Aberdeen Income Credit Strategies Fund
Form N-CSRS
July 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number:	811-22485
Exact name of registrant as specified in charter:	Aberdeen Income Credit Strategies Fund
Address of principal executive offices:	1735 Market Street, 32nd Floor Philadelphia, PA 19103
Name and address of agent for service:	Ms. Andrea Melia Aberdeen Asset Management Inc. 1735 Market Street 32nd Floor Philadelphia, PA 19103
Registrant s telephone number, including area code:	800-522-5465
Date of fiscal year end:	October 31
Date of reporting period:	April 30, 2018

Item 1 Reports to Stockholders

The Report to Shareholders is attached herewith.

Enroll in our shareholder communications program today.

As part of our commitment to shareholders, we invite you to visit our closed-end fund center on the web at cef.aberdeen-asset.us/ where you can view monthly fact sheets, portfolio manager commentary, distribution and performance information and other timely data.

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E-mail us:

Investor.Relations@aberdeenstandard.com

INVESTORS

Contact your Financial Advisor, or contact our Investor Relations Team:

Aberdeen Standard Investments

Shareholder Services
800 522 5465

FINANCIAL ADVISORS

Contact your Aberdeen Standard Investments Representative

Enroll today to receive the latest news and insights

By enrolling in this convenient service, you ll receive the latest Fund news including monthly factsheets, webcasts, conferences, events and more.

To enroll, follow these simple steps:

1. Go to **aberdeen-asset.us/cef**

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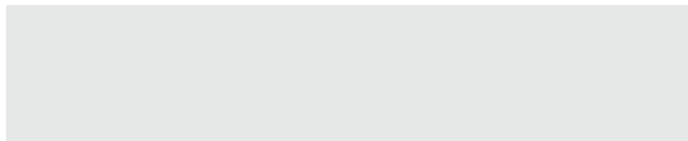
Aberdeen Standard Investments

Advisor Services
800 485 2294



* Please note that Aberdeen does not share our shareholder information with any other organizations.
You can return to this site at any time to change your email address or edit your preferences.

IMPORTANT INFORMATION

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund s investment return and principal value will fluctuate so that an investor s shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund s portfolio. There is no assurance that the Fund will achieve its investment objective. Past performance does not guarantee future results.

In the United States, Aberdeen Asset Management (AAM) is the marketing name for the following affiliated, registered investment advisers: Aberdeen Asset Management Inc., Aberdeen Asset Managers Ltd, Aberdeen Asset Management Ltd, Aberdeen Asset Management Asia Ltd and Aberdeen Capital Management, LLC. Excluding Aberdeen Capital Management LLC, each of these advisers are wholly owned by Standard Life Aberdeen Plc. Aberdeen Capital Management, LLC is a wholly-owned subsidiary of Aberdeen Asset Management Inc.

Ref: US-260618-67553-2

Letter to Shareholders (unaudited)

Dear Shareholder,

We present this Semi-Annual Report, which covers the activities of Aberdeen Income Credit Strategies Fund (the Fund), for the six-month period ended April 30, 2018. The Fund s primary investment objective is to seek a high level of current income, with a secondary objective of capital appreciation.

Total Investment Return

For the six-month period ended April 30, 2018, the total return to shareholders of the Fund based on the net asset value (NAV) and market price of the Fund are as follows:

NAV*		4.7	%
Market Price*		0.1	%

*assuming the reinvestment of dividends and distributions

The Fund s total return is based on the reported NAV on each financial reporting period end and may differ from what is reported on the Financial Highlights due to financial statement rounding or adjustments. For more information about Fund performance please see page 3 Report of the Investment Adviser.

NAV, Share Price and Discount

	NAV	Price	Discount
4/30/2018	$15.17	$13.91	8.3%
10/31/2017	$15.25	$14.62	4.1%

Revolving Credit Facility

The outstanding balance on the Fund s revolving credit facility with The Bank of Nova Scotia as of April 30, 2018 was $83,000,000. Under the terms of the loan facility and applicable regulations, the Fund is required to maintain certain asset coverage ratios for the amount of its outstanding borrowings. The Board regularly reviews the use of leverage by the Fund.

Open Market Repurchase Program

On March 17, 2011, the Board approved a share repurchase program for the Fund. Under the repurchase program, the Fund is authorized to make open market purchases of its Common Shares as a measure to reduce any discount from net asset value in the market price of the Common Shares. The program authorizes the Fund to repurchase up to 10% of its outstanding Common Shares in any calendar year. The Fund is not required to make any such repurchases and there can be no assurances that it will. There also can be no assurances that any such repurchases would have the effect of reducing any discount from net asset value in the market price of the Common Shares. The Fund s ability to make repurchases will also be subject to regulatory

requirements and to the Fund s ability to liquidate portfolio investments to raise cash for such repurchases. For the six-months ended April 30, 2018 and the fiscal year ended October 31, 2017, the Fund did not make any share repurchases.

Portfolio Holdings Disclosure

The Fund s complete schedule of portfolio holdings for the second and fourth quarters of each fiscal year are included in the Fund s semi-annual and annual report to shareholders. The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (the SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund s Form N-Q filings are available on the SEC s website at http://www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund makes the information on Form N-Q available to shareholders on the Fund s website or upon request and without charge by calling Investor Relations toll-free at 1-800-522-5465.

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve months ended June 30 is available by August 31 of the relevant year: (i) upon request without charge by calling Investor Relations toll-free at 1-800-522-5465; and (ii) on the SEC s website at http://www.sec.gov.

Unclaimed Share Accounts

Please be advised that abandoned or unclaimed property laws for certain states require financial organizations to transfer (escheat) unclaimed property (including Fund shares) to the state. Each state has its own definition of unclaimed property, and Fund shares could be considered unclaimed property due to account inactivity (e.g., no owner-generated activity for a certain period), returned mail (e.g., when mail sent to a shareholder is returned to the Fund s transfer agent as undeliverable), or a combination of both. If your Fund shares are categorized as unclaimed, your financial advisor or the Fund s transfer agent will follow the applicable state s statutory requirements to contact you, but if unsuccessful, laws may require that the shares be escheated to the appropriate state. If this happens, you will have to contact the state to recover your property, which may involve time and expense. For more information on unclaimed property and how to maintain an active account, please contact your financial adviser or the Fund s transfer agent.

Letter to Shareholders (unaudited) (concluded)

Investor Relations Information

As part of Aberdeen s commitment to shareholders, we invite you to visit the Fund on the web at www.aberdeenacp.com. Here, you can view monthly fact sheets, quarterly commentary, distribution and performance information, updated daily fact sheets courtesy of Morningstar®, portfolio charting and other Fund literature.

Enroll in our email services today and be among the first to receive the latest closed-end fund news, announcements, videos and information. In addition, you can receive electronic versions of important Fund documents including annual reports, semi-annual reports, prospectuses, and proxy statements. Sign up today at cef.aberdeen-asset.us/en/cefinvestorcenter/contact-us/email.

For your convenience, included within this report is a reply card with postage paid envelope. Please complete and mail the card if you would like to be added to our enhanced email service and receive future communications from Aberdeen.

Contact Us:

- Visit: cef.aberdeen-asset.us/;
- Watchcef.aberdeen-asset.us/en/cefinvestorcenter/aberdeen-closed-end-fund-tv;
- Email: InvestorRelations@aberdeenstandard.com; or
- Call: 1-800-522-5465 (toll free in the U.S.).

Yours sincerely,

Christian Pittard
President

All amounts are U.S. Dollars unless otherwise stated.

Report of the Investment Adviser (unaudited)

Market review

Global high-yield markets, as measured by the ICE Bank of America Merrill Lynch (BofA ML) Global High Yield Constrained Index[1], saw a modest decline of 0.21% for the six-month period ended April 30, 2018. During a period in which rising U.S. Treasury yields hampered returns, the relatively short average duration and higher yields of the asset class served to absorb much of the impact. The global high-yield market fared considerably better than the five-year Treasury[2] and U.S. investment-grade markets, which returned -2.29% and -2.34%, respectively, for the reporting period.

There were several major events which captured investors attention during the period. The U.S. Federal Reserve (Fed) increased its benchmark interest rate in both December 2017 and March 2018, and the consensus market opinion is that it remains on course for potentially two further hikes over the remainder of the 2018 calendar year. U.S. tax reform, which was supported by President Donald Trump and enacted by Congress in December 2017, was initially met with some euphoria in risk assets. However, as the pace of the sell-off in Treasuries accelerated, investors became concerned that the tax cuts could cause the economy to overheat, and towards the end of January 2018, U.S. equities declined and credit spreads widened.

U.S. economic data softened slightly during the first quarter of 2018, but remain at a level which we believe is supportive of credit markets. Furthermore, inflation remains subdued. In Europe, the European Central Bank (ECB) began to taper its monthly purchases of securities under its quantitative easing program. It is generally expected that the ECB s program will cease by the end of this year.

In February 2018, investors focused on President Trump s trade tariffs. The broad consensus in financial markets is that trade barriers ultimately tend to be a lose/lose situation, increasing costs for companies and consumers and resulting in unintended consequences. The tariffs were targeted mainly at China, which reacted with a series of its own tit for tat trade measures. However, the rhetoric seemed to calm relatively quickly. Investors attention turned to Russian sanctions that caused volatility in Russian debt issuers, as Specially Designated Nationals (SDNs) were put on a sanctions list, precluding

U.S. and, by extension, western companies, from conducting business with them. Russian aluminum producer Rusal (which the Fund does not hold) was particularly hard-hit by the sanctions.

Fund performance review

The Fund returned 4.70% on a net asset value basis for the six-month period ended April 30, 2018.

During the reporting period, the Fund maintained significant exposure to the energy sector. Consequently, many of these positions benefited from the tailwind of a rally in the West Texas Intermediate (WTI) oil price, which rose 26% over the period.

The main contributors to Fund performance for the reporting period included oil and gas exploration and production company EP Energy Corp., as its bonds rallied sharply due to an exchange offer on the bonds from the company and continued terming out[3] of front-end maturities. Additionally, market transactions in the company s acreage for oil and natural gas assets confirmed higher valuations and, therefore, improved recovery prospects for the bonds. The Fund s holding in Seadrill LP bolstered relative

performance as the offshore drilling services provider s term loan gained ground after the company reached a refinancing agreement with lenders. We reduced the Fund s position in Seadrill following the period of share-price strength. California Resources term loan and bonds continued to benefit from the company s improved results and maturity schedule after a November 2017 refinancing that boosted liquidity, saw covenants4 relaxed somewhat, and also extended the company s debt maturity profile. The bonds of luxury retailer Neiman Marcus rallied after the company posted better-than-expected results and following the appointment of a new CEO. Retailer JC Penney s bonds gained ground after garnering better-than-expected results during the holiday shopping season in December 2017. Frontier Communications Corp. s bonds performed well following the company s launch of a consent solicitation5 to amend covenants in its bonds and loans and to permit additional debt in the structure, thereby allowing the refinancing of shorter maturities. Retail pharmacy chain operator Rite Aid concluded the sale of its assets to competitor Walgreens and then announced the sale of the balance of the business to supermarket chain operator

1 The performance of the global high-yield market is measured by the ICE Bank of America Merrill Lynch (BofA ML) Global High Yield Constrained Index, which tracks the performance of U.S. dollar-, Canadian dollar-, euro- and sterling-denominated, below-investment grade corporate debt publicly issued in the major domestic or eurobond markets.

2 The performance of the five-year U.S. Treasury is measured by the ICE BofA ML U.S. Treasury 5 Year Current Index. The performance of the U.S. investment grade sector is represented by the ICE BofA ML U.S. Corporate Master Index, which tracks the performance of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market.

3 Term out is the transfer of debt within a company s balance sheet.

4 A bond covenant is a legally binding term of agreement between a bond issuer and a bondholder.

5 A consent solicitation is the process by which a security s issuer proposes changes to the material terms of the security agreement.

Report of the Investment Adviser (unaudited) (continued)

Albertsons. Staples Inc. s bonds rose after the office products retailer recorded positive quarterly results. Additionally, investors took a favorable view of the company s appointment of a new chief executive officer, J. Alexander Douglas, who formerly served as North American president for The Coca-Cola Company.

Finally, the Fund s holding in Valeant Pharmaceuticals International Inc. also bolstered performance as the company saw improved results, divestments and continued terming out of front-end maturities.

Conversely, the Fund s holding in Sable Permian weighed on performance for the quarter, as the oil and gas exploration and production company s poor drilling performance continued and a restructuring of its debt looms. Independent power producer Talen Energy s bonds lost ground after the private equity owner announced a large dividend. Bonds of packaging company Kloeckner and telecom operator Digicel Group declined after the companies reported weaker-than-expected results.

Aberdeen Asset Managers Limited and Aberdeen Asset Management Inc. assumed responsibility for the management of the Aberdeen Income Credit Strategies Fund as investment adviser and sub-adviser, respectively, on December 1, 2017. Portfolio activity was higher than it typically has been in the past as we took several actions in an effort to increase both the Fund s yield and total return.

We exited the Fund s 6% allocation to high-yield exchange-traded funds (ETFs) and reinvested the process of the sale and the Fund s initial 4% cash balance into the higher income-producing assets.

At the beginning of the reporting period, all of the Fund s credit holdings were U.S. dollar-denominated. At the end of the reporting period on April 30, 2018, the currency distribution for the Fund s credit holdings comprised 17% euro, 15% sterling and the balance of 68% in U.S. dollars.

Over the past six months, the continued interest-rate hikes from the Fed have led to a significant decrease in the costs of hedging[6] non-U.S. dollar exposures. We have continued to take advantage of this phenomenon for two principal reasons. First, we expect the differential between U.S. and European interest rates to continue to grow as the Fed seeks to normalize interest rates, while we think that the European

Central Bank (ECB) is likely to be on hold for at least another year. Secondly, we believe that European credit swapped into dollars offers an attractive source of income and diversification for the Fund.

On December 31, 2017, the weighted average cash price[7] of the Fund s assets was 93.4. At the end of the reporting period on April 30, 2018, the weighted average cash price was slightly higher at 95.7.

Outlook

The average spread on the ICE BofA ML U.S. High Yield Master II Index[8] ended the period at 346 bps, which is just 20 bps wider than the post-global financial crisis lows reached in January this year. As of the end of the reporting period on April 30, 2018, credit spreads had absorbed more than one-third of the rise in Treasury yields since September 2017. We do not believe that credit spreads have the capacity to continue to absorb further interest-rate hikes from the Federal Reserve and expect the correlation between Treasuries and spreads to increase from here. Current credit spread levels reflect low default rates, which are generally expected to continue, supported by decent economic growth and subdued inflation. Should higher inflation expectations force the Fed to move more aggressively than the market currently anticipates, this could pressure equities and, to some extent, high-yield securities. The credit cycle is mature and, while the individual and corporate tax cuts implemented in early 2018 may provide a small boost to U.S. gross domestic product, we believe that this may be offset by Fed interest-rate hikes. The current consensus market opinion suggests that the tax cuts favor higher-rated (i.e., less indebted) companies and impose a negative impact on the lower-rated part of high-yield markets. However, each company will have its own reaction function[9] and the extent to which they may have tax losses, accelerated depreciation of assets or other mitigating actions will not become apparent for some time. While valuations in the global high-yield market appear to be full, we believe that they reflect a strong environment for credit.

All indices are hedged to U.S. dollars.

Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

6 Hedging reduces the risk of an investment, or protects an existing position, by using derivative investments to cover adverse market movements.

7 A fund s weighted average cash price is calculated by weighting the price of each bond by its relative size in the portfolio. The statistic is used to determine whether the fund favors bonds selling at prices above or below face value (at a premium or discount).

8 The ICE BofA ML U.S. High Yield Master II Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market.

9 The reaction function indicates the relationship between the output of one firm versus that of a competitor.

Report of the Investment Adviser (unaudited) (concluded)

Loan Facility and the Use of Leverage

During the period, the Fund s use of leverage increased from 29.4% to 29.5% as a percentage of managed assets and the leverage amount of $83,000,000 remained unchanged during the period. The Fund utilizes leverage to seek to increase the yield for its shareholders. The amounts borrowed from the Fund s loan facility may be invested to seek to return higher rates than the rates in the Fund s portfolio. However, the cost of leverage could exceed the income earned by the Fund on the proceeds of such leverage. To the extent that the Fund is unable to invest the proceeds from the use of leverage in assets which pay interest at a rate which exceeds the rate paid on the leverage, the yield on the Fund s common stock will decrease. In addition, in the event of a general market decline in the value of assets in which the Fund invests, the effect of that decline will be magnified in the Fund because of the additional assets purchased with the proceeds of the leverage. Non-recurring expenses in connection with the implementation of the loan facility will reduce the Fund s performance.

The Fund s leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The funds borrowed pursuant to the loan facility may constitute a substantial lien and burden by reason of their prior claim against the income of the Fund and against the net assets of the Fund in liquidation. The Fund is not permitted to declare dividends or other distributions in the event of default under the loan

facility. In the event of default under the loan facility, the lender has the right to cause a liquidation of the collateral (i.e., sell portfolio securities and other assets of the Fund) and, if any such default is not cured, the lender may be able to control the liquidation as well. The loan facility has a term of one year and is not a perpetual form of leverage; there can be no assurance that the loan facility will be available for renewal on acceptable terms, if at all.

The credit agreement governing the loan facility includes usual and customary covenants for this type of transaction. These covenants impose on the Fund asset coverage requirements, Fund composition requirements and limits on certain investments, such as illiquid investments, which are more stringent than those imposed on the Fund by the Investment Company Act of 1940. The covenants or guidelines could impede the Investment Adviser or Sub-Adviser from fully managing the Fund s portfolio in accordance with the Fund s investment objective and policies. Furthermore, non-compliance with such covenants or the occurrence of other events could lead to the cancellation of the loan facility. The covenants also include a requirement that the Fund maintain net assets of no less than $67,501,648.

Prices and availability of leverage are volatile in the current market environment. The Board regularly reviews the use of leverage by the Fund and may explore other forms of leverage.

Aberdeen Asset Managers Limited

Total Investment Return (unaudited)

The following table summarizes the average annual Fund performance for the six-month, 1-year, 3-year, 5-year and since inception periods as of April 30, 2018.

	6 Months	1 Year	3 Years	5 Years	Since Inception (January 27, 2011)
Net Asset Value (NAV)	4.7%	9.2%	8.2%	5.6%	6.8%
Market Value	0.1%	8.8%	7.7%	5.0%	4.9%

The performance above reflects fee waivers and/or expense reimbursements made by the Funds current and/or former investment adviser. Absent such waivers and/or reimbursements, the Fund s returns would be lower. See Note 3 in the Notes to Financial Statements.

Returns represent past performance. Total investment return at NAV is based on changes in the NAV of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program. All return data at NAV includes fees charged to the Fund, which are listed in the Fund s Statement of Operations under Expenses . The Fund s total return is based on the reported NAV on each financial reporting period end. Total investment return at market value is based on changes in the market price at which the Fund s shares traded on the NYSE during the period and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program sponsored by the Fund s transfer agent. Because the Fund s shares trade in the stock market based on investor demand, the Fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on both market price and NAV. ***Past performance is no guarantee of future results.*** *The performance information provided does not reflect the deduction of taxes that a shareholder would pay on distributions received from the Fund. The current performance of the Fund may be lower or higher than the figures shown. The Fund s yield, return, market price and NAV will fluctuate. Performance information current to the most recent month-end is available at www.aberdeenacp.com or by calling 800-522-5465.*

The total annualized operating expense ratio, excluding fee waivers, based on the six-month period ended April 30, 2018 was 3.45%. The total annualized operating expense ratio, net of fee waivers, based on the six-month period ended April 30, 2018 was 3.36%. The annualized net operating expense ratio, excluding interest expense, commitment fee and loan servicing fees and net of fee waivers, based on the six-month period ended April 30, 2018 was 2.29%

Portfolio Composition (unaudited)

Quality of Investments(1)

The Fund did not hold any securities that were rated between AAA/Aaa and BBB/Baa as of the reporting period. The table below shows the asset quality of the Fund s portfolio as of April 30, 2018:

Date	BB/Ba** %	B** %	CCC** %	CC** %	D** %	NR*** %
April 30, 2018*	0	37	52	6	0	5

* Unaudited

** Below investment grade

*** Not Rated

(1) For financial reporting purposes, credit quality ratings shown above reflect the lowest rating assigned by either Standard & Poor s or Moody s, if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated NR are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change. The Investment Manager evaluates the credit quality of unrated investments based upon, but not limited to, credit ratings for similar investments.

Geographic Composition

The table below shows the geographical composition (with U.S. Dollar-denominated bonds issued by foreign issuers allocated into country of issuance) of the Fund s total investments as of April 30, 2018:

Date	United Kingdom %	United States %	Europe %	Asia %	Africa %	Caribbean %	In Latin America, tractor industry volumes have generally been increasing since the last trough in 1996. The industry increased approximately 11% in 2004. Combine industry unit volumes also have increased since 1995 and volumes in 2004 were at the highest levels in ten years.

In markets in Rest of World, tractor volumes peaked in 2000, declined sharply in 2001, but have since rebounded to new highs in 2004. Combine industry volumes have generally been increasing since 1991, from a low of less than 2,000 units, to a high in 2004 of approximately 9,800 units.

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In total, worldwide demand for agricultural tractors has been on an increasing trend since 1992. Volumes reached an intermediate peak in 2000 but declined in 2001. Since that time, tractor industry volumes have continued to increase, ending 2004 at levels approximately 25% higher than in 2000. Worldwide combine industry sales have generally increased since 1992, peaking in 1998. Since that time, industry sales have been cyclical, with their most recent high in 2004. Industry sales in North America and Western Europe have generally been declining while sales in Latin America and Rest of World markets have been increasing.

The construction equipment business in North America generally increased from 1992 through the late 1990 s. Industry sales of heavy equipment peaked in 1998 and sales of light equipment peaked in 2000. Industry sales of both product segments have, in general, declined in 2001 and 2002 but increased in 2003 and again in 2004 to levels approximately 10% higher than in 2000 on a combined basis. In Western Europe, industry sales of both heavy and light equipment increased from the trough of 1993 until 2000. Industry sales for heavy and light equipment declined through 2002 but have rebounded with an increase in 2004 of approximately 27% over 2003 levels and to approximately the same level as the last peak in 2000. The construction equipment markets in Latin America are very small compared with those in North America and Western Europe. Rest of World markets, and in particular the Asia-Pacific Rim markets are similar in size to the Western European or North American markets, but we do not have a significant direct presence in those markets.

In the past, we have recorded a charge to reduce the carrying value of goodwill attributed to our Construction Equipment reporting unit. This charge primarily reflected the decline in the construction equipment market that we and our competitors experienced in 2000 and 2001. We cannot assure you that further decreases in demand will not result in additional goodwill impairment charges by our various reporting units in the future. In making our determination concerning the recoverability of our deferred tax assets, we must take into account our expectations of sufficient future taxable income in certain jurisdictions. Future decreases in demand could result in a change in our expectations and result in an impairment charge to our deferred tax assets.

A decrease in industry-wide demand for agricultural and construction equipment could result in lower sales of our equipment and hinder our ability to operate profitably.

An oversupply of used and rental equipment may adversely affect our sales and results of operations.

In recent years, short-term lease programs and commercial rental agencies for agricultural and construction equipment have expanded significantly in North America. In addition, larger rental companies have become sizeable purchasers of new equipment and can have a significant impact on total industry sales, prices and terms.

When this equipment comes off lease or is replaced with newer equipment by rental agencies, there may be a significant increase in the availability of late-model used equipment which could adversely impact used equipment prices. If used equipment prices decline significantly, sales of new equipment could be depressed. As a result, an oversupply of used equipment could adversely affect demand for, or the market prices of, our new and used equipment. In addition, a decline in used equipment prices could have an adverse effect on residual values for leased equipment, which could adversely affect our results of operations and financial position.

The agricultural equipment industry is highly seasonal, and seasonal fluctuations may cause our results of operations and working capital to fluctuate significantly from quarter to quarter.

The agricultural equipment business is highly seasonal, because farmers traditionally purchase agricultural equipment in the spring and fall in connection with the main planting and harvesting seasons. Our net sales and income from operations have historically been the highest in the second quarter reflecting the spring selling season in the Northern Hemisphere and lowest in the third quarter when many of our production facilities experience summer shut down periods, especially in Europe. Seasonal conditions also affect our construction equipment business, but to a lesser extent.

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Our production levels are based upon estimated retail demand. These estimates take into account the timing of dealer shipments, which occur in advance of retail demand, dealer inventory levels, the need to retool manufacturing facilities to produce new or different models and the efficient use of manpower and facilities. We adjust our production levels to reflect changes in estimated demand, dealer inventory levels, labor disruptions and other matters within our control. However, because we spread our production and wholesale shipments throughout the year to take into account the factors described above, wholesale sales of agricultural equipment products in any given period may not reflect the timing of dealer orders and retail demand.

Estimated retail demand may exceed or be exceeded by actual production capacity in any given calendar quarter because we spread the production throughout the year. If retail demand is expected to exceed production capacity for a quarter, then we may schedule higher production in anticipation of the expected retail demand. Often we anticipate that spring selling season demand may exceed production capacity in that period and schedule higher production, company and dealer inventories and wholesale shipments to dealers in the first quarter of the year. Thus our working capital and dealer inventories are generally at their highest levels during the February to May period, and decline to the end of the year as both company and dealers inventories are reduced.

As economic, geopolitical, weather and other conditions may change during the year and as actual industry demand might differ from expectations, we cannot assure you that sudden or significant declines in industry demand would not adversely affect our working capital and debt levels, financial position or results of operations.

We are subject to extensive environmental laws and regulations, and our costs related to compliance with, or our failure to comply with, existing or future laws and regulations could adversely affect our business, financial position and results of operations.

Our operations and products are subject to increasingly stringent environmental laws and regulations in the countries in which we operate. Such laws and regulations govern, among other things, emissions into the air, discharges into water, the use, handling and disposal of hazardous substances, waste disposal and the remediation of soil and groundwater contamination. We regularly expend significant resources to comply with regulations concerning the emissions levels of our manufacturing facilities and the emissions levels of our manufactured equipment. In addition, we are currently conducting environmental investigations or remedial activities involving soil and groundwater contamination at a number of properties. Our management estimates and maintains a reserve for potential environmental liabilities for remediation, closure and related costs, and other claims and contingent liabilities and establishes reserves to address these potential liabilities. Although we believe our reserves are adequate based on existing information, we cannot guarantee that our ultimate liability will not exceed our reserves. We expect to make environmental and related capital expenditures in connection with reducing the emissions of our existing facilities and our manufactured equipment in the future, depending on the levels and timing of new standards. Our costs of complying with existing or future environmental laws and regulations may be significant. In addition, if we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions.

Delinquencies and collateral recovery rates experienced by Financial Services can be adversely impacted by a variety of factors, many of which are outside our control.

An increase in delinquencies or a reduction in collateral recovery rates could have an adverse impact on the performance of Financial Services. Delinquencies on loans held in our loan portfolio and our ability to recover collateral and mitigate loan losses can be adversely impacted by a variety of factors, many of which are outside our control. When loans become delinquent and Financial Services forecloses on a loan, its ability to sell collateral to recover or mitigate losses is subject to the market value of such collateral. Those values may be affected by levels of new and used inventory of agricultural and construction equipment on the market, a factor over which we have little control. It is also dependent upon the strength or weakness of market demand for new and used agricultural and construction equipment, which is tied to economic factors in the general economy. In addition, repossessed collateral may be in poor condition, which would reduce its value. Finally,

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relative pricing of used equipment, compared with new equipment, can affect levels of market demand and the resale volume of the repossessed equipment. An industry wide decrease in demand for agricultural and construction equipment could result in lower resale values for repossessed equipment which could increase levels of losses on loans and leases.

An economic downturn may lead to a deterioration in our asset quality and adversely affect the earnings and cash flow of Financial Services.

The risks associated with our finance business become more acute in any economic slowdown or recession. Periods of economic slowdown or recession may be accompanied by decreased demand for credit and declining asset values. Delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions. In addition, in an economic slowdown or recession, our servicing and litigation costs increase. Any sustained period of increased delinquencies, foreclosures, losses or increased costs could adversely affect our financial condition and results of operations.

Risks Related to Our Indebtedness

Our indebtedness could adversely affect our financial condition.

As of December 31, 2004, we had an aggregate of $7.0 billion of outstanding total consolidated indebtedness, and our shareholders equity was $5.0 billion. In addition, we are heavily dependent on ABS transactions, both term and asset-backed commercial paper (ABCP), for a total of $6.5 billion as of December 31, 2004. These transactions fund our Financial Services activities in North America and Australia, and we have also begun to extend our ABS activity to include ABCP transactions that provide funding for receivables generated by our Equipment Operations subsidiaries in Europe.

Our level of debt could have important consequences to our investors, including:

- we may not be able to secure additional funds for working capital, capital expenditures, debt service requirements or general corporate purposes;

- we will need to use a substantial portion of our projected future cash flow from operations to pay principal and interest on our debt, which will reduce the amount of funds available to us for other purposes;

- we may be more highly leveraged than some of our primary competitors, which could put us at a competitive disadvantage;

- we may not be able to adjust rapidly to changing market conditions, which may make us more vulnerable in the event of a downturn in general economic conditions or our business;

- we may not be able to access the ABS markets on as favorable terms, which may adversely affect our ability to fund our Financial Services business and have an unfavorable impact on our results of operations; and

- we may not be able to access Brazilian government-sponsored subsidized funding schemes for our retail Financial Services customers in that country, which may adversely affect our ability to fund our Financial Services business and have an unfavorable impact on our results of operations.

Servicing our debt obligations requires a significant amount of cash, and our ability to generate cash depends on many factors that may be beyond our control.

Our ability to satisfy our debt service obligations will depend, among other things, upon our future operating performance and our ability to refinance indebtedness when necessary. Each of these factors partially depends on economic, financial, competitive and other factors beyond our control. If, in the future, we cannot generate sufficient cash from our operations to meet our debt service obligations, we may need to reduce or delay capital expenditures or curtail anticipated operating improvements. In addition, we may need

to refinance our debt, obtain additional financing or sell assets, which we may not be able to do on commercially reasonable terms, if at all. Our business may not generate sufficient cash flow to satisfy our debt service obligations, and we may not be able to obtain funding sufficient to do so. In addition, any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The failure to generate sufficient funds to pay our debts or to successfully undertake any of these actions could, among other things, materially adversely affect our business.

Restrictive covenants in our debt instruments could limit our financial and operating flexibility and subject us to other risks.

The indentures governing the Case New Holland, Inc. 9 1/4% Senior Notes due 2011 (the 9/4% Senior Notes) and Case New Holland, Inc. 6% Senior Notes due 2009 (the 6% Senior Notes), include certain covenants that restrict the ability of us and our subsidiaries to, among other things:

incur additional debt;

pay dividends on our capital stock or repurchase our capital stock;

make certain investments;

enter into certain types of transactions with affiliates;

restrict dividend or other payments by our restricted subsidiaries to us;

use assets as security in other transactions;

enter into sale and leaseback transactions; and

sell certain assets or merge with or into other companies.

In addition, certain agreements governing our subsidiaries indebtedness contain covenants limiting their incurrence of secured debt or debt that is structurally senior debt to the 9 1/4% Senior Notes or the 6% Senior Notes. The agreements governing our other indebtedness include certain covenants that restrict, among other things:

sales and leaseback of assets above certain levels of tangible assets;

the creation of certain liens; and

consolidations, mergers and transfers of all or substantially all of our assets.

These restrictions may limit our ability to operate our businesses and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. The breach of any of these covenants by us or the failure by us to meet any of these conditions could result in a default under any or all of such indebtedness. As of December 31, 2004, we are in compliance with the covenants and restrictions contained in our debt agreements. However, our ability to continue to comply with such agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. In addition, upon the occurrence of an event of default under our debt agreements, all of the amounts outstanding thereunder, together with accrued interest, could become immediately due and payable. In addition, these restrictions may limit our ability to take full advantage of the treasury and debt financing arrangements that Fiat has committed to provide to us for so long as it controls us.

Credit downgrades of us and Fiat have affected our ability to borrow funds and may continue to do so.

Our ability to borrow funds and our cost of funding depend on our and Fiat s credit ratings, as Fiat currently provides us with direct funding, as well as guarantees in connection with some of our external financing arrangements.

Beginning in the fourth quarter of 2000, Case, CNH Capital America LLC (formerly known as Case Credit Corporation) and New Holland Credit Company, LLC (NHCC) suffered a series of credit rating

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downgrades, which resulted in all three companies being rated below investment grade. The immediate impact of these ratings downgrades was to preclude us from accessing the commercial paper market through the NHCC, CNH Capital America LLC and Case programs. On a longer-term basis, as we have renewed a number of borrowing facilities since these ratings downgrades, we have found that the terms offered to us have been adversely impacted.

In February 2004, Moody s reaffirmed their Ba3 rating of Fiat s long-term unsecured debt, with a negative outlook.

On August 9, 2004 Standard & Poor s (S&P) reaffirmed its BB- rating on CNH but revised its outlook to negative from stable, following the same outlook action taken on Fiat, citing concerns regarding the turnaround of Fiat s automotive business and due to the still close ties between the two entities.

At December 31, 2004 and as of the date of this report, our long-term unsecured debt was rated BB- by S&P and Ba3 by Moody s, with negative outlook. In addition, our long-term unsecured debt was rated BB (high) by Dominion Bond Ratings Service. Fiat s long-term unsecured debt was rated on par with ours, by both Moody s and S&P.

We cannot assure you that the rating agencies will not further downgrade our or Fiat s credit ratings. These downgrades have already affected our borrowing costs and the terms of our borrowings entered into subsequent to the ratings downgrades, and further downgrades of either our or Fiat s debt could adversely affect our ability to access the capital markets, the cost of certain existing asset-backed commercial paper facilities and the cost of any future borrowing. Further ratings downgrades of either our or Fiat s debt could adversely affect our ability to access the capital markets or borrow funds at current rates and therefore could put us at a competitive disadvantage.

The performance of our Financial Services business is dependent on access to funding at competitive rates; we depend upon securitization programs to fund our Financial Services business.

Access to funding at competitive rates is key to the growth of our Financial Services business and expansion of our financing activities into new product and geographic markets. Further ratings downgrades of either our or Fiat s debt could adversely affect the ability of Financial Services to continue to offer attractive financing to our dealers and end-user customers. The most significant source of liquidity for our finance operations has been our ability to finance the receivables we originate through loan securitizations. Accordingly, adverse changes in the securitization market could impair our ability to originate, purchase and sell loans or other assets on a favorable or timely basis. Any such impairment could have a material adverse effect upon our business and results of operations. The securitization market is sensitive to the performance of our portfolio in connection with our securitization program. A negative trend in the collateral performance of CNH could have a material adverse effect on our ability to access capital through the securitization market. In addition, the levels of asset collateralization and fees that we pay in connection with these programs are subject to increase as a result of further ratings downgrades and may have a material impact on results of operations and financial position of Financial Services. On a global level, we will continue to evaluate financing alternatives to ensure that our Financial Services business continues to have access to capital on favorable terms in support of our business, including, without limitation, through equity investments by global or regional partners in joint venture or partnership opportunities, new funding arrangements or a combination of any of the foregoing.

In the event that we were to consummate any of the above-described alternatives relating to our Financial Services business, it is possible that there would be a material impact on the results of operations, financial position, liquidity and capital resources of Financial Services.

At December 31, 2004, we had $1.7 billion of committed capacity under our asset-backed commercial paper liquidity facilities to fund our finance operations, subject to certain conditions. At December 31, 2004, we had borrowed approximately $450 million under these agreements, leaving approximately $1.25 billion available to borrow. Excluding our asset-backed commercial paper liquidity facilities, we had total credit

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facilities of approximately $5.3 billion with approximately $2.8 billion of remaining availability at December 31, 2004, subject to certain conditions.

Although we expect to be able to obtain replacement financing when our current securitization facilities expire, there can be no assurance that financing will be obtainable on favorable terms, if at all. To the extent that we are unable to arrange any third party or other financing, our loan origination activities would be adversely affected, which could have a material adverse effect on our operations, financial results and cash position.

The performance of our Financial Services business may be subject to volatility due to possible impairment charges relating to the valuation of interest-only securities.

We hold substantial residual interests in securitization transactions, which we refer to collectively as retained interests. We carry these securities at estimated fair value, which we determine by discounting the projected cash flows over the expected life of the receivables sold using prepayment, default, loss and interest rate assumptions.

We are required to recognize declines in the value of our retained interests, and resulting charges to earnings, when: (i) their fair value is less than their carrying value, and (ii) the timing and/or amount of cash expected to be received from these securities has changed adversely from the previous valuation that determined the carrying value. The assumptions we use to determine fair values are based on our internal evaluations and consultation with external advisors having significant experience in valuing these securities. Although we believe our methodology is reasonable, many of the assumptions and expectations underlying our determinations may vary from expectations, in which case there may be an adverse effect on our financial results. Largely as a result of adverse changes in the underlying assumptions, we recognized impairment charges of $7 million in 2004, $12 million in 2003, and $24 million in 2002 to reduce the book value of our retained interests. At December 31, 2004, the carrying value of our retained interests, net of servicing liabilities, was $1.4 billion (including unrealized gains of $29 million). No assurances can be given that our current valuation of retained interests will prove accurate in future periods.

Risks Related to Our Relationship with Fiat

Fiat owns a significant majority of our capital stock and controls the outcome of any shareholder vote, and its interests may conflict with those of the other holders of our debt and equity securities.

As of December 31, 2004, Fiat owns, indirectly through Fiat Netherlands, approximately 84% of our outstanding common shares and a total of 8 million shares of Series A Preferred Stock. In total, Fiat voting power approximates 85% of our outstanding capital stock. If the Series A Preferred Stock were converted to common stock as of December 31, 2004, Fiat s ownership of our common stock would rise to approximately 91%. For at least as long as Fiat continues to own shares representing more than 50% of the combined voting power of our capital stock, it will be able to direct the election of all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our shareholders, including matters involving:

- mergers or other business combinations;
- the acquisition or disposition of assets;
- the incurrence of indebtedness; and
- the payment of dividends on our shares.

Circumstances may occur in which the interests of Fiat could be in conflict with the interests of our other debt and equity security holders. In addition, Fiat may pursue certain transactions that in its view will enhance its equity investment, even though such transactions may not be in the interest of our other debt and equity security holders.

Fiat s ownership of our capital stock may create conflicts of interest between Fiat and CNH.

We rely on Fiat to provide us with financial support, and we purchase goods and services from Fiat and other subsidiaries of Fiat (the Fiat Group). Fiat owns a substantial majority of our capital stock and is able to direct the election of all of the members of our board of directors. We currently have five independent directors out of a total of nine directors. Nevertheless, Fiat s ownership of our capital stock and ability to direct the election of our directors could create, or appear to create, potential conflicts of interest when Fiat is faced with decisions that could have different implications for Fiat and us.

We are exposed to Fiat credit risk due to our participation in the Fiat affiliates cash management pools.

Like other companies that are part of multinational groups, we participate in a group-wide cash management system with the Fiat Group. Under this system, which is operated by Fiat in a number of jurisdictions, the cash balances of Fiat Group members, including us, are aggregated at the end of each business day in central pooling accounts, the Fiat affiliates cash management pools (Deposits with Fiat). As well as being invested by Fiat in highly rated, highly liquid money market instruments or bank deposits, our positive cash deposits, if any, at the end of any given business day may be applied by Fiat to offset negative balances of other Fiat Group members and vice versa. Alternatively, in certain other jurisdictions where cash deposits are not aggregated daily, third-party lenders to other participating Fiat Group members may be entitled to rights to set off against Fiat Group member funds present in the cash management pools or may benefit from guarantees of payment by certain Fiat Group members.

As a result of our participation in the Fiat affiliates cash management pools, we are exposed to Fiat Group credit risk to the extent that Fiat is unable to return our funds. In the event of a bankruptcy or insolvency of Fiat (or any other Fiat Group member in the jurisdictions with set off agreements) or in the event of a bankruptcy or insolvency of the Fiat entity in whose name the deposit is pooled, we may be unable to secure the return of such funds to the extent they belong to us, and we may be viewed as a creditor of such Fiat entity with respect to such deposits. Because of the affiliated nature of CNH s relationship with the Fiat Group, it is possible that CNH s claims as a creditor could be subordinate to the rights of third party creditors in certain situations.

At December 31, 2004, CNH had approximately $1.2 billion deposited in the Fiat affiliates cash management pools. Of the total amount deposited with Fiat as of December 31, 2004, the principal components included $472 million deposited by our U.S. subsidiaries with a Fiat treasury vehicle in the United States, $418 million deposited by certain of our European subsidiaries with a vehicle managing cash in most of Europe excluding Italy, and $187 million deposited by one of our Italian subsidiaries with a vehicle managing cash in Italy. While, with the primary exception of the United States, where our deposits exceeded our indebtedness to the local Fiat treasury vehicle by $325 million as of December 31, 2004, our debt exposure towards each of these vehicles usually is higher than the amounts deposited with them, we may not, in the event of a bankruptcy or insolvency of these Fiat entities, be able to offset our debt against our deposit with each vehicle. However, our indebtedness to Fiat entities has been reduced in recent years, and most of our outstanding indebtedness to Fiat entities matures in 2005 and 2006. Approximately $1.1 billion of long-term debt to Fiat entities matures in 2006. An additional $672 million of short-term debt is due to Fiat entities, mainly drawn under a $1 billion revolving credit line which is scheduled to mature on October 1, 2005, but may be renewed or replaced by a new Fiat related facility.

We cannot assure you that in the future the operation of the cash management pools may not adversely impact our ability to recover our deposits to the extent one or more of the above-described events were to occur, and if we are not able to recover our deposits, our financial condition and results of operations may be materially and adversely impacted depending upon the amount of cash deposited with the Fiat Group at the date of any such event.

In the event that Fiat is unable to continue to finance our operations or provide us with financial products and services, our costs could increase, which would adversely affect our financial position and results of operations.

We currently rely on Fiat to provide either guarantees or funding in connection with some of our external financing needs, including certain short-term credit facilities. At December 31, 2004, we had total credit facilities with Fiat affiliates or guaranteed by Fiat affiliates of approximately $4.3 billion with outstanding borrowings of approximately $1.6 billion. These facilities include a $1.8 billion unutilized allocation to CNH under a $2 billion committed backup credit line guaranteed by Fiat maturing in July 2005. We have no assurance that Fiat will obtain a new credit line to replace the $2 billion line at its maturity, that the terms of such new credit line will be as favorable as those currently available, and that we shall obtain an allocation equivalent in amount to the allocation currently available to us. Fiat has agreed to maintain its existing treasury and debt financing arrangements with us for as long as it maintains control of us. After that time, Fiat has committed that it will not terminate our access to these financing arrangements without affording us an appropriate time period to develop suitable substitutes. The terms of any alternative sources of financing may not be as favorable as those provided or facilitated by Fiat. To the extent our financing sources view providing credit to us as part of their overall financings with the Fiat Group, the timing and overall availability of our funding independent of Fiat may be adversely impacted. We also rely on Fiat to provide us with some other financial products to hedge our foreign exchange and interest rate risk, cash management services and other accounting and administrative services. The terms of any alternative sources of these products or services may not be as favorable as those provided or facilitated by Fiat.

Item 4. Information on the Company

A. *History and Development of the Company.*

CNH Global N.V. is a corporation organized under the laws of the Kingdom of The Netherlands, with a registered office in the World Trade Center, Amsterdam Airport, Tower B, 10th Floor, Schiphol Boulevard 217, 1118 BH Amsterdam, The Netherlands (telephone number: +(31)-20-46-0429). It was incorporated on August 30, 1996. CNH s agent for U.S. federal securities law purposes is Mr. Roberto Miotto, 100 South Saunders Road, Lake Forest, Illinois 60045 (telephone number: +(1)-847-955-3910).

B. *Business Overview.*

General

We are a global, full-line company in both the agricultural and construction equipment industries, with strong and usually leading positions in most significant geographic and product categories in both agricultural and construction equipment. Our global scope and scale includes integrated engineering, manufacturing, marketing and distribution of equipment on five continents. We organize our operations into three business segments: agricultural equipment, construction equipment and financial services. We believe that we are, based on units sold, one of the largest manufacturers of agricultural equipment and one of the largest manufacturers of construction equipment in the world. We believe we have one of the industry s largest equipment finance operations.

We market our products globally through our two highly recognized brand families, Case and New Holland. The Case agricultural brand family includes the Case IH and Steyr brand names, while the Case construction equipment brand family is represented by the Case brand name. The New Holland agricultural brand family is represented by the New Holland name, and the New Holland construction equipment brand family includes the New Holland and Kobelco brand names. We manufacture our products in 39 facilities throughout the world and distribute our products in approximately 160 countries through an extensive network of approximately 11,400 dealers and distributors.

In agricultural equipment, we believe we are one of the leading global manufacturers of agricultural tractors and combines based on units sold, and we have leading positions in hay and forage equipment and specialty harvesting equipment. In construction equipment, we have leading positions in backhoe loaders, in

skid steer loaders in North America and a leading position in crawler excavators in Western Europe. In addition, we provide a complete range of replacement parts and services to support our equipment. For the year ended December 31, 2004, our sales of agricultural equipment represented approximately 66% of our net revenues, sales of construction equipment represented approximately 29% of our net revenues and Financial Services represented approximately 5% of our net revenues.

We believe that we are the most geographically diversified manufacturer and distributor of agricultural equipment in the industry. For the year ended December 31, 2004, approximately 42% of our net sales of agricultural equipment were generated from sales in North America, approximately 34% in Western Europe, approximately 9% in Latin America and approximately 15% in the Rest of World. For the same period, approximately 52% of our net sales of construction equipment were generated in North America, approximately 33% in Western Europe, approximately 6% in Latin America and approximately 9% in the Rest of World. Our broad manufacturing base includes facilities in Europe, Latin America, North America, China, India and Uzbekistan.

We offer a range of Financial Services products, including retail financing for the purchase or lease of new and used CNH equipment. To facilitate the sale of our products, we offer wholesale financing to our dealers. Wholesale financing consists primarily of floor plan financing and allows dealers to maintain a representative inventory of products. Our retail financing alternatives are intended to be competitive with financing available from third parties. We also offer retail financing in Brazil and Australia through wholly-owned subsidiaries and in Western Europe through our joint venture with BNP Paribas Lease Group (BPLG). We believe that these activities are a core component of our business. As of December 31, 2004, Financial Services managed a portfolio of receivables, both on- and off-book, of approximately $13.3 billion.

Industry Overview

Agricultural Equipment

The operators of food, livestock and grain producing farms, as well as independent contractors that provide services to such farms, purchase most agricultural equipment. The key factors influencing sales of agricultural equipment are the level of total farm cash receipts and, to a lesser extent, general economic conditions, interest rates and the availability of financing. Farm cash receipts are primarily impacted by the volume of acreage planted, commodity and/or livestock prices, crop yields, farm operating expenses, including fuel and fertilizer costs, fluctuations in currency exchange rates, and government subsidies or payments. Farmers tend to postpone the purchase of equipment when the farm economy is depressed and to increase their purchases when economic conditions improve. Weather conditions are a major determinant of crop yields and therefore also affect equipment buying decisions. In addition, the geographical variations in weather from season to season may result in one market contracting while another market is experiencing growth. Government policies affect the market for our agricultural equipment by regulating the levels of acreage planted and with direct subsidies affecting specific commodity prices.

Demand for agricultural equipment also varies seasonally by region and product, primarily due to differing climates and farming calendars. Peak retail demand for tractors and tillage machines occurs in the March through June months in the Northern Hemisphere and in the September through November months in the Southern Hemisphere. Equipment dealers generally order harvesting equipment in the Northern Hemisphere in the fall and winter so they can receive inventory during the winter and spring prior to the peak retail selling season, which extends from March through June. Similarly, in the Southern Hemisphere, equipment dealers generally order between September and November for the primary retail selling season, which extends from November through February. For combine harvesters and hay and forage equipment, the retail selling season is concentrated in the few months around harvest time. Furthermore, manufacturers may choose to space their production and dealer shipments throughout the year so that wholesale sales of these products in a particular period are not necessarily indicative of retail demand.

Customer preferences regarding product types and features vary by region. In North America, Europe, Australia and other areas where soil conditions, climate, economic factors and population density allow for

intensive mechanized agriculture, farmers demand high capacity, sophisticated machines equipped with current technology. In Europe, where farms are generally smaller than those in North America and Australia, there is greater demand for somewhat smaller, yet sophisticated, machines. In the developing regions of the world where labor is abundant and infrastructure, soil conditions and/or climate are not adequate for intensive agriculture, customers prefer simple, robust and durable machines with lower purchase and operating costs. In many developing countries, tractors are the primary, if not the sole, type of agricultural equipment used, and much of the agricultural work in such countries that cannot be performed by tractor is carried out by hand. A growing number of part-time farmers, hobby farmers and customers engaged in landscaping, municipality and park maintenance, golf course and roadside mowing in Western Europe and North America also prefer simple, low-cost agricultural equipment. Our position as a geographically diversified manufacturer of agricultural equipment and our broad geographic network of dealers allow us to supply customers in each significant market in accordance with their specific equipment requirements.

Government subsidies are a key income driver for farmers raising certain commodities in the United States and Western Europe. The level of support can range from 30% to over 50% of the annual income for these farms in years of low global commodity prices or natural disasters. The existence of a high level of subsidies in these markets for agricultural equipment reduces the effects of cyclicality in the agricultural equipment business. The ability to forecast the effect of these subsidies on agricultural equipment demand depends on the U.S. Farm Bill (typically revised every five years), the CAP of the European Union (typically revised every seven years) and WTO negotiations. On May 13, 2002, President Bush signed into law the Farm Security and Rural Investment Act of 2002. This law increases subsidies to the U.S. farming industry by $31 billion over six years. Additionally, Brazil subsidizes the financing of agricultural equipment for various periods of time, as determined by government legislation. These programs can greatly influence sales in the region. The USDA administers agriculture programs for the government. The budget of the USDA for 2006 has been proposed by President Bush. The overall budget amount approximates the amounts in the 2005 USDA budget. However, certain reforms are proposed that would reduce the amount of payments to individual farmers. We cannot predict the outcome of the proposals relating to the 2006 USDA budget. To the extent the final budget adversely impacts farm income, we could experience a decline in sales.

The CAP of the European Union was last revised in 2000 and typically is revised approximately every seven years, depending on the timing of changes to U.S. farm policy and negotiations conducted by the WTO or other significant, relevant changes. The CAP revision of 2000 brought no dramatic lowering of subsidies but shifted emphasis towards production of higher quality, value-added crops and support for rural development and rural quality of life. In June 2003, the farm ministers from EU member nations reached an agreement to fundamentally change the CAP, by making payments to farmers much less dependent than before on the amounts that farmers produce. Under the new system, the amount spent on the CAP approximately 43 billion per year would not be reduced below previously projected levels. However, the way in which the money is distributed would be altered. Under the new program, single farm payments would go to farmers based on the size of their farms rather than their output, although the old system would be permitted to continue in limited circumstances, particularly for cereal grains and beef, if there is a risk of farmers abandoning the land. Also, a strengthened rural development policy will be funded through a reduction in direct payments for bigger farms. The revisions to the CAP delegates to individual states of the EU15 more control over the structure and level of agricultural subsidy payments. Member states had the possibility to apply the reforms between 2005 and 2007. Ten member states (Austria, Belgium, Denmark, Germany, Ireland, Italy, Luxembourg, Portugal, Sweden and the United Kingdom) started applying these reforms on January 1, 2005. Finland, France, Greece, the Netherlands and Spain will apply the reforms in 2006 with two new member states (Malta and Slovenia) applying the reforms in 2007. In eight other new member states, the single area payment scheme applies. The single area payment scheme means that uniform per-hectare entitlements are granted within any one region from regional financial budgets. These eight new member states will apply the single payment system reforms no later than 2009. There can be no assurances that the reforms will successfully curb the overproduction and dumping of crop surpluses by European nations or that the implementation of the reforms will not cause severe dislocations within the farming industry as farmers shift production to take advantage of the various provisions of the new program. With the uncertainty created

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by these changes and the continuing negotiations of the Doha round of the WTO talks, farmers could delay purchasing agricultural equipment, causing a decline in industry unit volumes.

Major trends in the North American and Western European agricultural industries include a growth in farm size and machinery capacity, concurrent with a decline in the number of farms. In Latin America, however, the agricultural industry is growing and developing.

The following graph sets forth agricultural tractor retail unit sales in North and Latin America and Western Europe during the periods indicated:

Sources: North America Association of Equipment Manufacturers; Canadian Farm and Industrial Equipment Institute. Western Europe sourced from national government agencies within each market. Latin America Management estimates based on data reported by ANFAVEA, AFAT and Systematics.

In North America, prior to the early 1990s, under 40-horsepower tractors were principally used for farming applications. However, beginning in the early 1990s a new non-farm customer began to emerge in the market for the under 40-horsepower tractors. These new customers included homeowners, turf and land care industries, commercial contractors, public agencies, rental businesses, golf courses, hobby and part-time farmers and industrial plants. Purchasers of these products also use a large number of attachments, such as front-end loaders, mowers and snow blowers. Customers often purchase multiple attachments, which can provide additional revenue and margin opportunities for suppliers of the core products. Factors driving market demand for under 40-horsepower tractors tend to be more related to the general level of gross domestic product (GDP), consumer spending, disposable income and the health of the leisure sector of the economy. Consequently, this market should be looked at separately from the demand for over 40-horsepower tractors where demand is more related to net cash farm income, commodity prices, levels of government subsidies and other farm related factors. The under 40-horsepower tractor market segment is the fastest growing segment of the North American market, from a low of approximately 36,000 units sold in 1992 to a high in 2004 of approximately 141,000 units.

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Industry sales of over 40-horsepower tractors in North America also have been growing since the 1992 low of approximately 62,700 units, with an intermediate high in the 1997-1998 period, a retrenchment in the 1999 through 2003 period, rising to a peak of approximately 105,000 units in 2004. Sustained growth has occurred in the 40- to 100-horsepower class, while the over 100-horsepower tractors tend to experience a more cyclical level of sales, between about 22,000 and 37,000 units depending upon commodity price levels.

In Western Europe, where average farm sizes are significantly smaller than in North America, industry unit sales of agricultural tractors have been in general decline, to a low of approximately 143,000 units in 1993. Sales recovered to a peak level of approximately 186,000 units in 1999, but in general have been cycling between approximately 160,000 and 180,000 units since 1995, depending on the annual impacts of fluctuating process, government subsidies, animal diseases and unusual weather patterns.

In Latin America, tractor industry volumes have generally been increasing since the last trough in 1996. The largest tractor market in Latin America is Brazil and since that time the Brazilian government has continued to support the agricultural economy through financing subsidies. Brazilian tractor sales increased from a low of approximately 10,000 units in 1996 to a high of 33,200 units in 2002, with subsequent declines due to declining commodity prices, and in particular, soybean prices. However, other markets, such as Argentina, have been improving, and in total the Latin American tractor market has continued to increase to approximately 53,000 units in 2004.

In total, worldwide demand for agricultural tractors hit a low in 1992 and has been on an increasing trend since. Volumes reached an intermediate peak in 2000 but declined in 2001. Since that time, tractor industry volumes have continued to increase, ending 2004 at levels approximately 25% higher than in 2000.

Worldwide combine industry volumes started the 1990 s at relatively low levels, between 23,000 and 25,000 units. Industry sales generally increased through the 1990 s, peaking at approximately 32,500 units in 1998. Since that time, industry sales have cycled between 23,500 units and a high of approximately 29,400 units in 2004. Industry sales in North America and Western Europe have generally been declining while sales in Latin America and Rest of World markets have been increasing.

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The following graph sets forth agricultural combine harvester retail unit sales in North and Latin America and Western Europe during the periods indicated:

Sources: North America Association of Equipment Manufacturers; Canadian Farm and Industrial Equipment Institute. Western Europe Management estimates based on information obtained from Systematics. Latin America Management estimates based on date reported by ANFAVEA, AFAT and Systematics.

In North America, combine industry sales for most of the 1990 s ranged from about 10,000 to 13,000 units. However, in 1999 sales declined by almost 50% to almost 6,600 units. Since that time, industry sales have cycled with the commodity prices, but in 2004 reached a new high since the 1990 s of approximately 8,250 units.

In Western Europe, industry sales have generally been declining. After reaching a low of approximately 6,700 units in 1993, they rose to approximately 11,400 units in 1997 but have continued declining since that time. In 2004, industry sales of approximately 6,400 units had declined to a level below the 1993 trough.

In Latin America, however, combine industry sales have generally been increasing since 1991, from a low of less than 2,000 units to a high in 2004 of approximately 9,800 units.

Construction Equipment

We divide the construction equipment market that we serve into two principal segments: heavy construction equipment, which is over 12 metric tons (but excludes mining, quarrying and forestry equipment), and light construction equipment, which is under 12 metric tons. Purchasers of heavy construction equipment include construction companies, municipalities, local governments, rental fleet owners, quarrying and mining companies, waste management companies and forestry related concerns. Purchasers of light construction equipment include contractors, residential builders, utilities, road construction companies, rental fleet owners, landscapers, logistics companies and farmers.

The principal factor influencing sales of light construction equipment is the level of residential and commercial construction, remodeling and renovation, which in turn is influenced by interest rates. Other major factors include the level of light infrastructure construction such as utilities, cabling and piping and maintenance expenditures. The principal use of light construction equipment is to replace relatively high cost, slower, manual work. Product demand in the United States and Europe has generally tended to mirror housing starts, but with lags of six to twelve months. Purchasing activities of the national rental companies also can have a significant impact on the market depending on whether they are either building or reducing the size of their fleet of rental units. In areas where labor is abundant and the cost is inexpensive relative to other inputs such as in Africa, China and Latin America, the light construction equipment market segment is virtually non-existent. These areas represent potential growth areas for light equipment in the medium to long-term as the cost of labor rises relative to the cost of equipment.

Sales of heavy construction equipment are particularly dependent on the level of major infrastructure construction and repair projects such as highways, dams and harbors, which is a function of government spending and economic growth. Furthermore, demand for mining and quarrying equipment applications is linked more to the general economy and commodity prices, while growing demand for environmental equipment applications is becoming less sensitive to the economic cycle.

The heavy equipment industry in North America, as well as in Europe, has generally been thought to be a replacement market that follows cyclical economic patterns. However, overall volumes have been increasing between 1992 and 2004; industry unit sales in North America have more than doubled and in Western Europe industry unit sales have increased by 50%. The industry in emerging markets generally exhibits an overall growth trend, but with unpredictable and volatile cycles.

The equipment rental business is a significant factor in the construction equipment industry. With the exception of the U.K. and Japanese markets, where there is a long history of machine rentals due to the structure of the local tax codes, the rental market started with short period rentals of light equipment to individuals or small contractors who could not afford to purchase the equipment. In this environment, the backhoe loader in North America and the mini-excavator in Western Europe were the principal rental products. As the market evolved, a greater variety of light equipment products as well as many types of heavy equipment have become available to rent. In addition, rental companies have allowed contractors to rent machines for longer periods instead of purchasing the equipment, which allows contractors to complete specific job requirements with greater flexibility and cost control. Furthermore, in some countries, longer-term rentals also benefit from favorable tax treatment. In the late 1990 s, local and regional rental companies in North America experienced a period of rapid consolidation into national and large regional companies. The economic and financial market declines in 2000 and 2001 created financial pressures on these market participants. They in turn, substantially reduced their new equipment purchases through the first half of 2003, despite a relatively solid level of general economic activity. Overall, this trend toward higher levels of rental activity in the market may tend to reduce the correlation of industry unit demand for new equipment with the basic economic industry drivers. On the other hand, increased rental market activity could lead to more pronounced demand cyclicality in the industry, as rental companies rush to adjust the size of their fleets as demand or rental rates change. In North America, captive rental companies appeared to be increasing the size of their fleets during the second half of 2003 and throughout 2004.

Seasonal demand fluctuations for construction equipment are somewhat less significant than for agricultural equipment. Nevertheless, in North America and Western Europe, housing construction generally slows during the winter months. North American and European industry retail demand for construction equipment is generally strongest in the second and fourth quarters.

Worldwide customer preferences for construction equipment products are similar to preferences for agricultural equipment products. In developed markets, customers tend to favor more sophisticated machines equipped with the latest technology and comfort features. In developing markets, customers tend to favor equipment that is more basic with greater perceived durability. Customers in North America and Europe, where operator cost often exceeds fuel cost and machine depreciation, place strong emphasis on product

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reliability. In other markets, customers often continue to use a particular piece of equipment even after its performance and efficiency begins to diminish. Customer demand for power capacity does not vary significantly from one market to another. However, in many countries, restrictions on the weight or dimensions of the equipment, such as road regulations or job site constraints, may limit demand for large machines.

In general, much of the construction equipment sold in mature markets such as North America and Europe replaces older equipment. In contrast, demand in less mature markets includes replacements as well as net increases in equipment demand for new products. In these markets, equipment demand also is partially covered by used equipment sourced from the more developed and mature markets including: used heavy construction equipment from North America in the Latin American markets; both heavy and light used equipment from Western Europe in Central and Eastern European, North African and Middle Eastern markets; both heavy and light used equipment from Japan in other Southeast Asian markets; and excavators from the Japanese market in almost every other market in the world. These flows of used equipment are highly influenced by exchange rates and the weight and dimensions of the sourced equipment, which limit the market for large equipment due to road regulations and job site constraints.

The following graph sets forth heavy and light construction equipment retail unit sales in North America and Western Europe during the periods indicated:

Sources: North America Association of Equipment Manufacturers; Canadian Farm and Industrial Equipment Institute. Western Europe Management estimates based on shipment data from CECE for Europe and national and local agencies in individual markets.

Major trends in the construction equipment industry include the growth in usage of hydraulic excavators and wheel loaders in excavation and material handling applications. In addition, the light equipment sector has experienced significant growth as more manual labor is being replaced on construction sites by machines with a myriad of attachments for each specialized application, such as skid steer loaders, mini-crawler excavators and telehandlers in North America and mini- crawler excavators in the European and Rest of World markets.

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The construction equipment business in North America generally increased from 1992 through the late 1990 s. Industry sales of heavy equipment peaked in 1998 and sales of light equipment peaked in 2000. Industry sales of both product segments declined through 2002 but have since increased to levels approximately 10% higher than in 2000 on a combined basis. In Western Europe, industry sales of both heavy and light equipment increased from the trough of 1993 until peaking in 2000. Industry sales for heavy and light equipment declined in the 2001 to 2003 period but have rebounded with an increase in 2004 of approximately 17% over 2003 levels and to approximately the same level as the last peak in 2000. The construction equipment markets in Latin America are very small compared with those in North America and Western Europe. Rest of World markets, and in particular the Asia-Pacific Rim markets, are similar in size to the Western European or North American markets but CNH does not have a significant direct presence in those markets.

Our Competitive Strengths

We believe that we have a number of competitive strengths that enable us to focus on markets and products with growth potential while attempting to maintain and improve our position in the markets in which we are already established. We believe our competitive strengths include:

Well-Recognized Brands. We market our products globally primarily through our two highly recognized brands, Case and New Holland. Our agricultural brands include Case IH, New Holland and Steyr. Our construction equipment brands include Case, New Holland and, in North America, Kobelco. We believe all of our brands have strong histories of quality and superior performance. We expect to continue to leverage these strengths in the future.

Full Range of Competitive Products. In agricultural equipment, we believe we are one of the leading global manufacturers of agricultural tractors, combines, hay and forage equipment and specialty harvesting equipment. In construction equipment, we are one of the leading global manufacturers of backhoe loaders and skid steer loaders. In addition, we provide a complete range of replacement parts and services to support both our agricultural and construction equipment offerings.

Global Presence and Distribution Network. We manufacture our products in 39 facilities throughout the world and distribute our products in approximately 160 countries through a network of approximately 11,400 dealers and distributors. We are a full-line company in both the agricultural and construction equipment industries, with strong and usually leading positions in most significant geographic and product categories in both businesses. Our global scope and scale include integrated engineering, manufacturing, marketing and distribution of equipment on five continents.

Strong Financial Services Capabilities. In North America, we offer a range of Financial Services products, including, among others, retail financing for the purchase or lease of new and used CNH and other equipment manufacturers products sold by our dealers. To further facilitate the sale of our products, we also offer wholesale financing to dealers. Wholesale financing consists primarily of floor plan financing and allows dealers to maintain a representative inventory of products. The principal objective of our retail financing operations is to facilitate the sale of our equipment and provide competitive alternatives to financing available from third parties. We offer retail financing in Brazil and Australia through wholly-owned subsidiaries and in Western Europe through our joint venture with BPLG.

Support of the Fiat Group. Our operations have the support of the Fiat Group, one of the largest industrial groups in the world, with major operations in auto and truck making, automotive components and other non-automotive sectors. Fiat s management has stated that it considers the global production and sale of agricultural and construction equipment to be a primary focus of the Fiat Group and a significant component of Fiat s global strategy. Fiat s truck-making subsidiary, Iveco N.V. (Iveco), is a partner with CNH and Cummins in a joint venture that designs and produces the next generation of diesel engines to meet evolving emission requirements. We believe shared services provided by Fiat, such as purchasing, accounting, information technology, treasury and cash management, lower our administrative costs by leveraging Fiat s economies of scale. Cash pooling leverages Fiat and Fiat Group financial resources while minimizing banking and transaction

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costs and reducing cross-border financing costs and potential penalties, such as withholding taxes. As of December 31, 2004, Fiat provided us with approximately $1.8 billion in debt funding, as well as other forms of financial support which is an important source of liquidity for our operations. Fiat has agreed to maintain its existing treasury and debt financing arrangements with us for as long as it maintains control of us. Fiat has committed that it will not terminate our access to these financing arrangements without affording us an appropriate time period to develop suitable substitutes. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

CNH Business Strategy

As a global full-line competitor in both the agricultural and construction equipment markets, we plan to grow our business through market expansion and increasing our product offerings. We expect that our commitment to cost controls and more efficient use of resources will create value for our shareholders through improved profitability and an enhanced financial position. We believe that our focus on further improving our products, distribution and services will lead to increased customer satisfaction and loyalty, promoting future financial stability and improved returns.

Our strategic objectives are to:

- generate cash through improved earnings, reduced working capital and improved asset utilization, and use that cash to reduce our debt and strengthen our consolidated balance sheet;

- deliver profitability throughout the cycle and achieve higher margins than either Case or New Holland earned prior to the merger by strengthening our dealer and customer support and achieving best-in-class product quality and reliability, realizing product cost reductions and profit improvements, continuing sales growth and increasing customer satisfaction; and

- continue to position CNH to take advantage of future opportunities for product and market expansion, both in the short to medium-term in areas such as Latin America and Eastern Europe and, in the longer-term, in areas such as China and India and through our global construction equipment alliance with Kobelco Japan.

Merger Integration over the Last Five Years

We combined the operations of New Holland and Case as a result of their merger on November 12, 1999. At the time of the merger, we formulated a plan to integrate the operations of the Case and New Holland businesses. The plan was based on maintaining the dual distribution networks of Case and New Holland to optimize worldwide market share of the combined company. In order to remain cost competitive while maintaining the two brands, management developed a plan to use common platforms and major product components while developing differentiated products that could satisfy the requirements of the different distribution networks. Use of common components and platforms would allow for a reduction in the number of product platforms, consolidation of suppliers, and consolidation and rationalization of manufacturing facilities and our parts depots. In addition, management planned to integrate systems and processes allowing for significant reductions in overhead costs.

In the five years since the merger, we have affected the major structural changes required to implement this strategy, including:

Establishment of Dual Brand Families: Capitalizing on our world-class brand names, Case, Case IH, New Holland and Kobelco, we believe we have firmly established our dual brand families with our dealers and customers throughout the world. We continue to work to strengthen our dealer networks, moving towards dealers that are more focused on particular brands. We believe that more focused dealers tend to be more dedicated to enhancing their brand s market position and building their own customer service capabilities in order to increase customer loyalty and earn a larger share of their customers equipment and service expenditures.

Development of Common Components/ Platforms for New Products: We have developed global product lines to support our dual brand families, renewing virtually our entire product range. By using common design elements and sharing capital-intensive components, we have reduced the total number of tractor, combine and construction equipment platforms while maintaining strong brand identities based on precision of handling, productivity, operation controllability, product serviceability, color and styling. Through use of common components and the manufacturing consolidations, we have reduced our number of suppliers from approximately 6,000 at the time of the merger to approximately 3,000 at December 31, 2004.

Restructured our Manufacturing Process and Reduced Manufacturing Capacity: We have consolidated and rationalized our manufacturing activities, reducing excess capacity and focusing our facilities to create a lean, flexible manufacturing system. In addition to downsizing certain facilities, we reduced our number of plants, both through required and voluntary divestitures or closures from 60 at the time of the merger to 37 (39 including the two plants acquired since the merger) by the end of 2004. In the process, we redistributed production of various products among the remaining plants to focus our facilities on either the production of components or the assembly of one product category across brand families. We have concentrated on certain key technologies or competencies while outsourcing other non-core activities. We have sized our manufacturing capacity to a flat market demand while introducing modularization of both product and process design to add flexibility to the manufacturing process. We believe we are also better able to manage the business cycle by establishing flexible work rules and setting staffing levels that are supported by temporary employees. Manufacturing capacity utilization has increased from approximately 44% utilization in 1999 to approximately 65% utilization in 2004.

Consolidated our Parts Distribution Network: We have reduced distribution complexity and costs by reducing the number of global parts depots and instituting a new global common parts system. As of December 31, 2004, we had reduced the number of parts depots to 33. The remaining 4 depots scheduled to be closed will be closed in 2005. Also, under our new global parts packaging system, some high volume common parts have been distinctly packaged for each brand or brand family while most other parts utilize common CNH packaging. This has further reduced our costs of servicing new products by capitalizing on the common spare parts requirements of the common components in the new products.

Integrated Systems and Processes to Create a Lean Structure: We have completed our plan to reduce selling, general and administrative (SG&A) costs to about 8% of net sales of Equipment Operations. This compares to 10.8% in the first year of operations after the merger. The reduction in SG&A costs has been achieved by eliminating duplicative functions and streamlining processes. Our consolidated worldwide total employment level has declined from approximately 36,000 at the time of the merger to approximately 25,700 at December 31, 2004, a decline of almost 29%. Similarly, our consolidated worldwide total salaried employment level has declined from approximately 15,300 at the time of the merger to approximately 9,900 at December 31, 2004, a decline of approximately 35%.

Refocused Financial Services Operations and Restored Profitability: Our Financial Services operations are now focused on the core business of supporting agricultural and construction equipment sales to our base of equipment dealers and retail customers throughout the world. Following the merger, we have exited the commercial lending and retail financing activities that were outside our own dealer networks. These actions generated positive cash flow through asset runoff, as the non-core portfolio assets have declined from approximately $2 billion at the time of the merger to approximately $131 million at December 31, 2004. We have enhanced the quality of our core portfolio through a focus on strict underwriting criteria, proactive risk management and efficient collection activities, augmented by intensive follow-up and remarketing efforts in troubled situations. Evidencing this improvement is the decline in our North American captive retail average loss ratio (losses as a percentage of total managed captive retail assets) from 1.4% in 2000 to 0.5% in 2004. Our continued access to the U.S., Canadian and Australian ABS markets also is evidence of the quality of our retail receivables portfolio, as has been the upgrading of certain subordinated classes of our 2000 through 2003 term retail ABS transactions to AAA by S&P, Moody s Investor Service, Fitch Ratings and Dominion Bond Rating Service Ltd.

We believe that the actions described above have made a substantial contribution to our improved profitability levels since the merger. Profit contributions from the initial cross-selling of products between the brands and margin improvements from the newly developed common platform products have increased our top line and our margins. Cost reductions were generated by SG&A savings, purchasing and supplier reduction savings and manufacturing rationalization actions. We estimate that these actions have contributed a total of $1 billion towards our profit improvements since 1999, including approximately $200 million in the year-ended December 31, 2004.

During 2004, we recorded $104 million in pre-tax restructuring costs, including $102 million in Equipment Operations and $2 million in Financial Services. These restructuring costs relate to severance and other employee-related costs, write-down of assets, loss on the sale of assets and businesses, and costs related to closing, selling, and downsizing existing facilities. Since the merger, we have recorded $687 million in pre-tax restructuring costs (excluding approximately $323 million originally recorded in purchase accounting), including $674 million in Equipment Operations and $13 million in Financial Services. In the 2005 through 2007 period, we expect to record approximately an additional $100 million in cash restructuring costs related to the actions described above. These charges cannot be recorded until incurred but relate directly back to previous actions to effect the above described changes. See Note 12: Restructuring of our consolidated financial statements for a detailed analysis of our restructuring programs.

Looking Forward

With the ending of this major five year restructuring period, we anticipate building upon our existing strengths to achieve our strategic objectives. These strengths include having a strong global presence with balanced market shares across the major markets, so that we are not overly dependent on any one market; having a new, revitalized product range supported by a light, flexible manufacturing structure and a lean corporate structure. In addition, we have a strong Financial Services platform that is growing in both assets under management and in profitability. Our new engine family, sourced from our engine joint venture with Cummins, Inc. and Iveco, has the technological capability to meet upcoming emission standards, and together, we believe we have the scale for economical production. We also have strong global construction equipment alliances with both Kobelco Japan and Sumitomo Construction Equipment.

Building upon these strengths, the key elements of our plan for achieving our strategic objectives are:

Strengthen our customer and dealer support: The overall quality and reliability of any local dealership is a very important consideration in our end customer s decision to purchase one brand of equipment compared with any other brand. We believe that, in our competitive marketplace, our dealer networks worldwide are one of the most important facets of our business. We are allocating new resources to provide additional dedicated sales and marketing personnel and materials, and additional technical support and training to our dealers. We believe these additional resources will allow our dealers to provide enhanced levels of service to our customers. We are also continuing to invest in our global supply chain systems to allow better visibility and reliability in delivery lead times for our equipment. Our depot and parts system rationalization, with the concurrent investment in a new global parts system, which began in 2003, should also lead to improved parts availability and customer satisfaction.

Ongoing product improvements: As discussed above, during the past five years we have sustained a significant product development effort leading to a completely renewed product lineup across all of our brands. We are now shifting our product development, management and manufacturing efforts to focus on improving product quality through key quality improvement activities embedded in our process, with the goal of achieving best-in-class product quality and reliability. In addition, we intend to introduce greater differentiation between the two brands to increase their market attractiveness. These actions are expected to take place while targeting research and development (R&D) costs at 3% of net sales through the continued use of common platforms; this also includes our continuing engine development efforts through our joint ventures as we introduce new engines to meet new emissions requirements. Improved product quality and reliability should lead to reduced future warranty and repair costs, and allow us to more fully capitalize on our market leadership positions to command better pricing for our products.

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Continuing efforts to reduce costs: Throughout the manufacturing capacity rationalization process our primary focus was on improving capacity utilization through the closing of manufacturing facilities, while shifting production among the remaining plants to further rationalize manufacturing costs by sharing facilities between the two brands and specializing sites on specific product ranges. With the completion of these major actions, the systems, processes and flows of our production and distribution systems now need to be fine-tuned for maximum efficiency. This includes such actions as (a) achieving product cost reductions through re-engineering efforts; (b) increasing manufacturing efficiencies within each production facility; (c) finding lower cost sources for purchased parts and components by continuing to extend supplier re-sourcing activities on additional parts and components to lower cost countries (including those where we already have a manufacturing presence and can work with the local suppliers to develop their capabilities for supplying us on a global basis); and (d) achieving freight and logistics savings through distribution process improvements. Additionally, we should benefit from additional savings related to actions taken during 2004, from which we did not receive a full year s worth of benefit in 2004. In total, by the end of 2007, we anticipate that these actions will result in approximately an additional $500 million in profit improvements as compared with the base levels of revenues and costs incurred by us for the full year 2004.

Reduce capital employed in the business: We expect that our continued investment in supply chain systems will allow us to shorten delivery lead times. We also believe that our depot and parts system rationalization, availability of a new global parts system and our continued efforts on increasing manufacturing efficiencies should allow us to improve both our raw materials and finished goods inventory efficiency in the system. In addition, we have started pilot programs in some of our plants to reduce work-in-process inventory levels.

Continue developing Financial Services: Our Financial Services operations are now firmly focused on the core business of supporting agricultural and construction equipment sales to our base of equipment dealers and retail customers throughout the world. We have separated our Financial Services marketing efforts into dedicated, specialized agricultural and construction equipment teams to develop solutions specifically tailored to the different needs of these customers and to capture a larger share of our customers financing requirements, including operating leases, rental, credit cards and insurance. We are continuing actions expected to improve our underwriting processes and remarketing efforts, in order to maintain the highest possible quality of receivables in our portfolio, and to enhance our ability to efficiently fund these portfolios. In addition, we have opportunities to take proven products and business practices developed for the North American market and adapt them for use in Western Europe, Australia and Brazil. We are upgrading our operations in Western Europe in anticipation of developing additional financing opportunities. In particular, we are extending to our operations in Western Europe and Brazil the business model developed in North America of centralizing management of all dealer receivables within our Financial Services business, with the goal of ensuring better financial control and funding optimization of all our receivables.

We anticipate that through the accomplishment of these initiatives we should improve our position in the global agricultural and construction equipment markets and also improve our financial position.

Competition

The agricultural equipment industry is highly competitive. We compete with large global full-line suppliers, including Deere & Company and AGCO Corporation; manufacturers focused on particular industry segments, including Kubota Corporation and various implement manufacturers; regional manufacturers in mature markets, including The CLAAS Group, the ARGO Group and the SAME Deutz-Fahr Group, that are expanding worldwide to build a global presence; and local, low-cost manufacturers in individual markets, particularly in emerging markets such as Eastern Europe, India and China.

The construction equipment industry also is highly competitive. We compete with global full-line suppliers with a presence in every market and a broad range of products that cover most customer needs,

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including Caterpillar, Komatsu Construction Equipment, TEREX and Volvo Construction Equipment Corporation; regional full-line manufacturers, including Deere & Company, J.C. Bamford Excavators Ltd. and Liebherr-Holding GmbH; and product specialists operating on either a global or a regional basis, including Ingersoll-Rand Company (Bobcat), Hitachi, Sumitomo Construction (Linkbelt), Manitou B.F., Merlo UK Ltd., Gehl Company, and Mustang Manufacturing Company, Inc.

We believe that multiple factors influence a buyer s choice of equipment. These factors include the strength and quality of a company s dealers, brand loyalty, product performance, availability of a full product range, the quality and pricing of products, technological innovations, product availability, financing terms, parts and warranty programs, resale value, customer service and satisfaction and timely delivery. We continually seek to improve in each of these areas, but focus primarily on providing high-quality and high-value products and supporting those products through our dealer networks. In both the agricultural and construction equipment industries, buyers tend to favor brands based on experience with the product and the dealer. Customers perceptions of value in terms of product productivity, reliability, resale value and dealer support are formed over many years.

The financial services industry is highly competitive. We compete primarily with banks, finance companies and other financial institutions. Typically, this competition is based upon customer service, financial terms and interest rates charged.

Products and Markets

Agricultural Equipment

Our primary product lines of agricultural equipment, sold under the Case IH and New Holland brands, include tractors, combine harvesters, hay and forage equipment, seeding and planting equipment, tillage equipment, sprayers, and grape, cotton, coffee and sugar cane harvesters. In addition, a large number of Construction Equipment products, such as telehandlers, skid steer loaders and backhoe loaders, are sold to