (in millions):

	2007	2006	2005
Sum of sector cash flows from operating activities of continuing operations	$ 15,127	$ 3,144	$ 12,350
Reclassification of wholesale receivable cash flows from investing to operating for consolidated presentation*	1,947	6,478	8,478
Reclassification relating to sale of vehicles to Hertz and related auction proceeds for consolidated presentation.	—	—	(436)
Consolidated cash flows from operating activities of continuing operations	$17,074	$9,622	$20,392

* In addition to vehicles sold by us, the cash flows from wholesale finance receivables being reclassified from investing to operating include financing by Ford Credit of used and non-Ford vehicles. 100% of cash flows from wholesale finance receivables have been reclassified for consolidated presentation as the portion of these cash flows from used and non-Ford vehicles are impracticable to separate.

Cash paid/(received) for interest and income taxes for continuing operations was as follows (in millions):

	2007	2006	2005
Interest			
Automotive sector	$ 2,584	$ 1,419	$ 1,506
Financial Services sector	8,346	7,483	6,319
Total interest paid	$ 10,930	$ 8,902	$ 7,825
Income taxes	$ (223)	$ 423	$ 382

NOTE 23. 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.

NOTE 23. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

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. Many of these agreements permit netting between derivative and non-derivative exposures and our accounting policy is to not offset fair value amounts of our derivative assets and liabilities. For Ford Credit, this policy represents a change as of December 31, 2007 and has been applied retrospectively to the 2006 balance sheet. 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, 2007, is $4.2 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 policies. Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting treatment. With the exception of certain electricity supply contracts, 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. We do not apply normal purchase and normal sales to certain electricity physical supply contracts which had notional balances of $65 million and $51 million on December 31, 2007 and 2006, respectively. We report changes in the fair value of these derivatives through *Automotive cost of sales.*

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)* and is recognized in *Automotive cost of sales* when the hedged item affects earnings. Our policy is to cease hedge accounting at the time forecasted transactions are recognized as assets or liabilities on the balance sheet and report subsequent changes in fair value through *Automotive cost of sales*. An amount is also reclassified from *Accumulated other comprehensive income/(loss)* and recognized in earnings if it becomes probable that the original forecasted transaction will not occur. Our cash flow hedges mature within two years or less. The exchange of cash associated with cash flow hedges which are de-designated prior to maturity is reported in *Net cash (used in)/provided by investing activities* in our statements of cash flows. The exchange of cash associated with cash flow hedges which are designated through maturity is reported in *Net cash flows from operating activities* in our statements of cash flows.

Net Investment Hedges. We have used 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 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. Changes in the value of these derivative instruments, excluding the ineffective portion of the hedge, were included in *Accumulated other comprehensive income/(loss)* as a foreign currency translation adjustment. The exchange of cash associated with these derivative transactions was reported in *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 certain foreign currency derivatives and changes in fair value of commodity derivatives and warrants. The exchange of cash associated with these derivative transactions is recorded in *Net cash (used in)/provided by investing activities* in our statements of cash flows.

NOTE 23. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Financial Services Sector

Ford Credit is exposed to interest rate changes and foreign currency exchange rate fluctuations in the normal course of business. Interest rate and currency exposures are monitored and managed by us as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce potential adverse effects on our operating results. Risk is reduced in two ways: (1) through the use of funding instruments that have interest and maturity profiles similar to the assets they are funding, and (2) through the use of interest rate and foreign exchange derivatives. Interest rate swaps are used to manage the effects of interest rate fluctuations. Foreign currency exchange agreements, including forward contracts and swaps, are used to manage foreign exchange exposure. We adhere to a risk management policy that is reviewed on a regular basis by our management. We do not engage in any speculative activities in the derivative markets.

In 2007, we did not apply designated hedge accounting to any of our derivative instruments. In prior periods presented, we elected to apply hedge accounting to certain derivatives. Derivatives that received designated hedge accounting treatment were documented and the relationships were evaluated for effectiveness at the time they were designated as well as throughout the hedge period.

Fair Value Hedges. Ford Credit uses certain derivatives to reduce the risk of changes in the fair value of liabilities. We have designated receive-fixed, pay-float interest rate swaps as hedges of existing fixed-rate debt. The risk being hedged was 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 used the dollar-offset method to assess hedge effectiveness. Hedge ineffectiveness was the difference between the change in fair value of the entire derivative instrument and the change in fair value of the hedged item attributable to changes in the benchmark interest rate. Ineffectiveness was recorded directly in earnings. The notional balances for these highly effective interest rate swaps were $0, $1.1 billion, and $1.8 billion at December 31, 2007, 2006, and 2005, respectively. Other interest rate swaps met the specific criteria to assume no ineffectiveness in the hedge relationship. These interest rate swaps had notional balances of $0, $0, and $3.8 billion at December 31, 2007, 2006, and 2005, respectively.

Cash Flow Hedges. Ford Credit has 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 no receive-float, pay-fixed interest rates swaps classified as cash flow hedges at December 31, 2007, 2006, and 2005.

Net Investment Hedges. Ford Credit has used foreign currency forwards 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 no foreign currency forwards or options classified as net investment hedges at December 31, 2007, 2006, and 2005.

Derivatives not designated as hedging instruments. In 2007, we did not apply hedge accounting to our derivatives. Some derivatives did not qualify for hedge accounting; for others, we elected not to apply 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 $181.8 billion, $158.7 billion, and $143.7 billion at December 31, 2007, 2006, and 2005, respectively.

We report the exchange of cash related to all of Ford Credit's derivative transactions, regardless of designation, in *Net cash (used in)/provided by investing activities* in our statements of cash flows.

NOTE 23. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

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):

	2007	2006	2005	Income Statement Classification
Automotive Sector				
Cash flow hedges:				
Impact of discontinued hedges (a)	$ 190	$ (8)	$ (1)	*Automotive cost of sales*
Net investment hedges:				
Ineffectiveness	(1)	40	20	*Automotive cost of sales*
Derivatives not designated as hedging instruments:				
Commodities	33	333	254	*Automotive cost of sales*
Foreign currency forward contracts (b)	420	71	(383)	*Automotive cost of sales*
Other	(53)	88	7	*Automotive cost of sales/Automotive interest income and other non-operating income/(expense), net*
Financial Services Sector				
Fair value hedges:				
Ineffectiveness	$ —	$ 11	$ (1)	*Financial Services revenues*
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	—	19	257	*Interest expense*
Foreign exchange revaluation adjustments excluded from the assessment of hedge effectiveness (b) (c)	—	160	(350)	*Financial Services revenues*
Cash flow hedges:				
Ineffectiveness	—	—	(8)	*Financial Services revenues*
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	—	—	(45)	*Interest expense*
Net investment hedges:				
Ineffectiveness	—	—	(13)	*Financial Services revenues*
Derivatives not designated as hedging instruments:				
Interest rate swaps	139	(181)	(231)	*Financial Services revenues*
Foreign currency swaps and forward contracts (b)	(338)	(149)	(1,308)	*Financial Services revenues*
Other	1	1	—	*Financial Services revenues*

____

(a) Includes reclassifications in the second quarter of 2007 from *Accumulated other comprehensive income/(loss)* in the amount of $182 million attributable to Jaguar and Land Rover forecasted transactions probable to not occur.

(b) These gains/(losses) were 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).

(c) Amount represents the portion of the derivative's fair value attributable to the change in foreign currency exchange rates.

NOTE 23. 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 (in millions):

	2007		2006	
	Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Automotive Sector				
Cash flow hedges	$ 617	$ 195	$ 1,736	$ 860
Net investment hedges	—	—	6	—
Derivatives not designated as hedging instruments	757	188	977	256
Total derivative financial instruments	$ 1,374	$ 383	$ 2,719	$ 1,116
Financial Services Sector				
Fair value hedges	$ —	$ —	$ 111	$ 1
Derivatives not designated as hedging instruments	2,811	1,349	2,334	891
Total derivative financial instruments	$ 2,811	$ 1,349	$ 2,445	$ 892

Accumulated Other Comprehensive Income/(Loss) Activity

The following table summarizes activity in *Accumulated other comprehensive income/(loss)* 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):

	2007	2006	2005
Beginning of year: net unrealized gain/(loss) on derivative financial instruments	$ 434	$ (43)	$ 1,221
Increase/(Decrease) in fair value of derivatives	178	742	(664)
Gains reclassified from *Accumulated other comprehensive income/(loss)*	(244)	(265)	(600)
End of year: net unrealized gain/(loss) on derivative financial instruments	$ 368	$ 434	$ (43)

We expect to reclassify existing net gains of $352 million from *Accumulated other comprehensive income/(loss)* to *Net income/(loss)* during the next twelve months as the underlying exposures are realized.

NOTE 24. 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.

NOTE 24. 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 $130 million in 2007, $80 million in 2006 and $134 million in 2005. This includes the expense for company matching contributions to our primary employee savings plans (United States and Canada) of $34 million in 2007, $0 in 2006 and $44 million in 2005. Company matching contributions were reinstated in June 2007.

Other Postretirement Employee Benefits

We, and certain of our subsidiaries, sponsor plans to provide other postretirement benefits for retired employees, primarily certain health care and life insurance benefits. 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 Salaried 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 replaced 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 are 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.

On November 3, 2007, we agreed in principle with the UAW on a Memorandum of Understanding that permanently shifts responsibility for providing retiree health care benefits to current and former UAW-represented employees from the Company to a New Retiree Plan ("New Plan") funded by a new independent Voluntary Employee Benefit Association Trust ("New VEBA", and together with the New Plan, "MOU"). The effective date of the MOU is anticipated to occur in the third quarter of 2008. This date is subject to, among other conditions, federal district court approval of the final settlement agreement relating to the MOU and SEC pre-clearance of the accounting treatment of the New VEBA and our retiree health care obligation.

In 2005, we entered into an agreement with the UAW ("Agreement") 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 established an independent Defined Contribution Retiree Health Benefit Trust ("UAW Benefit Trust") which serves as a non-Ford sponsored Voluntary Employee Benefits Association. The UAW Benefit Trust is used to mitigate the reduction in health plan benefits for certain eligible present and future

NOTE 24. RETIREMENT BENEFITS *(Continued)*

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. If and when the MOU is implemented, which is the later of January 1, 2010 or the date on which any appeals or challenges to court approval are exhausted, the Agreement will be superseded by the MOU.

The Agreement was 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 are amortizing the negative plan amendment on a straight-line basis over 12 years (which represented the average remaining service period of our active workforce at the effective date of the plan amendment). In addition we are accreting interest expense on the discounted value of the funding commitment noted above. The interest expense recorded was $4 million and $2 million for 2007 and 2006, respectively.

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 on August 10, 2006. As allowed by the Agreement, the second installment of $35 million was paid in cash on January 2, 2008. We are committed to make a third contribution of $43 million in 2009.

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 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 were 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. On the first anniversary of the effective date of the Agreement, another third of the 8.75 stock appreciation rights were available. As of November 3, 2007, these stock appreciation rights had not been exercised. As allowed by the Agreement, we agreed with the UAW to satisfy this obligation by making an aggregate cash contribution of $33 million to the UAW Benefit Trust on the effective date of the MOU. Using the Black-Scholes model to measure the fair value of stock appreciation rights on a graded vesting schedule, we expensed $8 million related to stock appreciation rights in 2006. An additional $25 million was expensed in 2007, 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. This is subject to change based on court approval of the final settlement agreement of the MOU. In 2007 and 2006, respectively, we expensed $152 million and $44 million of diverted wage increases.

The average annual cost savings to Ford from the Plan Amendment is about $650 million, with annual cash savings of about $200 million.

NOTE 24. RETIREMENT BENEFITS *(Continued)*

The following table summarizes the assets held by the UAW Benefit Trust and the related obligation (in millions). These amounts are excluded from our worldwide OPEB benefit obligation and plan asset values shown on the following page.

	UAW Benefit Trust	
	2007	2006
Change in Benefit Obligation		
Benefit obligation at January 1	$ 12	$ —
Benefits paid	(152)	(48)
Contributions	154	60
Actual return on trust assets	1	—
Benefit obligation at December 31	$ 15	$ 12
Change in Plan Assets		
Fair value of plan assets at January 1	$ 12	$ —
Benefits paid	(152)	(48)
Contributions	154	60
Actual return on trust assets	1	—
Fair value of plan assets at December 31	$ 15	$ 12
Net Liability Recognized	$ —	$ —

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, 2007 and 2006, we had a long-term receivable of $121 million and $127 million, respectively, representing Visteon's remaining responsibility for the benefits of the Visteon salaried employees.

The measurement date for substantially all of our worldwide postretirement benefit plans is December 31. Our expense for defined benefit pension and OPEB was as follows (in millions):

	Pension Benefits*								
	U.S. Plans			Non-U.S. Plans			Worldwide OPEB		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Service cost	$ 464	$ 680	$ 734	$ 632	$ 704	$ 630	$ 369	$ 617	$ 710
Interest cost	2,621	2,431	2,398	1,650	1,396	1,408	1,805	2,004	2,188
Expected return on assets	(3,479)	(3,379)	(3,363)	(1,905)	(1,643)	(1,633)	(256)	(479)	(500)
Amortization of:									
Prior service cost/(credit)	265	444	500	109	120	126	(996)	(815)	(245)
(Gains)/Losses and other	24	99	102	460	568	352	812	763	893
Separation programs	814	440	97	190	263	422	7	84	1
(Gain)/Loss from curtailment	176	2,535	—	(8)	206	—	(1,332)	3	—
Allocated costs to Visteon	—	—	(84)	—	—	—	5	6	(246)
Net expense	$885	$ 3,250	$ 384	$ 1,128	$ 1,614	$ 1,305	$ 414	$2,183	$2,801

* Includes Jaguar and Land Rover.

NOTE 24. RETIREMENT BENEFITS *(Continued)*

The year-end status of these plans was as follows (dollar amounts in millions):

	Pension Benefits				Worldwide OPEB	
	U.S. Plans		Non-U.S. Plans			
	2007	2006	2007	2006	2007	2006
Change in Benefit Obligation (a)						
Benefit obligation at January 1	$ 45,252	$ 43,561	$ 27,371	$ 25,113	$ 30,863	$ 39,274
Service cost	464	680	452	513	369	617
Interest cost	2,619	2,429	1,324	1,124	1,805	2,004
Amendments	1,623	(19)	12	38	(20)	(5,268)
Separation programs	813	441	169	189	7	84
Curtailments	118	1,696	10	81	6	(47)
Settlements	(3)	—	(146)	(98)	—	—
Plan participant contributions	34	39	99	88	64	44
Benefits paid	(3,937)	(3,003)	(1,660)	(1,362)	(1,699)	(1,623)
Medicare D subsidy	—	—	—	—	85	76
Foreign exchange translation	—	—	2,297	2,627	398	2
Divestiture	—	—	(75)	—	—	—
Actuarial (gain)/loss and other	(2,490)	(572)	(2,895)	(942)	(3,782)	(4,300)
Benefit obligation at December 31	$ 44,493	$ 45,252	$ 26,958	$ 27,371	$ 28,096	$ 30,863
Change in Plan Assets (a)						
Fair value of plan assets at January 1	$ 44,696	$ 41,827	$ 20,183	$ 17,138	$ 4,921	$ 6,497
Actual return on plan assets	4,860	5,684	900	1,817	79	510
Company contributions	148	149	1,515	890	—	—
Plan participant contributions	34	39	99	88	—	—
Benefits paid	(3,937)	(3,003)	(1,660)	(1,362)	(1,125)	(2,086)
Settlements	(3)	—	(146)	(109)	—	—
Foreign exchange translation	—	—	1,623	1,725	—	—
Divestiture	—	—	(75)	—	—	—
Other	(39)	—	(10)	(4)	—	—
Fair value of plan assets at December 31	$ 45,759	$ 44,696	$ 22,429	$ 20,183	$ 3,875	$ 4,921
Funded status at December 31	$ 1,266	$ (556)	$ (4,529)	$ (7,188)	$ (24,221)	$ (25,942)
Amounts Recognized on the Balance Sheet (a)						
Prepaid assets	$ 2,984	$ 1,423	$ 894	$ 143	$ —	$ —
Accrued liabilities	(1,718)	(1,979)	(5,423)	(7,331)	(24,221)	(25,942)
Total	$ 1,266	$ (556)	$ (4,529)	$ (7,188)	$ (24,221)	$ (25,942)
Amounts Recognized in Accumulated Other Comprehensive Loss (b)						
Unamortized prior service costs/(credits)	$ 2,639	$ 1,338	$ 645	$ 701	$ (6,242)	$ (8,514)
Unamortized net (gains)/losses and other	(2,288)	1,581	3,973	6,924	7,674	11,867
Total	$ 351	$ 2,919	$ 4,618	$ 7,625	$ 1,432	$ 3,353
Pension Plans in Which Accumulated Benefit Obligation Exceeds Plan Assets at December 31 (a)						
Accumulated benefit obligation	$ 1,702	$ 26,124	$ 13,579	$ 18,783		
Fair value of plan assets	64	24,241	9,244	13,327		
Accumulated Benefit Obligation at December 31 (a)	$ 43,497	$ 43,925	$ 25,227	$ 24,325		

(a) Excludes Jaguar and Land Rover.
(b) Includes Jaguar and Land Rover.

NOTE 24. RETIREMENT BENEFITS *(Continued)*

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		U.S. OPEB	
	2007	2006	2007	2006	2007	2006
Weighted Average Assumptions at December 31 (a)						
Discount rate	6.25%	5.86%	5.58%	4.89%	6.45%	5.98%
Expected return on assets	8.25%	8.50%	7.26%	7.53%	8.40%	5.50%
Average rate of increase in compensation	3.80%	3.80%	3.21%	3.61%	3.80%	3.80%
Initial health care cost trend rate	—	—	—	—	3%	6%
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						
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%
Weighted Average Asset Allocation at December 31 (b)						
Equity securities	51.3%	72.1%	55.2%	63.7%	—	—
Debt securities	46.2%	26.6%	43.6%	35.0%	100.0%	100.0%
Real estate	—	—	0.7%	0.8%	—	—
Other assets	2.5%	1.3%	0.5%	0.5%	—	—

(a) Excludes Jaguar and Land Rover.
(b) Weighted average asset allocation based on major non-U.S. plans including U.K., Canada, Germany, Sweden, Netherlands, Belgium and Australia. Excludes Jaguar and Land Rover plans.

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 2007 by approximately $3.5 billion/$(2.8) billion and the service and interest component of health care expense for 2007 by $340 million/$(270) million.

As a result of plans to close North American manufacturing facilities and providing various separation programs (both discussed in Note 18), we have recognized curtailments due to the significant reduction in the expected aggregate years of future service of the employees in the U.S. and Canadian pension and OPEB plans. The financial impact of the curtailments is reflected in the tables above and are recorded in *Automotive cost of sales* and *Selling, administrative and other expenses*.

On December 31, 2006, we adopted certain recognition and disclosure provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132R* ("SFAS No. 158"). 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).*

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			
	U.S. Plans	Non-U.S. Plans	Worldwide OPEB	Total
Prior service cost/(credit)*	$ 370	$ 100	$ (860)	$ (390)
(Gains)/Losses and other*	20	170	350	540

* Excludes Jaguar and Land Rover.

Plan Contributions and Drawdowns

Pension. Our policy for funded pension 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 2007, we made $1.6 billion of cash contributions to our funded pension plans. During 2008, we expect to contribute to our worldwide pension plans (including Jaguar and Land Rover plans) $2.3 billion from available Automotive cash and cash equivalents. This amount includes about $400 million of benefit payments paid directly by us for unfunded plans. Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2008.

NOTE 24. RETIREMENT BENEFITS *(Continued)*

Health Care and Life Insurance. In 2007, we withdrew $1.1 billion from the VEBA as reimbursement for U.S. hourly retiree health care and life insurance benefit payments. During 2008 we expect to withdraw about $90 million from the VEBA as reimbursement for U.S. hourly retiree life insurance benefit payments. As part of the MOU, we agreed with the UAW to not make any further withdrawals from the VEBA for health care benefits after December 31, 2007.

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*		Worldwide OPEB	
	U.S. Plans	Non-U.S. Plans		
	Gross Benefit Payments	Gross Benefit Payments	Gross Benefit Payments	Subsidy Receipts
2008	$ 3,910	$ 1,510	$ 1,820	$ (70)
2009	3,850	1,480	1,900	(70)
2010	3,770	1,500	1,910	(80)
2011	3,620	1,520	1,950	(80)
2012	3,530	1,550	1,980	(90)
2013 - 2017	16,390	8,130	10,400	(560)

* Excludes Jaguar and Land Rover.

Plan Asset Information

Pension. Our investment strategy for pension assets has a long-term horizon, in keeping with the long-term nature of the liabilities. Our prior target pension asset allocations disclosed in our 2006 Form 10-K Report were about 70% equity investments and 30% fixed income investments, with less than one percent in alternative investments (such as private equity). In July 2007, to reduce the volatility of the value of our U.S. pension assets relative to U.S. pension liabilities, we revised our investment strategy to reduce the proportion of equity investments and increase the proportion of assets in fixed income and alternative investments. Specifically, we disclosed a revised target asset allocation for year-end 2007 of about 50% public equity investments, 45% fixed income investments, and up to 5% alternative investments. The target asset allocation for Ford U.K. plans is about 65% public equity investments and 35% fixed income investments.

In order to reduce the volatility of the value of our U.S. pension assets relative to U.S. pension liabilities, we have made further changes to our investment strategy to reduce the proportion of public equity investments and increase the proportion of assets in alternative investments. Our new target asset allocation, which we expect to reach within the next five years, is about 30% public equity investments, 45% fixed income investments, and up to 25% alternative investments (e.g., private equity, real estate, and hedge funds).

All assets are externally managed and most assets are actively managed. 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 2007 and 2006.

Public equity and fixed income 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. Interest rate derivatives are also used to adjust portfolio duration. 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.

Alternative investment managers are permitted to employ leverage (including through the use of derivatives or other tools) that may alter economic exposure.

NOTE 24. RETIREMENT BENEFITS *(Continued)*

The equity allocation shown at year-end 2007 and 2006 includes public equity securities. Other assets include private equity investments, hedge funds, and 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 2007 is 8.25% for U.S. plans, 7.75% for U.K. plans and averages 7.26% for non-U.S. plans. A generally consistent approach is used worldwide to develop this assumption. This approach considers various sources, primarily inputs from a range of advisors for long-term capital market returns, inflation, bond yields and other variables, adjusted for specific aspects of our investment strategy by plan. Historical returns are also considered where appropriate.

At December 31, 2007, our actual 10-year annual rate of return on pension plan assets was 8.84% and 6.45% for U.S. and the U.K. plans, respectively. At December 31, 2006, our actual 10-year annual rate of return on pension plan assets was 9.71% and 7.91% for U.S. and the U.K. plans, respectively.

Health Care and Life Insurance. At December 31, 2007, we had $3.9 billion of VEBA assets all of which were invested in shorter-duration fixed income investments. All of the assets are managed externally. Ford securities comprised less than five percent of the market value of the total assets during 2007 and 2006.

As part of the MOU, we agreed with the UAW to not make further withdrawals from the VEBA for health care benefits after December 31, 2007. The target asset allocation will change from shorter-duration fixed income to about 70% public equity investments and 30% longer –duration fixed income investments in 2008 for the retiree health care VEBA.

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 retiree health care VEBA is 8.50%, which reflects historical 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 expected return assumption applicable to the retiree life insurance VEBA is 5.50%. This assumption reflects the external investment managers' expectations of likely returns on short-duration VEBA assets over the next several years.

NOTE 25. 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.

Automotive Sector

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).

NOTE 25. SEGMENT INFORMATION *(Continued)*

Ford South America segment includes primarily the sale of Ford-brand vehicles and related service parts in South America.

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, and Land Rover) 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 owned 33.4% at December 31, 2007, 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 a "where-sold," absolute cost basis, eliminating the effect of legal entity transfer prices within the Automotive sector for vehicles, components and product engineering.

Financial Services Sector

The Financial Services sector includes the following segments: Ford Credit and Other Financial Services. Ford Credit provides vehicle-related financing, leasing, and insurance. Other Financial Services includes a variety of business including holding companies, real-estate, and the financing and leasing of Volvo vehicles. The Hertz segment was sold in December 2005.

NOTE 25. SEGMENT INFORMATION *(Continued)*

(In millions)	Automotive Sector								
	Ford North America	Ford South America	Total The Americas	Ford Europe	PAG	Total Ford Europe & PAG	Ford Asia Pacific & Africa/ Mazda	Other	Total
2007									
Sales/Revenues									
External customer	$ 69,365	$ 7,585	$ 76,950	$ 36,330	$ 33,067	$ 69,397	$ 8,032	$ —	$ 154,379
Intersegment	523	—	523	712	271	983	—	—	1,506
Income									
Income/(Loss) before income taxes	(4,161)	1,172	(2,989)	744	(1,872)	(1,128)	206	(1,059)	(4,970)
Other disclosures:									
Depreciation and special tools amortization	3,685	117	3,802	1,423	1,153	2,576	385	—	6,763
Amortization of intangibles	17	69	86	7	12	19	1	—	106
Interest expense	—	—	—	—	—	—	—	2,252	2,252
Automotive interest income	87	—	87	—	—	—	—	1,626	1,713
Cash outflow for capital expenditures	2,825	183	3,008	1,366	1,269	2,635	328	—	5,971
Unconsolidated affiliates									
Equity in net income/(loss)	155	—	155	4	—	4	230	—	389
Total assets at year-end									118,489
2006									
Sales/Revenues									
External customer	$ 69,367	$ 5,697	$ 75,064	$ 30,394	$ 30,028	$ 60,422	$ 7,763	$ —	$ 143,249
Intersegment	393	—	393	878	233	1,111	4	—	1,508
Income									
Income/(Loss) before income taxes	(15,992)	661	(15,331)	371	(2,322)	(1,951)	(5)	247	(17,040)
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	75	—	75	—	—	—	—	1,334	1,409
Cash outflow 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	$ 80,601	$ 4,366	$ 84,967	$ 29,918	$ 30,283	$ 60,201	$ 8,245	$ —	$ 153,413
Intersegment	3,398	—	3,398	1,613	541	2,154	131	—	5,683
Income									
Income/(Loss) before income taxes	(2,469)	399	(2,070)	(437)	(1,634)	(2,071)	297	(55)	(3,899)
Other disclosures:									
Depreciation and special tools amortization	3,745	68	3,813	1,285	2,764	4,049	294	—	8,156
Amortization of intangibles	28	1	29	7	12	19	1	—	49
Interest expense	—	—	—	—	—	—	—	1,220	1,220
Automotive interest income	46	—	46	—	—	—	—	1,139	1,185
Cash outflow for capital expenditures	3,874	84	3,958	1,232	1,673	2,905	259	—	7,122
Unconsolidated affiliates									
Equity in net income/(loss)	92	—	92	—	—	—	193	—	285
Total assets at year-end									113,825

NOTE 25. SEGMENT INFORMATION *(Continued)*

(In millions)

	Financial Services Sector (a)					Total Company	
	Ford Credit	Hertz	Other Financial Services	Elims	Total	Elims (b)	Total
2007							
Sales/Revenues							
External customer	$ 17,772	$ —	$ 304	$ —	$ 18,076	$ —	$ 172,455
Intersegment	866	—	29	(7)	888	(2,394)	—
Income							
Income/(Loss) before income taxes	1,215	—	9	—	1,224	—	(3,746)
Other disclosures:							
Depreciation and special tools amortization	6,257	—	32	—	6,289	—	13,052
Amortization of intangibles	—	—	—	—	—	—	106
Interest expense	8,630	—	45	—	8,675	—	10,927
Automotive interest income	—	—	—	—	—	—	1,713
Cash outflow for capital expenditures	2	—	49	—	51	—	6,022
Unconsolidated affiliates							
Equity in net income/(loss)	14	—	—	—	14	—	403
Total assets at year-end	169,023	—	10,520	(10,282)	169,261	(2,023)	285,727
2006							
Sales/Revenues							
External customer	$ 16,553	$ —	$ 263	$ —	$ 16,816	$ —	$ 160,065
Intersegment	694	—	31	(7)	718	(2,226)	—
Income							
Income/(Loss) before income taxes	1,953	—	13	—	1,966	—	(15,074)
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	167,973	—	10,554	(8,836)	169,691	(1,467)	290,858
2005							
Sales/Revenues							
External customer	$ 15,883	$ 7,403	$ 136	$ —	$ 23,422	$ —	$ 176,835
Intersegment	597	20	55	(47)	625	(6,308)	—
Income							
Income/(Loss) before income taxes	2,923	1,980	50	—	4,953	—	1,054
Other disclosures:							
Depreciation and special tools amortization	4,507	1,310	37	—	5,854	—	14,010
Amortization of intangibles	—	6	—	—	6	—	55
Interest expense	6,616	511	70	—	7,197	—	8,417
Automotive interest income	—	—	—	—	—	—	1,185
Cash outflow for capital expenditures	48	335	11	—	394	—	7,516
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

(a) Financial Services sector's interest income is recorded as *Financial Services revenues.*
(b) Includes intersector transactions occurring in the ordinary course of business.

NOTE 26. GEOGRAPHIC INFORMATION (in millions)

	2007		2006		2005	
	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	$ 80,874	$ 37,355	$ 81,096	$ 36,094	$ 96,643	$ 37,671
Canada	9,363	10,311	8,075	9,279	7,939	8,061
Mexico	2,826	1,052	3,461	992	3,374	1,057
Total North America	93,063	48,718	92,632	46,365	107,956	46,789
Europe						
United Kingdom	17,277	3,559	15,850	3,544	15,264	3,132
Germany	8,381	5,484	7,006	4,974	7,642	4,518
Sweden	5,240	4,413	4,290	4,241	4,412	3,399
Other	29,146	3,409	22,934	3,349	23,201	3,136
Total Europe	60,044	16,865	50,080	16,108	50,519	14,185
All Other	19,348	3,911	17,353	3,369	18,360	3,148
Total	$ 172,455	$ 69,494	$ 160,065	$ 65,842	$ 176,835	$ 64,122

NOTE 27. SUMMARY QUARTERLY FINANCIAL DATA (unaudited)

	2007				2006			
(In millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Automotive Sector								
Sales	$38,630	$40,106	$36,270	$39,373	$36,961	$37,811	$32,541	$35,936
Operating income/(loss)	(159)	700	16	(4,825)	(2,670)	(1,262)	(7,802)	(6,210)
Income/(Loss) before income taxes	(338)	821	(712)	(4,741)	(2,723)	(1,093)	(7,114)	(6,110)
Financial Services Sector								
Revenues	4,389	4,136	4,808	4,743	3,828	4,067	4,554	4,367
Income/(Loss) before income taxes	294	105	556	269	375	425	750	416
Total Company								
Income/(Loss) before income taxes	(44)	926	(156)	(4,472)	(2,348)	(668)	(6,364)	(5,694)
Income/(Loss) before cumulative effects of changes in accounting principles	(282)	750	(380)	(2,811)	(1,423)	(317)	(5,248)	(5,625)
Net income/(loss)	(282)	750	(380)	(2,811)	(1,423)	(317)	(5,248)	(5,625)
Common and Class B per share from income/(loss) before cumulative effects of changes in accounting principles								
Basic	$ (0.15)	$ 0.40	$ (0.19)	$ (1.33)	$ (0.76)	$ (0.17)	$ (2.79)	$ (2.98)
Diluted	(0.15)	0.31	(0.19)	(1.33)	(0.76)	(0.17)	(2.79)	(2.98)

NOTE 28. 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):

	2008	2009	2010	2011	2012	Thereafter	Total
Automotive sector	$ 471	$ 347	$ 236	$ 137	$ 76	$ 276	$1,543
Financial Services sector	128	110	86	52	35	90	501

Rental expense was as follows (in billions):

	2007	2006	2005
Rental expense	$ 1.0	$ 1.0	$ 1.5

Guarantees

The fair values of guarantees and indemnifications during 2007 and 2006 are recorded in the financial statements. At December 31, 2007 and 2006, 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 $7.6 million for 2007 and $100 million for 2006, the majority of which relates to the Automotive sector. The decrease in potential payments is due primarily to the expiration of guarantees related to a joint venture.

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 $18 million for 2007 and $23 million for 2006, 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, Ford Motor Company Capital Trust II. On August 3, 2007, we completed a conversion offer related to our Trust Preferred Securities. For further discussion of our Trust Preferred Securities, see Notes 16 and 21.

NOTE 28. COMMITMENTS AND CONTINGENCIES *(Continued)*

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; 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.

Warranty

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):

	2007	2006
Beginning balance	$ 5,235	$ 5,849
Payments made during the period	(3,287)	(3,508)
Changes in accrual related to warranties issued during the period	2,894	3,005
Changes in accrual related to pre-existing warranties	(232)	(280)
Foreign currency translation and other	252	169
Ending balance	$ 4,862	$ 5,235

The warranty reconciliation excludes divested and held-for-sale operations as of 2007 and 2006. For further discussion of these amounts, see Note 20.

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 but not limited to 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, 2007. 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.

NOTE 28. COMMITMENTS AND CONTINGENCIES *(Continued)*

Conditional Asset Retirement Obligations

On December 31, 2005, we adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"). In accordance with FIN 47, we accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets for which the fair value of the liability can be reasonably estimated.

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. Once a triggering event occurs and additional regulated substance asset retirement obligations can be estimated, those costs are included as part of the liability.

Upon adoption of FIN 47, the full amount of our estimate of conditional asset retirement obligations related to asbestos abatement and PCB removal was expensed, as an after-tax charge of $251 million shown in *Cumulative effects of changes in accounting principles* at December 31, 2005. The liability for conditional asset retirement obligations was $390 million and $399 million at December 31, 2007 and 2006, respectively.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Ford Motor Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ford Motor Company and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting in this Annual Report. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Our audits were 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 19 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in 2007. As discussed in Note 24, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans, and, as discussed in Note 2, the Company also changed the timing of its annual goodwill and other intangible assets impairment testing, and its amortization method for special tools in 2006. As discussed in Note 28, the Company changed the manner in which it accounts for conditional asset retirement obligations in 2005.

Report of Independent Registered Public Accounting Firm

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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Detroit, MI
February 27, 2008

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).

	2007	2006	2005	2004	2003
SUMMARY OF OPERATIONS					
Total Company					
Sales and revenues	$172,455	$160,065	$176,835	$172,255	$ 166,040
Income/(Loss) before income taxes	$ (3,746)	$ (15,074)	$ 1,054	$ 4,087	$ 893
Provision/(Credit) for income taxes	(1,294)	(2,655)	(855)	634	(54)
Minority interests in net income of subsidiaries	312	210	280	282	314
Income/(Loss) from continuing operations	(2,764)	(12,629)	1,629	3,171	633
Income/(Loss) from discontinued operations	41	16	62	(133)	(130)
Cumulative effects of change in accounting principle	—	—	(251)	—	(264)
Net income/(loss)	$ (2,723)	$ (12,613)	$ 1,440	$ 3,038	$ 239
Automotive Sector					
Sales	$154,379	$143,249	$153,413	$147,058	$ 139,378
Operating income/(loss)	(4,268)	(17,944)	(4,211)	(221)	(1,056)
Income/(Loss) before income taxes	(4,970)	(17,040)	(3,899)	(200)	(1,408)
Financial Services Sector					
Revenues	$ 18,076	$ 16,816	$ 23,422	$ 25,197	$ 26,662
Income/(Loss) before income taxes	1,224	1,966	4,953	4,287	2,301
Total Company Data Per Share of Common and Class B Stock					
Basic:					
Income/(Loss) from continuing operations	$ (1.40)	$ (6.73)	$ 0.88	$ 1.74	$ 0.34
Income/(Loss) from discontinued operations	0.02	0.01	0.04	(0.08)	(0.07)
Cumulative effects of change in accounting principle	—	—	(0.14)	—	(0.14)
Net income/(loss)	$ (1.38)	$ (6.72)	$ 0.78	$ 1.66	$ 0.13
Diluted:					
Income/(Loss) from continuing operations	$ (1.40)	$ (6.73)	$ 0.86	$ 1.59	$ 0.34
Income/(Loss) from discontinued/held-for-sale operations	0.02	0.01	0.03	(0.07)	(0.07)
Cumulative effects of change in accounting principle	—	—	(0.12)	—	(0.14)
Net income/(loss)	$ (1.38)	$ (6.72)	$ 0.77	$ 1.52	$ 0.13
Cash dividends	$ —	$ 0.25	$ 0.40	$ 0.40	$ 0.40
Common Stock price range (NYSE Composite)					
High	$ 9.70	$ 9.48	$ 14.75	$ 17.34	$ 17.33
Low	6.65	6.06	7.57	12.61	6.58
Average number of shares of Ford Common and Class B Stock outstanding (in millions)	1,979	1,879	1,846	1,830	1,832
SECTOR BALANCE SHEET DATA AT YEAR-END					
Assets					
Automotive sector	$118,489	$122,634	$113,825	$113,251	$ 111,208
Financial Services sector	169,261	169,691	162,194	189,188	195,509
Intersector elimination	(2,023)	(1,467)	(83)	(2,753)	(3,356)
Total assets	$285,727	$290,858	$275,936	$299,686	$ 303,361
Long-term Debt					
Automotive sector	$ 25,777	$ 28,512	$ 16,896	$ 17,245	$ 18,752
Financial Services sector	114,478	115,859	103,080	112,080	123,655
Total long-term debt	$140,255	$144,371	$119,976	$129,325	$ 142,407
Stockholders' Equity	$ 5,628	$ (3,465)	$ 13,442	$ 17,437	$ 13,459

Employment Data

The approximate number of individuals employed by us and our consolidated entities (including entities we do not control) at December 31, 2007 and 2006 was as follows (in thousands):

	2007	2006
Business Unit		
Automotive		
The Americas		
Ford North America	94	128
Ford South America	14	13
Ford Europe and PAG		
Ford Europe	68	66
PAG	42	45
Ford Asia Pacific and Africa	17	18
Financial Services		
Ford Motor Credit Company	11	13
Total	246	283

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 are represented by unions and covered by collective bargaining agreements. In the United States, approximately 99% of these unionized hourly employees in our Automotive sector are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW" or "United 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.

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, subject to certain conditions. As a practical matter, these agreements may restrict our ability to close plants and divest businesses during the terms of the agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operation – Overview" for discussion of our recently-negotiated UAW agreement. This agreement with the UAW expires on September 14, 2011. Our agreement with the CAW expires on September 16, 2008. Historically, negotiation of new collective bargaining agreements with the UAW and CAW typically resulted in increases in wages and benefits, including retirement benefits.

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, 2007. 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, 2007.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein.

New York Stock Exchange Required Disclosures

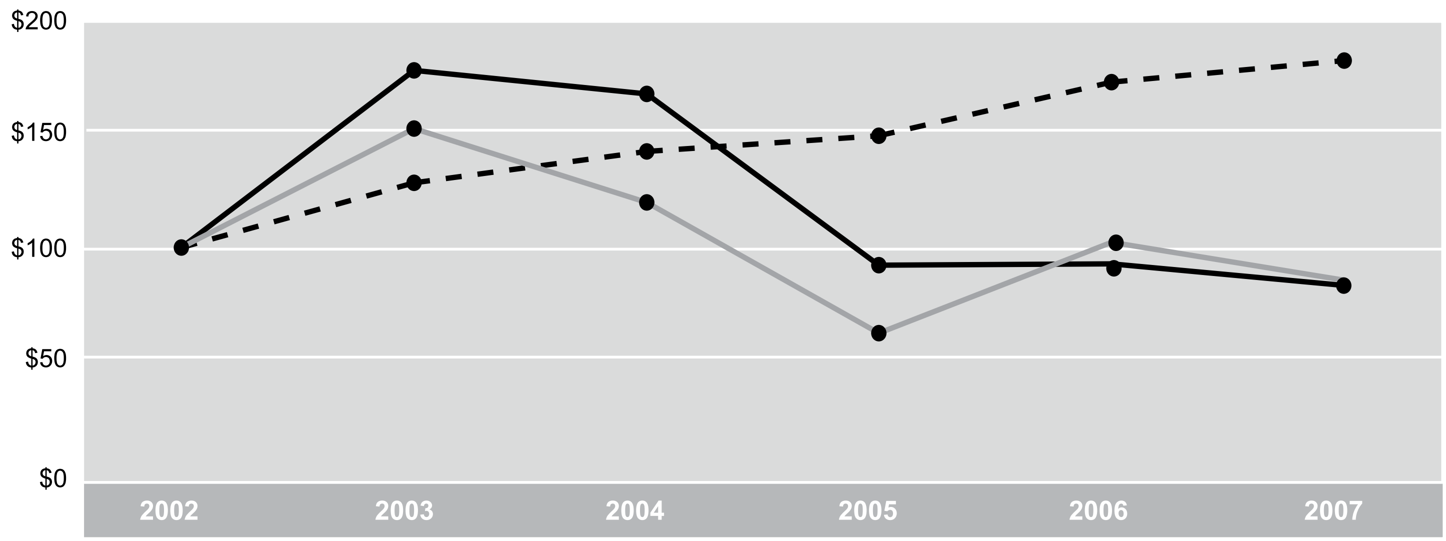
On June 5, 2007, Ford's Chief Executive Officer certified that he was not aware of any violation by the Company of the New York Stock Exchange's Corporate Governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12 (b), of which there was none.

We have filed with the Securities and Exchange Commission, as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2007, our Chief Executive Officer's and Chief Financial Officer's certifications required by Section 302 of the Sarbanes-Oxley Act of 2002.

Stock Performance Graph

SEC rules require annual reports to contain a performance graph comparing, over a five-year period, the performance of our common stock against the Standard & Poor's 500 Stock Index and against either a published industry or line-of-business index or a group of peer issuers. Ford chose the other principal U.S. auto manufacturer – General Motors – as its peer issuer for the graph. We think this approach is more informative since a relevant line-of-business index would merely combine the U.S. automakers. The graph assumes an initial investment of $100 and the reinvestment of dividends.

COMPARISON OF FIVE-YEAR CUMULATIVE SHAREHOLDER RETURN



Total Return To Shareholders
(Includes reinvestment of dividends)

Indexed Returns

Company / Index	Base Period Dec. 2002	Years Ending Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
FORD MOTOR COMPANY	100	179	168	92	93	83
S&P 500 INDEX	100	129	143	150	173	183
GENERAL MOTORS CORPORATION	100	153	120	62	102	86

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

Ford Motor Company
One American Road
Dearborn, MI 48126
(313) 322-3000

SHAREHOLDER ACCOUNT ASSISTANCE

Computershare Trust Company, our transfer agent, maintains the records for our registered stockholders and can help you with a variety of stockholder-related services. Computershare offers the DirectSERVICE Investment and Stock Purchase Program. This shareholder-paid program provides an alternative to traditional retail brokerage methods of purchasing, holding, and selling Ford Common Stock. You can contact Computershare through the following methods:

Ford Shareholder Services Group	Telephone:	(800) 279-1237 (U.S. and Canada)
Computershare Trust Company, N.A.		(781) 575-2732 (International)
P.O. Box 43087		
Providence, Rhode Island 02940-3087	E-mail:	fordteam@computershare.com

INVESTOR INFORMATION

Investor information including this report, quarterly financial results, press releases, and various other reports are available online at www.shareholder.ford.com. Alternatively, individual investors may contact us at:

Ford Motor Company	Telephone:	(800) 555-5259 (U.S. and Canada)
Shareholder Relations		(313) 845-8540 (International)
One American Road	Fax:	(313) 845-6073
Dearborn, MI 48126		
	E-mail:	stockinf@ford.com

Security analysts and institutional investors may contact:

Ford Motor Company	Telephone:	(313) 390-4563
Investor Relations	Fax:	(313) 845-6073
One American Road		
Dearborn, MI 48126	E-mail:	fordir@ford.com

STOCK EXCHANGES

Ford Common Stock is listed and traded on the New York Stock Exchange in the United States and on stock exchanges in Belgium, France, Switzerland, and the United Kingdom. Depository shares representing the Convertible Trust Preferred Securities of Ford Motor Company Capital Trust II are listed and traded on the New York Stock Exchange (NYSE) only.

The NYSE trading symbols are as follows:

F Listed NYSE THE NEW YORK STOCK EXCHANGE

F	Common Stock
F.PrS 6.5%	Convertible Trust Preferred Securities of Ford Motor Company Capital Trust II

ANNUAL MEETING

The 2008 Annual Meeting of Shareholders will be held in Wilmington, Delaware, on May 8, 2008. A notice of the meeting, proxy statement, and voting card will be mailed to shareholders in advance of the meeting.

Sandy Alexander Inc., an ISO 14001:2004 certified printer with Forest Stewardship Council (FSC) Chain of Custody and Green e-certifications, printed this report with the use of renewable wind power resulting in nearly zero volatile organic compound (VOC) emissions. The report was printed on paper with 10% post consumer waste content. Please recycle.

GLOBAL OVERVIEW*

	Automotive Core and Affiliate Brands						
	Ford	Lincoln	Mercury	Jaguar	Volvo	Land Rover	Mazda
Dealers and Markets**	10,963 dealers 111 markets	1,466 dealers 31 markets	1,916 dealers 20 markets	859 dealers 93 markets	2,369 dealers 105 markets	1,397 dealers 175 markets	5,899 dealers 133 markets
Retail Vehicle Sales and Sales Mix	5,298,471 **Sales Mix:** 46% N. America 35% Europe 9% Asia Pacific 8% S. America 2% Rest-of-world	143,886 **Sales Mix:** 99% N. America 1% Rest-of-world	177,896 **Sales Mix:** 96% N. America 4% Rest-of-world	60,485 **Sales Mix:** 59% Europe 27% N. America 9% Asia Pacific 5% Rest-of-world	458,323 **Sales Mix:** 57% Europe 26% N. America 9% Rest-of-world 8% Asia Pacific	226,395 **Sales Mix:** 60% Europe 23% N. America 8% Rest-of-world 7% Asia Pacific 2% S. America	1,335,148*** **Sales Mix:** 36% Asia Pacific 30% N. America 24% Europe 6% Rest-of-world 4% S. America
Customer Assistance	**1.800.392.3673** www.fordvehicles.com Click on "contact us"	**1.800.521.4140** www.lincoln.com Click on "contact us"	**1.800.392.3673** www.mercuryvehicles.com Click on "contact us"	**1.800.452.4827** www.jaguar.com Select market and click on "contact us"	**1.800.458.1552** www.volvocars.com customercare@volvoforlife.com	**1.800.637.6837** www.landrover.com Select market and click on "company," then "contact us"	**1.800.222.5500** www.mazdausa.com customerassistance@mazdausa.com

	Financial Services	Customer Services		
	Ford Motor Credit Company	Genuine Parts & Service	Motorcraft / Custom accessories	Extended Service Plan
Operations	– Provides automotive financing for Ford, Lincoln, Mercury, Jaguar, Land Rover, Volvo and Mazda dealers and customers – One of the world's largest automotive finance companies, with managed receivables of $147 billion at year-end 2007	– A total service experience for Ford, Lincoln and Mercury owners available only at Ford and Lincoln Mercury dealerships — designed to deliver customer satisfaction and repeat purchase intent – Parts engineered to Ford Motor Company specifications – Technicians trained and certified specifically on Ford, Lincoln and Mercury vehicles	**Motorcraft Parts** – New and remanufactured parts designed, engineered and recommended by Ford Motor Company and available in Ford, Lincoln and Mercury franchised dealerships, Ford authorized distributors and thousands of major retail and repair locations **Genuine Ford Accessories** – Wide variety of customer accessories designed to personalize Ford, Lincoln and Mercury vehicles	**Extended Service Business** – Providing comprehensive vehicle service contract and maintenance programs **Ford Extended Service Plan (ESP)** – Major customers include Ford, Lincoln and Mercury vehicle dealers, commercial customers and fleets of Ford Motor Company vehicles
Customer Assistance	**1.800.727.7000** www.fordcredit.com	**Ford/Mercury** **1.800.392.3673** **Lincoln** **1.800.521.4140** www.genuineservice.com www.ford.com Click on "contact us"	**Genuine Ford Accessories** www.fordaccessories.com www.lincolnaccessories.com www.mercuryaccessories.com	**ESP** **1.800.521.4144** www.genuineservice.com

* During 2007, management committed to sell Jaguar and Land Rover in order to restructure our core Automotive operations and build liquidity.

** 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.

*** As an unconsolidated subsidiary, Mazda's sales are not included in Ford's wholesale unit volumes, nor is the revenue from such sales included in Ford's revenue, except for vehicles built or distributed by Ford for Mazda.

Ford Motor Company
One American Road
Dearborn, Michigan 48126

www.ford.com