Health Care Expenses. As a provider of health care coverage to our employees, retirees and their dependents, primarily in the United States, we have experienced significant health care inflation in the last few years. In 2004, our health care expenses for U.S. employees, retirees and their dependents were $3.1 billion, with about $2 billion attributable to retirees and the balance attributable to active employees. Prescription drug cost continues as the fastest growing segment of our health care expenses and accounted for about one-third of our total U.S. health care expenses in 2004.

Although we have taken measures to have employees and retirees bear a higher portion of the costs of their health care benefits, we expect our health care costs to increase. For 2005, our trend assumptions for U.S. health care costs include an initial trend rate of 9%, gradually declining to a steady state trend rate of 5% reached in 2011. These assumptions include the effect of actions we are taking and expect to take to offset health care inflation, including eligibility management, employee education and wellness, competitive sourcing and appropriate employee cost sharing.

Commodity Price Increases. Commodity price increases, particularly for steel and resins (which are used extensively in the automotive industry), have occurred recently and are continuing during a period of strong global demand for these materials. Manufacturers in China and other global steelmakers have responded through increases in capacity and production of steel. We expect this, coupled with an easing in global demand pressures, to result in pricing trends beginning to moderate in the intermediate term.

Currency Exchange Rate Volatility. The U.S. dollar depreciated against most major currencies in 2004. This created downward margin pressure on auto manufacturers that have U.S. dollar revenue with foreign currency cost. Because we produce vehicles in Europe (e.g., Jaguar, Land Rover and Volvo models) for sale in the United States and produce components in Europe (e.g., engines) for use in some of our North American vehicles, Ford experienced margin pressure, although this was partially offset by gains on foreign exchange derivatives. Ford, like most other automotive manufacturers with sales in the United States, is not always able to price for depreciation of the U.S. dollar due to the extremely competitive pricing environment in the United States.

Trends and Strategies

Revenue Management. To address the pricing pressure that exists in the automotive industry, we have employed a customer-focused revenue management strategy to maximize per unit revenue. This strategy is focused on a disciplined approach to utilizing customer demand data – available from many sources, including internet hits, transaction data, customer leads, and research – to help us develop and sell vehicles that more closely match customer desires.

We believe our revenue management strategy has contributed significantly to increases in our average net revenue per vehicle sold for our Ford North America business unit of $745 and $729 for 2004 and 2003, respectively. Since 2001, our average net revenue per vehicle sold in North America has improved by over $1,700 on a cumulative basis. This improvement reflected positive net pricing, as well as a more favorable product mix.

Market Share. An ongoing challenge in the current automotive industry is balancing market share with profitability. Due to the excess industry capacity, most manufacturers engage in some amount of price discounting to increase, maintain or limit decreases in their respective market shares. In the last few years, we have implemented a strategy of de-emphasizing less profitable sales to daily rental car companies, which typically are associated with a large amount of discounting, and placing greater emphasis on our share of the retail market (i.e., market share among end-use customers). This strategy benefits us by reducing the overall amount of marketing incentives we incur and improving the auction and resale values of our products. This latter benefit, in turn, has the added benefit of reducing depreciation expense for vehicles in Ford Credit's vehicle lease portfolio. The strategy to de-emphasize sales to daily rental car companies, while contributing to improved profits, also has contributed to a loss of share in the United States.

Product Differentiation and Innovation. The fundamental requirement for success in the automotive business is having products with great appeal, whether in terms of styling, quality, innovative features, breakthrough technology or a combination of those characteristics. Our strategy for product creation includes a strong focus on new technology. This is not, however, limited to developing and introducing breakthrough vehicle technologies, but also can be applied to the total vehicle package. For example, our new Ford F-150 pick-up truck, first introduced as a 2004 model, utilizes more than 130 patented inventions related to performance, utility and styling. This model helped establish a sales record for F-Series pick-up trucks in 2004 with nearly one million units sold. Other differentiating technologies that we have introduced or are working to introduce for general availability are:

- Hybrid powertrains, which use a combination of electric power, generated from onboard batteries that are recharged while driving the vehicle, and a gasoline internal combustion engine. The Ford Escape Hybrid, introduced as a 2004 model, is an example of this technology, and we plan to offer four additional vehicle models with this technology.

- Other alternative fuel vehicles, such as hydrogen-powered internal combustion engines, bio or clean diesel powered vehicles and fuel cells. We believe we are the only automobile manufacturer doing significant development work on all these alternative fuel technologies, as well as hybrid powertrain technologies.