CNH GLOBAL N V
Form 20-F
April 29, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTIONS 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
or
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2004
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-14528
CNH GLOBAL N.V.
(Exact name of registrant as specified in its charter)
Kingdom of The Netherlands
(State or other jurisdiction of
incorporation or organization)
World Trade Center, Amsterdam Airport
Tower B, 10th Floor
Schiphol Boulevard 217
1118 BH Amsterdam
The Netherlands
(Address of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares, par value 2.25	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 133,782,675 Common Shares

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 o or Item 18 x.

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PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

CNH Global N.V., (CNH), is incorporated in The Netherlands under Dutch law. CNH combines the operations of New Holland N.V. (New Holland) and Case Corporation (Case), as a result of their business merger on November 12, 1999. As used in this report, all references to New Holland or Case refer to (1) the pre-merger business and/or operating results of either New Holland or Case (now a part of CNH America LLC (CNH America)) on a stand-alone basis, or (2) the continued use of the New Holland and Case product brands.

CNH has prepared its annual consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). CNH has prepared its consolidated financial statements in U.S. dollars and, unless otherwise indicated, all financial data set forth in this annual report is expressed in U.S. dollars. Our worldwide Agricultural Equipment and Construction Equipment operations are collectively referred to as Equipment Operations. The equipment finance operations are referred to as Financial Services.

As of December 31, 2004, Fiat S.p.A. (Fiat) owned approximately 84% of CNH s common shares through Fiat Netherlands Holding N.V. (Fiat Netherlands), excluding the impact of a conversion of the 8 million shares of Series A Preference Shares (Series A Preferred Stock) discussed below. Fiat is engaged principally in the manufacture and sale of automobiles, commercial vehicles and agricultural and construction equipment. Fiat also manufactures, for use by its automotive sectors and for sale to third parties, other products and systems, principally components, metallurgical products and production systems.

On April 7 and 8, 2003, CNH Global issued a total of 8 million shares of Series A Preferred Stock to Fiat and an affiliate of Fiat in exchange for the retirement of $2 billion in Equipment Operations indebtedness owed to Fiat Group companies.

Beginning in 2006, based on 2005 results, the Series A Preferred Stock will pay a dividend at the then prevailing common dividend yield. However, should CNH achieve certain defined financial performance measures, the annual dividend will be fixed at the prevailing common dividend yield plus an additional 150 basis points. Dividends will be payable annually in arrears, subject to certain provisions that allow for a deferral for a period not to exceed five consecutive years. The Series A Preferred Stock has a liquidation preference of $250 per share and each share is entitled to one vote on all matters submitted to CNH s shareholders. The Series A Preferred Stock will automatically convert into 100 million CNH common shares at a conversion price of $20 per share if the market price of the common shares, defined as the average of the closing price per share for 30 consecutive trading days, is greater than $24 at any time through and including December 31, 2006 or $21 at any time on or after January 1, 2007, subject to anti-dilution adjustment. On a converted basis, this transaction would increase Fiat s ownership of our common stock to approximately 91% as of December 31, 2004. In the event of dissolution or liquidation, prior to conversion whatever remains of the company s equity, after all its debts have been discharged, will first be applied to distribute to the holders of the Series A Preferred Stock the nominal amount of their preference shares and thereafter the amount of the share premium reserve relating to the Series A Preferred Stock. Any remaining assets will be distributed to the holders of common shares in proportion to the aggregate nominal amount of their common shares.

On October 13, 2004 the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) ratified the consensus reached on Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share (Issue No. 04-8) which changes the timing of when CNH must reflect the impact of contingently issuable shares from the potential conversion of the Series A Preferred Stock in diluted weighted average shares outstanding. Under the provisions of Issue No. 04-8, CNH was required to retroactively reflect the contingent issuance of 100 million common shares in its computation of diluted weighted average shares outstanding, when inclusion is dilutive, in 2004.

Certain financial information in this annual report has been presented separately by geographic area. CNH defines its geographic areas as (1) North America, (2) Western Europe, (3) Latin America and

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(4) Rest of World. As used in this report, all references to North America, Western Europe, Latin America and Rest of World are defined as follows:

North America United States and Canada.

Western Europe Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Latin America Mexico, Central and South America, and the Caribbean Islands.

Rest of World Those areas not included in North America, Western Europe and Latin America, as defined above.

Certain market and share information in this report has been presented as worldwide, which includes all countries, with the exception of India. In this report, management estimates of market share information are generally based on registrations of equipment in most of Europe and Rest of World markets and on retail data collected by a central information bureau from equipment manufacturers in North America and Brazil, as well as on shipment data collected by an independent service bureau. Not all agricultural and construction equipment is registered, and registration data may thus underestimate actual retail demand. In many countries, there may also be a period of time between the delivery, sale and registration of a vehicle; as a result, delivery or registration data for a particular period may not correspond directly to retail sales in such a period.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. *Selected Financial Data.*

The following table sets forth summary historical financial data for CNH for the periods indicated. The historical financial data set forth below as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 has been derived from the audited consolidated financial statements of CNH included herein. Financial data as of December 31, 2002, 2001 and 2000 and for the years ended December 31, 2001 and 2000 has been derived from our published financial statements.

CNH has presented the selected historical financial data as of and for each of the five years ended December 31, 2004 in accordance with U.S. GAAP.

	For the Years Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(in millions, except per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Net sales	$ 11,545	$ 10,069	$ 9,331	$ 9,030	$ 9,337
Finance and interest income	634	597	609	685	704
Total revenues	$ 12,179	$ 10,666	$ 9,940	$ 9,715	$ 10,041
Net income (loss) before cumulative effect of change in accounting principle, net of tax	$ 125	$ (157)	$ (101)	$ (332)	$ (381)
Cumulative effect of change in accounting principle, net of tax			(325)		
Net income (loss)	$ 125	$ (157)	$ (426)	$ (332)	$ (381)
Per share data:					
Basic earnings (loss) per share before cumulative effect of change in accounting principle, net of tax	$ 0.94	$ (1.19)	$ (1.05)	$ (6.00)	$ (8.95)
Cumulative effect of change in accounting principle, net of tax			(3.35)		
Basic earnings (loss) per share	$ 0.94	$ (1.19)	$ (4.40)	$ (6.00)	$ (8.95)
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.54	$ (1.19)	$ (1.05)	$ (6.00)	$ (8.95)
Cumulative effect of change in accounting principle, net of tax			(3.35)		

Diluted earnings (loss) per share	$	0.54	$	(1.19)	$	(4.40)	$	(6.00)	$	(8.95)
Cash dividends declared per common share	$	0.25	$	0.25	$	0.50	$	0.50	$	2.75

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	As of December 31,				
	2004	2003	2002	2001	2000
	(in millions)				
Consolidated Balance Sheet Data:					
Total assets	$ 18,080	$ 17,727	$ 16,760	$ 17,212	$ 17,577
Short-term debt	$ 2,057	$ 2,110	$ 2,749	$ 3,217	$ 4,186
Long-term debt, including current maturities	$ 4,906	$ 4,886	$ 5,115	$ 6,646	$ 5,539
Common shares, 2.25 par value	$ 312	$ 309	$ 305	$ 143	$ 143
Common shares outstanding	134	133	131	55	55
Shareholders equity	$ 5,029	$ 4,874	$ 2,761	$ 1,909	$ 2,514

B. ***Capitalization and Indebtedness.***

Not applicable.

C. ***Reasons for the Offer and Use of Proceeds.***

Not applicable.

D. ***Risk Factors.***

Risks Related to Our Business, Strategy and Operations

We may not fully realize, or realize within the anticipated time frame, the benefits of our profit improvement initiatives.

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 restructure and integrate the operations of the Case and New Holland businesses and develop new products. In the five years since the merger, we believe that these actions have made a substantial contribution to our improved profitability. In total, 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.

With the ending of this major five year restructuring period, our goal is to build upon our existing strengths to achieve our strategic objectives. The key elements of our initiatives are:

Strengthening our support for our customers and dealers;

Ongoing improvements in product features, quality and reliability;

Continuing efforts to develop new products;

Continuing efforts to reduce the costs of developing and manufacturing our products;

Reducing the amount of capital employed in the business; and

Continuing to develop our Financial Services activities.

We anticipate that through the accomplishment of these initiatives, by the end of 2007, we should expect approximately $500 million in profit improvements as compared with the base levels of revenues and costs incurred by CNH for the full year 2004. If we achieve the anticipated results of our actions, we believe we will have a substantially improved position in the global agricultural and construction equipment markets and in our financial position.

Our failure to complete our initiatives could cause us not to realize fully our anticipated profit improvements, which could weaken our competitive position and adversely affect our financial condition and results of operations.

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Our success depends on the implementation of new product introductions, which will require substantial expenditures.

Our long-term results depend upon our ability to introduce and market new products successfully. The success of our new products will depend on a number of factors, including the economy, product quality, competition, customer acceptance and the strength of our dealer networks.

As both we and our competitors continuously introduce new products or refine versions of existing products, we cannot predict the market shares our new products will achieve. Any manufacturing delays or problems with new product launches or increased warranty costs from new products could adversely affect our operating results. We have experienced delays in the introduction of new products in the past and we cannot assure you that we will not experience delays in the future. In addition, introducing new products could result in a decrease in revenues or an increase in costs from our existing products. You should read the discussion under the heading Item 4.B. Business Overview Products and Markets for a more detailed discussion regarding our new and existing products.

Consistent with our strategy of offering new products and product refinements, we expect to continue to use a substantial amount of capital for further product development and refinement. We may need more capital for product development and refinement than is available to us, which could adversely affect our business, financial position or results of operations.

We depend on key suppliers for certain raw materials and components.

We purchase a number of materials and components from third-party suppliers. In general, we are not dependent on any single supplier or exposed in any substantial way to individual price fluctuations in respect of the materials or commodities we purchase, although we have increased our dependence on individual suppliers as we have rationalized our supply chain and reduced the number of our global suppliers from 6,000 at the time of the merger to approximately 3,000 at December 31, 2004.

We rely upon single suppliers for certain components, primarily those that require joint development between us and our suppliers. An interruption in the supply of, or a significant increase in the price of, any component part could adversely affect our profitability or our ability to obtain and fulfill orders. We cannot avoid exposure to global price fluctuations such as occurred in 2004 with the costs of steel and related products, and our ability to realize the full extent of the profit improvements expected in our profit improvement initiatives depends on, among other things, our ability to raise equipment and parts prices sufficiently enough to recover any such material or component cost increases.

Our unionized labor force and our contractual and legal obligations under collective bargaining agreements and labor laws could subject us to greater risks of work interruption or stoppage and impair our ability to achieve cost savings.

Labor unions represent most of our production and maintenance employees worldwide. Although we believe our relations with our unions are generally positive, we cannot be certain that current or future issues with labor unions will be resolved favorably or that we will not experience a work interruption or stoppage which could adversely affect our business.

In the United States, the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the UAW) represents approximately 650 of our workers at facilities in Burlington, Iowa; Burr Ridge, Illinois; Racine, Wisconsin; and St. Paul, Minnesota. On March 21, 2005, following a strike that began November 3, 2004, the UAW ratified a new labor contract that continues through 2011. As a result of the strike, we had implemented contingency plans for continuing production utilizing salaried employees and temporary replacement workers. Following the ratification of the new UAW contract, we have transitioned work at these facilities from salaried employees and temporary workers back to the employees represented by the UAW.

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In Europe, our employees are protected by various worker protection laws which afford employees, through local and central works councils, rights of consultation with respect to specific matters involving their employers business and operations, including the downsizing or closure of facilities and employment terminations. Labor agreements covering employees in certain European countries generally expire annually. For the past several years new annual contracts have been negotiated without any significant disruptions although we cannot provide any assurance that future renewals will be obtained without disruptions.

The European worker protection laws and the collective bargaining agreements to which we are subject could impair our flexibility in streamlining existing manufacturing facilities and in restructuring our business.

An increase in health care or pension costs could adversely affect our results of operations and financial position.

The funded status of our pension and postretirement benefit plans is subject to developments and changes in actuarial and other related assumptions. At December 31, 2004 and 2003, our pension plans had an underfunded status of $1.1 billion and $1.0 billion, respectively. Pension plan obligations for plans that we do not currently fund were $443 million and $332 million at December 31, 2004 and 2003, respectively. After deducting the accrued liabilities recognized on our consolidated balance sheets for our pension obligations at December 31, 2004 and 2003 of $224 million and $298 million, respectively, we had underfunded pension obligations of $907 million and $735 million at December 31, 2004 and 2003, respectively, which were unrecognized.

At December 31, 2004 and 2003, our other postretirement benefit obligations had an underfunded status of $1.6 billion and $1.5 billion, respectively. We do not currently fund our postretirement benefit obligations. After deducting the accrued liabilities recognized on our consolidated balance sheets for our other postretirement benefit obligations at December 31, 2004 and 2003 of $862 million and $794 million, respectively, we had underfunded other postretirement benefit obligations of $754 million and $700 million at December 31, 2004 and 2003, respectively, which were unrecognized.

Actual developments, such as a significant change in the performance of the investments in plan assets or a change in the portfolio mix of plan assets, may result in corresponding increases or decreases in the valuation of plan assets, particularly with respect to equity securities. Lower or higher plan assets and a change in the rate of expected return on plan assets can result in significant changes to the expected return on plan assets in the following year and, as a consequence, could result in higher or lower net periodic pension cost in the following year.

In addition, pension and postretirement benefit plan valuation assumptions could have an effect on the funded status of our plans. Changes in assumptions, such as discount rates, rates for compensation increase, mortality rates, retirement rates, health care cost trend rates and other factors, may lead to significant increases or decreases in the value of the respective obligations, which would affect the reported funded status of our plans and, as a consequence, could affect the net periodic pension cost in the following year.

See Item 5. Operating and Financial Review and Prospects for discussions under the headings Application of Critical Accounting Estimates and Liquidity and Capital Resources, as well as Note 13: Employee Benefit Plans and Postretirement Benefits of our consolidated financial statements for additional information on pension accounting.

Future unanticipated events may require us to take additional reserves relating to our non-core financing activities.

Non-core financing activities, consisting of financing of trucks and trailers, marine vessels and agricultural and construction equipment sold through competitors dealers were discontinued during 2001. During 2003 and 2004, the non-core portfolio decreased 41% and 60% respectively due to liquidations and write-offs. At December 31, 2004, the non-core portfolio totaled $131 million against which we had established reserves of $50 million. We believe we have established adequate reserves for possible losses on these receivables; however, future unanticipated events may affect our customers ability to repay their obligations or reduce the value of the underlying assets and therefore require us to increase our reserves, which could materially adversely affect our financial position and results of operations.

We are subject to currency exchange rate fluctuations and interest rate changes, which could adversely affect our financial performance.

We conduct operations in many areas of the world involving transactions denominated in a variety of currencies other than the U.S. dollar, including the euro, the British pound, the Canadian and Australian dollars, the Japanese yen and the Brazilian real. We are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In 2004, compared to 2003, foreign exchange translation and transaction effects resulted in a slightly positive impact ($2 million) on our net income, before the effects of our hedging activities. Similarly, changes in interest rates affect our results of operations by increasing or decreasing borrowing costs, finance income and the amount of compensation provided by Equipment Operations to Financial Services companies for wholesale financing activities. In 2004, compared to 2003, the interest rate environment for our principal countries was mixed, with an increase in the U.S. but a decrease in Brazil, while European markets were stable. The slight reduction in net interest expense for Equipment Operations resulted from reduced variable rate interest expenses partially offset by an increase in fixed rate expenses as we refinanced debt incurring higher borrowing rates.

We attempt to mitigate these risks, which arise in the ordinary course of business, through the use of financial hedging instruments. In 2004, compared to 2003, hedging of foreign exchange transaction risk resulted in a slight negative impact ($6 million) on our net income, offsetting in part the positive effects of our transaction exposures ($15 million). We do not hedge translation risk. We have historically entered into, and expect to continue to enter into, hedging arrangements, a substantial portion of which are with counterparties that are subsidiaries of Fiat. As with all hedging instruments, there are risks associated with the use of foreign currency forward exchange contracts, as well as interest rate swap agreements and other risk management contracts. While the use of such hedging instruments provides us with protection from certain fluctuations in currency exchange and interest rates, we potentially forego the benefits that might result from favorable fluctuations in currency exchange and interest rates. In addition, any default by the counterparties to these transactions, including by counterparties that are subsidiaries of Fiat, could adversely affect us.

Despite our use of financial hedging transactions, we cannot assure you that future currency exchange rate or interest rate fluctuations will not adversely affect our results of operations, cash flows or financial position.

We are exposed to political, economic and other risks from operating a multinational business.

Our business is multinational and subject to the political, economic and other risks that are inherent in operating in numerous countries. These risks include those of adverse government regulation, including the imposition of import and export duties and quotas, currency restrictions, expropriation and potentially burdensome taxation. We cannot predict with any degree of certainty the costs of compliance or other liability related to such laws and regulations in the future and such future costs could significantly affect our business, financial position and results of operations.

Political developments and government regulations and policies in the countries in which we operate directly affect the demand for agricultural equipment. For example, a decrease, change or elimination of current price protections for commodities in the European Union (EU), of government sponsored equipment financing programs in Brazil or of subsidy payments for farmers in the United States would likely result in a decrease in demand for agricultural equipment. A decrease in the demand for agricultural equipment could adversely affect our sales, growth and results of operations.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expense and make it more difficult to recruit directors and officers.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new United States Securities and Exchange Commission (SEC) regulations and New York Stock Exchange (NYSE) rules, are creating uncertainty for companies such as ours. These new or changing laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased costs for compliance activities.

Our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations regarding our management s required assessment of internal control over financial reporting and our independent registered public accounting firm s attestation of that assessment has required, and continues to require, the commitment of significant financial and managerial resources. If we fail to timely complete this evaluation which is required by December 31, 2006, or if our independent registered public accounting firm cannot timely attest to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls, which could have an adverse effect on our business and our stock price. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business. If our efforts to comply with new or changing laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

Risks Particular to the Industries in Which We Operate

We operate in a highly cyclical industry, which could adversely affect our growth and results of operations.

Our business depends upon general activity levels in the agricultural and construction industries. Historically, these industries have been highly cyclical. Our Equipment Operations and Financial Services operations are subject to many factors beyond our control, such as:

- the credit quality, availability and prevailing terms of credit for customers, including interest rates;
- our access to credit;
- adverse geopolitical, political and economic developments in our existing markets;
- the effect of changes in laws and regulations;
- the response of our competitors to adverse cyclical conditions; and
- dealer inventory management.

In addition, our operating profits are susceptible to a number of industry-specific factors, including:

Agricultural Equipment Industry

- changes in farm income and farmland value;
- the level of worldwide farm output and demand for farm products;
- commodity prices;
- government agricultural policies and subsidies;
- animal diseases and crop pests;
- limits on agricultural imports; and
- weather.

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Construction Equipment Industry

prevailing levels of construction, especially housing starts, and levels of industrial production;

public spending on infrastructure;

volatility of sales to rental companies;

real estate values; and

consumer confidence.

Financial Services

cyclical nature of the above-mentioned agricultural and construction equipment industries which are the primary markets for our financial services;

interest rates;

general economic and capital market conditions;

used equipment prices; and

availability of funding through the Asset-Backed Securitization (ABS) markets.

The nature of the agricultural and construction equipment industries is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for new and used equipment. These downturns may be prolonged and may result in significant losses to us during affected periods. Equipment manufacturers, including us, have responded to downturns in the past by reducing production and discounting product prices. These actions have resulted in restructuring charges and lower earnings for us in past affected periods. In the event of future downturns, we may need to undertake similar actions.

Changes in governmental agricultural policy in the U.S. and Europe could adversely affect industry sales of agricultural equipment.

Government subsidies are a key income driver for farmers raising certain commodity crops. In the United States, the United States Department of Agriculture (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 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 Common Agricultural Policy (CAP) of the European Union (EU) was last revised in 2000 and typically is revised approximately every seven years, depending on the timing of changes to U.S. farm policy, negotiations conducted by the World Trade Organization (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, in particular 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 delegate to individual states of the EU more control over the structure and level of

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

Significant competition in the industries in which we operate may result in our competitors offering new or better products and services or lower prices, which could result in a loss of customers and a decrease in our revenues.

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. Our worldwide market share declined by about one percentage point in 2004 compared to 2003, and our combine market share declined approximately three and one-half percentage points.

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, 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 Construction Machinery, Ltd. (Hitachi), Sumitomo Construction (Linkbelt), Manitou B.F., Merlo UK Ltd., Gehl Company, and Mustang Manufacturing Company, Inc. On a unit basis, our construction market penetration declined by approximately one percentage point in 2004. In North America, our largest market, our market penetration was consistent with the prior year.

In 2002, we terminated our European alliance with Hitachi and finalized our global alliance with Kobelco Construction Machinery Co. Ltd. (Kobelco Japan). Our alliance with Kobelco Japan has led to an increase in competition with Hitachi. In Europe and Latin America, we have recently rationalized our non-Case construction equipment brand family into one brand, New Holland. In connection with this brand rationalization, we have terminated certain dealer relationships in Europe where overlapping geographic presence would have made ongoing business impractical for maintaining multiple dealerships. We expect that, long-term, this consolidation will generate additional incremental revenue, allow us to provide better support to our dealers, strengthen our dealer network, and result in the availability of a greater range of products. In the near term, this action may result in some product line adjustments and increasing support costs. We cannot make any assurance, however, that such actions will ultimately improve the competitive position or financial results of our construction equipment operations in Europe.

In addition, we have entered into various alliances with other entities. We enter into these alliances to reinforce our international competitiveness. While we expect our alliances to be successful, if differences were

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to arise among the parties due to managerial, financial or other reasons, such alliances may result in losses which in turn could adversely affect our results of operations and financial conditions.

Competitive pricing pressures, overcapacity, failure to develop new product designs and technologies for our products, as well as other factors could cause us to lose existing business or opportunities to generate new business and could result in decreased profitability. These factors could have a material adverse effect on our business, financial condition and results of operations.

Banks, finance companies and other financial institutions compete with our Financial Services operations. We may be unable to compete successfully in our Financial Services operations with larger companies that have substantially greater resources or that offer more services than we do.

Structural declines in the demand for agricultural or construction equipment could adversely affect our sales and results of operations.

The agricultural equipment business in North America and Western Europe experienced a period of major structural decline in the number of tractors and combines sold and substantial industry-wide overcapacity during the 1970s, 1980s and early 1990s followed by a period of consolidation among agricultural equipment manufacturers. This unit decline was consistent with farm consolidation and the decline in the number of farms and the corresponding increase in average farm size and machinery capacity. Industry volumes reached a low in North America in 1992 and in Western Europe in 1993. The agricultural equipment industry, in most markets, then began to experience an increase in demand as a result of both higher commodity prices from an increased demand for food and low levels of grain stocks worldwide. The amount of land under cultivation also increased as government agricultural support programs shifted away from mandatory set-aside programs.

In North America, and to a lesser extent in certain other regions, there has been significant growth in the under 40-horsepower tractor industry since 1992. In 2004, approximately 156,800 under 40-horsepower tractors were sold worldwide, compared to approximately 146,500 in 2003, 116,500 in 2002, 93,900 in 1999 and 36,300 in 1992. The growth in this segment has been due primarily to the generally favorable economic conditions in North America, which accounted for 90% of the under 40-horsepower tractors sold in 2004.

In North America, industry sales of over 40-horsepower tractors 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 (including 4 wheel drive tractors) tend to experience a more cyclical level of sales, between about 22,000 and 37,000 units depending upon commodity price levels. 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 commodity prices, but in 2004 reached a new high since the 1990 s of approximately 8,250 units.

In Western Europe, industry unit sales of tractors last reached their low point in 1993 and then recovered to a peak level of approximately 186,000 units in 1999, but in general have been fluctuating between approximately 160,000 and 180,000 units since 1995. Industry unit sales of combines peaked in 1997 from the last trough in 1994. From 1998 to 2001, industry unit sales of combines dropped about 40%, recovering slightly in 2002, but declining again in 2003 and 2004 to levels below the 2003 troug