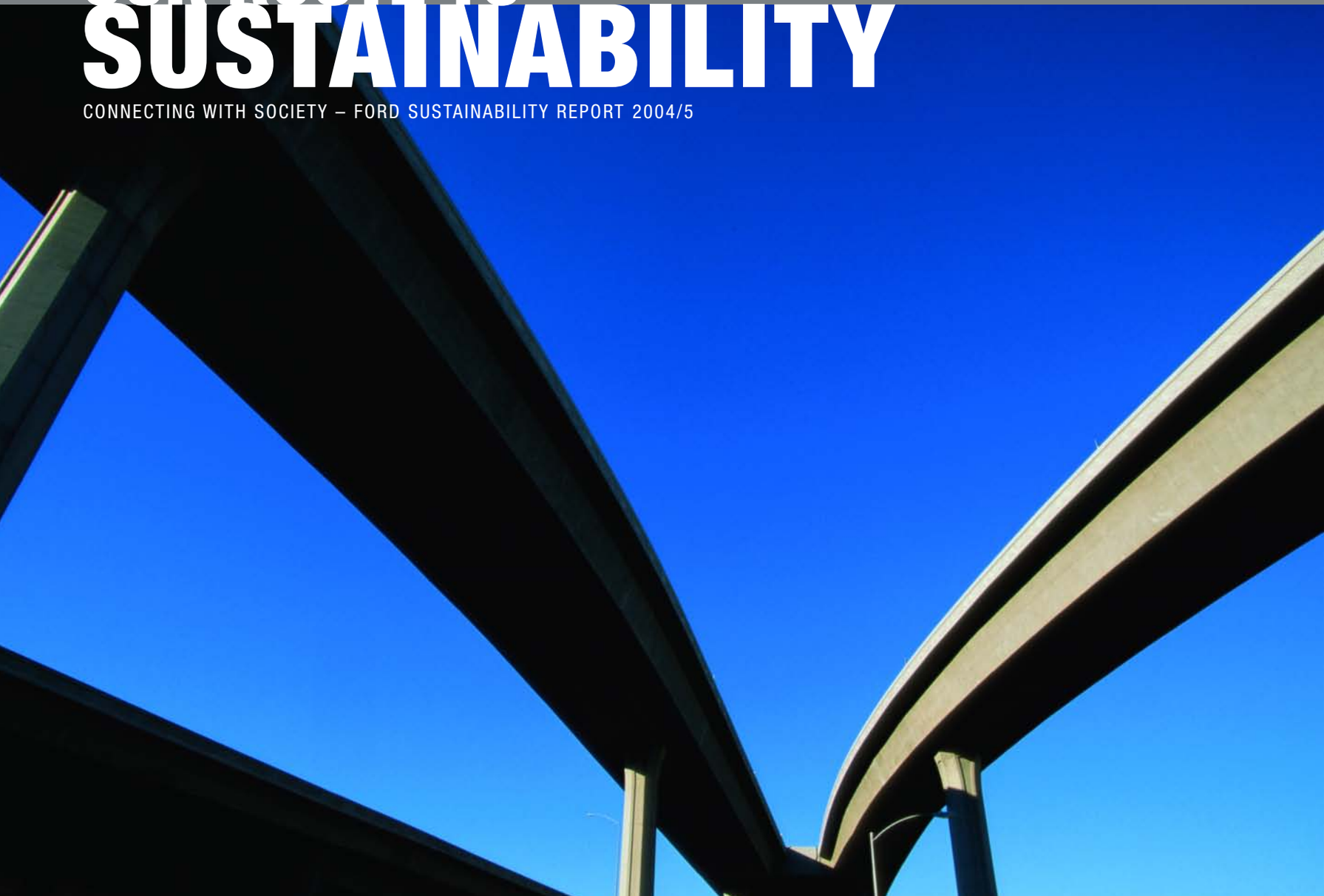
OUR ROUTE TO SUSTAINABILITY

CONNECTING WITH SOCIETY – FORD SUSTAINABILITY REPORT 2004/5



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About this report

This is the sixth formal nonfinancial report of Ford Motor Company. Our first, "Connecting with Society," appeared in the spring of 2000 and marked the start of an important journey for both our reporting and our business. Six years later, our reports continue to serve as a scorecard of our progress and performance against our social and environmental strategies to provide insight into our challenges and successes. Our industry, the business environment and societal expectations continue to evolve, and so does our reporting.

This year's printed report is shorter than in previous years. It is more tightly focused on the most material issues, and on our overall vision, strategy, challenges and opportunities. Users will continue to find an extensive set of data and information in the full Web report at www.ford.com/go/sustainability.

We have changed the name of this report from the Ford Corporate Citizenship Report to the Ford Sustainability Report, reflecting an evolution in our thinking that we discuss in the first sections of this report.

This year, for the first time, we engaged a committee of stakeholders, the Report Review Committee, to advise us formally on our report. On Page 47, you will find the Report Review Committee's unedited opinion of how well this report meets their expectations. Also for the first time, we conducted a review to identify the most material issues to include in the print report (see Pages 8 to 9).

This report covers the year 2004 and early 2005. It was prepared in accordance with the 2002 Global Reporting Initiative Sustainability Reporting Guidelines. A complete index of GRI indicators is available at www.ford.com/go/sustainability.

The data are primarily for 2004 (for operations) and for the 2005 model year (for vehicles). A five-year data record of key indicators is included in the print report. Additional data are available on the Web. The data cover all of Ford Motor Company's wholly and majority-owned operations globally, unless otherwise noted. Changes in the basis for reporting or reclassifications of data previously reported are noted in the data charts. Much of the data in this report have been reported to government agencies and verified internally or externally. However, we have not sought third-party verification of all data.

This Sustainability Report was prepared by Company management and presented to the Environmental and Public Policy Committee of the Board of Directors.

Setting the vision

Bill Ford. *Chairman and CEO*

At Ford Motor Company, we have made sustainability a long-term strategic business priority. The reason is simple: we are a 100-year-old company, and I want us to become a 200-year-old company. Sustainability is about ensuring that our business is innovative, competitive and profitable in a world that is facing major environmental and social changes.

Our Company faces urgent short-term challenges that we have described in our Annual Report and will discuss in this document. We're addressing these challenges by accelerating our business plans to strengthen our balance sheet, optimize our global footprint and deliver more great products faster. That includes eliminating excess capacity, reducing the size of our workforce while improving its capability, increasing our investments in fast-growing markets and speeding up our product development process.

Our success as a business in the near term is a pre-requisite to any strategy for future growth. However, our responsibility to our customers, shareholders, employees and communities includes preparing for the future without delay. While nobody can confidently predict what the world will look like a few decades from now, it is clear that strong, profitable companies going forward will be the ones that strive for sustainable use of environmental and social capital in a rapidly growing global economy. The business case is clear:

- Reduced use of non-renewable resources will help us cut material and operating cost and avoid the growing volatility of commodity prices.
- Society's growing concern for environmental issues is creating growth markets for innovative "green" products and technologies that generate new sources of revenue.
- Increasingly stringent government regulations around the world will favor companies that are best positioned to address underlying environmental and social priorities.
- Research confirms that consumers assign increased brand value to companies that demonstrate a strong commitment to environmental and social responsibility.
- Sustainable companies are better able to attract and retain talented employees.

Put another way, tackling environmental and social issues is not something a company does *after* it is profitable; it must be something we do to *be* more profitable. In part, that's because these issues touch every aspect of the economies in which we operate.

Global climate change is one of the most urgent examples. At Ford, we have long acknowledged the importance of climate change. We recognize its potential impact on economic as well as environmental and social systems. Customers, investors and policy makers are increasingly focused on the need to burn less fossil fuel and emit fewer greenhouse gases. The issue will become even more challenging as growing markets like India and China expand their own needs for energy. As a business we're developing strategies – led by a vice-presidential task force and in cooperation with companies like BP – to compete in this increasingly carbon-constrained economy.

Climate change is also an example of a complex 21st-century challenge that requires a systemic social, political, technological and business solution. Stabilizing the concentration of greenhouse gases in our atmosphere while maintaining economic growth demands corporate and political leadership and dialogue across traditional boundaries. It requires global coordination of technologies, government policies, markets and infrastructures.

Within our Company, climate change, and the underlying issue of fuel economy, pose a particular challenge. In North America, the fuel economy of our vehicles is competitive and in some cases even best-in-class within their respective segments. However, the market-leading popularity of our trucks and SUVs results in a low average fuel economy from our fleet as a whole. Across the industry, fuel efficiency improvements compete for investment with other product features and innovations, overall affordability and pressing obligations like safety, health care and pension costs. Because of its importance, we have devoted a major section of this report to climate change and will issue a stand-alone report on the subject late in 2005.

Even as we grapple with this issue, we continue to set the pace in our industry on important environmental and social priorities, such as reducing water consumption, conserving energy, recycling and reusing non-renewable materials, eliminating toxic materials, establishing codes of working conditions

and safety in our plants and supply chain, and addressing public health issues from HIV/AIDS to cancer to juvenile diabetes. You will find all these issues and more addressed in this report.

Looming on the horizon are additional challenges as well as opportunities. The sheer scale of our industry is enormous. In the United States, the auto industry is responsible for 6.6 million jobs, which is about 5 percent of all private-sector jobs and nearly 4 percent of Gross Domestic Product. No other single industry is more linked to U.S. manufacturing strength or generates more retail business and employment. The U.S. auto industry purchases 60 percent of all the rubber and about 30 percent of all the aluminum, iron and stainless steel used in the United States.

The 61 million new cars and trucks sold globally last year provide personal mobility and economic opportunity to an increasingly interdependent population.

Some people believe that it's impossible to provide personal transportation without imposing costs on the environment and society, and that it's impossible for business to address environmental and social needs without breaching its fiduciary responsibility to shareholders.

At Ford, we are determined that these priorities do not need to conflict with one another, and that the path to profitable growth in our industry may increasingly lie in finding ways to generate new revenue by reconciling these issues, not just trading them off against one another. We describe such thinking in this report, our first organized under a sustainability (rather than corporate citizenship) title.

Ford joined seven other automotive companies, three energy companies and an automotive supplier in a study sponsored by the World Business Council for Sustainable Development (WBCSD) entitled "Mobility 2030: Meeting the Challenges to Sustainability," which was published last year. In addition to climate change, air pollution and road safety, the report called out the growing importance of noise, congestion and the mobility "divide" between the rich and the economically and socially disadvantaged as critical issues on the road to sustainable mobility.

These issues become even more acute as hundreds of millions of people around the world join the global economic marketplace and claim access to the lifestyle, including personal mobility, long enjoyed by the populations of developed markets.

We know that smart competitors are racing to be first with solutions for the 21st century, and we want to lead that race.

Our work is, therefore, urgent, and it is proceeding along three paths:

Integrated strategy
Since we see sustainability as core to our business success, we are working to develop metrics, targets and milestones to be explicitly integrated into our business plan, alongside the fundamentals of quality, cost and revenue, products and relationships. We're also working on the difficult challenge of reconciling short-term imperatives to deliver financial returns with the investments required to realize long-term opportunities.

Technological innovation
We have developed an organization and governance structure – the Sustainable Mobility Group – dedicated to investing in and driving new mobility technologies, including hybrids, clean diesels, hydrogen internal-combustion engines and fuel cells. We're conducting this breakthrough work, too, on nearer-term vehicle technologies, such as alternative fuels and advanced gasoline engines. We also continue to work on new developments in the way we build our cars and trucks, for example through flexible manufacturing techniques.

External dialogue
New business challenges require new thinking, which in turn requires new relationships in the communities in which we operate. The history of industry is littered with the remains of companies that rigidly defended their world view through their policies, strategies, marketing and relationships. On issues of broad public concern, efforts to increase mutual understanding are usually more productive than an adversarial defense of special interests. That's why engagement with policy makers, advocacy groups, consumers, investors, business partners and employees is a cornerstone of our drive to realize our vision. Already, in developing our approaches to human rights and climate change, we have seen the value of listening, learning and acting in concert with thoughtful advocates. We will put these lessons into practice as we develop our strategy for the future.

I'm proud of the steps we have taken so far – most notably the introduction of the Escape Hybrid, the world's first hybrid SUV; the reinvention of the Rouge facilities as a model of 21st-century sustainable manufacturing; our industry-leading actions in human rights; and the response of our employees to human needs – notably in Southeast Asia after the December 26 tsunami and in the U.S. Gulf Coast after Hurricane Katrina.

I also recognize that we have a lot more to do to secure the sustainability of our business over the long term. I look forward to reporting our progress in future reports.

This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental and social performance.

Part of the business

Jim Padilla. *President and COO*

My early years in Ford plants taught me not only the importance of safety, quality, cost and delivery in our operations, but also the importance of the local environment, economy and social fabric. A productive and healthy manufacturing plant depends on a productive and healthy community around it.

Now, as President and Chief Operating Officer of Ford Motor Company, I see the same vital relationship between successful business and successful communities playing out on a global scale. In fact, I see more and more convergence between our corporation's business interests and the interests of our stakeholders – from stabilizing the global climate and increasing energy security, to making health care affordable, to continually enhancing vehicle safety, to keeping our employees safe and the world we live in sustainable.

In January of 2005, Bill Ford and I addressed the Company's 300 top executives at our annual Global Leadership Meeting. We told the gathering that Ford must continue to execute the basics of its business, with disciplined focus on improving quality, reducing cost and continuing to bring out great new cars and trucks that customers want to buy.

We also stressed the importance of sustainability, that is, creating value and growing our business over the long term by enhancing environmental and social – as well as economic – capital. At Ford, we are convinced that innovative sustainable thinking represents one key to delivering great products, a strong business and a better world.

We have been working this year to integrate environmental and social considerations more tightly into our operations. A Board of Directors-level Environmental and Public Policy Committee (EPPC) reviews strategies and initiatives relating to sustainability issues. And sustainability is becoming a "fourth leg" of our product creation process, along with quality, safety and design. We're developing strategic targets and milestones to guide those strategies.

Importantly, we are not starting from scratch. The business case for environmental responsibility has been embedded in our culture since Henry Ford recycled wooden delivery crates into running boards and turned scrap wood into charcoal. We have long operated our plants on the principle that waste equals cost – that stewarding environmental resources does not cost money, it saves money.

Among the steps we've already taken:

ENVIRONMENTAL LEADERSHIP

Environmental management

Ford was the first automaker to achieve ISO 14001 environmental management certification, including third-party auditing, at all of our facilities. These efforts have resulted in significant water and energy savings. Ford facilities now use 18 percent less energy overall than they did in 2000. Ford facilities globally reduced our water usage by nearly 5 billion gallons from 2000 to 2004. We have adopted a sustainable, holistic approach to reducing the overall environmental impact of our manufacturing operations with specific performance targets. For example, we have set targets for improvements in energy efficiency, greenhouse gas emissions, water usage and volatile organic compound (VOC) emissions.

Fuel technologies

We are doing development work with the most promising advanced fuel technologies. With a top priority on expanding our hybrid vehicle offerings, we are also developing clean diesels, hydrogen-powered internal-combustion engines and fuel cell vehicles. Our E-450 hydrogen internal-combustion engine shuttle buses are the first commercially available hydrogen vehicles in North America. We are testing state-of-the-art Ford Focus Fuel Cell Vehicles in fleets around the world. In addition to these advanced fuel technologies, we have been building flexible fuel vehicles for over a decade, and there are approximately 1.6 million on the road in the United States today.

Rouge

We rebuilt the Rouge manufacturing site, incorporating innovative and cost-effective sustainability features. In so doing we turned one of the world's largest brownfield sites into the most environmentally progressive auto plant in the world, and reduced operating costs in the process.

Lima Engine Plant geothermal project

We use cold water from quarries on the plant's property to help cool a portion of the plant and some of its equipment. The geothermal project saved Ford $300,000 in installation costs compared to the cost of traditional cooling tower installation, and it is estimated to save over $300,000 per year in operating costs.

Atlanta Assembly Plant Performance Track

The Atlanta Assembly Plant (AAP) is the first automotive manufacturing plant to participate in the U.S. Environmental Protection Agency (EPA) Performance Track Program. Performance Track is a voluntary program designed to encourage pollution prevention at the source. AAP has committed to reducing VOC emissions by more than 24 tons and water usage by nearly 14 million gallons.

Wind turbines

We installed wind turbines at our Dagenham site in the UK. These provide all the electricity required for our new diesel manufacturing facility at a cost fully competitive with conventional energy sources.

Fumes to Fuel

We developed and are deploying an innovative Fumes to Fuel system that uses exhaust gases from our paint operations to generate electricity at our Dearborn Truck Plant and our Michigan Truck Plant.

Logistics

Our logistics team is piloting a process (developed in partnership with Georgia Tech University) to ship components from China to our Wixom, Michigan, plant using a specially designed polypropylene shipping container that is then used as a raw material to make vehicle splash shields.

SOCIAL LEADERSHIP

Diversity

We continue to promote diversity for all people. Our industry-leading and comprehensive diversity efforts are a benchmark for other companies. These efforts include an Executive Council on Diversity, 10 employee resource groups, partnerships, local diversity councils and programs that promote flexibility and work–life integration.

Employee health and safety

We have a safety leadership initiative that has operated for seven years. It has reduced our injury and illness rate by 90 percent. We continue to strive to improve our global health and safety culture for all our employees.

Human rights

In 2003, Ford adopted a Code of Basic Working Conditions to safeguard human rights in our supply chain. Then in 2004 we extended this code to suppliers as part of our contract conditions. We are determined to lead the auto industry in addressing human rights issues in our own workplaces and those of our suppliers.

Employee volunteers

Earlier this year we launched the Ford Volunteer Corps, which matches employee volunteers with community groups that need their help. The first major project of the Corps was building housing in the areas hit hardest by the tsunami in Asia.

We continue to add to this list.

Challenges facing the automotive industry

Globalization: Ford now serves customers in markets like China that were closed to global companies only a few years ago. We compete with a growing number of companies from all regions of the world. Our supply base, and that of our competitors, is also increasingly global.

Growth patterns: The world's largest markets for automobiles (North America, the European Union (EU) and Japan) are maturing and growth is slowing. Developing markets, particularly in Asia, are projected to account for more than 90 percent of the total sales growth over the next decade.

Production capacity: Auto manufacturing plants have high fixed costs and therefore run most efficiently and profitably when they operate close to capacity. Yet in 2004, according to CSM Worldwide, an automotive research firm, the estimated automotive industry global production capacity for light vehicles (about 75 million units) significantly exceeded the actual global production of cars and trucks (about 60 million units).

Market segmentation: The old math in the auto industry held that the way to operate profitably was to make a few very popular vehicles that sold by the hundreds of thousands. More recently, makes and models have proliferated, creating more specialized vehicles, most of which sell in smaller numbers. Automakers must compete in more segments and operate profitably while selling fewer vehicles per segment.

Pressure on margins: Overcapacity and the proliferation of new products are keeping purchase prices low. In the United States and in many European countries, prices for similar vehicles have declined in real terms in the last several years. This is good news for consumers. However, these pressures have led to average returns on sales for the "Big Three" auto companies of less than 2 percent for the past 10 years.

Oil prices and energy security: Oil prices are rising and appear increasingly volatile. Many countries dependent on oil imports are also concerned about the security of oil supplies. These factors underscore the importance of improving fuel economy and developing alternative fuels.

Commodity prices: Prices have been rising sharply for some commodities we use extensively, including steel and resins, at a time when it is difficult to pass cost increases along to customers.

Competition is growing in the light truck market: Detroit's automakers historically have dominated the profitable market for light trucks, particularly SUVs and pickup trucks. These segments, however, have attracted a growing number of competitors. At the same time, consumers are turning away from large SUVs toward smaller vehicles and "crossover utility vehicles."

"Legacy" social costs: In the United States, employers are the first line for providing social services such as health care insurance and retirement income. Detroit's automakers have been among the nation's largest employers for decades. Collectively, Ford, General Motors (GM) and DaimlerChrysler have over 800,000 retired employees, equal to the population of Delaware, in the United States. In contrast, automakers that began production in the United States relatively recently have very few retirees. The cost to the "Big Three" automakers for pension benefits to their retirees is over $11 billion annually. Detroit automakers are heavily affected by the rising costs of providing health care in the United States, spending more per vehicle on health care coverage than they do on steel. Ford's health care costs are expected to continue to rise (see www.ford.com/go/sustainability for more detail).

Significant new opportunities remain. A key theme of this report – and our strategy going forward – is our recognition that the long-term competitive advantage will go to manufacturers that innovate and profitably deliver the means of meeting society's growing need for sustainable mobility.

Our value chain and its impacts

As a major multinational enterprise, our activities have far-reaching impacts on environmental, social and economic systems. The diagram on these pages organizes the issues by the major stages of our value chain. On the pages immediately following you will find a description of a "materiality analysis" we carried out to prioritize the most significant issues identified in our value chain.

Some issues we identified as important are not shown in this diagram because they do not pertain to a particular lifecycle stage. In addition, broad sustainability challenges set the context for all of the lifecycle stages. These include population growth, urbanization, poverty, education, gender equality, child mortality, maternal health, infectious diseases, biodiversity and loss of ecosystem services.

Expanding connections

We recognize that these issues are interconnected at each stage and that positive and negative effects in one part of the chain can reverberate in the other parts.

Increasingly, we are bringing our understanding of a wide range of sustainability issues into the stages of our value chain. Environmentally, we are improving our manufacturing efficiency, cutting the emissions of our vehicles, designing vehicles with end of life in mind and increasing the recyclability of our vehicles and our use of recycled materials. Socially, we seek to strengthen the communities we're part of, expand the connections within them and improve our relationships throughout the value chain. Economically, we are trying to build our capacity to adapt and respond to the variety of challenges and opportunities present at every stage, meeting our customers' needs as well as our stakeholders' expectations.

PRODUCT PLANNING AND DESIGN *Impacts all steps*
Principal actors: **Ford, Customers and Government**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Greenhouse gas emissions • Fuel economy • Smog-forming emissions • Material use and recycling • Resource use • Manufacturing waste	• Vehicle safety • Access to mobility • Traffic congestion • Diversity • Infrastructure • Emerging markets • Design for assembly/ ergonomics	• Quality • Brand value/reputation • Health care costs

SERVICE
Principal actors: **Ford Dealers and Independent Servicers**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Material use and recycling • Waste	• Health and safety • Diversity • Human rights • Marketing and customer information	• Quality • Dealer services • Brand value/reputation

END OF LIFE
Principal actors: **Dismantlers and Government**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Material use and recycling • Waste	• Health and safety • Diversity • Human rights	• Commodity prices

LOGISTICS (Transportation) *Impacts next four stages*

Principal actors: **Ford and Government**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Greenhouse gas emissions • Smog-forming emissions • Land use	• Vehicle safety • Health and safety • Treatment of employees • Noise • Community disruption through land use • Traffic congestion • Diversity • Infrastructure	• Fuel cost

RAW MATERIAL EXTRACTION

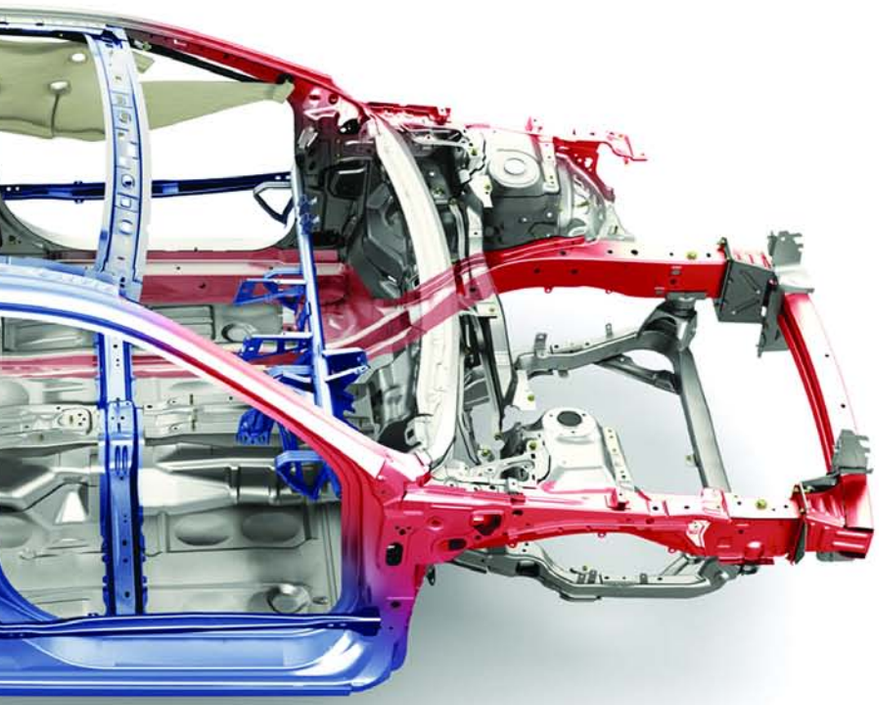
Principal actors: **Suppliers and Government**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Greenhouse gas emissions • Smog-forming emissions • Resource use • Waste • Land use • Biodiversity impacts	• Health and safety • Diversity • Human rights • HIV/AIDS • Community disruption through land use	• Commodity prices

PARTS AND COMPONENTS

Principal actors: **Ford and Suppliers**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Greenhouse gas emissions • Smog-forming emissions • Material use and recycling • Resource use • Manufacturing waste	• Health and safety • Employee satisfaction • Diversity • Human rights • HIV/AIDS	• Quality • Brand value/reputation • Health care costs



ASSEMBLY AND PAINTING

Principal actors: **Ford and Government**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Greenhouse gas emissions • Smog-forming emissions (especially VOCs) • Material use and recycling • Resource use • Manufacturing waste	• Health and safety • Employee satisfaction • Diversity • Human rights • HIV/AIDS	• Quality • Brand value/reputation • Health care costs

USE

Principal actors: **Customers, Fuel Providers and Government**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Greenhouse gas emissions • Smog-forming emissions • Land use • Fuel economy	• Vehicle safety • Noise • Viability of public transport • Access to mobility • Community disruption through land use • Traffic congestion • Infrastructure • Emerging markets	• Fuel costs • Brand value/reputation

SALES

Principal actors: **Ford Dealers and Other Dealers (used vehicles)**

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Land use	• Diversity • Human rights • Marketing and customer information	• Dealer services • Brand value/reputation

Materiality analysis

This report is intended to cover the sustainability issues we believe are most material to Ford. In our reports to date, we have determined materiality based on a variety of inputs and informed judgment. For this report, for the first time, we developed a tool for screening the issues in our value chain to determine which are most material.

We define these issues as those that score highly on three criteria:

- Having significant current or potential impact on the Company
- Of significant concern to stakeholders
- Over which Ford has a reasonable degree of control

Our intention is to cover the most material issues in this print report. Our Web report covers additional topics, including elements and indicators identified by the Global Reporting Initiative. To identify and prioritize material issues, we followed a three-step process:

Identification of material business issues
To capture the range of issues and degree of concern of internal and external stakeholders about those issues, we consulted several sources.

We identified the issues with potential significance to Ford by reviewing internal risk analyses, issues discussed in the Annual Report on Form 10-K, Ford's ISO 14001 environmental control plan and employee surveys.

To identify issues of most concern to external stakeholders, including non-governmental organizations (NGOs), shareholder activists, customers and the general public, we reviewed customer data, reputation tracking survey results and the reports and summaries of several stakeholder-based processes:

- Ford's 2000 stakeholder dialogue
- The Volvo stakeholder dialogues conducted in 2003
- The first Ford Report Review Committee meeting in April 2005
- Shareholder resolutions and ongoing dialogue with filers
- The WBCSD Sustainable Mobility Project
- The GRI auto sector supplement

We also considered, in a less systematic way, "sustainability context" issues identified through major initiatives like the United Nations Millennium Development Goals and the Millennium Ecosystem Assessment. "Sustainability context" issues represent important global challenges. While not tied directly to the auto industry, they sometimes shape the nature of and responses to the environmental, social and economic issues we identified.

We compiled the issues and aggregated them into three categories: environmental, social and economic. Many issues appeared on both the "Ford" and "stakeholder" lists. The issues overlap and interconnect in a complex system. We hope that we bring out some of the interconnections in the following chapters.

It is important to note that in this analysis, we did not systematically capture the views of our suppliers, dealers, mainstream investors or host communities, because we do not have comprehensive survey data for those stakeholders. This may skew the analysis toward issues of most importance to our non-financial stakeholders. However, we believe that issues of concern to these stakeholders are included to some extent in other information we considered, and we will work to include their views more systematically in the future.

Prioritization of issues
To prioritize issues, we rated the environmental, social and economic issues on a one-to-three scale in terms of their perceived current and potential impact on the Company, level of concern to stakeholders and the degree of control Ford has over the issue. We considered the "level of concern" to external stakeholders to encompass both the urgency of action needed on an issue and the potential social, environmental or economic impacts that could occur if Ford did not handle the issue responsibly.

The issues were then plotted on the "materiality matrix" shown on the facing page. We consider the issues in the upper right sector to be most material. Because of the way we identified the issues, none are unimportant; the position in the matrix represents our understanding of their relative importance to the Company and its stakeholders.

Review of analysis
We reviewed the analysis and resulting matrix internally with senior management and externally with the Report Review Committee. We welcome feedback on the method and conclusions of this analysis. We expect to refine the analysis, address shortcomings we and others identify, and include an updated analysis in future reports.

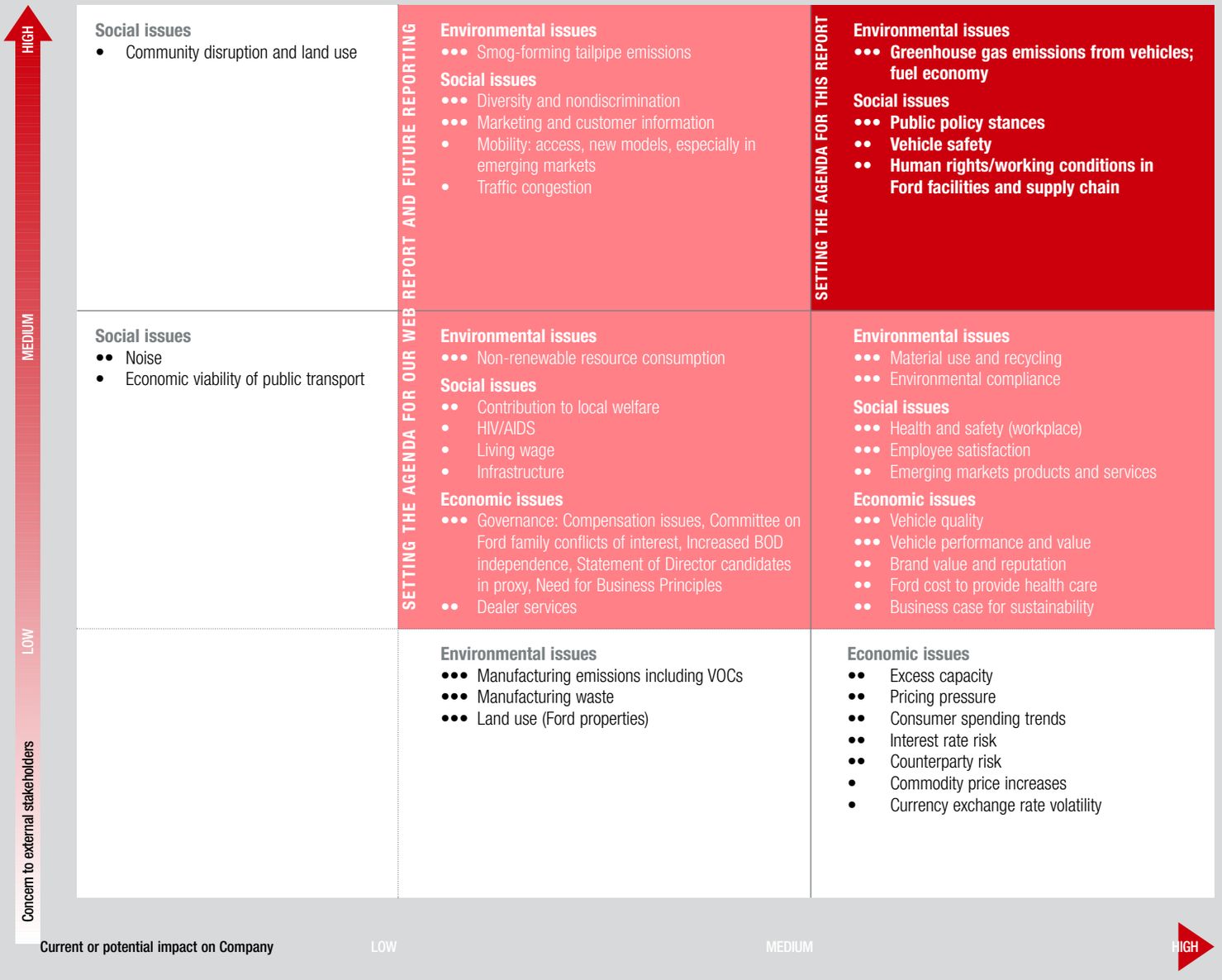
USE OF ANALYSIS
We have sought to cover in this print report all of the issues in the upper right (red) corner of the matrix. For vehicle safety and public policy stances, we have focused our print report coverage on the most urgent aspects of those issues according to our analysis – vehicle safety in emerging markets and climate change policy respectively. The Web version of this report includes more comprehensive coverage of vehicle safety. We have sought to cover the remaining issues in the orange area of the matrix in the print and/or Web reports, though some will be addressed in future reports.

We are also using this analysis to develop our sustainable business strategy.

CONTROL OR INFLUENCE OF ISSUES

Ratings of control or influence reflect Ford's contribution to an issue through its operations and product offerings. Factors that can reduce Ford's control or influence include, among other things, technology limitations, costs and consumer demand.

- ••• **HIGH** level of control or influence
- •• **MID** level of control or influence
- • **LOW** level of control or influence



What is materiality?

In recent years, as sustainability reports have proliferated in number, size and scope, companies have been called on by sustainability experts and others to focus their sustainability reporting on their most significant, or material, sustainability issues. Materiality may be a familiar concept in the field of financial reporting, but it plays a different role in the newer field of sustainability reporting.

"While, as a financial accounting term, the concept has been established for decades, it is far from straightforward," and the calculation of a materiality threshold as used in financial reporting "would be impossible to duplicate for the array of sustainability issues a company faces."[1] More importantly, the focus, purpose and audience of sustainability reporting is simply different from that of financial reporting.

There is an emerging consensus that a variety of stakeholders' interests and perceptions should be taken into consideration when determining materiality in the sustainability reporting context. For the purposes of this sustainability report, we consider material information to be that which is of greatest interest to, and which has the potential to affect the perception of, those stakeholders who wish to make informed decisions and judgments about the Company's commitment to environmental, social and economic progress.

[1] Materiality Issue Brief, SustainAbility, at www.sustainability.com/insight/issue-brief.asp?id=65

Mobility

Mobility – the free flow of information, people and goods – enables modern society. Many of the important trends of our time, including the information revolution, urbanization and globalization, reflect changing patterns of mobility. For more than 100 years, Ford's fundamental business has been one aspect of mobility – providing the vehicles that move people and things from one place to another. But as we move into the 21st century, we find that mobility has new meanings, challenges and opportunities. Later in this report we take a look at two specific aspects of mobility – climate change and human rights – but in the next few pages we define the broader mobility context in which our Company operates.

IN THIS REPORT:

ADDITIONAL CONTENT ON THE WEB SITE
www.ford.com/go/sustainability

1 Sustainable Mobility Project

In 2000, Ford joined with auto companies DaimlerChrysler, GM, Honda, Nissan, Renault, Toyota and Volkswagen; tire maker Michelin; and energy companies BP, Norsk Hydro and Shell to form the Sustainable Mobility Project of the World Business Council for Sustainable Development (WBCSD). Over the course of four years, the WBCSD worked with the sponsoring companies and academic experts, and gathered input from stakeholder forums, to examine how global mobility patterns might evolve in the period to 2030 and beyond, what strategies exist to influence this evolution in ways that might make transport more sustainable, and what is required to enable these strategies to succeed.

In July 2004, the WBCSD released its report entitled "Mobility 2030: Meeting the Challenges of Sustainability." The study's authors reached the sobering conclusion that "The present system of mobility is not sustainable, nor is it likely to become so if present trends continue." The report identifies seven societal goals regarding mobility:

1. **Reduce conventional emissions from transport so that they do not constitute a significant public health concern anywhere in the world**
2. **Limit greenhouse gas emissions from transport to sustainable levels**
3. **Reduce significantly the number of transport-related deaths and injuries worldwide**
4. **Reduce transport-related noise**
5. **Mitigate traffic congestion**
6. **Narrow mobility divides that exist within all countries and between the richest and poorest countries**
7. **Improve mobility opportunities for the general populations in developed and developing societies**

The study also recommends approaches to meeting these goals and indicators of progress. The full and summary reports are available at www.wbcsd.org/web/mobilitypubs.htm.

MOBILITY CHALLENGES

Economic growth and opportunity

Expanding mobility has helped drive economic growth and opportunity by facilitating access to education, employment, products and services. Motorized mobility is growing at the greatest rate in emerging economies, but at least 900 million people in rural areas remain beyond the reach of the benefits of mobility, lacking access even to unpaved roads.

Migration to urban areas

Rural residents have migrated to urban areas around the globe. By 2030, half the population of the developing world is expected to live in burgeoning mega-cities. But in these cities, traffic often moves at a crawl. Where the 20th century brought unprecedented levels of motorized mobility to billions of people, the 21st century threatens to bring new levels of motorized immobility as growing numbers of vehicles pour onto inadequate road systems.

Safety

In the developed world, driving a mile has never been safer, thanks to increased safety belt use, improvements in infrastructure, driver education, increased law enforcement and advancements in vehicle safety technologies. But the number of deaths and injuries remains significant, and progress has slowed as the number of vehicle miles traveled continues to increase. In developing countries, growing numbers of cars and trucks compete with people on foot, bicycles and motorcycles. The human and economic costs are significant and growing: the World Health Organization predicts that road traffic injuries will be the third-leading cause of death and disability worldwide by 2020.

Emissions

Innovations, including many by Ford engineers, have made the control of smog-forming emissions from vehicles more efficient and cost-effective. But a more daunting challenge is dealing with the greenhouse gas emissions that are a byproduct of the use of gasoline and diesel fossil fuels in internal-combustion engines.

New safety certification test lab

Cindy Bohen, Ford Safety Project Engineer, adjusts a dummy seated in a vehicle buck secured to Ford's new state-of-the-art Servo-Hydraulic Reverse Crash Simulator in Dearborn. The Servo sled accurately simulates full vehicle collisions by providing the same dynamics of a vehicle crash test without destroying the test device.

To better understand these and other issues, we sponsored and participated in the Sustainable Mobility Project of the World Business Council for Sustainable Development (see *Box 1*).

Through participation in the WBCSD project and partnerships detailed in our previous reports, we have learned that the many challenges of sustainable mobility are complex and interconnected, but not insoluble. For example, congestion contributes to rising rates of accidents, exacerbates air pollution from vehicles, drives fuel economy toward zero and degrades the quality of life. Advanced vehicle technologies will play an important role in reducing the environmental impacts and improving the safety of transportation. Information technologies in development and on the horizon also hold promise for better linking modes of transportation and providing travelers with information to help them choose the best mode, avoid congestion and travel safely.

Many sustainable mobility issues will require solutions beyond technological advances. Addressing access to mobility, land use patterns and driver behavior, for example, all involve a degree of societal consensus and commitment, as well as coordinated policies across multiple sectors. Mobility issues demand a systems approach that accounts for the interactions between technology, institutional actions and individual behavior.

OUR RESPONSE

We are responding to the challenges of sustainable mobility in several ways. Our response is most developed in our core business of developing automotive technologies, but we are also exploring mobility issues and our potential roles in addressing them in a real-world context.

Current mobility-related initiatives include:

- Developing and deploying advanced technologies
- Promoting road safety in developing countries
- Exploring new models of mobility through innovative partnerships

ADVANCED TECHNOLOGIES

Powertrain technologies

Ford continues to develop and introduce vehicle and fuel technologies that could help achieve major reductions in greenhouse gas emissions from cars and trucks. But achieving a true breakthrough will require addressing a range of challenges, including the availability of renewable fuels (see *Figures 2 and 3*). In addition to making incremental improvements to the fuel economy of conventional gasoline engines (discussed in the climate change section, Pages 19 to 21), Ford is developing four advanced technologies: hybrids, advanced diesel, hydrogen-fueled internal-combustion engines and hydrogen fuel cell vehicles. Our Sustainable Mobility Group formed in 2004 is coordinating development of the four technologies, with high initial priority on hybrids.

Hybrid vehicles. During 2004, Ford introduced the world's first hybrid SUV, the Escape Hybrid (see "Escape Hybrid goes on the market" on Page 20). The Escape Hybrid uses a "full" hybrid system, which means that it can be powered by the electric motor alone, by gasoline engine or both working together. The Escape Hybrid achieves fuel economy that is 50 percent better than the conventional Escape, making it the most fuel-efficient SUV on the market.

Our next hybrid vehicle, the Mercury Mariner Hybrid, was introduced in the summer of 2005 – a year earlier than originally planned – to be followed by the Mazda Tribute within two years. Both are compact SUV "siblings" to the Escape. By 2008, we will add hybrid versions of our new midsize Ford Fusion and Mercury Milan sedans.

We continue to refine our proprietary hybrid technology and build our supply base so that we can aggressively expand our presence in this important and rapidly growing market.

Mercury Mariner Hybrid

Mercury Meta One diesel hybrid concept vehicle

Advanced diesel. Modern diesel-powered vehicles are close to claiming half of the new-car market in Europe, owing to their superior fuel economy compared to conventional gasoline vehicles and improved driving characteristics compared to earlier generations of diesels. In the United States, however, diesel vehicles require additional emission controls and the use of low-sulfur fuels to meet the stringent tailpipe emission standards coming into effect. Our researchers in the United States and Europe are developing technologies to enable Ford diesel engines to meet the standards and contribute to improving fuel economy in the United States.

For example, at the North American International Auto Show in January 2005, Ford showcased the Mercury Meta One concept vehicle, designed to be the world's first diesel hybrid powertrain capable of meeting the stringent "partial zero emissions vehicle" standard. The Mercury Meta One concept draws its power from a twin-turbocharged V6 diesel engine and an electric motor in the modular hybrid transmission that together produce as much torque as a large V10 gasoline engine.

In the UK, Ford and its partners, Ricardo UK, Valeo SA and Gates Corporation, completed a one-year demonstration project of a micro-hybrid diesel delivery vehicle for use in urban areas. The modified Ford Transit delivery van used start-stop and regenerative braking technologies to achieve an improvement of more than 20 percent in fuel economy in city driving. The "HyTrans" vehicle was designed to be affordable, production-feasible and capable of delivering substantial fuel savings.

Hydrogen-fueled internal-combustion. Ford is a leader in the design and development of hydrogen-fueled internal-combustion engines (H_2ICEs), which we view as a potential bridge from today's fossil-fuel-based vehicles to tomorrow's hydrogen fuel cell vehicles. Our E-450 hydrogen internal-combustion engine shuttle buses are the first commercially available hydrogen vehicles in North America. Ford is building eight shuttle buses to support Florida's Hydrogen Highway initiative, and we will place at least five in operation next year in California's Coachella Valley as part of a multiyear relationship with the Agua Caliente Band of Cahuilla Indians and the Clean Cities Coachella Valley region. In addition, Ford has initiated discussions with potential partners in several cities in the United States and Canada that could be sites for demonstration projects starting in 2006.

The 12-passenger H_2ICE shuttle bus uses a 6.8-liter supercharged Triton V10 engine with a hydrogen storage system equivalent to 29 gallons of gasoline.

Hydrogen fuel cell. We are continuing to prove out, develop and demonstrate hydrogen fuel cell technology, with more than 25 test vehicles currently on the road and additional vehicles planned for deployment in Orlando, Florida; Sacramento, California; and Detroit, Michigan, through a partnership with the U.S. Department of Energy. Additional vehicles have been placed in service in Germany, and five were delivered to the city of Vancouver, Canada, in April 2005. The test vehicle, the Focus FCV, uses our third-generation technology and is one of the industry's first hybridized fuel cell vehicles, meaning it has a battery as well as the fuel cell.

The fuel factor

Through cooperative efforts with BP, we are looking at how fuels, lubricants and vehicle technologies work together as a system to provide optimal fuel economy. We are also working with partners to provide vehicles and fueling systems that use renewable fuels.

Volvo has established a partnership with the city of Gothenburg, Sweden, the Västra Götaland Regional Authority and the Volvo Group to promote use of natural gas, and biogas in particular. In western

Sweden, the project has resulted in a network of 19 filling stations, 3,000 cars and 114 buses powered by natural gas, 40 percent of which is derived from renewable sources.

Working closely with the Swedish Flexi-Fuel Buyers' Consortium, Ford was the first manufacturer to offer bio-ethanol-powered vehicles in a European market. Since its introduction in 2001, Ford has sold over 15,000 Focus flexible fuel vehicles (FFV) in Sweden. In 2003 and 2004, more than 80 percent of environmentally friendly cars sold in Sweden were Focus FFVs.

Ford is the vehicle provider to the Somerset Biofuel Project, formed to put a fleet of bioethanol-powered Ford Focus FFVs on the roads of Britain in early 2006. The vehicles will be operated by Somerset County Council, Wessex Water, Avon and Somerset Constabulary and Wessex Grain. Project partners will produce bioethanol and make it available at five refueling stations in Somerset. Subject to EU approval, the project will initially bring around 40 Focus FFVs to the country in 2006.

Technologies to improve collision avoidance

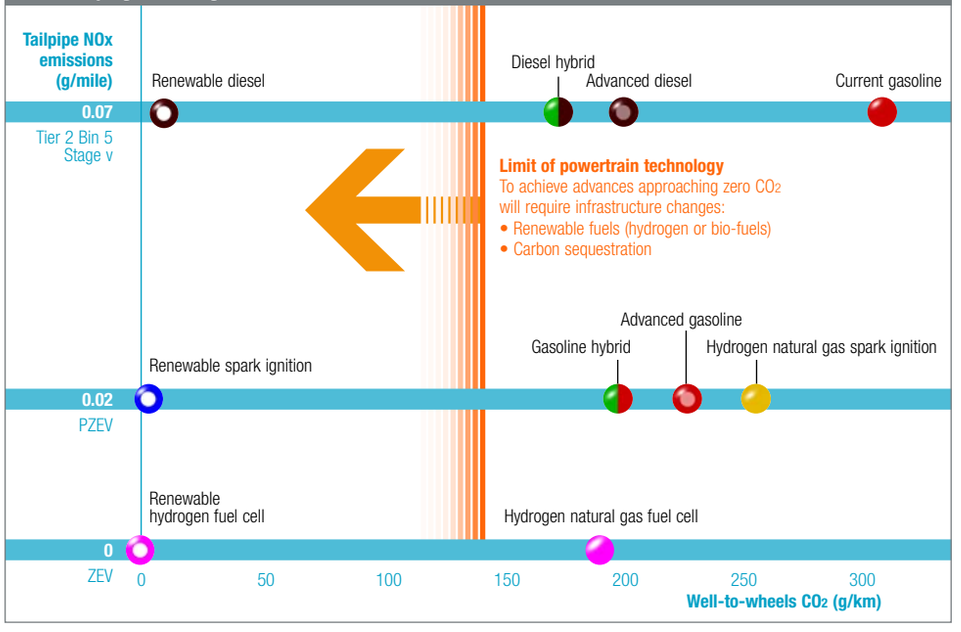
Ford is developing a range of advanced safety technologies, discussed in more detail on the Web. Among these are AdvanceTrac™, our electronic stability control system that helps drivers maintain control of their vehicles in emergency situations, and Roll Stability Control™, which builds on AdvanceTrac™ technology to anticipate and help prevent rollover accidents.

Ford also is developing the next generation of road and vehicle safety technologies. For example, Ford is working with the U.S. Department of Transportation (DOT), state Departments of Transportation and other car manufacturers to assess the viability of a standardized, national Vehicle Infrastructure Integration (VII) system. A VII system would use wireless communications to enable vehicles to communicate with each other and with the roadway infrastructure. A VII system could enhance safety and mobility and reduce congestion. For example, it could alert drivers to icy road conditions, approaching emergency vehicles, or vehicles ahead that brake suddenly, thereby reducing accidents and saving

2 Benefits and challenges of advanced technology

	Benefits	Challenges
Advanced gasoline vehicles Incremental improvements in efficiency are being achieved via advances such as: six-speed transmissions, variable displacement engines, direct injection, variable cam timing, variable compression ratio	• Reliable and familiar to consumers • Compatible with ethanol fuel blends up to 10% • Approaching near-zero emissions	• Fuel economy tradeoffs required to comply with increasingly stringent emissions and safety standards • Cost-effectiveness of incremental technologies
E85 Flex Fuel Over 5 million E85 FFVs on the road today in the U.S. but fewer than 500 E85 stations in the U.S.	• Promotes energy security and fuel diversity • Agricultural-based renewable fuel • Offers fuel flexibility for customers • Little or no incremental cost to customers	• Limited fueling infrastructure • Customer acceptance of fuel • Fuel system components more expensive than gasoline
Advanced technology diesel All Ford diesel applications can use 5% biodiesel blends. Low NOx levels may be achieved with urea co-fueling	• Significant increase in fuel economy (20 – 30%) • Higher performance, less noise and odor • Improved emissions • Ample refueling infrastructure	• Lingering public perception • Meeting stringent U.S. emission standards • Fuel-quality improvements (low sulfur, cetane) • Higher incremental cost
Hybrid electric Wide variety of hybrid technologies exist across the industry (mild to full). Hybrids currently represent less than 1% of total U.S. vehicle sales	• Significant increases in fuel economy • Uses existing fueling infrastructure • Can achieve near-zero emission levels • Full-hybrid technology is most effective in city and stop-and-go driving	• Incremental cost for hybrid option • Component supply base • Application to broader vehicle segments (i.e., trucks, larger SUVs) • Customer acceptance/value
Hydrogen internal-combustion (H_2ICE) Ford is a leader in the design and development of hydrogen-fueled internal-combustion engines. Ford's first E-450 shuttle bus will be delivered in 2006 for fleet use	• Bridge technology toward fuel cells • Near zero emission levels • Accelerates resolution of key barriers to fuel cell success • Drives development of hydrogen fuel infrastructure	• On-board hydrogen fuel storage • Limited driving range • Hydrogen infrastructure is in its infancy • Lack of uniform codes and standards
Fuel cell U.S. Department of Energy demonstration projects are under way. Commercial readiness not expected until 2015 (concurrent with the timeline for fuel cell commercialization reported by the U.S. Department of Energy)	• Zero Emission Vehicle (ZEV) • Breakthrough performance in energy efficiency • Hydrogen can be derived from multiple sources • Promotes long-term renewable fuel vision	• Extremely high cost of technology • On-board hydrogen fuel storage • Hydrogen infrastructure is in its infancy • Lack of uniform codes and standards • Sourcing hydrogen from renewable energy

3 Developing technologies to reduce vehicle emissions



lives. A VII system also could improve traffic flow by monitoring congestion, roadside incidents and bad weather. It also could reroute traffic, changing the timing of traffic signals and providing real-time information to drivers as needed.

Ford and its partners are planning a field operation test fleet. A national deployment decision is targeted for 2009, and an affirmative decision to move ahead with the technology could support an initial production vehicle launch by 2011 or 2012.

PROMOTING ROAD SAFETY IN EMERGING ECONOMIES

Vehicle design and features, driver behavior and environmental factors such as road conditions all influence traffic safety. Ford uses comprehensive global safety design guidelines to help ensure that its vehicles in all markets provide a high level of safety, and we are continually developing and deploying new safety technologies. We also are working through partnerships to have a positive impact on driver and environmental factors (see www.ford.com/go/sustainability).

The WBCSD study highlighted the fact that as the benefits of motorized mobility spread to developing countries, so does the human toll from road accidents. The rate of fatalities and injuries is much higher in developing countries. On a global basis, the World Health Organization estimates that some 1.2 million traffic fatalities occur annually. This number could increase to 2 million in four years if present trends continue. Most of this increase will occur in emerging economies: by 2020, road deaths are expected to fall by 30 percent in the industrialized nations, but increase by 80 percent in the rest of the world.[1] To help address the concern of increasing numbers of injuries and fatalities in developing markets, Ford has implemented core safety requirements in those global markets that include safety features such as safety belts in all seating positions and three-point belts in the outboard positions, even if not required by local law.

The rate of pedestrian fatalities and injuries is also much higher outside the United States, particularly in developing countries. Ford of Europe has been working to develop feasible and effective measures for pedestrian protection. Phase 1 of a European directive on this issue is about to come into effect, and Ford is again playing an active role with other industry partners, working with the European Commission to help define feasible requirements for Phase 2, which will come into effect in 2010.

Global Road Safety Initiative

Several companies that participated in the WBCSD project, including Ford, General Motors, Honda, Michelin, Renault, Shell and Toyota, launched the Global Road Safety Initiative in 2004. The purpose of the initiative is to transfer best practices, with the objective of reducing accidents and building capacity in developing countries to manage road safety. Projects include educational outreach to increase rates of seat belt and helmet usage and training aimed at improving roadway design.

The first focus of the initiative is China, where both the number and rate of traffic accidents are high and growing. The participating companies have pledged $1 million each over five years to fund projects in China, ASEAN countries and possibly Brazil. The projects are being implemented through the Global Road Safety Partnership, an existing organization founded by partners including the World Bank and national governmental aid organizations.

The projects will rely on delivery through local organizations to build local capacity so that they can continue in a sustainable fashion after the project period.

Thailand Accident Research Center

Another road safety partnership, in its third year of implementation, is the Thailand Accident Research Center (TARC). In Thailand, approximately 25,000 people die in traffic accidents each year. This gives the country the dubious distinction of having one of the highest traffic fatality rates in the world.

TARC, a Volvo Car Corporation initiative, builds on the Volvo Traffic Accident Research Team's 30-plus years of experience in Sweden. Volvo partnered with the Thailand Department of Highways and the Global Road Safety Partnership in forming a research center. Volvo has donated substantial in-kind expertise to the project, along with a specially equipped accident investigation vehicle to carry out in-depth, on-the-scene research into actual accidents.

TARC has two main objectives: to build a database of knowledge gleaned from local accident experience, and to provide decision makers with information to help them prioritize traffic safety solutions and ultimately reduce the number of accidents.

Also in Thailand, in 2004, Ford and its dealers undertook a joint driver education campaign with its dealers focused on road safety and driving tips. Customers were invited to Ford dealerships to participate in the course. Ford Thailand also co-sponsored a road safety training campaign with the Red Cross, as well as a road safety education campaign.

NEW MOBILITY MODELS

To improve patterns of mobility, we must understand how they function as complex systems and be ready to offer innovative, tailored approaches that take into account human needs for the transportation of people and goods, institutional factors and technological opportunities. We are beginning to think about how our business might evolve if we conceived of our Company as a provider of mobility solutions rather than a manufacturer of cars and trucks. In addition, we are joining with others to learn about mobility issues and pilot location-specific solutions.

EMBARQ Istanbul

Ford has been working to establish an "EMBARQ" partnership in Istanbul, Turkey, to demonstrate ways to reduce transport-related emissions and congestion. EMBARQ, the World Resources Institute (WRI) Center for Transport and the Environment, fosters government-business-civil society partnerships whose members are committed to finding solutions to the transportation-related problems facing the cities in which they operate. EMBARQ identifies, tests, evaluates and implements financially, socially and environmentally sound solutions to local transport problems within a three- to five-year time horizon (www.embarq.wri.org).

Istanbul straddles the continents of Europe and Asia and lies on a major shipping route. It is one of the world's burgeoning mega-cities, with an estimated

[1] **World Health Organization World Report on Traffic Injury Prevention at www.who.int/world-health-day/2004**

population of 15 million people. With its hills, unique historic infrastructure and many narrow streets, Istanbul is plagued by traffic congestion, which is getting worse as 500 new vehicles enter traffic daily. This is compounded by air pollution caused by fuel and emissions standards that lag those of many European countries. Additionally, thousands of ships burn low-grade fuel oil as they pass through the Bosphorus.

Ford has loaned a manager to work full time at WRI as a visiting scholar and project director. Sibel Bulay Koyluoglu, a Turkish native, is based in Istanbul, where she is building partnerships with the city departments of environmental protection and transport to outline projects of mutual interest. Among the areas under consideration are the following:

- A mobile source emissions inventory to measure levels and identify sources of transport-based emissions in Istanbul including marine vessels
- An examination of how alternative powertrains and fuels might help reduce greenhouse gas and tailpipe emissions. Among the fuels and technologies to be explored are the use of clean diesel, biodiesel and the adoption of hybrid powertrains
- An exploration of the role of information technologies in the reduction of congestion and transport emissions in the urban setting

EMBARQ projects are defined and implemented in conjunction with government and local stakeholders, and carried out by local staff assisted by EMBARQ's international network of experts. Participating stakeholders include NGOs, academics and private groups like the Auto Manufacturers Association.

The project is expected to provide Ford with valuable insight into the mobility challenges unique to the urban environment and our potential role in addressing them.

SunFleet car pool

Since 2001, Volvo has been operating the SunFleet Carsharing car pool in Sweden in cooperation with Hertz. It is the only car-sharing service in Europe exclusively using environmentally friendly cars, including Volvo bifuel models and electric hybrid, bioethanol and methane-driven cars. SunFleet provides companies, communities and organizations easily accessible, shared personal transportation close to their workplaces or homes. Members of the car pool pay only a subscription and the running costs of the car.

Twenty-four companies, organizations and public bodies, with a total of 1,300 users, were subscribers to the SunFleet car pool in 2004, up 175 percent compared with 2003. More than 1,100 journeys per month are completed in SunFleet cars.

Sustainable Mobility and Accessibility Project

Ford and the University of Michigan are leading a project to address the challenges of meeting future mobility and accessibility needs in an ecologically sound and socially sustainable manner.

The project takes a systems view of the entire mobility question in the context of some of the pressing concerns of the day, including energy, carbon dioxide, livable communities, congestion, urban sprawl and others. By harnessing the emerging science of complex adaptive systems, the researchers hope to uncover a small set of variables and critical processes ("tipping points") that control and guide the evolution of such systems toward or against sustainable access and mobility.

This initiative, co-sponsored by Ford, the National Science Foundation, and the University of Michigan's Center for Advancing Research and Solutions for Society, includes graduate seminars, senior executive programs, workshops, speaker series and faculty research projects focusing on complexity, mobility and sustainability. Three dozen University of Michigan professors, deans and external scholars are participating in the initiative.

The project is devoted to an open-minded exploration of potential sustainable mobility concepts that might emerge in practice in the future. This includes consideration of new powertrain technologies, greater integration of public and private transportation, and changes in urban planning and development and concomitant changes in transportation systems.

"Now that we've made this big leap in fuel economy with the Escape and Mariner hybrids, we're working on a comprehensive strategy for improving fuel economy and greenhouse gas emissions across our entire product lineup."

Not too long ago, sustainability was an academic concept, a dialogue among research scientists. Today, sustainability is not defined by specific markets or specific regions; rather, it is a common worldwide issue. Bill Ford has set forth a vision for our Company in which sustainability is a banner for transformational change that, in many respects, could revolutionize what we as a company can offer to the public. Now Jim Padilla is working on integrating that vision into the business. My job is to deliver sustainable products that are attractive to customers.

And customers' expectations are broadening. It is no longer enough to provide an affordable car, or a high-quality car, or a car with the latest technology. Now we see customers who are concerned about climate change, or resource conservation, or fuel prices, in addition to those traditional expectations.

In fact, developing sustainable products that meet customers' growing expectations is probably the most significant business, cultural and economic challenge that we at Ford will face in the next decade. A big part of meeting that challenge is the work of the Sustainable Mobility Governance group, a senior leadership team dedicated to directing the development, production and introduction of new sustainability product technologies, like hybrids.

To be honest, before we developed the Ford Escape Hybrid, we considered such a product to be a "moonshot." What we demonstrated along the way is that our Company had the capacity to deliver a product innovation that exceeded all expectations.

Now that we've made this big leap in fuel economy with the Escape and Mariner hybrids, we're working on a comprehensive strategy for improving fuel economy and greenhouse gas emissions across our entire product lineup.

From powertrain efficiency to the use of renewable materials, leaders in automotive product development need to be anticipating the changing expectations of a changing market and meeting the growing need for sustainable mobility.

Phil Martens.
Group Vice President, Product Creation

Climate change

As early as 2000, Ford Motor Company identified climate change as a critical issue. The subject has only grown in importance since then, drawing focused attention from scientists, policy makers, NGOs, media, business leaders, investors and consumers. For the automotive industry, climate change, energy security and fuel economy pose special challenges. But they also present opportunities as companies develop innovative new products and technologies to reduce greenhouse gas emissions.

IN THIS REPORT:

ADDITIONAL CONTENT ON THE WEB SITE
www.ford.com/go/sustainability

ENVIRONMENT SECTION
Manufacturing energy use
Transportation/logistics energy use

PRODUCTS AND CUSTOMERS SECTION
Market trends

1 Ford climate change commitments and requirements

COMMITMENT – PRODUCTS	TARGET
European Automobile Manufacturers Association CO_2 commitment	EU new car fleet average of 140 g/km by 2008; equivalent to 25% average CO_2 reduction compared with 1995.
Australia fuel economy commitment	Fuel economy of 6.8 l/100 km by 2010 from 2001 level of 8.28 l/100 km
Canadian Greenhouse Gas Memorandum of Understanding	Industrywide voluntary agreement to reduce greenhouse gas emissions from the Canadian car and truck fleet by 5.3 megatonnes by 2010
COMMITMENT – OPERATIONS	**TARGET**
Global manufacturing energy efficiency	Improve manufacturing energy efficiency by 1% year over year, following an improvement of more than 12% from 2000 to 2004
UK Emissions Trading Scheme	UK operations to achieve 5% absolute reduction target over 2002-2006 timeframe based upon an average 1998-2000 baseline
Chicago Climate Exchange	Reduce U.S. facility emissions by 6% over a 2003-2006 timeframe based upon an average 1998-2001 baseline
Alliance of Automotive Manufacturers	Reduce U.S. facility emissions by 10% per vehicle produced between 2002 and 2012
REGULATORY REQUIREMENTS	
United States	The United States has set fleet average motor vehicle fuel economy for over 25 years. To date Ford has always met the prescribed standards.
China	The federal government has introduced weight-based fuel consumption standards for passenger cars and trucks. The standards began with new 2005 model year (MY) passenger vehicles and increase in stringency for new 2008 MY vehicles. Proposed standards for commercial trucks start in 2008. All of Ford's product offerings comply with the appropriate 2005 MY standards and are fully expected to comply with the 2008 MY standards as well.

THE CLIMATE CHANGE CHALLENGE

The cars of the 21st century will need to be ever more stylish, safe, spacious, powerful and fuel efficient. The auto companies best able to deliver vehicles that meet these tremendous challenges are likely to increase market share and reap the financial rewards of technological leadership.

Many factors influence greenhouse gas emissions from vehicles, and many institutions and individuals influence those factors (see *Figures 2 and 3)*. Reducing greenhouse gases is a global concern that can only be addressed through coordinated international efforts. For these efforts to have meaningful, long-term impacts, global patterns of consumption of fossil fuels must be changed. For the transportation sector, this will require not only improvements in fuel economy, but also changes in fuels, infrastructure, mass transportation and driver behavior, as well as a reduction of the overall number of vehicle miles traveled.

Addressing climate change is a significant undertaking involving numerous actors, but it also represents an opportunity for companies that can bring fresh thinking and technological and social innovation to the challenge. We are working internally and externally to understand the business implications of climate change and generate business value by contributing to solutions. For example, we are investing in a broad range of product technologies (see Mobility section), we are making progress on a series of commitments to reduce manufacturing and product greenhouse gas emissions (see *Figure 1)*, and we are forming partnerships and collaborative efforts to address the full range of factors influencing climate change.

Ford is affected by fuel economy regulatory requirements and commitments in all of our major markets around the world. We cannot predict the future, but it is unlikely that energy security and climate change concerns will be resolved in the near term. It is more likely that regulations and commitments to improve fuel economy will increase in stringency as policy makers react to these challenges. Ford is in compliance with all fuel economy regulations and is on track to meet all of our voluntary commitments. A summary of many of these commitments can be found in *Figure 1.*

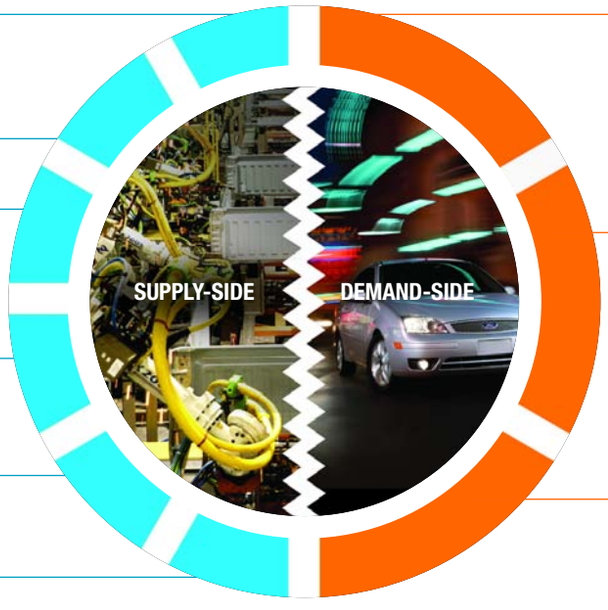
FORD GOVERNANCE AND ACTIONS

A vice president-level task force appointed by Bill Ford has responsibility for identifying the business implications of the climate change issue and directing the development and implementation of our climate change strategy. During 2004, the task force completed a review of the scientific evidence and implications of climate change. The review concluded that consensus is forming around the appropriateness of a broad societal goal to stabilize atmospheric CO_2 concentrations and explored the implications of this goal for Ford's business. (For a more detailed discussion of stabilization see *Figure 3* on Page 18.)

During 2004 and early 2005, the task force worked in three major areas: establishing an organization and governance process to develop Ford's strategic approach to sustainable mobility (see *Figure 4)*; overseeing preparation of a stand-alone climate change report to be issued in late 2005; and planning fuel economy improvements through technological solutions. Also discussed in this section are our efforts to reduce greenhouse gas emissions from our facilities and our participation in a variety of collaborative initiatives to meet the climate change challenge.

2 The role of Ford and the need for collaboration

The vehicles we produce have significant impact on society and the environment, including the issue of climate change. We are committed to doing our part to address the climate change challenge. But for all our influence, we can only succeed if we work on the factors influencing greenhouse gas emissions from vehicles in partnership and collaboration with other actors including:



Energy companies. Provide different types of fuel and influence public policy

Factors: *fuel cost and availability; fossil carbon content of fuels*

Suppliers. Offer innovative materials, technologies and components

Fellow automakers. Share learning and technologies and influence consumers and public policy. Provide vehicles/mix of vehicles

Factors: *marketing; vehicle fuel efficiency (CAFE)*

Capital markets. Account for risks and influence actions of companies and investors

Labor. Shape and implement solutions and influence public policy

Dealers. Inform consumers and service new generations of vehicles

Governments and policy makers. Create regulatory environments governing markets and behaviors, and establish infrastructure for new fuels and technologies

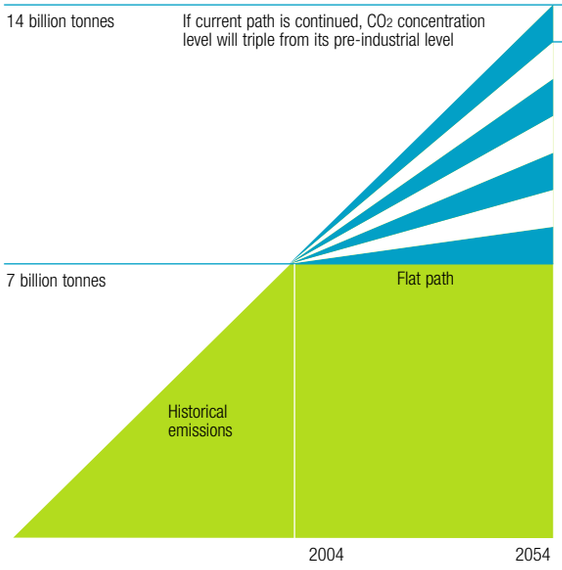
Factors: *price signals/fuel taxes; infrastructure development*

Customers. Choices about types of vehicle purchased and driving behavior

Factors: *number of vehicles; choice of transportation mode; vehicle usage patterns; vehicle miles traveled*

Nongovernmental organizations. Affect public opinion and policy and influence consumers. Collaborate with companies

3 Climate stabilization



1 wedge = 1 billion tonnes of carbon emissions

Each of the following strategies has the potential to reduce carbon emissions by one wedge.

Efficiency
- Double the fuel efficiency of 2 billion vehicles
- Decrease the number of vehicle miles traveled by half
- Use best efficiency practices in all residential and commercial buildings
- Produce current coal-based electricity with twice today's efficiency

Biomass fuels
- Increase ethanol production 50 times by creating biomass plantations with an area equal to one-sixth of world cropland

Carbon capture and storage
- Capture AND store emissions from 800 coal electric plants
- Produce hydrogen from coal at six times today's rate and store the captured CO_2
- Capture carbon from 180 coal-to-synfuels plants and store the CO_2

Nuclear
- Add double the current global nuclear capacity to replace coal-based electricity

Wind
- Increase wind electricity capacity by 50 times present value, for a total of 2 million large windmills

Solar
- Install 700 times the current capacity of solar electricity
- Use 40,000 square kilometers of solar panels (or 4 million windmills) to produce hydrogen for fuel cell vehicles

Fuel switching
- Replace 1,400 coal electric plants with natural gas-powered facilities

Natural sinks
- Eliminate tropical deforestation and create new plantations on non-forested land to quintuple current plantation area
- Adopt conservation tillage in all agricultural soils worldwide

We have been a leader in our industry in acknowledging and speaking out on the significance of climate change. Since we began to address the issue, we have continuously tracked the evolving views of the scientific and policy-making communities on the subject. For example, many scientists, businesses and governmental agencies have concluded that stabilizing the atmospheric CO_2 concentration at 550 parts per million (ppm) (compared with the current 380 ppm and the historical level of approximately 270 ppm), may help forestall or substantially delay the occurrence of climate change without also incurring tremendous costs and economic hardships on the path to stabilization.[1,2,3]

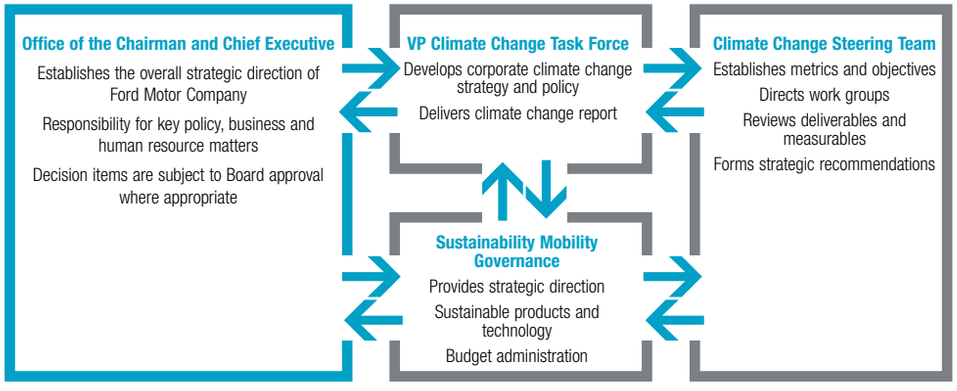
The Carbon Mitigation Initiative, a research partnership based at Princeton University and supported by BP and Ford, has examined what it would take to stabilize atmospheric CO_2. Researchers identified a set of stabilization strategies they call "wedges." Each wedge represents the implementation of a strategy that could cut global annual carbon emissions by 1 billion tonnes by 2054. Fifteen different strategies were identified. *Figure 3* above shows that stabilization would require the successful implementation of at least seven of these 15 approaches to achieve the annual reduction of 7 billion tonnes of carbon emissions from business-as-usual forecasts.[4]

While the wedges may be theoretically achievable, they were not evaluated for their economic, market or political feasibility. Many would require rapid scaling-up of emerging technologies. Achieving the reductions represented by any one wedge would require economic, political and technical commitment and cooperation. All sectors of society and industry would need to be involved in the complex process of reconciling the actions required to implement the wedges. No one industry or sector could do it alone.

[1] Intergovernmental Panel on Climate Change, "Climate Change 2001: The Scientific Basis," Cambridge University Press (2001)
[2] The Arctic Council, Arctic Climate Impact Assessment, www.acia.uaf.edu (2005)
[3] Pew Center on Global Climate Change, "Beyond Kyoto: Advancing the international effort against climate change," (December 2003)
[4] Carbon Mitigation Initiative, "Building the Stabilization Triangle," www.princeton.edu/~cmi, (2004).

4 Climate change and sustainable mobility governance

We have established a new cross-functional high-level governance structure to explore the implications of sustainable mobility and plan Ford's future offerings of products and services. The sustainable mobility governance structure is integrated with the climate change task force and steering teams, and both report to the Office of the Chairman and Chief Executive.



Climate change report

Since the 2000 stakeholder dialogue, we have engaged with a variety of groups interested in our climate change strategy. During 2004 and early 2005, we worked with a coalition of shareholders asking Ford to report on the climate change issue. In March 2005 we announced that we would publish a comprehensive report on climate change. The report will examine the business implications of greenhouse gas emissions, with reference to government policies and regulations, Ford's product and manufacturing facilities actions and advanced technology development. We are consulting with stakeholders in the development of this report including Ceres, the Interfaith Center on Corporate Responsibility, the Union of Concerned Scientists and the Natural Resources Defense Council.

Fuel economy improvement

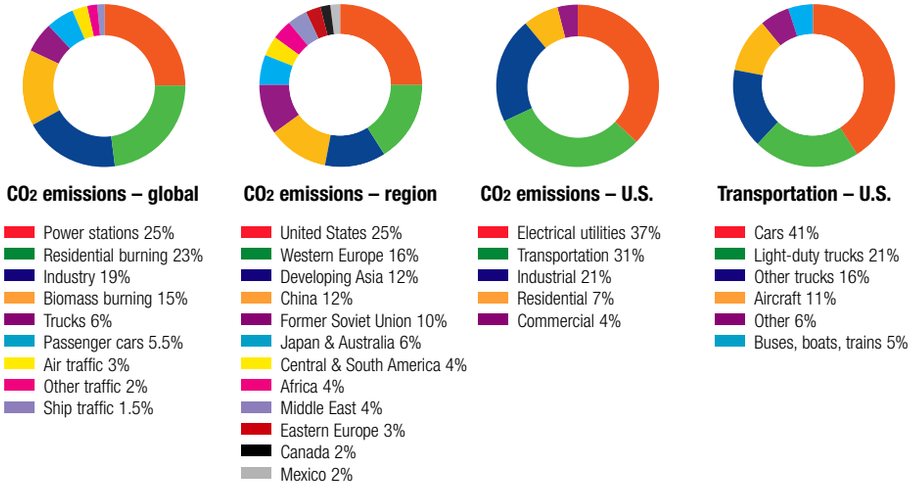
Ford is committed to improving the fuel economy of all of our vehicles. It is also one of our greatest challenges. We are taking near-term actions and aggressively pursuing advanced vehicle technologies to improve the fuel economy of our offerings. Globally, we are incorporating fuel-saving technologies such as five- and six-speed transmissions, electric power-assisted steering, variable cam timing, greater use of lightweight materials and improvements in vehicle aerodynamics. We introduced our first hybrid vehicle, the Escape Hybrid, in 2004 (see *Box 7*). We are also working to develop a new generation of advanced technologies with lower greenhouse gas emissions, discussed in the Mobility section of this report. Current and near-term actions are described below.

Economy vs. efficiency. When describing fuel use in vehicles, there are two important terms to understand. Fuel efficiency measures the amount of fuel (in ton-miles-per-gallon) needed to move a vehicle of a certain weight a certain distance. Fuel economy (in miles per gallon), a much more recognized term, indicates how far a vehicle travels on a unit of fuel. We have made significant improvements in the fuel efficiency of our fleet. The fuel efficiency of our vehicles in the United States improved from 41.6 ton-mpg in 1987 to 49 ton-mpg in 2005. However, the fuel economy of our fleet has not improved as regulations and the competitive market have demanded safer, cleaner and more powerful feature-laden vehicles.

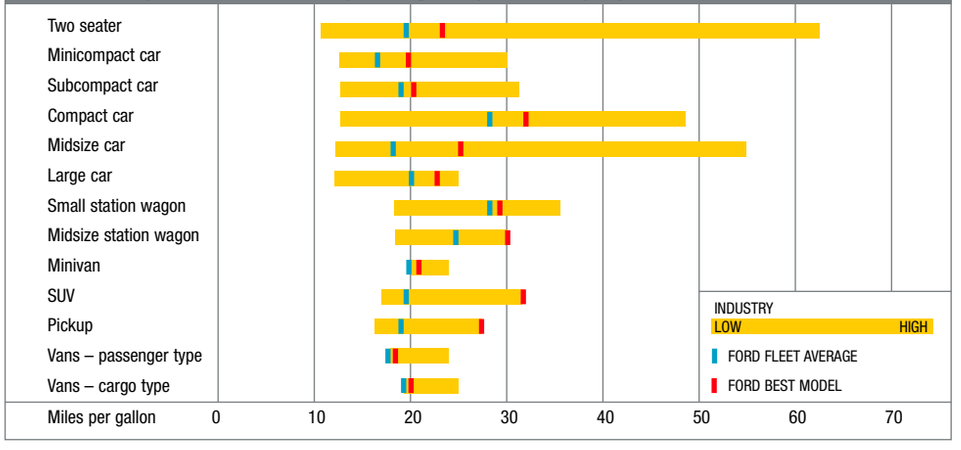
EPA data for the industry show that the fuel efficiency of vehicles sold in the United States improved 24 percent between 1987 and 2005. As a point of comparison, 1987 is cited because the industry achieved an average peak fuel economy value that year.[5] During the same period, the

5 Climate change and industry

Climate change is the result of an increase in heat-trapping (greenhouse) gases in the atmosphere. Carbon dioxide (CO_2) is the major greenhouse gas, resulting from the combustion of fossil fuels in human activities including manufacturing; power generation; residential burning; and transportation of people and goods. Ford uses energy to produce our vehicles and power our global facilities, resulting in CO_2 emissions that we measure, report and strive to reduce. However, the vast majority (approximately 90 percent) of a vehicle's lifecycle greenhouse gas emissions occur during the use of the vehicle, when it burns gasoline or diesel fuel from fossil sources. Other important greenhouse gases include nitrous oxide, methane, halocarbon and ozone. Emissions from cars and trucks comprise about 12 percent of man-made CO_2 emissions globally. Cars and light trucks account for 19 percent of man-made CO_2 emissions in the United States.



6 Fuel economy of U.S. Ford vehicles by EPA segment (2005 model year)



[5] **Light-Duty Automotive Technology and Fuel Economy Trends: 1975 through 2005, www.epa.gov/otaq/fetrends.htm**

7 Escape Hybrid goes on the market

Ford's Escape Hybrid went on sale in late summer 2004 as the world's first hybrid SUV. Powered by gasoline and electric motors, the Escape Hybrid has EPA fuel economy ratings of 36 miles per gallon in the city and 31 miles per gallon on the highway (front-wheel drive version). City mileage is higher because the Escape Hybrid uses a full hybrid system, which means it can run on the electric motor only. It does not need to be plugged in because the hybrid system recaptures energy used during braking and shuts the engine down at full stop.

The innovative vehicle deserved an equally creative launch. The first public sale of an Escape Hybrid was at an auction to benefit Heal the Bay, a Santa Monica-based environmental group dedicated to improving water quality along California's coastline. Ford partnered with Honest Tea, the only organic bottled tea company, to promote the two products across the United States. In Toronto, Ford Canada built a "living billboard" above a busy downtown intersection. The 18-foot by 30-foot billboard, made of 750 live plants, was part of a promotion that included a one-tank challenge to see how far the Escape Hybrid could travel on a fillup. In New York City, "The Longest Mile" event allowed New Yorkers to go to a Web site and vote for their choice for the worst stretch of morning commute. The top five vote-getters were put to the test to determine the stretch of road that took the longest time to travel the shortest distance. The Escape Hybrid averaged between 31 and 42.6 miles per gallon in the five stretches of commuting nightmare.

There was a lot of pent-up demand for the Escape Hybrid, and customers were willing to wait six months or more to receive their vehicle. More than half of Escape Hybrid customers came out of a non-Ford vehicle. Escape Hybrid sales continue to be strong, and we have already started producing 2006 model year vehicles, with new features and more luxury content. Due to the popularity of the Escape Hybrid, Ford pulled forward production of a hybrid version of the Escape's sibling, the Mercury Mariner, which was introduced July 11, 2005, as Ford's second hybrid product. It will be followed by the Mazda Tribute sibling SUV and hybrid versions of the Ford Fusion and Mercury Milan sedans in 2008.

We are currently producing about 20,000 hybrid vehicles per year. We are working with suppliers to evaluate opportunities to increase production numbers.

average weight of vehicles rose by 27 percent as consumers chose vehicles with additional performance, safety and utility features, and automakers added emission control and other required equipment. Average horsepower almost doubled to 212 hp (from 118 hp in 1987) and the share of light trucks increased to 50 percent (from 28 percent in 1987). The result is that industrywide fuel economy has remained flat since 1987. A list of fuel economy rankings for U.S. vehicles can be found at www.fueleconomy.gov.

Current performance – U.S. We are making incremental improvements to the fuel efficiency of the vehicles we currently offer. Our new Ford Five Hundred and Mercury Montego sedans, for example, offer a six-speed transmission. The 2005 Lincoln Navigator SUV and Jaguar XJ sedan use our first rear-wheel-drive six-speed transmission, and the Escape Hybrid offers electric power-assisted steering.

The extent to which some of these fuel-saving technologies have been incorporated into our vehicles sold in the United States is summarized in *Figure 8*. We are also investing in new vehicle segments as a strategy to improve fuel efficiency. We continue to expand our offerings of cars and "crossovers" in North America – vehicles that combine the features of cars and SUVs while generally achieving better fuel economy than traditional SUVs.

Although our long-term fuel economy performance in the United States has trended down since 1987 (from 24.2 mpg to 22.8 mpg in 2005), our projected 2005 model year corporate average fuel economy

improved by 4.8 percent compared with the 2004 model year (see data on Page 40).

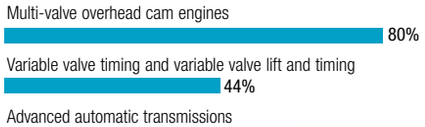
Our current product offerings vary in their competitive positioning on fuel economy. Some, including the Escape Hybrid, Ford Ranger and Mazda B2300, are best-in-class. The Ford Five Hundred, Mercury Montego and Ford Freestyle are all near the top of their respective segments in fuel economy. Others are in the middle or lower range compared to the competition (see *Figure 6* on Page 19*)*.

Current performance – Europe. In Europe, we have reduced the average CO_2 emissions of the vehicles we sell by 11 to 37 percent depending on the brand, compared with a 1995 base (see data on Page 40). We have achieved these reductions by introducing a variety of innovations, from the advanced common-rail diesel engines available on many of our vehicles to the lightweight materials in the all-aluminum body of the Jaguar XJ.

These reductions reflect progress toward the goal of a voluntary agreement between the European automotive industry (represented by its association, ACEA) and the EU Commission. The agreement committed ACEA members to voluntarily reduce the average fleet CO_2 emissions of its new cars sold in the EU. The target is 140 grams of CO_2 per kilometer by 2008, down from 186 grams per kilometer in 1995, which translates to an average CO_2 reduction of 25 percent.

Achieving the 2008 target will be challenging. The agreement is extremely ambitious, both technically and economically. ACEA members are functioning in an uncertain operating environment and must respond to competing demands, such as technological developments and their market acceptance; the EU macroeconomy; geopolitics; customer demands; fuel supplies; new and partly contradicting regulations; and other public policy measures. Despite these challenges, Ford and the industry remain committed to further reduce fuel consumption and the average level of CO_2 emissions of the new car fleet.

8 Fuel-saving technologies available in 2005 model year Ford light-duty vehicles



Percent of U.S. vehicles offering technology

Technologies identified in National Academy of Sciences report, "Effectiveness of Corporate Average Fuel Economy (CAFE) Standards 2002."

Ford Five Hundred

Mercury Montego

Jaguar XJ

Ford Ranger

Lincoln Navigator

Cutting greenhouse gas emissions from our facilities

Since 2000, our facilities worldwide have cut their energy use by more than 18 percent and reduced CO_2 emissions by more than 15 percent as a result of steps large and small, from replacing heating and air-conditioning systems to turning out the lights.

We also have increased our use of renewable and other "green" power. During 2004, construction was completed on the London area's first large-scale wind power project, located at Ford's Dagenham Diesel Centre, which produces a high-performance 2.7-liter V6 diesel engine. The two 120-meter-tall turbines meet all the electricity requirements for the Centre (equivalent to 3,000 homes).

Globally, renewable, or "green," power supplies 3 percent of Ford's energy needs. In the United States, we use hydropower, landfill gas, waste gases and other sources to supply 5 percent of our energy needs.

In our paint shops, drying processes and pollution control devices that reduce the release of paint fumes are a significant source of CO_2 emissions. In partnership with Detroit Edison, Ford developed an innovative "Fumes-to-Fuel" system that is moving into its final pilot phase in the fall of 2005, when a portion of the paint booth fumes at the Michigan Truck Plant will be converted into electrical energy to help power the facility.

The fumes, containing volatile organic compound (VOC) emissions from solvent-based paint, are captured, highly concentrated and then burned in a specially designed Stirling Cycle Engine. The engine will produce about 50 kilowatts of electricity. The only byproducts of Ford's Fumes-to-Fuel system, which cuts electrical usage by one-third to one-half, are small amounts of water vapor, carbon dioxide (CO_2) and nitrogen oxides. The Stirling Engine also produces heat during combustion, which may be another useful source of energy in the future.

The production-scale pilot at Michigan Truck represents the final test of the system before full-scale implementation by the end of the decade as part of Ford's program to deploy new paint shops that are cleaner, smaller and more efficient.

As a registered partner of the EPA's Energy Star Program, Ford has implemented industry best practices and new tools to reduce energy consumption.

Looking at logistics

Over the past five years, Ford's North American operations cut fuel use and CO_2 emissions from truck transportation by 15 percent. During 2004 we studied logistics energy use and greenhouse gas emissions as part of the climate change task force deliberations. The purpose was to inform the task force about the contribution of transportation emissions to Ford's environmental footprint and how it might be reduced. Along with lower emissions, the reduction in truck miles has helped Ford achieve freight savings as part of its revitalization plan that began in 2000.

Similar work is taking place in Europe. We are gathering data from major plants to document fuel use and CO_2 emissions attributable to incoming and outgoing logistics. We have made improvements in our European operations by using lower-emission modes of transport. For example, we use river barges instead of trucks for vehicle transportation and trains rather than trucks to take material to our assembly plant in Turkey. We also use the latest diesel engines and instruct truck fleet drivers in economical driving to reduce fuel consumption.

COLLABORATION AND COOPERATION: A SYSTEMS APPROACH

Energy security concerns, growing scientific evidence on climate change and sustained high fuel prices are adding to the urgency of action on climate change. Climate change is linked to social concerns including population growth, access to mobility and poverty alleviation. We think it is good business to seek out and offer ways to reduce vehicle emissions while extending the benefits of mobility to the billions of people who currently lack it. However, comprehensive solutions require cooperation between the many stakeholders influencing greenhouse gas emissions, including consumers, policy makers, fuel providers and others. We are working with these and others on coordinated approaches.

At Ford's Dagenham Diesel Centre outside London, a worker assembles a fuel-efficient diesel engine. The facility meets 100 percent of its power needs using wind turbines.

Public policy

Thirty-two percent of our manufacturing CO_2 emissions (2.7 million tonnes) occur in countries that are signatories to the Kyoto Protocol Agreement, which went into force in February 2005. We believe that our participation in voluntary agreements to reduce vehicle emissions in the EU and Canada, our ongoing, target-driven programs to reduce manufacturing emissions and our participation in emissions-trading programs will place us in a good position to contribute to attaining Kyoto goals in those countries.

During 2004 and early 2005, Ford took several actions to address public policy related to climate change.

In April 2005, we joined other automakers in a voluntary agreement with the Canadian government to reduce greenhouse gas emissions from Canada's fleet of cars and light-duty trucks by 5.3 megatonnes by 2010. The agreement is unique, because it recognizes that achieving transportation-sector reductions in greenhouse gases depends on efficient products, as well as consumer purchase and driving behaviors and the availability of appropriate fuels.

We continue to work toward implementation of the ACEA agreement on reducing greenhouse gas emissions from vehicles, although it is increasingly challenging (see discussion on Page 21).

Earlier this year, the United States initiated discussions with Australia, China, India, Japan and South Korea to seek a framework agreement on clean development and climate change policies. The negotiations produced a new partnership between the six nations to accelerate the development and deployment of clean, energy-efficient technologies. The Asia-Pacific Partnership on Clean Development reportedly aims to identify, promote and deploy global solutions to reduce greenhouse gas emissions and establish clean development programs. We applaud this framework agreement between developed and emerging nations and support its stated goal of accelerating the introduction of clean, affordable and efficient technologies and practices in emerging nations. Specific programs and initiatives are scheduled to be developed later this year. Ford welcomes the opportunity to work with the parties of the Partnership to help deploy sustainable policies and solutions.

Ford supported passage of the U.S. Energy Policy Act of 2005. By incorporating national conservation initiatives, renewable fuel standards and consumer tax credits for fuel-efficient advanced-technology vehicles, including hybrids, we believe that the provisions of the Act will provide incentives to accelerate the expansion of fuel-efficient, advanced-technology vehicles and achieve the volumes needed to make them more affordable. We also supported the Act's approach to addressing climate change through market-based incentives, which we believe will support U.S. jobs and encourage the deployment of lower-greenhouse-gas-intensive technologies and infrastructure. In addition, these incentives will maintain a national focus on the climate change issue by accelerating the deployment of technologies that can reduce greenhouse gas emissions, and may serve as a template for other nations' acts.

New CAFE standards were not legislated in the Energy Act, as policy makers and industry recognized that there is a regulatory process in place and that the National Highway Traffic Safety Administration (NHTSA) is in the process of reforming the CAFE system and continuing to set standards at maximum feasible levels on an ongoing basis.

We expect to be a constructive partner in developing climate change approaches in all the markets in which we operate. In the past year, in addition to responding to legislative and regulatory proposals, we have called for national dialogue to identify common ground and explore alternative policy approaches that will cut CO_2 emissions from vehicles in a way that is effective, efficient and equitable.

Strategic partnerships in our supply chain

We have established two major strategic partnerships and fostered collaboration on sustainability issues, including climate change, with many of our major suppliers.

BP. In our cooperation with BP, we are taking advantage of natural synergies between the two companies, including common customers worldwide, strong retail networks, direct linkages between our product offerings (merged value chains), strong complementary technologies and shared interest in developing sustainable business models.

Ford and BP are cooperating in a project supported by the U.S. Department of Energy that is deploying a test fleet of hydrogen fuel cell vehicles in Detroit, Michigan; Sacramento, California; and Orlando, Florida. BP also plans to provide fueling support for Ford hydrogen demonstration vehicles in Europe. We are exploring issues around advanced vehicle technologies and fuels. Another area of technical cooperation will be a joint study of modern diesel technologies, with specific focus on applications for the U.S. market.

Ballard Powersystems and DaimlerChrysler. With Ballard Powersystems and DaimlerChrysler, we have worked closely to mature the development of fuel cell vehicle technologies. Ballard focuses on providing fuel cell stacks, and the two automakers focus on fuel cell systems, vehicle integration and manufacturing.

9 Ford joins companies advocating climate change leadership

During the first half of 2005, Ford Motor Company was the only U.S.-based auto company to participate in the G8 Climate Change Roundtable, formed to advise on the G8 climate change agenda and serve as a sounding board for policy options. British Prime Minister Tony Blair has made climate change a principal theme of his 2005 presidency of the G8. To support work on the issue, the World Economic Forum convened a group of 23 CEOs of leading companies that met during the Forum in Davos, Switzerland. The companies worked together to develop a statement that they presented and discussed with Prime Minister Blair in advance of the G8 meeting in Gleneagles, Scotland. Mark Fields, Executive Vice President, Ford Motor Company and President, The Americas, represented Ford Motor Company in the process.

Key points of the G8 Climate Change Roundtable statement included:

- **Recognition of the responsibility of companies to act on climate change, one of the most significant challenges of the 21st century**
- **Support for elevating the level of international attention to the issue**
- **Recognition of the need for systematic action that harnesses market forces and includes consumers in approaches to mitigating climate change on a global basis**
- **Principles for policy actions**
- **Suggestions for specific G8 actions**

The full statement is available at www.ford.com/go/sustainability.

10 Campaigners press Ford on climate change and fuel economy

The climate change and fuel economy issues have provoked some public criticism of Ford's policies and actions. In the year ending in June of 2005, Ford received approximately 188,000 letters and emails on the subject. Many of these communications came from individuals participating in NGO campaigns.

Some messages congratulated Ford on the introduction of the Escape Hybrid and asked that Ford introduce additional hybrid vehicles. Some made specific demands for fuel economy targets, while others asked Ford to demonstrate leadership in the auto industry. Some writers pledged to boycott Ford products. Some expressed support for Ford's actions. Some criticized the NGO campaigns. Letters came from Ford vehicle owners, shareholders and children.

We responded to individuals who wrote personal letters or emailed, and we have met with many of the organizations sponsoring the campaigns. For example, we have met with activist groups such as Rainforest Action Network, Global Exchange and Bluewater Network, all of which have directed campaigns at Ford on climate change and fuel economy issues. We have exchanged information to better understand their perspective and to offer insight into ours. While we share the goal of improving fuel economy and reducing greenhouse gas emissions proactively, we have disagreed on the level of improvement that is achievable within given timeframes. An open letter from Bill Ford to the Center for the New American Dream is posted on its Web site (www.newdream.org). Samples of letters received are available on the Web at www.ford.com/go/sustainability.

Top supplier collaboration. In 2001 we established the Ford-Supplier Sustainability Forum. The Forum is a place for sharing best practices, developing future Ford supplier sustainability strategies and metrics, and helping us better communicate and refine our social and environmental policies. This forum has provided a venue for discussion of climate change. Our suppliers are important partners in addressing climate change. Their manufacturing emissions comprise part of the lifecycle emissions associated with our products. They are also critical in their role of providing and participating in the development of technologies to help reduce the emissions from vehicles in operation.

We have not adopted a policy to measure the quantity of emissions generated by our entire supply chain. However, Ford of Europe is piloting a study of the greenhouse gas impact of its material choices and its logistics footprint. In addition, our efforts to encourage and, in some cases, require suppliers to implement robust environmental management systems will help them report their emissions inventories in the future. We also will seek out opportunities to partner with suppliers to improve the greenhouse gas emissions performance of our products.

Emissions trading

Ford Motor Company is playing a leading role in the development of voluntary emissions trading initiatives in Europe and North America. Ford was the only automaker involved in the UK voluntary emissions trading program, which began in 2002, and is the only auto manufacturer participating in a similar voluntary program in North America, the Chicago Climate Exchange. Under both initiatives, companies like Ford accepted emissions reduction targets. Companies that exceed their targets receive credits that either can be saved for future use or sold on the open market to other member companies that fail to meet objectives. We believe that this market-based approach can promote environmental improvements more cost-effectively than traditional regulations.

The European Union introduced a mandatory Emissions Trading Scheme (EU ETS) at the beginning of this year to support its emissions reduction objectives under the Kyoto Protocol. The EU ETS, which consists of an estimated 10,000 facilities that produce 1.8 billion tonnes of CO_2 annually, sets emissions targets for each company based on an overall CO_2 objective for the region.

Ford has 15 facilities that are regulated by the EU ETS, which initially covers specific industrial activities, including boiler houses, electric utilities, steel plants, and pulp and paper manufacturers.

Ford's experience with voluntary emissions trading programs has helped us prepare for the new EU ETS and allows our Company to enter productive discussions about market-based approaches in other countries. We would like to see these programs become harmonized to accommodate trading across different regions.

Consumer behavior

The roles of drivers and traffic management are critical factors in terms of real-world emissions. A recent study conducted by the Institute of Transportation Engineers and the U.S. Highway Administration, for example, showed that $1 billion per year spent on improving traffic signals in the United States would not only cut journey times, but also would improve the fuel economy of every vehicle on the road by 10 percent.

In Germany, Ford has trained more than 8,000 people in "eco-driving," a style and method of driving that improves fuel economy by 25 percent, thus cutting CO_2 emissions by 20 percent. Through tests with a major fleet operator, the "eco-driving" style also has been shown to reduce road accidents up to 35 percent.

Ford began training drivers in 2000, in partnership with the German Federation of Driving Instructor Associations and the German Road Safety Council. Several versions of the training are available to different kinds of driver including professional drivers, driving instructors, fleet managers and the general public. Ford dealers in Germany offer four hours of training to anyone with a valid driver's license.

The "eco-driving" method requires only modest adjustments to the driver's behavior ("eco-driving" tips are available on the Web at www.ford.com/go/sustainability). The program has been evaluated by third parties, which have affirmed the fuel savings and the lasting impact of the training. Because of the multiplier effect, approximately 1 million German novice drivers annually come on the road "eco-trained" via train-the-trainer seminars for driving instructors. Therefore the impact of the program extends well beyond the 8,000 participants to date, and is estimated to include up to 500,000 tonnes of CO_2 savings from novice drivers.

11 California greenhouse gas emissions regulation

In 2001, the California legislature passed a law directing the California Air Resources Board (CARB) to promulgate rules limiting greenhouse gas emissions from motor vehicles. In 2004, CARB voted to adopt a set of fleet average standards expressed in grams per mile of CO_2. The standards would take effect beginning with the 2009 model year and become increasingly stringent through the 2016 model year. In 2005, several other states, including New York, Connecticut, Massachusetts, Vermont, New Jersey, Pennsylvania, Oregon and Washington, began the process of adopting such regulations or processes or announced their intention to do so.

Ford supports the reduction of vehicle CO_2 emissions and is working aggressively toward the development and implementation of real, market-based solutions. However, the entire automobile industry is united in opposition to the AB 1493 rules because they constitute state fuel economy standards. State-by-state regulation of fuel economy is unacceptable to the industry because it raises the prospect of an unmanageable patchwork of state standards. Moreover, the AB 1493 regulations impose limits that are drastically more stringent than the federal standards.

In December 2004, the Alliance of Automobile Manufacturers filed an action in federal court in California seeking to overturn the AB 1493 regulations. All members of the Alliance (BMW, DCX, Ford, GM, Mazda, Mitsubishi, Porsche, Toyota and Volkswagen) supported taking this action. The Association of International Automobile Manufacturers (AIAM), which includes Honda, Nissan, Aston Martin, Bosch, Delphi, Denso, Ferrari, Maserati, Hitachi, Hyundai, Isuzu, Toyota, Suzuki, Subaru, Renault, Peugeot, Mitsubishi, Kia and JAMA (Japan Automobile Manufacturers Association, Inc.), is seeking to intervene in the litigation on the side of the Alliance. The Alliance, AIAM and many individual auto manufacturers including Ford also voiced their opposition to the regulations in comments filed with the California Air Resources Board.

In a letter to senior Company management, CEO Bill Ford discussed the Company's opposition to the California regulation and reiterated its commitment to address the climate change issue. (The text of the letter is available at www.ford.com/go/sustainability).

The position of the auto industry has drawn strong comment from both sides of the issue. For example, in the words of one NGO: "We know the auto industry can build cleaner cars. The solutions are there, and American consumers are ready to put them on the road. A healthy, competitive auto industry relies on ingenuity, not lawsuits. Big Auto should lose its can't-do attitude and start being a leader again." ***NRDC statement, April 2005.***

On the other hand, an editorial on the subject states: "The auto industry has made strides toward making its cars and trucks more environmentally friendly. There's no reason to think they won't continue to do so. Forcing them into costly legal battles stymies progress and places undue financial burdens on the taxpayers who get stuck having to pay the state's legal bills." ***The Detroit News, December 13, 2004.***

Additional views are available on the Web at www.ford.com/go/sustainability.

"Ford must continue to address the risks of climate change in its core mission, its message and its strategy. It must commit to specific targets and timetables for reducing the climate impact of its products..."

Ford has also been working with the Wisconsin Department of Natural Resources to develop a simulation game designed to help students understand the relationship between transportation and the environment, and the impacts of their choices and driving habits.

Scheduled for release in late 2005, XRT:eXtraordinary Road Trip (XRT) allows students to experiment with multiple drivers, behaviors and transportation technologies to learn how their choices affect emissions. XRT "drivers" will be able to play again and again, zooming through various conditions and situations in the simulation adventure and learning how to analyze the variables affecting a vehicle's efficiency and the environment.

Research

In 2004, more than half of our research and development budget was devoted to technologies that will reduce the environmental impact of our vehicles and facilities. Our Research and Advanced Engineering scientists and engineers collaborate with scientists around the world and have made important contributions to fundamental climate change science. They also lead the development of new technologies to save fuel and cut greenhouse gas emissions from our vehicles.

In addition to the Carbon Mitigation Initiative (see *figure 3* on page 18), we are a sponsor of the Massachusetts Institute of Technology Joint Program on the Science and Policy of Global Climate Change and the Alliance for Global Sustainability.

Reporting

We routinely report on the climate change issue and our greenhouse gas emissions in this report. We have submitted data on our 1998–2004 U.S. emissions to the U.S. Department of Energy 1605(b) Greenhouse Gas Registry, we participate in the Carbon Disclosure Project and we register our North American emissions as part of our commitment to the Chicago Climate Exchange. We have actively participated in and supported the development of the WRI/WBCSD Greenhouse Gas Protocol (www.ghgprotocol.org) because of the need for a common voluntary greenhouse gas accounting and reporting standard.

Looking ahead

This section has set out our current perspective on climate change, our progress to date, and the opportunities and challenges still before us.

The picture we have presented here is one of unresolved dilemmas. For example, we are grappling with the tension between:

- Our desire as corporate citizens to see reductions in fossil energy use, versus the fact that in many markets, it is high-fuel-consuming vehicles that provide significant profits
- Our desire for more effective and equitable government policies that address climate across all sectors, versus the need to defend our own competitive interests under current policy frameworks
- Our desire to contribute to meaningful solutions to the issue of climate change, versus the lack of agreement among national governments, investors, advocacy groups, consumers and even scientists as to what those solutions should be
- Our recognition that climate change is a major and growing environmental, social and economic challenge, versus the slowness of markets and policy makers to provide signals on which we can responsibly act
- Our participation in meeting the rapidly growing transportation needs in emerging markets, versus the challenge of restraining related growth in greenhouse gas emissions in those markets
- Our acceptance of a key role for automakers in addressing climate change, versus our rejection of some views that hold our industry uniquely responsible for solutions to this multi-dimensional problem

We are taking a thoughtful and systematic approach to the issue. Our top leadership is engaged in planning and executing our strategic response, and climate change considerations are increasingly integrated into our business systems and decision making. You will see a much more detailed analysis of these dilemmas and our approach to them when we publish the dedicated climate change report in December.

We are now seeing a convergence of the investor perspective, the corporate perspective and the environmental perspective around the notion that sustainability issues – and climate change, in particular – are legitimate business concerns that pose real economic risks to companies that don't effectively address them.

We can't rely on just one or two companies to be in the forefront. We've got to change overall expectations, practices and policies to allow all companies to act in a forward-thinking manner and produce environmentally friendly products. We in the wider community must be part of the solution.

The investor community is beginning to look at climate change as a legitimate risk issue. Investors want to see climate change strategy integrated into the DNA of governance, where the Board takes responsibility for it, the Chairman is held accountable, where there are performance measures and it's treated as a standard business issue. Ford is beginning this process. This is a fiduciary issue, and not just an environmental one.

In May 2005, Ceres held an event at the United Nations that brought together 375 senior leaders from Wall Street and several dozen institutional investors representing $3.2 trillion of assets to discuss the risks and opportunities posed by climate change. This was not about conflict or finger pointing. This was about understanding the financial implications of climate change.

To thrive in the post-Kyoto world, Ford needs to provide vigorous and visible support for reducing greenhouse gases, building these concerns into its management channels and moving beyond manufacturing emissions to a focus on vehicle emissions. In the last year, Ford has advanced the process with concrete, tangible steps that speak to both investors and environmentalists.

Ford must continue to address the risks of climate change in its core mission, its message and its strategy. It must commit to specific targets and timetables for reducing the climate impact of its products. It must provide leadership in moving the policy debate forward and enlist active support for positive, cooperative action among all stakeholders.

It's smart and innovative leaders like Bill Ford and Jeff Immelt of General Electric who have recognized that sustainability offers business opportunities for companies that are ahead of the curve. It's our job as outsiders to make it possible for Ford and others to be out in front.

Mindy Lubber. *President, Ceres, a national coalition of investors, environmental groups and public interest organizations based in Boston. Ceres also coordinates the Investor Network on Climate Risk formed in November 2003.*

Human rights

In 2000, Ford held a summit with representatives of a broad range of stakeholder groups. The dialogue identified human rights as a key sustainability issue for multinational companies, such as Ford, with complex supply chains. Frankly we were surprised – human rights has not been a primary issue for the auto industry. However, an emphasis on basic standards of human rights for all people resonated with our heritage. We also recognized that, as the world globalizes, all companies will need to manage effectively the relationships between their operations, their employees and the broader communities on which they depend. By developing human rights policies and processes for our Company and our suppliers, and encouraging dialogue within our industry, we at Ford can stay ahead of this rapidly evolving issue and preserve our license to operate.

IN THIS REPORT:

ADDITIONAL CONTENT ON THE WEB SITE
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QUALITY OF RELATIONSHIPS SECTION
Employees
Suppliers

"It can't be just one auto company working alone; it must be a joint, international effort. We need to set a wide table – including automakers from the United States, Japan, Korea, Italy, France and Germany – to leverage any meaningful influence."

WHY HUMAN RIGHTS? WHY FORD?

It is essential to our concept of sustainability that we ensure that our products, no matter where they are made, are manufactured under conditions that demonstrate respect for the people who make them.

Human rights refers to basic standards of treatment to which all people are entitled. It is a broad concept, with economic, social, cultural, political and civil dimensions. Following Ford's 2000 stakeholder dialogue and extensive internal and external engagement, we concluded that Ford's initial human rights focus should be on our own facilities' working conditions and those of our suppliers. Potential human rights issues in the workplace include child labor, forced labor, discrimination, health and safety, hours worked, compensation and freedom of association, among others.

Ford has long understood that if a company values its employees and treats them with respect, those employees in turn are an asset to the company and the broader community. This does not negate the need for tough decisions as business conditions change, but it does require consistently treating employees with fairness and dignity. As our Company evolves, we are applying this understanding in new ways and new places.

Changing production patterns

Both our production processes and our relationships with suppliers are changing in response to three broad trends that set the context for our human rights-related work.

First, in Ford's early days, the Company was vertically integrated; we owned and operated every aspect of the manufacturing process, from power generation and steel production through final vehicle assembly. Now, for the most part, our role is to develop and design products, manufacture bodies, powertrains and some parts, and assemble and market the final product. We rely on a vast network of suppliers to provide many of the parts, components and entire assemblies that we use in our vehicles. We have essentially moved from vertical integration to virtual integration.

Second, our markets are global. Most of the growth in automobile sales is expected to occur in emerging markets. To serve those markets efficiently and affordably, we must build local and regional supply bases.

Third, competition in our industry has intensified with the inclusion of automakers that utilize or are based in markets with lower production costs. We must also

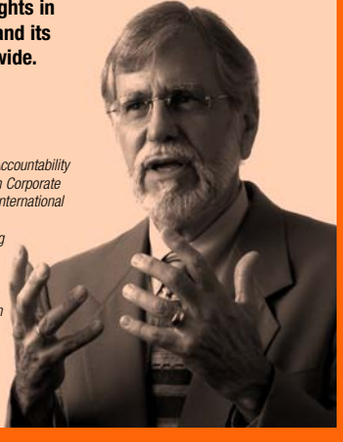
The concept of human rights has been percolating within the business community for quite some time. But the global economy has only recently propelled human rights toward the top of the corporate responsibility agenda. Increasingly companies are contracting suppliers in scores of countries. As a company's sphere of influence grows, it becomes harder to ignore basic work condition violations.

Ford is now well placed to position itself as a leader in promoting and protecting human rights across its supply chain. Ford has put forth some very thoughtful plans showing real due diligence, particularly in the approach toward China. What's encouraging about Ford is that it has integrated human rights within its systems, embedding it in its business from the beginning, rather than as an add-on. While we see some wonderful opportunities for Ford in the human rights domain, the challenges facing the Company are legion. An institution as large as Ford doesn't change quickly.

We'd like to see Ford stay the course with its human rights plan, even during tough economic times. We also recognize that the auto industry needs to come together to develop minimum standards and auditing protocols, similar to the movement in the apparel industry. It can't be just one auto company working alone; it must be a joint, international effort. We need to set a wide table – including automakers from the United States, Japan, Korea, Italy, France and Germany – to leverage any meaningful influence.

The ICCR first worked with Ford about 20 years ago regarding Mexico's *maquiladoras*. In truth, it wasn't a particularly positive experience. But Ford has changed dramatically over the last two decades. In recent years, the Company has become open, receptive and willing to roll up its sleeves to advance human rights. Ford has made major strides in opening up what might have been considered an internal and isolated culture to the light of day.

There are, of course, some human rights issues that we at ICCR would like Ford to address more aggressively. For example, Ford could play a significant leadership role in supporting the draft United Nations Human Rights Norms for business. At the same time, we are pleased with the intent and commitment Ford has already shown toward improving human rights in its own operations and its supply chain worldwide.



Rev. David M. Schilling.
Director of Global Corporate Accountability Programs. Interfaith Center on Corporate Responsibility, a 30-year-old international coalition of 275 faith-based institutional investors including denominations, religious communities, pension funds, health care corporations, foundations and dioceses with combined portfolios worth an estimated $100 billion.

find ways to lower our costs. Expanding our sourcing to emerging markets is one strategy that we, and most other global manufacturers, are using.

These trends mean that, increasingly, the people who make our products are spread out all over the globe and are connected to us through complex supplier relationships.

Changing challenges

This situation poses inherent challenges. We have less control over working conditions in our suppliers' factories than in our own. The legal structures governing working conditions, and the level of legal enforcement, vary widely among the countries in which we operate.

In addition, the expectations of our customers and other stakeholders are rising. In today's Internet-linked world – in which news can travel halfway around the globe in a matter of seconds – consumers know which companies value people. Any company that produces or buys goods and services without concern for working conditions faces risks to its reputation.

So, we are taking responsible steps to protect our business, our reputation, and, most importantly, our people. We have developed consistent language and processes to better ensure that all workers – whether they are contract workers or direct employees of Ford, our joint-venture partners or our suppliers – work in conditions that meet basic standards of human rights.

The business benefits of addressing working conditions

Business benefits flow from ensuring a consistent emphasis on working conditions throughout our supply chain. More than a century of experience has shown us that people are most likely to excel in an environment that aims for excellence. A safe workplace in which people are treated with respect promotes increased quality, productivity, employee retention and morale. It can also decrease turnover rates, reject rates, rework and health care costs. Our experience is that a supplier company's efforts to address working conditions, environmental and other sustainability issues are indicators of its management's leadership capabilities.

Our commitment to human rights in the workplace can also help Ford and our suppliers to become "employers of choice" in highly competitive markets. The positive changes resulting from our focus on working conditions will directly or indirectly affect potential customers in the communities in which we and our suppliers operate. We hope this will help make Ford a vehicle of choice for these potential customers.

TAKING THE FIRST STEPS

In May 2003, at the Centennial shareholders' meeting, Ford announced the adoption of a Code of Basic Working Conditions – the "Code" – (see facing page). The Code was written and developed by a cross-functional Ford team with assistance from Business for Social Responsibility (www.bsr.org), a nonprofit organization that has been a partner to Ford in the development and implementation of our Business Principles. The Code is based on the fundamental elements of internationally recognized labor standards, including the Universal Declaration of Human Rights, the International Labor Organization Covenants, the UN Global Compact Principles, the Global Sullivan Principles, the standards of the Fair Labor Association and the International Metalworkers Federation. The Code was reviewed by leading human rights experts, including the Interfaith Center on Corporate Responsibility, Human Rights First, the Prince of Wales International Business Leaders Forum, Amnesty International, Human Rights Watch, and faculty from Columbia University and George Washington University.

Simultaneous to adopting this Code, we began to develop processes to assess compliance with our Code and management's capacity to implement it at Ford facilities and those of our suppliers.

CODE OF BASIC WORKING CONDITIONS

This Code of Basic Working Conditions represents the commitment of Ford and its worldwide subsidiaries. The diverse group of men and women who work for Ford are our most important resource. In recognition of their contributions, we have developed policies and programs designed to ensure that our employees enjoy the protection afforded by the principles articulated today in this Code. While these principles are not new to Ford, they are vitally important to what we stand for as a company. Consequently, we have chosen to summarize them here in an expression of our global commitment.

This Code reflects our thorough review of labor standards espoused by various groups worldwide, including those outlined by the International Labor Organization. This Code, however, is intended to represent a statement of our own high standards.

The diverse universe in which Ford operates requires that a code such as this be general in nature. In certain situations, local legal requirements, collective bargaining agreements and agreements freely entered into by employees may supersede portions of this Code.

Nevertheless, we believe this Code affirms important, universal values that serve as the cornerstone of our relationship with employees.

Child labor
We will not use child labor. In no event will we employ any person below the age of 15, unless this is part of a government-authorized job training or apprenticeship program that would be clearly beneficial to the persons participating.

Compensation
We will promote our employees' material well-being by providing compensation and benefits that are competitive and comply with applicable law.

Forced labor
We will not use forced labor, regardless of its form. We will not tolerate physically abusive disciplinary practices.

Freedom of association and collective bargaining
We recognize and respect our employees' right to associate freely and bargain collectively. We will work constructively with recognized representatives to promote the interests of our employees. In locations where employees are not represented by unions, we will seek to provide opportunities for employee concerns to be heard.

Harassment and discrimination
We will not tolerate harassment or discrimination on the basis of sex, race, color, creed, religion, age, ethnic or national origin, marital/parental status, disability, sexual orientation or veteran status.

Health and safety
We will provide and maintain for all employees a safe and healthy working environment that meets or exceeds applicable standards for occupational safety and health.

Work hours
We will comply with applicable law regulating hours of work.

Responsibility and implementation
We will communicate this Code of Basic Working Conditions to all employees. As appropriate under local practice, we will seek the support and assistance of unions and employee representatives in this effort. We will encourage our business partners throughout our value chain to adopt and enforce similar policies. We will seek to identify and utilize business partners who aspire in the conduct of their business to standards that are consistent with this Code.

Employees with a good-faith belief that there may have been a violation of this Code should report it through established channels, if known, or to the Office of the General Counsel at fordlaw@ford.com. No retaliatory actions will be taken against any employee who makes such a report or cooperates in an investigation of such a violation reported by someone else.

Verification
We will, as appropriate, seek the assistance of independent third parties to verify our compliance with this Code.

WORKING CONDITIONS IN FORD PLANTS

In September 2004, we conducted a pilot assessment at the Michigan Truck Plant (pictured opposite page top) to analyze that facility's level of compliance with the new Code of Working Conditions. Over the next four months, we conducted assessments at four additional Ford locations:

- Hermosillo, Mexico
- Broadmeadows, Australia
- Pacheco, Argentina
- Ford Lio Ho, Taiwan (joint venture, 70 percent Ford ownership)

The sites were selected cooperatively by representatives from several of Ford's global offices. The representatives sought sites that were located in particular regional "hot spots," would address specific emerging issues (and plant impacts), and would involve a wide representation of plant employees. They also took into account the views of thought leaders, non-governmental organizations and human rights activists.

Ford facility pilot assessment process

The Code assessments were carried out by teams of assessors composed of representatives of Ford management, plant management, the employee union and independent human rights experts. Representatives of the Interfaith Center on Corporate Responsibility (www.iccr.org) served as the third-party human rights expert for the five initial assessments.

The first step in the Michigan Truck Plant assessment was for facility management to fill out a questionnaire developed by Ford and third-party experts. The answers subsequently served as the basis for discussion between management and the assessment team. The assessment process also included a review of documents covering the full range of working conditions issues, including collective bargaining agreements, grievance procedure logs, employee hotline records, health and safety audit reports and casual overtime agreements (covering non-union employees). The assessment team also visited the Michigan Truck facility to observe working conditions, inspect documents and interview plant management.

This first assessment showed the Michigan Truck Plant to be in compliance with the Code of Basic Working Conditions. In addition, the records routinely kept, including those used to document compliance with the collective bargaining agreement, provided complete documentation relative to issues covered by our Code.

On the recommendation of the assessment team and with the concurrence of other NGO human rights experts who have advised us, we adjusted our process for the remaining plants following the Michigan Truck visit. Because of the existing Ford procedures and documentation in place, site visits were not considered value-added. The team also recommended extending the assessments to minority-owned joint-venture plants, because practices and documentation were less comprehensive at those locations.

The remaining four assessments revealed, as at the Michigan Truck Plant, that the facilities operated in compliance with the Code of Basic Working Conditions. Full reports of the five assessments are available on the Web (www.ford.com/go/sustainability). Most of the plants have found the reports to be useful tools for engagement and have shared them with interested community groups and NGOs.

Lessons learned

Through the assessment process, we gained valuable insights into working conditions at Ford facilities:

- Ford policies and directives and collective bargaining agreements have internal and external credibility and ensure that Ford's wholly and majority-owned facilities consistently achieve compliance with our Code.
- Existing data and audit procedures have been sufficient to validate compliance with our Code.
- Relevant data have been accessible, without the need for a site visit.
- Neutral third parties who visited plants and/or reviewed the assessment process have agreed that the process is robust and has integrity.
- Key external stakeholders and human rights advocates have stated that they do not have major concerns regarding the working conditions at Ford's wholly and majority-owned and -operated facilities.
- While our policies and verification procedures are sound, there are opportunities to improve performance in several areas, including better representation of women in manufacturing leadership positions.

Next steps

We are following up on issues identified in the assessments as opportunities for improvement and leadership, including the representation of women in manufacturing management.

We will utilize current processes like SHARP, the Safety and Health Assessment Review Process, to learn more about issues that may exist in some of our joint-venture plants. We want to understand how our joint ventures are handling areas such as health and safety performance, work hours and compensation, and sourcing practices. Since beginning this effort, we have communicated our expectations to our joint-venture partners. With the assessments of our owned-and-operated facilities to help set the context, we plan to develop work plans for joint ventures in China and Turkey that will include communications with the respective Boards of Directors and completion of an informal, internal assessment of working conditions. We also plan to share the results with our stakeholders. A facility visit and local engagement are included as part of our forward planning. We are also integrating working conditions assessments, along with community engagement and facility-specific reporting, into the Ford production system, as described below.

Connecting with communities

Our impacts – and our commitment to making a positive contribution to human rights and other social issues – extend beyond the fenceline of our facilities to local and global communities. Beginning in 2001 and building on a long tradition of community involvement, we developed and piloted a community impact assessment process, discussed in more detail on the Web. This process engages plant management, employee unions, community representatives and other key stakeholders in

identifying positive and negative impacts of plant operations and developing focused strategies for improving the net impacts on the community. The process also culminates in a public report on the facility's impacts and performance.

In early 2005, the Auto Alliance International (AAI) facility, a joint venture of Ford and Mazda in Flat Rock, Michigan, completed a community impact assessment pilot and issued a report – "Connecting with Downriver," available on the Web at www.ford.com/go/sustainability. Part of the pilot involved working with Ceres to test the reporting format of the Facility Reporting Initiative, which was refined using input from AAI and other interested parties and moved on to pilot testing as a component of the Global Reporting Initiative. Ford's Michigan Truck facility is conducting a community impact assessment pilot and will issue a report using the updated format.

Both the working conditions and community impact assessments are being integrated into the Ford Production System (FPS), one of our foundation business systems used to organize and manage production at our manufacturing plants worldwide. The FPS provides a rating for each facility's performance in a range of areas, including productivity, environment, health and safety, and community engagement. To receive an FPS rating of nine or higher (out of 10), each facility must prepare a report that follows the Ceres Facility Reporting Initiative format. So, we have added a self-assessment of the facility's compliance with our Code of Basic Working Conditions to the basic Ceres format.

The integration into FPS signals that Ford facilities are expected to engage constructively with employees and other stakeholders, ensure excellent working conditions and develop mutually beneficial relationships with the communities in which they operate.

1 Supply chain profile

PRODUCTION *(Anything that is part of the vehicle)*

60+ **Countries in which suppliers are located**

30 **Emerging markets in which suppliers are located**

17 **Emerging markets considered to have risks of substandard working conditions**
These countries were identified as higher risk based on consultation with NGOs, other companies with human rights experience, local Ford operations and various media and government reports.

110 **Ford manufacturing sites**

2,000+ **Supplier companies**

7,500+ **Supplier manufacturing sites**

130,000 **Parts currently being manufactured**

250+ **Production commodities to manage**

NONPRODUCTION
(Anything that is not in the vehicle such as services, marketing, construction, computers, industrial materials, health care, machinery, trains)

9,000+
Supplier companies

500+
Nonproduction commodities

TOTAL GLOBAL BUY
$90+ billion

2 Automotive supply chain relationships

Ford's relationships with suppliers typically span multiple years, due to the capital investments inherent in heavy manufacturing and the complexity of the items being made. Lengthy development timelines for our products and daily ongoing production (versus episodic production cycles in some other industries) also contribute to long-term relationships with suppliers. Stability in these relationships is an advantage in addressing working conditions, because we can invest in learning and capacity-building with our suppliers, helping to support positive change in society as part of doing business in emerging markets.

However, these long-term relationships can have disadvantages as well. The first is that suppliers might perform well early in the relationship, but let things slip as time goes on. In addition, it can be difficult and risky to separate ourselves from existing suppliers, due to the large amount of tooling and capital investment and the complex nature of moving business in a just-in-time production environment.

We can make a positive impact in the markets in which we do business by working with suppliers to identify systems that contribute to compliance with local law and Ford's expectations. This is best achieved through a comprehensive training effort in these markets. Cooperation and communication are key. Face-to-face interaction with plant management allows us to help suppliers identify opportunities for continuous improvement as well as to develop corrective actions for existing problems. Periodic plant assessments are an important part of this effort. Information resulting from assessments serves to inform the training and provide an opportunity to measure the impact of training efforts.

This process – focused on training and education – may mean that in some cases suppliers will be in noncompliance while they work to meet our standards. However, we continue to engage with cooperative suppliers to affect positive change. In this manner, we also have an opportunity to encourage change throughout the tiers of suppliers. By encouraging our Tier 1 suppliers (suppliers sourcing to our assembly plants) to communicate our expectations to the sub-tiers, the impact of our efforts can be magnified. Other options, including plant assessments, do not allow for impact beyond Tier 1 suppliers.

WORKING CONDITIONS IN OUR SUPPLY CHAIN

Our supply chain is one of the largest and most complex in the world (see *Figures 1 and 2*).

To reinforce our commitment to the Code of Basic Working Conditions, in January 2004 we added language to our core contract covering all production suppliers – the Ford Global Terms and Conditions – to reflect our specific working conditions requirements on the prohibition of the use of forced labor, child labor and physical disciplinary abuse. We have provided a standard for these areas – the same as we use in our own facilities – that supersedes local law if our standard is more stringent. The new Global Terms and Conditions also prohibit any practice in violation of local laws. In addition, they serve to:

- Set the expectation that suppliers will work toward alignment with our Code in their own operations and their respective supply chains in the areas of harassment and discrimination, health and safety, wages and benefits, freedom of association and working hours
- Make clear Ford's right to perform third-party site assessments to evaluate supplier performance
- Communicate that Ford can terminate the relationship for noncompliance or for failure to address the noncompliance in a timely manner
- Alert suppliers that repeated failures to comply may be subject to debits of the suppliers' payables

Internally at Ford, we created a new position of Director of Supply Chain Sustainability, reporting directly to the Senior Vice President of Global Purchasing. This signals our intention to make sustainability considerations, including working conditions, an integral part of our purchasing processes and strategy.

To learn how well our Code is working in practice in our supply chain, we launched pilot assessment and training processes beginning in late 2003.

Pilot supplier assessment process and results

Between November 2003 and June 2005, Ford conducted more than 100 third-party assessments of existing and prospective suppliers to Ford Motor Company brands to determine compliance with our

Code of Basic Working Conditions. Based on input from NGOs, consultants and other companies, we selected SGS and Interek Testing Services as our third-party assessors. Both organizations have automotive experience with QS 9000 and ISO 14001, as well as extensive experience providing working conditions assessments in other industries.

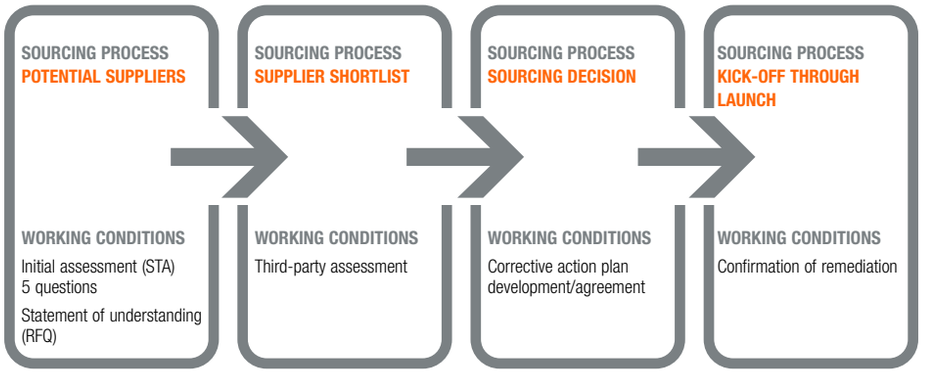
During 2003 and 2004, our pilot assessments focused only on prospective export production suppliers in China, with a goal of developing an efficient and effective assessment process to expand into other parts of our supply chain. In 2005, we have conducted additional pilot assessments of existing suppliers in Mexico. The results of those assessments have been used to inform and customize supplier training, which is now the primary focus of our efforts to help suppliers build their capacity to improve working conditions.

This learning process is especially useful in developing an effective approach to the Code issues for which we do not prescribe a simple, universal standard (i.e., for harassment and discrimination, health and safety, wages and benefits, freedom of association and working hours). In these areas, we incorporate recommended approaches into our training process. This helps to reinforce the expectation that suppliers will align their practices with ours and provides practical assistance to help them do so.

The pilot assessment process was and continues to be part of the China export sourcing process (see *Figure 3)*. First, we ask potential suppliers a set of initial screening questions regarding working conditions. Those companies that proceed to the supplier short list (based on a range of qualifications, including a screen against our Code), then receive a third-party assessment of working conditions that includes:

- A review of employee documents, such as timekeeping records and wage records
- A plant inspection
- Management interviews
- Separate confidential on-site interviews with randomly selected workers

3 China export sourcing process



In order to proceed to a sourcing decision, the company must prepare and agree to implement a corrective action plan for any Code violations found. A company can be added as a Ford supplier upon confirmation of the required corrective actions.

The process for existing suppliers is very similar to the prospective assessment process except for the absence of initial screening questions, since suppliers have been sourced already.

Chart B (Page 41) shows the number of assessments conducted and the results of the assessments.

In the more than 100 assessments of existing suppliers and prospective suppliers in China and Mexico, we found:

- No evidence of forced labor or physical disciplinary abuse
- A wide range of general health and safety issues, including inadequate emergency systems
- In some cases, a lack of appropriate timekeeping systems, and thus a failure to pay correct overtime wages
- In some cases, a failure to pay the correct local minimum wage or overtime or to provide the correct social insurance (in China)
- A general need to clearly define policy on harassment and discrimination
- One case of underage workers and a few cases of young workers doing hazardous work
- Freedom of association has been difficult to verify given conditions in both countries. While all suppliers have either union representatives or a grievance process, we believe there may be issues we have not been able to identify with our assessment process.

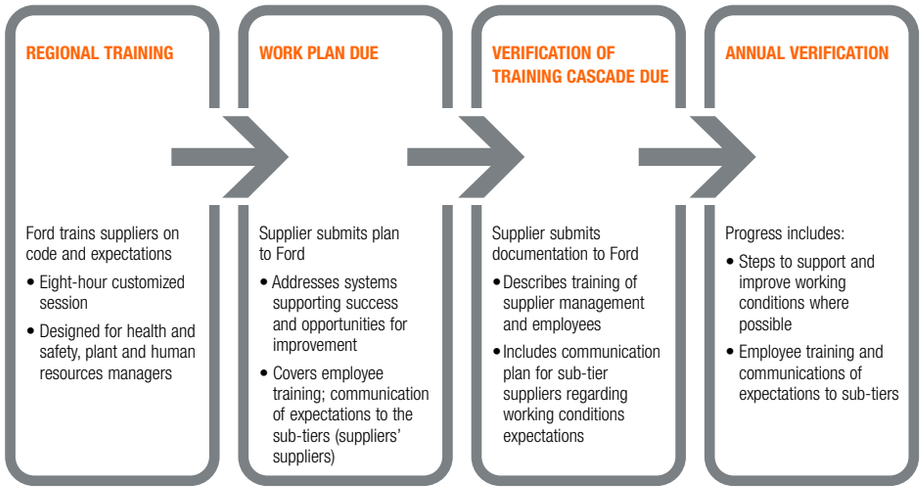
In the future, as we expand to other countries and have more extensive data, we plan to report more specific data to measure our progress.

We will work over the next year with Business for Social Responsibility to develop a scoring system that will help us to better understand how suppliers compare to each other on a quantitative basis. Based on this quantitative analysis, we will strive to develop a connection between assessment performance and training requirements for our suppliers. A more effective and individual training package can then be crafted to meet the needs of each supplier company.

Suppliers have been, for the most part, cooperative, have agreed to remediation plans, and have made progress in corrective actions. Some facilities in both regions of our current experience can be considered best-in-class worldwide.

We know that the assessment process has had an impact on conditions at supplier facilities. Facilities that did not have fire exits before the assessment now have them. Workers at one facility no longer live in a dormitory above a warehouse full of hazardous chemicals. Workers are now provided the required

4 Training and verification process



wage and social insurance benefits, including paid time off and maternity leave. Facilities have now provided the proper personal protection and safety equipment for workers. These real-world changes reinforce the benefits of the assessment process.

Building capacity

Pilot supplier training. In addition to the pilot assessments, we initiated training with more than 200 managers from supplier companies in China during 2004. Conducted in association with Business for Social Responsibility, these sessions sought to help prospective suppliers understand Ford's expectations and legal requirements for working conditions, so they are able to assess their own practices and correct any shortcomings.

During the second quarter of 2005, we launched an expanded training and verification program for our suppliers in Mexico based on the learning from our training initiative in China. In Mexico, we worked with the Automotive Industry Action Group (AIAG) to develop a training program targeted at plant management, including Human Resources and Health and Safety managers. AIAG is a not-for-profit association of companies involved in the automotive industry. The organization has more than 20 years of experience in delivering training for suppliers and other automotive companies.

The expanded training program consists of:

- A daylong interactive workshop with Ford trainers and other automotive suppliers to develop and confirm an understanding of Ford expectations, local labor law, best practices and management systems
- The preparation by each supplier of a work plan indicating how the supplier will train its employees and its suppliers
- Documentation of the training cascade (see *Figure 4*)

The workshops emphasize interpretation and application of legal standards and international best practice rather than a simple review of labor law and expectations. The interaction with managers from the Human Resources, Health and Safety, Labor Affairs and Legal departments of participating companies allows for a two-way learning experience touching on the areas of interest for each company.

As of July 2005, more than 200 managers from 110 different supplier companies in Mexico had completed a full day of training and moved on to the process of assessing their facilities for compliance with local law and Ford expectations, as communicated in the Global Terms and Conditions and our Code of Basic Working Conditions. The pilot training program is on track to train approximately 300 suppliers in Mexico by early 2006.

Lessons learned

By conducting the assessments and training, we have learned some valuable lessons that we are building into our future approach.

For example, the assessment and training approaches each have distinct advantages and disadvantages. The assessments provide valuable information on which areas of Code compliance are problematic in the region being assessed, and why. This information has been critical in the development of training sessions customized to country-specific conditions. It also provides the basis for identifying outstanding suppliers and for correcting specific deficiencies.

However, assessments are limited in their effectiveness as a primary tool of engagement with suppliers. The assessment process can place undue emphasis on "passing the test" rather than on building the capacity to manage working conditions issues effectively on an ongoing basis. It can also introduce an adversarial element into our relationships with suppliers.

The training approach we have developed, on the other hand, is geared toward building each supplier's capacity and providing a basis for ongoing engagement and cooperation. Training is an enabler for lasting change within supplier facilities that is generated and wholly owned by plant management and employees. However, the training approach does not provide a point-in-time check on compliance with our Code.

Focus for 2005 and 2006

Based on our pilot program experience and counsel from key outside advisers and NGOs, we have elected to combine the training and assessment approaches, to secure the benefits of both in working with suppliers on Code-related issues.

During the latter half of 2005, we will continue to focus on our existing production purchases in Mexico and new export suppliers from China, and expand to local existing Chinese suppliers supporting Chinese domestic production. As we expand the program to additional markets, we will train 100 percent of our

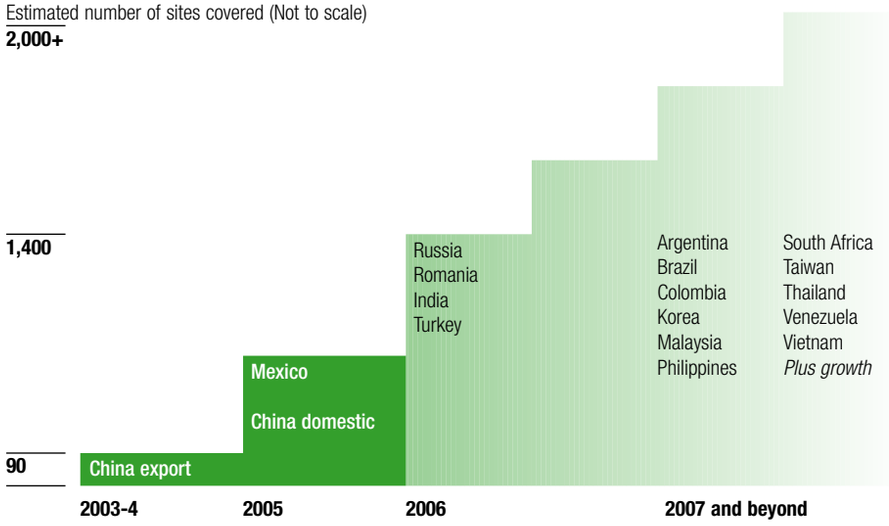
current and new suppliers and conduct sample assessments to verify the performance of higher-risk suppliers and learn more about issues specific to the local markets (see *Figure 5*). This will allow us to focus our resources most effectively on building relationships with our suppliers and encouraging them to align their practices – and those of their suppliers – with our Code, while also promoting compliance with changing laws and regulations.

The long term

An individual automaker conducting training and compliance assessments of supplier operations can only do so much. In the long run, a more sustainable system would rely first on the suppliers themselves having robust processes to establish compliance, conduct assessments and correct any deficiencies found. Ultimately, government agencies should be primarily responsible for ensuring compliance with their regulations. Until that time, we believe that major automakers and suppliers should work together to communicate expectations about working conditions and to verify that checks and balances are in place to ensure suppliers' alignment with expectations. This type of cooperation could minimize confusion and the cost of multiple sets of expectations and verification processes. Building such a system will take time, cooperation and shared learning among the various players. We have taken some steps in this direction.

We have engaged with many of our key suppliers at a corporate level. In April 2005, Bill Ford and our senior management led a session with our top 100 suppliers that focused on Ford's sustainability agenda and how suppliers can contribute. Ford's approach to human rights in the supply chain was one of the topics discussed. We are also working with the AIAG to convene interested parties within the automotive industry to discuss common requirements as they pertain to working conditions and to explore the opportunity for industry collaboration. It is our hope that convening interested parties could result in an industry working group that would be able to combine resources and experience to generate common standards, tools and training for the automotive industry.

5 Expanding our approach



Tailoring our approach

Laws, culture and customs vary in the different countries in which our suppliers are located. To ensure compliance with our Code of Basic Working Conditions in each of these countries, our practice is to:

- **Build an understanding of the market by consulting with sourcing experts, our internal network and a network of NGOs with expertise in human rights**
- **Analyze local laws and compare them to our Code, using internal and NGO legal experts**
- **If local laws are absent or lacking, analyze international best practices to select a recommended approach**
- **Develop training materials tailored to the market**
- **Adapt our assessment approach for the market**
- **Conduct pilot assessments**
- **Evaluate assessment results to identify where issues are arising and get feedback on the assessment process**
- **Use the feedback to revise the assessment and training process**

6 A supplier's view

Sonavox began to cooperate with Ford when the automaker entered the China market. We have a good relationship with Ford, one we hope will be even further developed in the future. Through this long-term partnership, we have been working together to achieve qualification as a Ford export supplier.

When we began the working conditions assessment, frankly speaking, it took a while to appreciate. But the third-party assessment proved to be a huge benefit for Sonavox, helping us to identify the areas where we could improve. Now that we have a better understanding of Ford's requirements, our two companies can cooperate more closely. Despite the costs for participating in the evaluation, it was ultimately extremely worthwhile.

We have received working condition assessments from other client companies. Each assessment was slightly different. We believe that Ford's evaluation was the most comprehensive. However, there is still room for improvement through cooperation of other OEMs, suppliers and government.

A company has an obligation to do good things for society. Ford does this. But Ford has also gone a step beyond, requiring its global suppliers to act responsibly, too. In my view, this is a positive thing. Social responsibility can and should be the basis of cooperation between companies like ours. We think that joining with Ford in this way will help build our relationship as well as our business.

Daniel Yang. *CEO of Sonavox, a supplier of electronic components to Chinese and overseas markets.*

Ford Forum

"The challenge for us now is to reconcile our need to respond to mainstream investors with our long-term sustainability goals."

Barbara Gasper.
Vice President, Investor Relations

There's no doubt that sustainability is an important strategic initiative for Ford. There's also no doubt that socially responsible investing (SRI) is gaining both strength and influence.

At the same time it is important to realize that the SRI community represents only a tiny fraction of Ford's investor constituencies. We know that sustainability is imperative to the planet's long-term future and fundamental to Ford's long-term success. But Wall Street's expectations for our Company are very much centered on the here and now, especially with the rapid growth of hedge funds.

Most mainstream analysts and investors want to know about our strategies for improving market share and reducing our cost structure. Climate change and fuel economy are only beginning to appear on their radar screens. And I've never had a Wall Street analyst ask about Ford's position on social issues or sustainability.

The challenge for us now is to reconcile our need to respond to mainstream investors with our long-term sustainability goals. With the investment community, a company must earn its right to talk about the future. If we were to outline our 10-year sustainability plan to Wall Street, the current response would likely be: "Tell us instead what you are doing now to improve your numbers." In fact, some cynics suggest we're using sustainability to distract from short-term issues.

Given this backdrop, we're watching with interest the efforts that organizations like Ceres are making to raise Wall Street's awareness of environmental and social concerns. And we're tracking the emerging Wall Street interest in the impact of climate change on business, reflected, for example, in a recent climate change report produced jointly by Merrill Lynch and the World Resources Institute.

Nevertheless, these are still relatively early days for the SRI movement. The main thrust of Wall Street continues to be earnings results and business fundamentals. Until that changes, we must concentrate on balancing the two perspectives and delivering our objectives of great products, strong business and a better world.

To me, the idea of sustainability is simple. It means thriving, adapting and prospering as the world continues to change around us. Business relationships used to be simple and straight-forward: investors provided financial capital to businesses, which produced goods and services, which were sold to customers, generating dividends to the investors.

Today, however, the connections between companies and the world around them are far more complex. Society holds businesses increasingly accountable for their impact on environmental and social systems. As the global economy becomes more interconnected through advanced networking and sharing of limited resources, there are many more cause-and-effect relationships to be aware of. There are more perils – and more opportunities. The individuals and organizations that are best at adapting and learning, those that develop the language and skills to enable them to see bigger systems of connections, will be the ones to thrive and model the essence of sustainability.

To do all this, we have to become systems thinkers, which simply means having a deeper appreciation of the interconnectedness of things and being able to recognize which connections have considerable impact – and which ones can be safely ignored. As systems thinkers, we look for the underlying structures that keep us doing things the way we have always done them. This, in turn, creates the opportunity to make significant changes with the right strategic intervention.

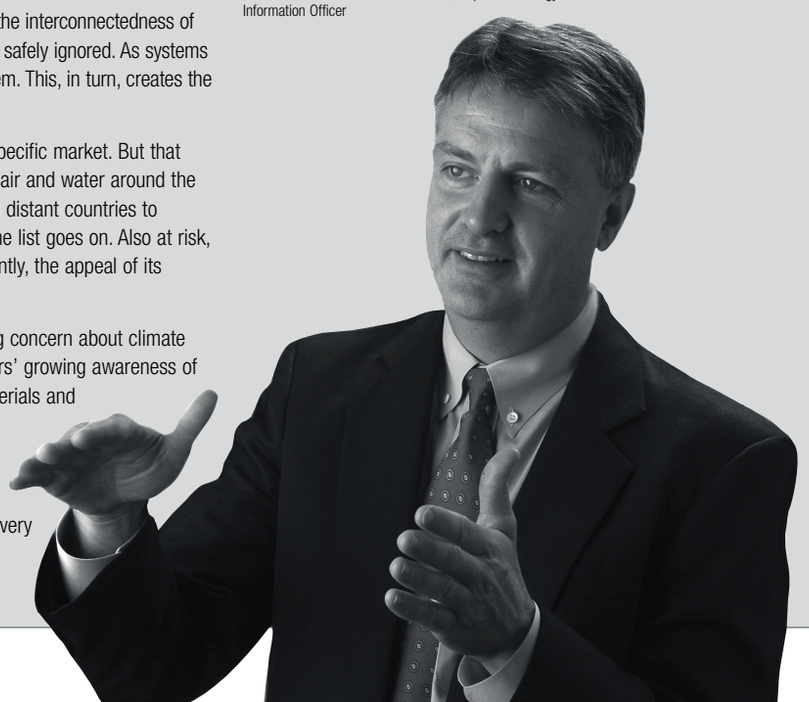
For example, a specific consumer product – in Ford's case a car – may generate a healthy profit in a specific market. But that profit can be at risk if the company is not aware of the impact of that car's production on the quality of air and water around the plant that makes it, the working conditions of the people who assemble it, the response of audiences in distant countries to marketing messages, the safety of pedestrians and bicyclists around the car when it's being used … the list goes on. Also at risk, in turn, are the company's brand equity, license to operate, the morale of employees and, most importantly, the appeal of its products to customers.

Conversely, systems thinking can help identify new opportunities. In our industry, for example, a growing concern about climate change and energy security is creating a new growth opportunity for hybrid vehicles. Similarly, customers' growing awareness of the stresses that humans are placing on the planet suggests an emerging value for renewable raw materials and bio-based fuels.

The traditional imperatives of business strategy – tough choices about resource allocation, scale, markets to enter and markets to exit – are still very relevant. At Ford, however, adding the tools and mindset to be systems thinkers, to learn, to be more adaptive, and hence to be more sustainable – in every sense of the word – is the highest impact strategy that will pay long-term, sustainable dividends.

"The individuals and organizations that are best at adapting and learning, those that develop the language and skills to enable them to see bigger systems of connections, will be the ones to thrive and model the essence of sustainability."

Marv Adams. Senior Vice President, Corporate Strategy and Chief Information Officer



"As consumers search for ways to shop with significance, fuel-efficient vehicles and alternative fuels will rise even higher on their agenda."

Madelyn Hochstein. President and Founder, DYG, Inc, a social and marketing research firm.

Our tracking of social trends shows that after September 11, 2001, American consumers entered a new era in terms of what's important in their lives. The 1990s were the "quality of life" era – a decade of indulgence and pampering. Today, we see a shift toward what we term the "valuable life" era. The new driver is that people want to live significant, purposeful, meaningful lives. They have a desire to do good, make change, think longer term. They're asking, "What is my legacy? What is my country's legacy?"

We've been tracking Ford's overall reputation for five years now. Last year, we conducted a special survey on environmental and fuel issues. Our findings indicate that the atmosphere is ripe for sustainability to become more important to consumers.

One of the factors motivating consumers to think about sustainability is the rising cost of fuel. This is more than just a pocketbook concern. People are worried about running out of resources in the future, a fear that is reinforced by the Iraq war and the other ongoing Middle East conflicts.

Increasingly, Americans don't want to be seen as wasteful. In fact, the data show there's a dramatic shift in their willingness to sacrifice for the environment. This is part of why the consumer reaction to hybrid vehicles has been so positive. We believe this is all just the tip of the iceberg. As consumers search for ways to shop with significance, fuel-efficient vehicles and alternative fuels will rise even higher on their agenda.

According to our Ford research, a vehicle's fuel efficiency is an increasingly important element of car purchasing decisions. In our survey, 61 percent of people said fuel economy was important when they bought their current vehicle. Yet an astonishing 80 percent said it would be a key factor in their next auto purchase. Trends typically move in 5 percent increments, so this 19 percent leap demonstrates a significant change in consumer thinking.

Greater consumer consciousness about sustainability will translate into direct expectations of Ford and other manufacturers to provide new products that will meet their practical needs as well as their broader concerns.

Auto manufacturers have an opportunity to capitalize on these changes in consumer behavior. Ford has already overcome a major consumer concern by creating a hybrid that marries Americans' desire for space and power in a car with their desire for improved fuel economy. Ford's next challenge will be to develop a wider array of fuel-efficient choices to satisfy these changing consumer values.

We like to think of sustainability in terms of the entire lifecycle of the automobile – from the materials and processes that go into making a vehicle, to the emissions and fuel economy impacts related to driving it. For us, this also includes the people involved in making the vehicles and their components, and the communities where they are made. Issues like workers' health and safety, and the employment and economic opportunities that arise from auto manufacturing, are also part of the sustainability equation.

"Climate change is a good example of where environmental and people issues converge."

Charles Griffith. Auto Projector Director, Ecology Center, a Michigan-based environmental organisation working for healthy communities, clean products and sustainable production.

Climate change is a good example of where environmental and people issues converge. Automakers – Ford included – need to work much harder to reduce their products' footprint on the world's climate system. But we also must recognize that there are a host of complex social factors involved – like the thousands of jobs, and their communities, that rely on this industry for their livelihoods.

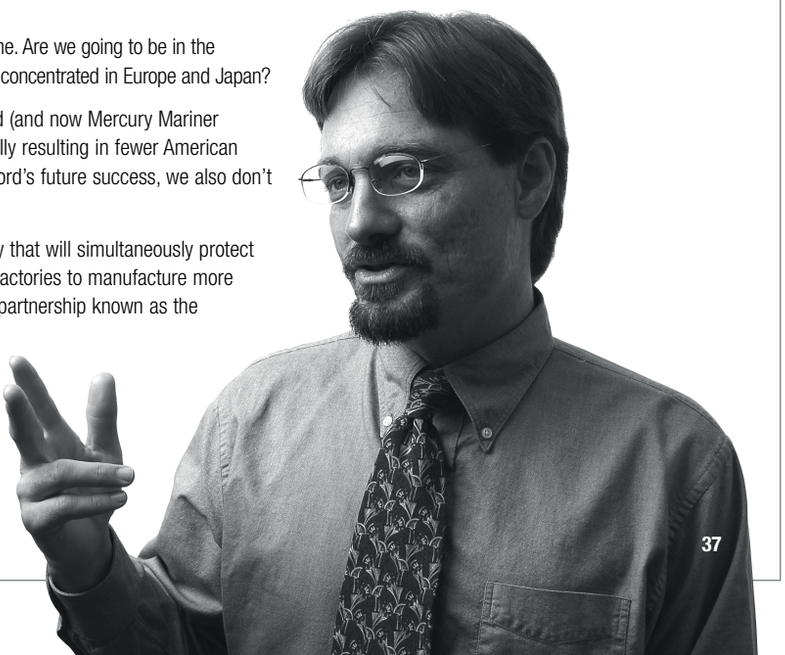
Last year, we partnered with the University of Michigan to examine how the growth of hybrid and advanced diesel vehicles might impact the economy. The findings were sobering. As many as 200,000 American jobs could be lost over the next decade because many of these new technologies will be built overseas.

That's why we need new policies to encourage the production of these technologies here at home. Are we going to be in the vanguard of advanced technologies that reduce our climate burden? Or will that leadership stay concentrated in Europe and Japan?

As much as the Ecology Center has supported the development of Ford's new Escape Hybrid (and now Mercury Mariner Hybrid), we're keenly aware that many of its components are manufactured abroad, potentially resulting in fewer American jobs. While vehicles like the Escape Hybrid will help to combat climate change and ensure Ford's future success, we also don't want that success to occur at the expense of Ford's employees.

The UAW has been working to address the problem of automobile fuel consumption in a way that will simultaneously protect jobs. I find it quite promising that the union is now developing proposals to convert existing factories to manufacture more fuel-efficient vehicle technologies. UAW leaders also recently joined the Ecology Center in a partnership known as the Green Machines Tour, which highlights these advances at UAW-organized plants. We want Americans to understand that innovative auto technology can be good for both the planet and the economy.

Ford now has an opportunity to help solve these problems by engaging in political and societal dialogue in an unselfish and positive way, and by supporting solutions that go beyond more narrow corporate interests. We need all stakeholders – politicians, labor leaders, environmental groups and manufacturers, to name a few – to come together to tackle these complex economic, social and ecological problems.



Measuring our progress – 2004 at a glance

Better than `03
Same as `03
Worse than `03

PRODUCTS AND CUSTOMERS	INDICATOR	2003	2004	TREND	PAGE
We will offer excellent products and services.	Initial quality (3 months in service), Ford Motor Company, U.S., problems/hundred	136	127	↖	39
	Vehicle dependability (4-5 years of ownership), Ford Motor Company, U.S., problems/hundred	287	275	↖	39
	Sales satisfaction with dealer/retailer, Ford brand, U.S., percent completely satisfied	77.0	78.0	↖	39
	Sales satisfaction with dealer/retailer, Ford brand, Europe, percent completely satisfied	69.0	72.0	↖	39
	Service satisfaction with dealer/retailer, Ford brand, U.S., percent completely satisfied	65.0	67.0	↖	39
	Service satisfaction with dealer/retailer, Ford brand, Europe, percent completely satisfied	54.0	57.0	↖	39
	Owner loyalty, Ford Motor Company, U.S., all brands, percent loyal to corporation	49.9	47.5	↘	39
	Owner loyalty, Ford Motor Company, Europe, all brands, percent loyal to corporation	48.0	48.0	→	39
	First-time Ford Motor Company buyers, U.S., percent	11.0	9.7	↘	39
	First-time Ford Brand buyers, Europe, percent	13.0	14.0	↖	39
ENVIRONMENT	**INDICATOR**	**2003**	**2004**	**TREND**	**PAGE**
We will respect the natural environment and help preserve it for future generations.	Ford U.S. fleet fuel economy, combined car and truck, miles per gallon	23.6	22.8	↘	40
	Ford U.S. fleet CO_2 emissions, combined car and truck, grams per mile	375	386	↘	40
	European CO_2 performance, percent of 1995 base (1995 base = 100 percent)				
	Ford	82	80	↖	40
	Jaguar	77	63	↖	40
	Land Rover	87	86	↖	40
	Volvo	91	89	↖	40
	Worldwide facility energy consumption, trillion BTUs	83.2	80.3	↖	40
	Worldwide facility energy consumption per vehicle, million BTUs	13.4	12.7	↖	40
	Worldwide facility CO_2 emissions, million metric tonnes	8.5	8.4	↖	40
	Worldwide facility CO_2 emissions per vehicle, metric tonnes	1.37	1.33	↖	41
	Energy Efficiency Index, percent	91.7	87.8	↖	41
	Global manufacturing water use, total, million cubic meters	90.3	81.8	↖	41
COMMUNITY	**INDICATOR**	**2003**	**2004**	**TREND**	**PAGE**
We will respect and contribute to the communities around the world in which we work.	Ford Motor Company Fund contributions, $ million	78	78	→	41
	Corporate contributions, $ million	43	33	↘	41
	Working conditions assessment status for supply chain	NA	New data		41
SAFETY	**INDICATOR**	**2003**	**2004**	**TREND**	**PAGE**
We will protect the safety and health of those who make, distribute or use our products.	**VEHICLE**				
	Safety recalls, number per calendar year	16	21	↘	42
	WORKPLACE				
	Lost-time case rate (per 100 employees), Ford Motor Company	1.8	1.2	↖	42
	Severity rate (per 100 employees) – days lost per 200,000 hours worked	31.5	23.5	↖	42
QUALITY OF RELATIONSHIPS	**INDICATOR**	**2003**	**2004**	**TREND**	**PAGE**
We will strive to earn the trust and respect of our investors, customers, dealers, employees, unions, business partners and society.	Employee satisfaction, Pulse survey, overall, percent satisfied	61	64	↖	43
	Total purchases from minority-owned businesses, U.S., $ billion	3.4	3.7	↖	43
	U.S. employment of minorities at year-end	25	25	→	43
	U.S. employment of women at year-end	23	23	→	43
FINANCIAL HEALTH	**INDICATOR**	**2003**	**2004**	**TREND**	**PAGE**
We will make our decisions with proper regard to the long-term financial security of the Company.	Shareholder return, percent	79	6	↘	43
	Net income/(loss), $ billion	0.5	3.5	↖	43

This table provides a snapshot of 2004 performance according to a set of key indicators. The table, detailed trend data and the performance sections of the Web report are all organized by Ford's Business Principles. We have followed this format since adopting the Principles in 2003.

In February 2005, Ford's Strategy and Business Governance Committee, composed of our top executives, approved the addition of sustainability as a "key business strategy" alongside more traditional functions like vehicle design, quality and marketing. This set in motion a series of steps to integrate sustainability into our business systems. We see our new focus on and definition of sustainability as complementary to our Business Principles. The definition of sustainability sets a direction and provides a framework for understanding our positive and negative impacts. The Business Principles guide our conduct and day-to-day decision making in major areas of sustainability performance.

As a key strategy, sustainability now has a Corporate Champion responsible for delivering results and reporting to the Strategy and Business Governance Committee. Consistent with our definition of sustainability, we have identified the key success factors for sustainability as reducing the Company's ecological footprint, enhancing social capital and creating new revenue and market opportunities.

Over time, our reporting on key indicators will further evolve to reflect additional sustainability goals and targets. Additional data and information on our performance and management according to the Business Principles is available on the Web.

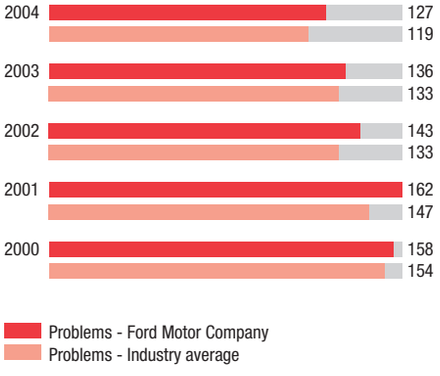
Products and customers

A

Initial Quality Study – J.D. Power and Associates (3 months in service)

Problems per hundred vehicles

Ford Motor Company U.S.



NOTES TO THE DATA

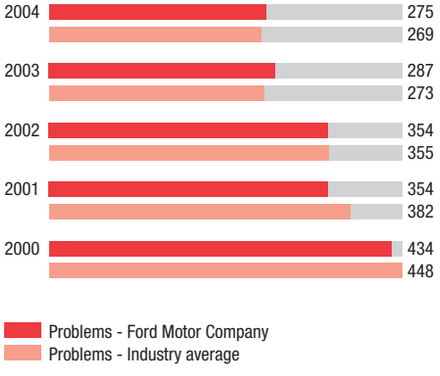
See Products & customers section of the Web site (www.ford.com/go/sustainability) for a discussion of our efforts to improve quality.

B

Vehicle Dependability Index – J.D. Power and Associates (3 years of ownership)

Problems per hundred vehicles

Ford Motor Company U.S.



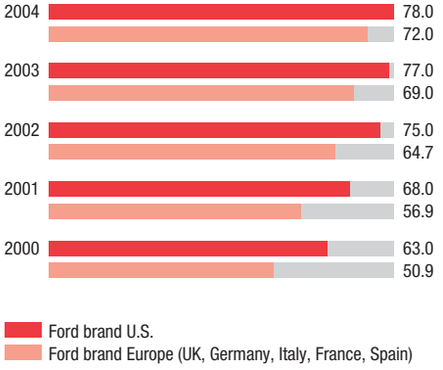
NOTES TO THE DATA

These are the vehicles that were tested in `04; other data on the Web. Data for 2000–2002 measured four to five years of ownership.

C

Sales satisfaction with dealer/retailer

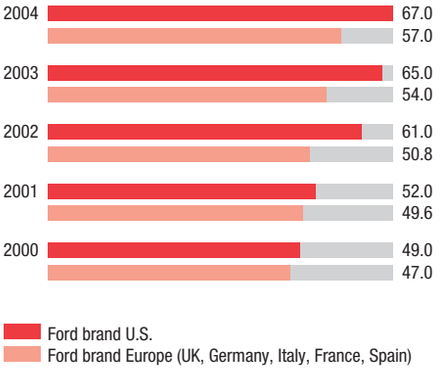
Percent completely satisfied



D

Service satisfaction with dealer/retailer

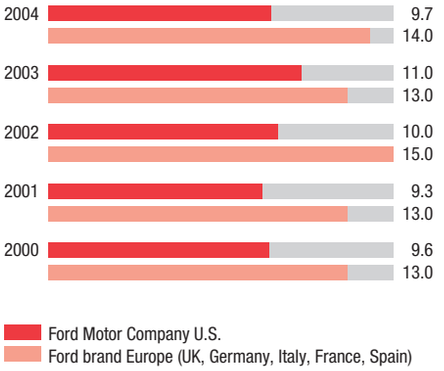
Percent completely satisfied



E

First-time Ford buyers (owners who acquired a new vehicle for the first time)

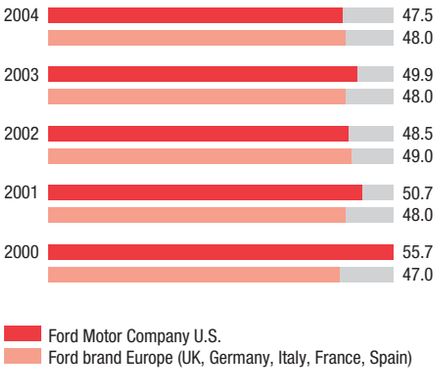
Percent of first-time buyers



F

Owner loyalty (customers disposing of a Ford Motor Company product and acquiring another)

Percent loyal to corporation



www.ford.com/go/sustainability

Additional Products and customers data on our Web site:

- Summary of vehicle unit sales
- Ford Motor Company U.S. market share
- Ford Motor Company European market share
- Ford Credit market share – United States
- Ford Credit market share – Europe
- U.S. utility patents issued to Ford and subsidiaries

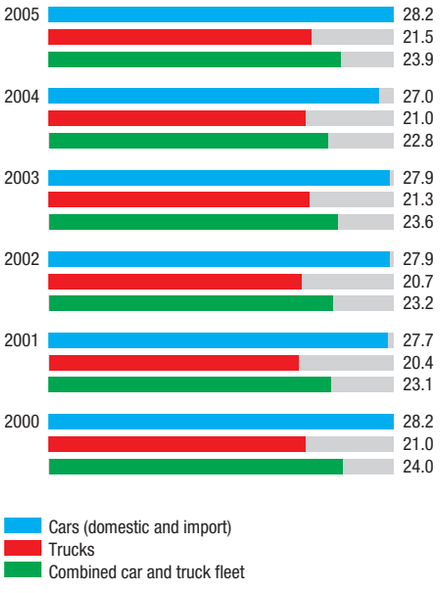
Environment

A

Ford U.S. corporate average fuel economy - with FFVs

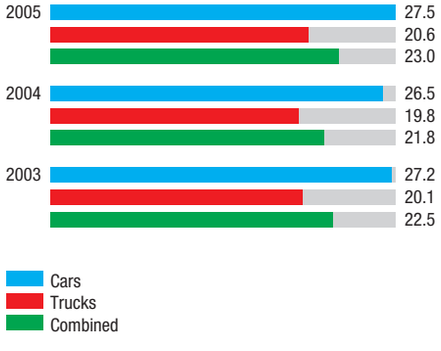
Miles per gallon

2005 is a preliminary estimate



Ford U.S. corporate average fuel economy - without FFVs

Miles per gallon



NOTES TO THE DATA

Charts A and B

Corporate Average Fuel Economy (CAFE) is calculated in accordance with U.S. NHTSA and EPA regulations. It includes credits for producing and selling duel-fuel vehicles or flexible-fuel vehicles (FFVs), which can be run on any blend of unleaded gasoline with up to 85 percent ethanol. Because many FFVs are fueled by conventional gasoline due to limited availability of ethanol, we have included a chart showing CAFE with FFV credits removed.

See the Climate change section for a discussion of CAFE (Pages 19 to 21). The decrease in the CAFE level of 2004 domestic passenger cars is due primarily to a short 2004 model year of the Focus (which was abbreviated to allow a changeover to the new model) and reduced sales of alternative fuel vehicles. The projected 2005 combined CAFE status improvement is due to the inclusion of new vehicles with favorable fuel economy including the Escape Hybrid, Mercury Mariner, Ford Freestyle, Ford Five Hundred and Mercury Montego.

B

Ford U.S. CO_2 tailpipe emissions per vehicle

Grams per mile

2005 is a preliminary estimate

C

European CO_2 performance, passenger vehicles - percent of 1995 base

Percent

1995 base = 100 percent
NA - Not available

ACEA - average of European manufacturers

Ford

Jaguar

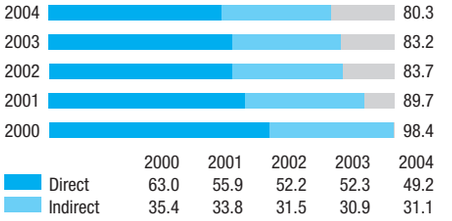
Land Rover

Volvo

D

Worldwide facility energy consumption

Trillion British Thermal Units



	2000	2001	2002	2003	2004
Direct	63.0	55.9	52.2	52.3	49.2
Indirect	35.4	33.8	31.5	30.9	31.1

E

Worldwide facility energy consumption per vehicle

Million British Thermal Units per vehicle

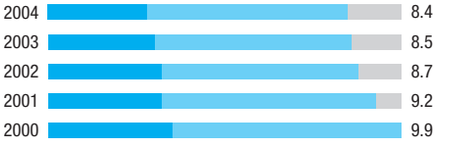
	2000	2001	2002	2003	2004
BTUs/vehicle direct	8.6	8.4	8.0	8.4	7.8
BTUs/vehicle indirect	4.8	5.1	4.8	5.0	4.9

F

Worldwide facility CO_2 emissions

Million metric tonnes

Target: Various regions are developing mandatory targets, and this makes it difficult to set a global corporate target for greenhouse gas emissions. Voluntary manufacturing greenhouse gas emission targets apply (see Box 1 on Page 16). Our energy efficiency index target also has the effect of driving reductions in CO_2 emissions.



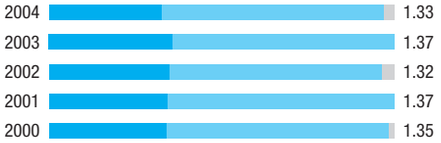
	2000	2001	2002	2003	2004
Direct	3.5	3.2	3.2	3.0	2.8
Indirect	6.4	6.0	5.5	5.5	5.6

G

Worldwide facility CO_2 emissions per vehicle

Metric tonnes per vehicle

Target: Various regions are developing mandatory targets, and this makes it difficult to set a global corporate target for greenhouse gas emissions. Voluntary manufacturing greenhouse gas emission targets apply (see Box 1 on Page 16). Our energy efficiency index target also has the effect of driving reductions in CO_2 emissions.



	2000	2001	2002	2003	2004
Direct	0.47	0.47	0.48	0.49	0.45
Indirect	0.88	0.90	0.84	0.88	0.88

H

Energy efficiency index

Percent

Target: 1 percent year-over-year improvement

I

Global manufacturing water use

Million cubic meters

Target: 3 percent decrease in global water usage per year, using 2000 baseline

NOTES TO THE DATA

Charts D–G

Energy consumption and CO_2 emissions per vehicle divides energy used or CO_2 emitted by the number of vehicles produced. Direct energy and emissions are those associated with the generation of electricity, heat or steam by sources owned or controlled by Ford Motor Company. Indirect energy and emissions are those associated with the generation of electricity, heat or steam purchased or imported by Ford Motor Company. CO_2 emissions were calculated consistent with the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol. Data have been adjusted to account for facilities that were closed, sold, or new.

Charts E and G

Averaging energy and CO_2 emissions by the number of vehicles produced yields a somewhat imperfect indicator of production efficiency. When the number of vehicles produced declines, as it has since 2000, per-vehicle energy use tends to rise because a portion of the resources used by a facility is required for base facility operations, regardless of the number of vehicles produced. We believe that stable-to-declining per-vehicle energy use and CO_2 emissions indicate that more efficient production since 2000 is offsetting the tendency of these indicators to rise during periods of declining production. This interpretation is reinforced by our energy efficiency index, which focuses on production energy efficiency, and which has been steadily improving. Our energy efficiency index target also has the effect of driving reductions in CO_2 emissions.

Chart H

The index is "production normalized" based on an engineering calculation that adjusts for fixed and variable portions of energy use and production to track production energy efficiency. The index was set at 100 for the year 2000 to simplify tracking against our target of improving our energy efficiency by 14 percent globally by 2005, equal to 85 percent.

Chart I

Includes all global manufacturing facilities with greater than 50 percent Ford ownership that consumed more than 30,000 cubic meters in calendar year 2000. Data have been adjusted to account for facilities that were closed, sold or new.

www.ford.com/go/sustainability

Additional Environment data on our Web site:

- Cumulative number of parts launched containing recycled nonmetallic materials
- Waste by disposition and reuse
- Waste generation by category
- North American manufacturing waste (United States, Canada and Mexico)
- North American volatile organic compounds released by assembly facilities
- Ford U.S. TRI releases
- Ford U.S. TRI releases by vehicle
- Ford Canada NPRI releases
- Ford Canada NPRI releases per vehicle
- Australia National Pollutant Inventory releases (total air emissions)
- Ford U.S. average NOx emissions
- Ford U.S. average vehicle emissions
- Ford U.S. average NMOG emissions
- Global water use by source

A

Charitable contributions

$ million

	2000	2001	2002	2003	2004
Ford Motor Company Fund	83	113	84	78	78
Corporate	27	24	47	43	33

B

Working conditions assessment status for supply chain

PROCESS STEP	CHINA	MEXICO
Assessed and sourced	**76**	**NA**
Assessed and not sourced	**10**	**NA**
3rd-party assessments completed	**86**	**14**
Ford communicated identified issues to supplier. Request corrective action plan (CAP) development	**76**	**14**
Ford and supplier agree on CAP	**70**	**7**
Ford and supplier negotiating CAP	**6**	**1**
CAP verified closed by 3rd party or Ford personnel	**20**	**4**
Suppliers not needing follow-up	**10**	**6**
Scheduled for follow-up in the next 6 months*	**46**	**4**
Number of issues identified	**961**	**84**
Number of issues agreed by supplier and Ford	**951**	**47**
Open issues to be agreed	**10**	**37**
Average number of issues per site	**11.2**	**6**

* Some issues take 6–12 months to be correctly resolved by the supplier

NOTES TO THE DATA

Chart B

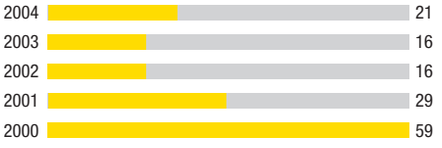
See Human rights section for a discussion of our working conditions assessments in the supply chain (Page 32).

Safety – vehicle & workplace

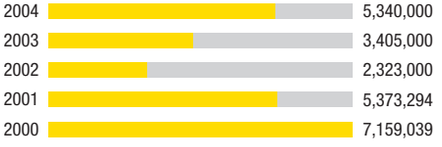
A

Ford safety recalls

Number of safety recalls



Number of units



NOTES TO THE DATA

Chart A
Recalls are by calendar year rather than model year. A single recall may affect several vehicle lines and/or several model years. The same vehicle may have multiple recalls. (Source: U.S. National Highway Traffic Safety Administration.)

Chart B
2003 is the most recent Bureau of Labor statistics data available.

Chart C
Year end 2003 severity data for Canadian locations was corrected after extensive record reviews completed in the first half of 2004.

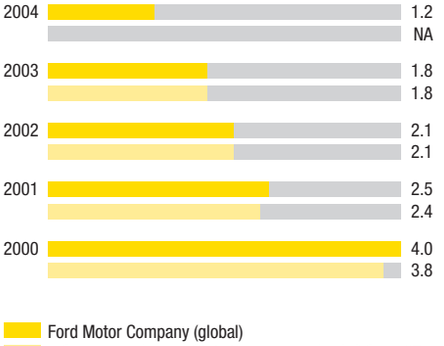
Chart D
As we attempt to balance frequently changing government and non-government test requirements with real-world safety, we have continued to assess the appropriate metrics for measuring our performance. For the first time this year we have chosen to present a sample of public domain safety ratings for all of our models, rather than a percentage of models tested receiving a particular star rating. Only our new models' safety evaluation in these programs is presented here; however, a complete listing of all tested U.S. and European models can be found on the Web at www.ford.com/go/sustainability.

B

Global lost-time case rate (per 100 employees)

Cases with one or more days away from work per 200,000 hours

NA - Not available

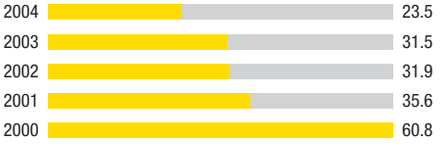


Ford Motor Company (global)
U.S. Bureau of Labor Statistics average for SIC Code 371 (motor vehicles and equipment)

C

Global severity rate (per 100 employees)

Days lost per 200,000 hours worked



U.S. New Car Assessment Program
Government star ratings are part of the New Car Assessment Program (NCAP) of the U.S. National Highway Traffic Safety Administration (NHTSA). In NHTSA's tests, vehicles with belted front-seat test dummies are crashed into a fixed barrier at 35 mph, which is equivalent to a head-on collision between two similar vehicle, each moving at 35 mph. Since the test is designed to reflect a crash between two similar vehicles, one can meaningfully compare vehicles from the same weight class (within +/- 250 lbs) when looking at frontal crash test ratings.

Instruments measure the force of the impact to each test dummy's head, chest and legs. NHTSA uses the readings from these instruments to estimate the chance that a real occupant would sustain a serious injury in the tested crash. A serious injury is defined as one that requires immediate hospitalization and may be life-threatening.

What do the stars mean?

★★★★★ *= 10 percent or less chance of serious injury.*

★★★★ *= 11 percent to 20 percent chance of serious injury.*

★★★ *= 21 percent to 35 percent chance of serious injury.*

★★*= 36 percent to 45 percent chance of serious injury.*

★*= 46 percent or greater chance of serious injury.*

For more information, go to www.nhtsa.dot.gov.

IIHS Frontal Offset Evaluation
In the 40 mph offset test of the Insurance Institute for Highway Safety (IIHS), 40 percent of the total width of a vehicle strikes a barrier on the driver's side. The forces in the test are similar to those involved in a frontal offset crash between two vehicles of the same weight, each going just less than 40 mph. Test results can be compared only among vehicles of similar weight. Like full-width crash test results, the results of offset tests cannot be used to compare vehicle performance across weight classes.

Based on a vehicle's performance in three areas evaluated in the frontal offset crash tested – structural performance, injury measures and restraints/dummy kinematics – the IIHS assigns a vehicle an overall crashworthiness measure of Good, Acceptable, Marginal or Poor. For more information, go to www.iihs.org.

D

2005 public domain ratings of new Ford Motor Company products

VEHICLE	MODEL YEAR	NCAP STAR RATING FULL FRONTAL IMPACT		NCAP STAR RATING SIDE IMPACT		NCAP ROLLOVER RESISTANCE RATING	IIHS OFFSET FRONTAL RATING
		DRIVER	PASSENGER	FRONT	REAR		
Ford F-150 Super Crew	2004	★★★★★	★★★★★				
Ford F-150 Super cab	2004	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	Good
Ford F-150 Regular cab	2004	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	Good
Ford Freestar	2004	★★★★★	★★★★★	★★★★	★★★★★	★★★★	Good
Mercury Monterey	2004	★★★★★	★★★★★	★★★★	★★★★★	★★★★	Good
Ford Five Hundred	2005	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	
Ford Freestyle	2005	★★★★★	★★★★★	★★★★★	★★★★★		
Ford Mustang coupe	2005	★★★★★	★★★★★	★★★★		★★★★★	
Mercury Montego	2005	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	Good

These are 'new' model year 2004 and 2005 vehicles. Data for all models produced during 2004 and 2005 are available on the Web.

www.ford.com/go/sustainability

Additional Safety data on our Web site:

- Lost-time case rate by region (per 100 employees)
- Severity rate by region (per 100 employees)
- Workplace health and safety violations
- Global fatalities

Quality of relationships

A

Employee satisfaction, Pulse survey

Percent satisfied

Employee Satisfaction Index

B

Total purchases from minority-owned businesses – United States

$ billion

C

U.S. employment of minority-group personnel and women at year-end

Percent

Minority-group personnel - total

Women - total

NOTES TO THE DATA

Chart B

In 2003, we expanded our reporting to include purchases from non-minority women-owned businesses. This accounted for $0.2 billion in 2003 and is not included in data for prior years.

www.ford.com/go/sustainability

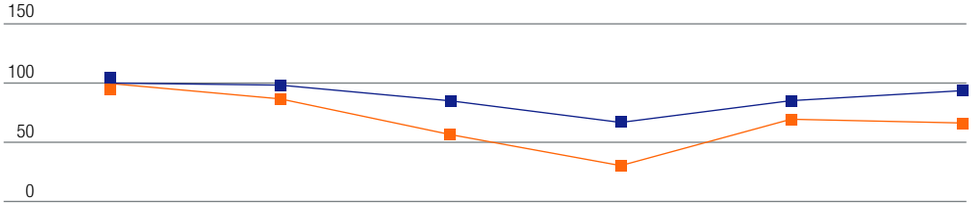
Additional Quality of relationships data on our Web site:

- Employee satisfaction, Pulse survey – Workload; stress; reward and recognition; diversity
- U.S. employment of minority-group personnel and women at year-end – hourly and salaried employees
- Average number of people employed by business unit
- Total average hourly labor costs
- Number of dealers worldwide

Financial health

A

Cumulative shareholder return



	Base 1999	2000	2001	2002	2003	2004
Ford	100	91	80	62	80	89
S&P 500	100	83	58	36	64	60

B

Selected financial performance indicators

INDICATOR	2001	2002	2003	2004
Annual revenue ($ billion)*	160.7	162.3	164.3	**171.7**
Income/(loss) from continuing operations ($ billion)*	(5.3)	0.4	0.9	**3.6**
Net income/(loss) ($ million)	(5.5)	(1.0)	0.5	**3.5**
Stock price range (per share) ($)	14.70–31.42	6.90–18.23	6.58–17.33	**12.61–17.34**
Diluted per share amount of income/(loss) from continuing operations ($)	(2.93)	0.15	0.50	**1.8**
Diluted per share amount of net income/(loss) ($)	(3.02)	(0.54)	0.27	**1.73**
Cash dividends per share ($)	1.05	0.40	0.40	**0.40**
Earnings retained for use in business ($ billion)	10.5	8.7	8.4	**11.2**
Automotive gross cash ($ billion)**	17.7	25.3	25.9	**23.6**
Shareholder return (percent)***	(30)	(39)	79	**6**

* Prior years data reclassified for discontinued held-for-sale operations.
** Automotive gross cash includes cash and cash equivalents, marketable and loaned securities and assets contained in a short-term Voluntary Employee Beneficiary Association (VEBA) trust.
*** Total Shareholder Return is from Bloomberg Total Return Analysis assuming dividends reinvested in Ford stock.

Corporate profile

Automotive core and affiliate brands	Dealers and markets	Retail vehicle sales	Sales mix	Customer assistance
Ford	9,091 dealers 110 markets	5,548,381 vehicles	57% North America 27% Europe 7% Asia-Pacific 5% South America 4% Rest of world	+1 (800) 392-3673 www.fordvehicles.com
LINCOLN	1,421 dealers 28 markets	147,708 vehicles	99% North America 1% Rest of world	+1 (800) 521-4140 www.lincolnvehicles.com
MERCURY	2,014 dealers 27 markets	200,550 vehicles	97% North America 3% Rest of world	+1 (800) 521-4140 www.mercuryvehicles.com
mazda*	5,625 dealers 144 markets	1,118,856 vehicles	28% North America 23% Europe 45% Asia-Pacific 2% South America 1% Rest of world	+1 (800) 222-5500 www.mazdausa.com customerassistance @mazdausa.com

Premier Automotive Group	Dealers and markets	Retail vehicle sales	Sales mix	Customer assistance
ASTON MARTIN	125 dealers 32 markets	2,400 vehicles	30% North America 60% Europe 6% Asia-Pacific 4% Rest of world	+44 (1908) 610620 www.astonmartin.com enquiry @astonmartin.com
JAGUAR	862 dealers 68 markets	118,918 vehicles	41% North America 50% Europe 6% Asia-Pacific 3% Rest of world	+1 (800) 452-4827 www.jaguar.com jaguarowner @jaguar.com
VOLVO	2,341 dealers 104 markets	455,950 vehicles	34% North America 55% Europe 6% Asia-Pacific 5% Rest of world	+1 (800) 458-1552 www.volvocars.com customercare @volvo.com
LAND ROVER	1,443 dealers 103 markets	162,422 vehicles	23% North America 60% Europe 7% Asia-Pacific 2% South America 8% Rest of world	+1 (800) 637-6837 www.landrover.com asklr@landrover.com

Financial services	Operations	Customer assistance
Ford Motor Credit Company	Operations in 36 countries Provides automotive financing for Ford, Lincoln, Mercury, Aston Martin, Jaguar, Land Rover, Mazda and Volvo dealers and customers More than $168 billion in managed receivables Approximately 3.1 million vehicle financing contracts	+1 (800) 727-7000 www.fordcredit.com
Hertz	Hertz** and its affiliates, associates and independent licensees represent what the company believes is the largest worldwide general use car rental brand and one of the largest industrial and construction equipment rental businesses in North America Operations in more than 150 countries and jurisdictions More than 7,200 locations worldwide	+1 (800) 654-3131 www.hertz.com

Customer services	Operations	Customer assistance
Ford LINCOLN MERCURY GENUINE PARTS & SERVICE	A total service experience for Ford, Lincoln and Mercury owners available only at Ford, Lincoln and 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	Ford/Mercury +1 (800) 392-3673 www.genuineflmservice.com www.customersaskford.com
Motorcraft GENUINE ACCESSORIES Ford fordaccessoriesstore.com	**Motorcraft Parts** Designed, engineered and recommended by Ford Motor Company and available in Ford, Lincoln and Mercury franchised dealerships, Ford authorized distributors and select major retail accounts **Genuine Ford Accessories** Wide range of customer accessories designed to accent Ford, Lincoln and Mercury vehicles	**Motorcraft Parts** www.motorcraft.com **Genuine Ford accessories** www.fordaccessoriesstore.com www.lincolnaccessories.com www.mercuryaccessories.com
Ford LINCOLN MERCURY EXTENDED SERVICE PLAN APCO AUTOMOBILE PROTECTION CORPORATION	**Ford Extended Service Plan and Automobile Protection Corporation** Providing comprehensive vehicle service contract and maintenance programs **Ford Extended Service Plan** Major customers include Ford, Lincoln and Mercury vehicle dealers, commercial customers and fleets of Ford Motor Company vehicles **Automobile Protection Corporation** Major customers include Mazda, Volvo, Jaguar, Land Rover and competitive-make vehicle dealers	**Ford ESP** www.genuineflmservice.com **APCO** www.easycare.com

* As an unconsolidated subsidiary, Mazda sales are not consolidated into Ford Motor Company vehicle unit sales. Only vehicles built by Ford for Mazda are included in total Ford unit sales summaries.

**Ford sold Hertz in September 2005 (the deal to sell Hertz is subject to approval by regulations and is expected to be completed by the end of the year). There were no other major acquisitions, divestitures or changes to the structure of FMC during 2004.

Thank you for reading this report

Niel Golightly. *Director, Sustainable Business Strategies*

In the time it has taken you to read this report, more than 6,000 customers around the world have purchased a new car or light truck. They bought their vehicles in order to make their lives better – in some cases more productive, in others more convenient, or more exciting, or more expressive of their lifestyle. In every case, those purchases reflect the fact that personal mobility is an inseparable component of modern economic life.

Vying for those sales were more than 50 manufacturers, employing millions of people and backed by thousands of supplier companies and independent dealerships. Between them, these manufacturers are carrying the cost of enough factory space to build about 25 percent more vehicles than there are customers. As a result, the competition among these companies to attract customers and drive down cost is white hot.

Also in the time it has taken to read these pages, 15,000 new people were born into the world, an alarming number of them in countries where the average citizen subsists on $2 per day; 875,000 metric tons of fossil fuel were burned, 15 percent by the drivers of light vehicles; and 177 people were injured or killed in traffic accidents.

This report has been, at its core, about Ford Motor Company's determination to create a stronger business by reconciling these apparently conflicting realities: the need for mobility and the need to reduce the stresses imposed on the environment and society. Put another way, we think there is a powerful and promising business opportunity in our market at the convergence of financial, social and environmental interests, hence our working definition of sustainability: a business model that seeks to create value for stakeholders by preserving or enhancing economic, environmental and social capital.

We have highlighted many dilemmas in these pages without presuming to have answers for them all. By doing so, we hope this report will encourage engagement, dialogue and debate on the concepts and opportunities we have raised here.

In future reports we will address in more detail some of the issues we have only touched on here, including climate change, urban congestion, the implications of emerging markets on sustainable mobility (and vice versa), the role of marketing in sustainability (and vice versa) and others.

We thank our Report Review Committee for helping us strengthen this report and for recommending topics to cover in the future.

While the Committee's recommendations have been invaluable, the views and shortcomings of the final report should be considered Ford's responsibility alone. We welcome your input as well at sustaina@ford.com.

ADDENDUM

Shortly after finalizing this report, Chairman and CEO Bill Ford announced on September 21, 2005 that innovation will be the compass by which Ford Motor Company will set its direction going forward – with a special focus on safety, technology and design innovation. This renewed drive toward innovation will include:

- A commitment to increase global hybrid production capacity ten-fold, to approximately 250,000 units annually by 2010. More than half of the Ford, Lincoln and Mercury lineup will have hybrid capability.
- Initiating a pilot program that will offset the greenhouse gasses emitted in the manufacture of hybrid vehicles. The carbon offset program will pay for projects around the world that reduce carbon dioxide emissions.
- Four new vehicles for 2006 that can run largely on ethanol, raising the production of Flexible Fuel Vehicles in 2006 to as many as 280,000 units.

This was done after the Report Review Committee prepared their letter of assurance. We expect to provide more details in the Climate Change Report in December.

Report Review Committee

Ford have committed to offset the incremental carbon emissions associated with the RRC process

Bill Boyle
Director of Performance Reporting, BP

Marc Brammer
Director of Research, Innovest

Anthony Ewing
Lecturer in Law, Columbia Law School

Tom Gladwin
Max McGraw Professor of Sustainable Enterprise, University of Michigan, and Director of the Erb Institute for Global Sustainable Enterprise, jointly in the Ross School of Business and School of Natural Resources & Environment

Debra Hall
Director, Corporate Accountability Program, Ceres

Ritu Kumar
Director, TERI-Europe

Jason Mark
Clean Vehicles Program Director,
Union of Concerned Scientists

J. Bo Young Lee
Director, Advisory Services, Catalyst

Garel Rhys
SMMT Chair in Motor Industry Economics,
Cardiff Business School

Amanda Sauer
Sustainable Enterprise Program, World Resources Institute

Peter Sweatman
Director, University of Michigan Transportation Research Institute (UMTRI)

Betsy Taylor
President, Center for a New American Dream

John Wilson
Director for Socially Responsible Investing,
Christian Brothers Investment Services

Ford's five Corporate Citizenship Reports covering our sustainability performance 1999-2003 aspired to be responsive to stakeholder interests. In preparation of our sixth report in this series (for fiscal year 2004) and the first Ford "Sustainability Report," we sought to increase our direct engagement with stakeholders.

Inspired by a similar process undertaken by Nike, Inc., during production of its 2004 Corporate Responsibility Report, Ford worked with Ceres, a coalition of investment funds and environmental groups, and SustainAbility, an independent think tank and strategy consultancy, to create a Report Review Committee (RRC). The purpose of the RRC was to assist in development of the report and to increase its usability and relevance. The Committee was not asked to engage in formal verification or assurance processes regarding the accuracy or completeness of the information or data presented in the report.

Potential participants from all regions of the globe were identified in early 2005 by Ford, Ceres (www.ceres.org) and SustainAbility (www.sustainability.com). Ceres agreed to chair the committee while SustainAbility designed and facilitated the engagement process.

Thirteen diverse individuals familiar with Ford and our sustainability issues and/or expert in sustainability reporting and assurance accepted invitations to join the RRC. While RRC members' organizational affiliations are reflective of their varied and relevant expertise, they were asked to participate in this process in an individual capacity rather than as representatives of their organizations.

The committee met twice in person (in Dearborn, Michigan, in April 2005 and in Boston, Massachusetts, in August 2005) and communicated extensively with Ford and one another by email and teleconference before, between and after the two meetings. RRC input had significant impact on the content and structure of this report. Their unedited opinion on the value of this engagement process and the quality of this report can be found on the following page.

The RRC process was managed inside Ford by the Sustainable Business Strategies (SBS) team. The SBS team is responsible for the creation of Ford's corporate sustainability strategy as well as assorted sustainability-related communications and initiatives, including this report.

In addition to SBS staff, the RRC process involved more than 20 Ford staff and senior management from different parts of the Company, including Purchasing, Governmental Affairs, Public Affairs, Marketing, Automotive and Workplace Safety, Environmental Quality, Economics and the Scientific Research Lab. Ford extends its sincere gratitude to the members of the RRC for their valuable insight, counsel and assistance.

Pictured left to right top row: The first session in April 2005. Mark Lee, Facilitator, SustainAbility. John Sullivan, Sustainable Science Technical Leader
Pictured left to right bottom row: Ritu Kumar. Tom Gladwin. Debra Hall

Report Review Committee letter

BACKGROUND

The Report Review Committee (RRC) recognizes Ford's solid record of reporting on its environmental, social and economic performance. We commend Ford for establishing this multi-stakeholder committee and working with us in a way that shows transparency, honesty and integrity. We also appreciate Ford's commitment to reporting in accordance with the principles and framework of the Global Reporting Initiative, the international standard for this type of nonfinancial disclosure.

We acknowledge the significant challenges Ford faces in the current business climate and appreciate Ford's efforts to create a forward-looking and bold report that reflects the Company's growing understanding of the importance of sustainability to its business strategy.

OVERALL FINDINGS

Ford has produced a substantially improved report this year that addresses the key sustainability issues faced by its business. We believe Ford transparently communicates the processes used to produce this report, particularly through the presentation of value chain issues and materiality analysis. We applaud the Company's decision to place an enhanced focus on climate change and human rights in the printed version of the report.

While the Report Review Committee supports Ford's assertion that sustainability is core to its business, we are concerned that the report lacks targets and timetables to show how the Company will achieve its sustainability aspirations, particularly related to further reducing the emissions from the vehicles it produces. We urge Ford to address this gap in future reports.

The report indicates that a positive public policy framework is essential for Ford to achieve its long-term sustainability objectives. The committee strongly agrees with this, but is deeply concerned that the public policy section of the report presents positions on U.S. policy and regulation that do not seem to align with Ford's sustainability goals. We would like to see Ford address its approach to remedy this in future reports.

Emerging markets, especially India and China, are noted as Ford's largest potential customer growth areas, yet Ford has only begun to touch on unique regional issues related to mobility, climate, human rights and safety in this report. While Ford's report has improved global coverage every year, the report remains focused on U.S. production and markets. The Committee would like future reports to address Ford's strategies for providing mobility to the developing world, reducing emissions of climate change gases, improving safety and promoting human rights.

CLIMATE CHANGE

The Committee believes that climate change is the greatest environmental threat of the 21st century, and that action is needed now to avert dangerous levels of global warming. We think it is important that Ford Motor Company demonstrates leadership on this issue given its aspiration to be a responsible corporate citizen, its global reach, its responsibility to shareholders and the business opportunities of action.

We commend Ford for producing a report that is a significant step forward in recognizing the problem, the need to act and the challenges ahead. Importantly, the data demonstrate that Ford is delivering on its commitment to reduce global warming pollution from its facilities.

But only reducing emissions from production operations falls far short of the necessary response to climate change, and the report fails to articulate a strategy to reduce global warming pollution from the Company's products, especially in key markets such as the United States, China and India. Ford cannot be a meaningful contributor to combating climate change without clear targets for reducing emissions from its vehicles, including emissions reductions in the emerging markets where it anticipates the most growth. We note that Ford is planning to issue a climate change report in December. We hope that this report and future sustainability reports will articulate Ford's plans and commitments for reducing emissions, and reconcile the Company's policy positions with its sustainability goals.

HUMAN RIGHTS

Elements of Ford's activities on human rights demonstrate leadership in this area. This report is particularly strong in its discussion of Ford's methodology, challenges and learning realized in Ford's initial human rights focus on working conditions. The Company provides relevant details on the application of Ford's Code of Basic Working Conditions in its own facilities and supply chain. Ford's report should be applauded for addressing diversity and explaining how the issue is incorporated into its long-term business strategy.

Key issues not addressed in the document include Ford's human rights impact and engagement with community stakeholders throughout the Company's supply chain, as well as the particular challenges of respecting freedom of association in developing nations.

Future reporting can be improved by presenting the concerns of communities and workers, providing greater detail on working conditions in Ford's operations and supply chain, and strengthening the business case for diversity as part of its overall sustainability strategy. We also encourage the Company to take the lead in developing metrics that will help assess its success in implementing its human rights program. Finally, we encourage the Company to report on how international human rights standards inform Ford's corporate policies.

MOBILITY AND SAFETY

The report recognizes the challenges raised by growing global demand for mobility. However, the printed report does not adequately acknowledge the dynamic challenges of mobility and vehicle safety in the developed and developing world. The report would be strengthened by more metrics that document the strong emphasis on safety that Ford places in its vehicles and products. In particular, we would like to see metrics that include geographical and market coverage of key safety systems and features.

In the future, we hope that the report would more comprehensively and measurably address Ford's priorities for higher safety standards for all road users and pedestrians. We would also like to see more discussion of issues such as urbanization, sprawl and fuel prices, and their implications for Ford's business.

CONCLUSION

In our view, Ford's 2004 Sustainability Report is an open account of the Company's performance. That openness demonstrates to the Report Review Committee that Ford is addressing many of its challenges but also that it still has much work ahead of it.

The Committee congratulates Ford for its leadership and commitment to transparently communicate with its stakeholders. We believe that the report's candor and clarity exemplify the Company's commitment to become a good corporate steward of a sustainable future.

Submitted by: Ford Report Review Committee.

Glossary and acronyms

ACEA	European Automobile Manufacturers Association (Association des Constructeurs Européens d'Automobiles)
Annual Report on Form 10-K	An audited annual financial report required by the U.S. Securities and Exchange Commission containing more detailed information about the company's business, finances, and management than the annual report.
Bin	A set of emissions standards under the new U.S. Tier 2 emissions program. The lower the bin number, the lower the vehicle's tailpipe emissions.
CAFE (Corporate Average Fuel Economy)	A U.S. regulation requiring auto companies to meet certain sales-weighted average fuel economy levels for passenger cars and light trucks and report these numbers annually.
Ceres	Coalition for Environmentally Responsible Economies
Counterparty Risk	The risk we could incur if an obligor or counterparty defaulted on an investment or a derivative contract.
DOE	U.S. Department of Energy
E85	Refers to a fuel blend of 85 percent ethanol and 15 percent gasoline.
EPA	U.S. Environmental Protection Agency
EU	European Union
FFV (Flexible Fuel Vehicle)	A vehicle that can be run on any blend of unleaded gasoline with up to 85 percent ethanol.
Flexible Manufacturing	Using common platforms and shared manufacturing technologies that allow a single plant to make multiple models and switch relatively rapidly between them, allowing faster response to changing customer demand.
FPS (Ford Production System)	A structured process Ford uses to organize and manage production at all Ford manufacturing plants globally.
Fuel Cell	A type of power plant that generates electricity by combining oxygen and hydrogen to form electricity.
Fuel Economy	The distance that can be traveled on a single gallon of fuel.
Fuel Efficiency	Fuel efficiency measures the amount of fuel (in ton-miles-per-gallon) needed to move a vehicle of a certain weight a certain distance.
GRI	Global Reporting Initiative, a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.
ICE (Internal-Combustion Engine)	An engine powered by fuel ignited (by either spark or compression) inside a cylinder.
IIHS	Insurance Institute for Highway Safety
ISO 14001	Global environmental management system standard
LEV (Low Emission Vehicle)	A level of standards for tailpipe emissions (hydrocarbon, carbon monoxide and oxides of nitrogen) enforced in California and states that have adopted California standards. An LEV II vehicle meets the same tailpipe standards as a federal Tier 2 bin 5 vehicle.
LEV Program	The unique vehicle emissions program adopted by California for the control of tailpipe and evaporative emissions that provides several sets of emissions standards (LEV, ULEV, etc.). The LEV II Program starts with the 2004 model year and offers approximately the same air quality benefit as the new federal Tier 2 program.
Materiality	Materiality as used in this Sustainability Report does not share the meaning assigned to this concept for purposes of financial reporting. For the purposes of this Sustainability Report, we consider material information to be that which is of greatest interest to, and which has the potential to affect the perception of, those stakeholders who wish to make informed decisions and judgments about the Company's commitment to environmental, social and economic progress.
MY (Model Year)	The manufacturer's annual production period which includes Jan. 1 of the calendar year. For example, production of 2004 model year vehicles might begin in June 2003 and end in May 2004, but could start as early as Jan. 2, 2003, and end as late as December 2004. We report fuel economy by model year because that is how it is reported to government agencies, and therefore, this data corresponds to what is available in the public domain.
NCAP	New Car Assessment Program, the U.S. government "crash testing" program
NGO	Nongovernmental organization
NPRI	National Pollutant Release Inventory (Canada), similar to U.S. TRI
Pulse Survey	An annual, voluntary survey of Ford salaried-employee satisfaction.
PZEV (Partial Zero Emission Vehicle)	A vehicle standard that is part of the LEV II Program. A vehicle that meets SULEV tailpipe emissions and has zero fuel evaporative emissions.
QS 9000	Global quality management standard
RFQ	Request for quote
Six-Speed Transmission	A transmission using six gears for improved fuel economy compared to typical four-speed transmissions
STA	Supplier technical assurance
Stakeholder	Anyone who is impacted or believes they are impacted by the operations or practices of the Company is a stakeholder, including customers, employees, business partners, shareholders, governments, communities and non-governmental organizations. Some also consider the environment a stakeholder.
SUV	Sport utility vehicle
SULEV (Super Ultra-Low Emission Vehicle)	A level of standards for tailpipe emissions (hydrocarbon, carbon monoxide and oxides of nitrogen) enforced in California and states that have adopted California standards. A SULEV II vehicle meets the same smog-forming tailpipe emissions standards as a federal Tier 2 bin 2 vehicle.
Tier 1 Suppliers	Suppliers sourcing directly to our assembly plants
Tier 2 Suppliers	Suppliers not sourcing directly to our assembly plants
Tier 2 Emissions Standards	The new U.S. federal program, starting with the 2004 model year, to control vehicle sets of vehicle emissions standards, called bins, ranging from 1 (lowest emissions) to 10 (highest emissions). At the conclusion of the phase-in period, auto manufacturers' U.S. fleets must meet an average bin 5 level of emissions.
TRI (Toxics Release Inventory)	An inventory of releases and transfers of certain chemicals that are required to be reported to the U.S. government.
Variable Cam Timing	Improves fuel economy by allowing valves to be operated at different points in the combustion cycle, and provides performance that is precisely tailored to the engine's specific speed and load at that moment.
Vehicle Dependability Index	A J.D. Power and Associates index that evaluates vehicle quality after three years of ownership.
VOCs (Volatile Organic Compounds)	Compounds that vaporize (become a gas) at relatively low temperature. They are a concern for indoor and outdoor air quality and contribute to smog formation. VOCs are emitted from manufacturing facilities (including painting operations) and from vehicles (as hydrocarbon tailpipe emissions and from evaporation of fuel and other fluids).
WBCSD	World Business Council for Sustainable Development
Well-to-Wheels CO_2 Emissions	Accounts for emissions from the vehicle itself, as well as CO_2 emissions resulting from the production and distribution of the fuel.
WRI	World Resources Institute
ZEV (Zero Emission Vehicle)	The lowest level of standards for vehicle emissions (zero emissions) enforced in California and states that have adopted California standards. A federal Tier 2 bin 1 vehicle is also a "zero emission vehicle."

Key terms

These are Ford's working definitions of some key concepts in this report. They have proven useful in the development of our thinking on sustainability, because we are accustomed to managing for wise use of capital. We don't presume that they are universally applicable – rather to state what they mean to us in the context of our business. Indeed, we welcome feedback and comment from our readers on these concepts.

Sustainability

At Ford, we have defined sustainability as a business model that seeks to create value for stakeholders by preserving or enhancing environmental, social and economic capital.

Environmental capital

By environmental capital we mean both the natural resources and ecosystem goods and services that are used or impacted in the production and use of the goods and services that businesses provide.

Some forms of environmental capital are finite. There is a given quantity of crude oil in the Earth's reservoirs. The same goes for copper, natural gas, bauxite, iron ore and other resources that manufacturing enterprises like ours use directly in the production of goods. Other natural assets, like wind power, can be renewed indefinitely.

Ecosystems also provide "goods," like clean water, fresh air, biodiversity and unspoiled land, and "services," like the ability of wetlands to cleanse water and the atmosphere to protect us from harmful radiation. In the absence of proper stewardship, these otherwise renewable resources can be consumed or degraded in the production or use of the industrial world's products and services.

Social capital

Social capital refers to the capacity of people in our communities to participate fully in both the production and consumption of our products and services. Social capital includes the capabilities of our workforce – a product of education, training, working conditions, human rights standards and community infrastructure. It includes our connectedness to society and the value we create through engaging with stakeholders.

A major current focus of our social initiatives is the implementation of our Code of Working Conditions in all of the markets and facilities where we operate, as well as throughout our supply chain.

We seek to enhance social capital by, for example, responding to community needs through philanthropic and other financial support and by participating in civic life directly and encouraging our employees to participate.

Economic capital

Economic capital includes the money Ford has available to invest, tangible assets created by our capital investments in property and facilities, and intangible assets like our brand value. It also includes the value we add to the public and private sectors through investments in partnerships, tax payments and other contributions.

Closing the loop... more information and feedback

This print report, our first Sustainability Report, has a different format from our previous Corporate Citizenship reports. In it, we delve deeply into several of our most significant issues, rather than broadly across a range of issues. Our full report – www.ford.com/go/sustainability – provides more information on our social, environmental and economic management and performance organized by our Business Principles. It includes additional data, specifics of which are noted in the print report data sections.

YOUR FEEDBACK...

Preparing this report is a valuable opportunity for us to assess and improve upon our economic, environmental and social progress and performance.

To continue to do so, we need your feedback.
We welcome your opinion and perspective through several means:

Write or call:

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Email us at:

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Take our online survey at:

www.ford.com/go/sustainability

Printing this report

This report is printed on Mohawk Options, which is process chlorine-free, manufactured with wind power, and constituted of 100 percent post-consumer waste.

The total weight of paper used in the production of this report is 31,613 pounds, and by selecting this paper we made the following savings:

- 379 trees not cut down
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- 17,096 lbs solid waste not generated
- 30,413 lbs atmospheric emissions eliminated
- 472,252 lbs air emissions avoided by using wind energy

Information supplied by Mohawk Paper Mills, Inc. www.mohawkpaper.com

Additional content on the Web includes:

ACCOUNTABILITY

- Corporate governance
- Ethics
- Stakeholder engagement
- Reporting strategy
- Link to evaluations of 2003/4 report

PRODUCTS AND CUSTOMERS

- New product introductions
- Quality
- Flexible manufacturing
- Market trends

SAFETY

- Workplace health and safety model and management
- HIV/AIDS
- Vehicle safety model and management
- Vehicle safety technologies and recent applications
- Driver behavior
- The driving environment
- Future technologies

ENVIRONMENT

- Environmental management
- Lifecycle environmental aspects of typical product
- Tailpipe emissions
- Materials, including end-of-life vehicles
- Manufacturing energy use
- Transportation/logistics energy use
- Water use
- VOCs and other air emissions
- Waste generation
- Land use
- Compliance

COMMUNITY

- Community impact assessment model and pilots
- Integration of community investment model with Ford Production System
- Ford Fund giving
- Links to Code of Basic Working Conditions assessment reports and facility reporting initiative pilot reports

QUALITY OF RELATIONSHIPS

- Engagement with employees, dealers, suppliers
- Workplace, dealer and supplier diversity

FINANCIAL HEALTH

- Revitalization plan update
- Jaguar restructuring
- Investor rankings
- Feedback from SRI analyses

OTHER FORD REPORTS

Ford Motor Company Annual Report
Ford Motor Company Annual Report on Ford 10-K
Proxy Statement
Ford Motor Company Fund Annual Report
Diversity in Motion: The Family of Ford

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www.ford.com

Brand, country and facility reports available on www.ford.com/go/sustainability
(current and archived)

Jaguar Environmental and Social Report
Volvo Sustainability Report
Auto Alliance International (Flat Rock, Michigan, U.S.)
Broadmeadows Plant (Ford Australia)
Ford China
Ford India
Ford Malaysia
Ford Otosan Koçeli (Turkey)
Ford Rouge Center (Dearborn, Michigan, U.S.)
Ford Taiwan – Lio Ho
Ford Thailand

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www.ford.com/go/sustainability

OUR ROUTE TO SUSTAINABILITY

CONNECTING WITH SOCIETY – FORD SUSTAINABILITY REPORT 2004/5

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