Sustaining Ford

During 2008 we:
- Implemented our "One Ford" plan
- Reduced salaried and hourly payroll

The year 2008 undeniably ranks among the most difficult in Ford's history. It was a year marked by workforce reductions, plant closures, dramatically reduced consumer demand for vehicles and the worst global economic downturn in decades. Despite a profitable first quarter, the financial crisis and related credit crunch acutely affected our worldwide operations and challenged all of our stakeholders, including our employees, shareholders, suppliers, dealers and the communities in which we operate.

As the financial crisis deepened around the globe, reduced credit availability, escalating fuel costs and weakened consumer confidence coalesced, resulting in a drastic decline in vehicle sales across the industry – the lowest annualized level in a quarter century. Ford lined up credit before the crisis hit, but the pressures of the recession pushed many in our industry to a critical point.

In the late fall, chief executives from Ford, General Motors and Chrysler appeared before the U.S. Congress to warn about the risks to the industry from the global recession and to ask for help for the industry. Although Ford did not request government funding for restructuring – asking instead for access to up to $9 billion in potential credit – our appearance before lawmakers highlighted the interdependence of an industry that has 80 percent overlap in supplier networks. Nearly 25 percent of Ford's top dealers also own GM and Chrysler franchises, and an uncontrolled bankruptcy of one or both of our domestic competitors, or one of our major suppliers, could also threaten our own operations.

On the supply side, we have been working extremely hard to strengthen our U.S.-located supply base, instituting practices designed to increase collaboration, provide for data transparency and expand the volume of business with select suppliers – all with an eye toward building a more sustainable business model.

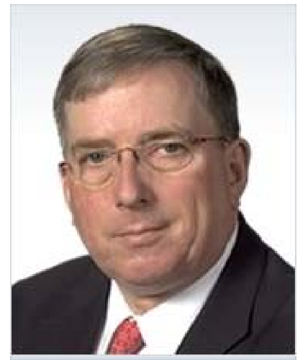
(Find our full submission to Congress on our Web site.)

In the past, we allowed our portfolio to become too dependent on popular and profitable trucks and SUVs, missing opportunities to advance production of small- and midsize cars. We fully appreciate that the industry needs to develop greener, safer and even better quality vehicles.

At Ford, sustainability is not an after-thought, and our path toward long-term viability began well before the recent economic downturn began. Over the past several years, we have undertaken a fundamental restructuring in the way that we operate, a reshaping that affects every part of our business, from product innovation and fuel efficiency to labor relations and our interactions with suppliers and dealers. In difficult economic times, it is more important than ever for Ford to stay focused on issues of sustainability.

In short, Ford recognized that our business model needed to change, and we are changing it.

We already have taken many of the decisive actions necessary to ensure a healthy future for our company, including shifting our emphasis away from trucks and SUVs to a more balanced portfolio that includes more small and midsize vehicles. We also have set a CO_2-reduction goal for our products, and we are on track to meet it. Our blueprint for sustainability, which highlights how we will meet our product CO_2 goal and which we shared with Congress, has positioned us to lead in the industry by delivering the vehicles consumers want and need in the 21st century.



PERSPECTIVES ON SUSTAINABILITY

Lewis Booth

Executive Vice President and Chief Financial Officer, Ford Motor Company

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At the same time, we have been working to lower our operational costs. Our transformation plan, which we call "One Ford," was launched in 2007 to create a leaner, more efficient global enterprise and is anchored by four key priorities:

- Aggressive restructuring to operate profitably at current demand and changing model mix
- Accelerated development of new products our customers want and value
- Financing the plan and improving our balance sheet
- Working together effectively as one team to leverage our global assets

As part of this plan, we completed debt restructuring initiatives in the spring of 2009 that will reduce our automotive debt by $9.9 billion and lower our annual cash interest expense by more than $500 million, based on current interest rates. This decisive action will help us weather the economic downturn to deliver long-term profitable growth.

While the economic crisis clearly has taken center stage for governments and policymakers around the world, developing thoughtful and comprehensive energy and climate policies can help secure economic prosperity and provide opportunities for businesses to succeed. We believe that organizations whose recovery plans include ways to reduce greenhouse gas emissions are better positioned for the eventual recovery.

Over the last year, wildly fluctuating oil prices that peaked at $147 per barrel in mid-2008 continued to feed consumer interest in automobiles that are thrifty in their gasoline use, and renewed calls for technologies that will reduce oil dependency. And in rapidly growing economies, the interrelated issues of congestion, pollution and inadequate infrastructure pose additional challenges for the automotive market.

Offering vehicles with smaller environmental footprints, tackling the mobility challenges of rapidly growing urban centers, and tailoring our products and services to increasingly diverse global markets are not peripheral to Ford's future success – they are a prerequisite to it.

Segment Shifts

Historically, Ford has operated as four largely separate automotive companies around the globe – North America, South America, Europe and Asia Pacific – each with its own product development systems, manufacturing processes, suppliers and other duplicative structures. While this made sense in the past, in recent years the structure led to unnecessary and inefficient processes and a failure to realize the substantial benefits of scale available to a global enterprise like ours.

As we expanded our brand portfolio around the world, our global enterprise became more difficult to manage and we neglected to ensure that the Ford brand retained its strength in all markets and in all segments. The situation was especially acute in the United States where, in the 1990s, both Ford and our foreign and domestic competitors became increasingly dependent on sales of trucks and large SUVs.

Our focus on these vehicles left us exposed in the event of a market shift to smaller, more fuel-efficient vehicles. We did, in fact, begin to refocus our North American portfolio earlier in this decade with a new line of midsize cars. When fuel prices shot up rapidly in early 2008, however, consumer preferences shifted toward small cars at a much faster pace than we and others in the industry anticipated.

As part of our plan to return to profitability, we are working to reverse the decades-long trend of losing money on the production of small cars in the United States. We are increasing production of smaller-sized vehicles in North America and globally, and we are improving costs to competitive levels. The strong start of the new Ford Fiesta in markets from Europe to Africa to Asia is proof of the progress we are making in this area. We are also enhancing revenues by making vehicles with class-leading fuel economy, safety performance, quality and technology.

We are realigning our new product development and manufacturing capacity to develop a more balanced portfolio of vehicles, including more profitable and desirable small cars.

Sales Trends

While the overall sales trends for 2008 were gloomy, the progress we showed in the fourth quarter boosted our confidence that we are on the right path. In Europe, for example, we improved our fourth-quarter and full-year market share in the 19 markets that we track, becoming the No. 2 selling brand in Europe.

And in the United States, Ford, Lincoln and Mercury increased overall and retail market share in the last quarter of 2008 and first quarter of 2009 – the first time the brands have posted two consecutive quarters of market share improvements in years.

Based on end-of-year projections, we expect that our overall and our North American automotive business pre-tax results will break even or be profitable in 2011, excluding any special items.

More and more, consumers are also recognizing Ford vehicles for their quality and performance. The 2008 model year marked our fourth consecutive year of improved vehicle quality among noted third-party rating organizations. (See the Economy section for more on quality issues.)

There's no denying, however, that the economic environment will continue to impact global sales in 2009 and beyond. Vehicle demand has fallen so far, and in such a short period of time, that all manufacturers are reducing output, staffing and costs. In particular, industry sales volume in the U.S. and in the 19 European markets that we track declined suddenly and substantially in 2008 and continued at historically low levels into 2009. For full-year 2008, industry demand for cars and trucks in the United States fell to 13.5 million units, compared with 16.5 million units in 2007; in the 19 European markets, demand fell to 16.6 million units from 18.1 million in 2007.

To help boost consumers' buying confidence, we announced a sales incentive plan in March 2009 that includes guaranteed payment protection – up to $700 a month for a full year – for customers in the U.S. who lose their jobs after purchasing a new Ford, Lincoln or Mercury vehicle. The Ford Advantage Plan program was set to run from March 31 through June 1.

For more information on our restructuring and response to the recession, please see the Economy section of this report.

North American Restructuring

We continue to make the tough decisions necessary to lower production to match our production capacity to demand for new vehicles. Over the last three years, Ford has significantly reduced employment levels in our North America business unit, lowering payroll from 135,700 individuals at the end of 2005 to about 75,200 individuals at the end of 2008. (These figures do not include dealership personnel.) We reduced U.S. salaried personnel costs by about another 10 percent in early 2009, cut contract personnel by 50 percent over the last three years and offered another round of buyouts to United Auto Workers (UAW) in the spring of 2009.

The majority of the personnel reductions over the last three years were the result of early retirement offers or separation packages to U.S. employees, including Ford employees at our Automotive Components Holding (ACH) plants. However, in order to reduce operating costs even further, we took the difficult but necessary step of involuntary separations among salaried workers.

Although we achieved our previously announced goal to operate with between 55,000 and 60,000 hourly non-ACH employees in North America by the end of 2008, we embarked on additional personnel reduction actions last year to achieve even lower hourly employment levels and better match our vehicle assembly operations to consumer demand. By the end of 2008, our hourly non-ACH workforce totalled 49,600.

Since 2005 we have closed 12 manufacturing facilities in North America (including ACH facilities), and we have announced four additional plant closures slated to take effect between 2009 and 2011. Two of these planned facility closures involve ACH facilities, with one ACH plant closing in 2009 and another in 2011. We are exploring our options for the four remaining ACH plants and intend to transition these businesses to the supply base as soon as practicable.

We have attempted to handle workforce separations and plant closings with respect for the people and communities affected. For example, we have offered UAW-represented employees a selection of voluntary separation packages, including traditional offers of early retirement as well as innovative programs designed to help employees transition to new jobs requiring new skills. Other actions we took to handle downsizing and facility closures responsibly are detailed in the Economy section of this report.

In February 2009, our two top executives, Bill Ford and Alan Mulally, voluntarily agreed to accept a 30 percent reduction in salary for 2009 and 2010. As previously announced, Mr. Ford has requested that his total compensation be set aside, to be paid only at a point when the company's global automotive operations have returned to profitability. In addition, our Board of Directors has voluntarily agreed to forgo all cash compensation for 2009.

We took a number of additional steps to reduce salaried personnel costs, including:

- Eliminating 2009 merit pay increases and performance bonuses
- Suspending 401(k) matches, tuition assistance and dependent scholarships
- Capping retiree life insurance at $25,000
- Increasing employee cost sharing in benefit programs

Focusing on Labor Costs

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As part of our aggressive restructuring efforts, we have focused not only on the labor costs of our workforce, but on the related costs of providing comprehensive health care benefits to nearly 500,000 current and retired employees, including their dependents, in the United States alone. Previous contracts with the UAW provided lifetime health care benefits for UAW members and their surviving spouses.

$500 million
Amount Ford expects to save per year based on modifications to our UAW contracts.

Rising costs of health care coverage, coupled with our high proportion of retirees, have put us at a competitive disadvantage, compared with more recent entrants to the U.S. auto market. Our health care costs have been estimated to add about $1,000 to the cost of each vehicle built in the United States.

Over the last two years, we have worked with our UAW partners to help us reach parity with foreign-owned auto manufacturers. The agreements we have reached – including mid-contract modifications that were ratified by the union in March of 2009 – are critical to our efforts to operate through the current economic environment, without accessing a bridge loan from the U.S. government.

In our 2007 contract with the UAW, we agreed to help ensure health care coverage for current and future retirees by shifting $13.2 billion in cash and stock into an independent trust called the Voluntary Employee Beneficiary Association, or VEBA. In the first quarter of 2009, the UAW approved a revised plan that allows Ford to pay up to half our VEBA contributions in stock, rather than cash, enabling greater flexibility when each trust payment is due. The restructuring of VEBA financing will allow us to be more competitive with foreign automakers' U.S. manufacturing operations. These modifications are subject to a number of conditions as described in the Economy section of this report.

We estimate that the modifications from the contract agreement will save Ford $500 million a year – and possibly even more over time – through the VEBA restructuring and other savings that were approved by the union members, such as reductions in paid break time for factory line workers and increased use of alternative work schedules. The UAW also agreed to:

- Suspend Cost of Living Allowance, or COLA, increases for the remainder of the contract, which expires in 2011.
- Suspend lump sum performance bonus payments of 4 percent and 3 percent of base earnings in 2009 and 2010, respectively.
- Suspend $600 Christmas bonus payments and discontinue the "Easter Monday" paid holiday for the remainder of the operating agreement.

The union also ratified incentives for employee participation in a wellness program, which would include regular physicals and other steps to improve individual health.

Implementing these changes will reduce average hourly wages for approximately 42,000 Ford UAW workers from approximately $60 an hour to $55 an hour, which is nearing parity with the average wage for foreign-based competitors in the United States. We believe that the average hourly rates will become even more competitive with foreign-based automakers in coming years.

The modified contract also eliminates the "jobs bank" for laid-off union workers, which had allowed hourly employees to receive almost 100 percent of their salaries and benefits until they received another job offer from Ford. The new agreement will pay laid-off employees a reduced salary until another job offer is received and for a set number of weeks, based on seniority. The employees would forfeit the benefit if they turn down another job offer from Ford.

2008 Sales and Highlights

Business Unit	2008 Wholesales (in thousands)	Percent Change from 2007	Highlights
Ford North America	2,329	-19% [1]	▪ Ford, Lincoln and Mercury collectively increased U.S. overall and retail market share in the last three months of 2008 – the first time the brands posted three consecutive months of market share improvements in 12 years. ▪ The 2009 Ford F-150, introduced in the fourth quarter, was named Motor Trend magazine's "Truck of the Year" and was awarded the title of "North American Truck of the Year" at the North American International Auto Show in January 2009. ▪ The F-Series pickup truck has been the best-selling truck in the United States for 32 straight years. ▪ Ford has the highest number of vehicles rated "Top Safety Picks" by the U.S.-based Insurance Institute for Highway Safety. ▪ We began production in fourth quarter 2008 of the 2010 Ford Fusion, Mercury Milan and Lincoln MKZ sedans, as well as the Fusion and Milan hybrids. The latter two vehicles are the most fuel-efficient midsize sedans in the United States. ▪ We began implementing EcoBoost™ in 2009 – an engine technology that will deliver up to 20 percent better fuel economy and up to 15 percent fewer CO_2 emissions compared to larger displacement engines.
Ford Europe	1,820	-5%	▪ We improved fourth-quarter and full-year market share in the 19 markets we track, becoming the No. 2 selling brand in Europe. ▪ Fiesta, named "Car of the Year" by What Car? Magazine, was the United Kingdom's best-selling model in November and December 2008, and 2009 will mark the Fiesta's first full sales year. The Fiesta sold more than 110,000 vehicles between its European debut in the fall of 2008 and early March 2009. ▪ The new Ford Ka reached full production in Europe.
Volvo	359	-26%	▪ Volvo launched the XC60 crossover in Europe in 2008 and in the U.S. in spring 2009. Volvo will introduce low-emission versions of seven cars in 2009, as well as a freshened S80, Volvo's flagship sedan.
Jaguar, Land Rover, Aston Martin	125	-57%	▪ Ford sold Jaguar and Land Rover effective June 2, 2008. Ford sold Aston Martin in 2007.
Ford South America	435	-1% [2]	▪ In 2009, the European-based Ford Focus comes to Brazil, Argentina and Venezuela. ▪ Also coming to Brazil are the North American-based Ford Edge and the European-based Transit. ▪ Four additional product actions are planned for introduction in the region in 2009. ▪ Ford is investing \$1.1 billion in our Brazil operations in the next four years and another \$215 million in our Argentina operations from 2009 to 2012.
Ford Asia Pacific Africa	464	-13%	▪ In 2009, the new Ford Fiesta five-door and four-door sedans, built in Nanjing, were introduced in China. ▪ In 2008, we launched a freshened Ford Focus in China and the Ford Escape in key Asia Pacific and Africa markets. ▪ Ford is investing \$500 million to expand our manufacturing facility in Chennai, India, to begin production of a new small car and to build a fully integrated and flexible engine manufacturing plant planned to begin production by 2010. ▪ The Fiesta is also being introduced in 2009 in Australia and New Zealand, where the FG Falcon XT was named "Best Large Car" in the 2008 Australia's Best Cars Awards. ▪ The Falcon G6E Turbo won Carguide's "Car of the Year" honor, as well as its "People's Choice Award." ▪

Other product introductions in 2009 include the new Ranger compact pickup and the Everest SUV, both with advanced, efficient TDCi turbo-diesel engines.

Notes

1. In the first quarter of 2008, Ford changed the reporting structure for the North America segment to include the sale of Mazda6 vehicles by our consolidated subsidiary, AutoAlliance International, Inc. (previously included in the results for Mazda). As a result, prior period information, including 2007 wholesales, was reclassified.
2. Company cars for South America were not included in the wholesales that were reported in the 2007 Form 10-K. For the 2008 Form 10-K, we made the change to both the 2008 and 2007 wholesale numbers.