

CNH GLOBAL N V  
Form 20-F  
April 07, 2004

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTIONS 12(b) OR (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

or

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2003**

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:**

| <b>Title of Each Class</b>    | <b>Name of Each Exchange<br/>on which Registered</b> |
|-------------------------------|--|
| 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: 132,797,008 Common Shares

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Indicate by check mark whether the registrant has (1) 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) been subject to such filing requirements for the past 90 days.  x

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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TABLE OF CONTENTS

|                                      | <u>Page</u>   |
|--------------------------------------|---|
| <b><u>PART I</u></b>                 |   |
| <u>Item 1.</u>                       | <u>Identity of Directors, Senior Management and Advisers</u> 6                          |
| <u>Item 2.</u>                       | <u>Offer Statistics and Expected Timetable</u> 6  |
| <u>Item 3.</u>                       | <u>Key Information</u> 6  |
| <u>Item 4.</u>                       | <u>Information on the Company</u> 19  |
| <u>Item 5.</u>                       | <u>Operating and Financial Review and Prospects</u> 44                                  |
| <u>Item 6.</u>                       | <u>Directors, Senior Management and Employees</u> 74                                    |
| <u>Item 7.</u>                       | <u>Major Shareholders and Related Party Transactions</u> 83                             |
| <u>Item 8.</u>                       | <u>Financial Information</u> 85   |
| <u>Item 9.</u>                       | <u>The Offer and Listing</u> 86   |
| <u>Item 10.</u>                      | <u>Additional Information</u> 87  |
| <u>Item 11.</u>                      | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 98                    |
| <u>Item 12.</u>                      | <u>Description of Securities Other than Equity Securities</u> 100                       |
| <b><u>PART II</u></b>                |   |
| <u>Item 13.</u>                      | <u>Defaults, Dividend Arrearages and Delinquencies</u> 100                              |
| <u>Item 14.</u>                      | <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u> 100 |
| <u>Item 15.</u>                      | <u>Controls and Procedures</u> 101  |
| <u>Item 16A.</u>                     | <u>Audit Committee Financial Expert</u> 101   |
| <u>Item 16B.</u>                     | <u>Code of Ethics</u> 101   |
| <u>Item 16C.</u>                     | <u>Principal Accountant Fees and Services</u> 101                                       |
| <b><u>PART III</u></b>               |   |
| <u>Item 17.</u>                      | <u>Financial Statements</u> 102   |
| <u>Item 18.</u>                      | <u>Financial Statements</u> 103   |
| <u>Item 19.</u>                      | <u>Exhibits</u> 103   |
| <u>Index to Financial Statements</u> | F-1   |

**PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION**

CNH Global N.V., ( CNH ) formerly New Holland N.V., is incorporated in The Netherlands under Dutch law.

CNH combines the operations of New Holland N.V. ( New Holland ) and Case, LLC, formerly Case Corporation ( Case ), as a result of their business merger on November 12, 1999. Effective with the closing of the merger, we changed our name to CNH Global N.V. In addition, CNH may refer to New Holland for financial information prior to the merger. We use CNH Capital to refer to the Financial Services business of CNH.

As of December 31, 2003, 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 1, 2003, CNH effected a 1-for-5 reverse stock split of its common shares. All references to earnings per share and the number of shares in this annual report on Form 20-F and the accompanying consolidated financial statements and notes thereto have been retroactively restated to reflect this reverse stock split.

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.

The Series A Preferred Stock will not accrue dividends until January 1, 2005. Subsequently, 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, 2003. In the event of dissolution or liquidation, 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 August 1, 2003 and September 12, 2003, Case New Holland, Inc. ( Case New Holland ) a direct wholly-owned subsidiary of CNH, issued a total of \$1.05 billion of 9 1/4% Senior Notes due 2011 (the 9 1/4% Senior Notes ) which are fully and unconditionally guaranteed by CNH and certain of its direct and indirect subsidiaries. Case New Holland, indirectly through its subsidiaries, owns substantially all of the U.S. assets of CNH and certain of its non-U.S. assets.

CNH has prepared its annual consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ( U.S. GAAP ), and certain reclassifications have been made to conform the historical New Holland financial statements to the CNH presentation. The accompanying financial statements reflect the historical operating results of CNH, including the results of operations of Case since the merger date. CNH has prepared its consolidated financial statements in

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U.S. Dollars and, unless otherwise indicated, all financial data set forth in this annual report is expressed in U.S. Dollars.

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 (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 and China. In this report, management estimates of market share information are generally based on registrations of equipment in most of Europe 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.

\* \* \* \* \*

**Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995**

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this report, including statements regarding our competitive strengths, business strategy, future financial position, budgets, projected costs and plans and objectives of management, are forward-looking statements. These statements may include terminology such as may, will, expect, should, intend, estimate, anticipate, believe, continue, on track, or similar.

Our outlook is predominantly based on our interpretation of what we consider key economic assumptions and involves risks and uncertainties that could cause actual results to differ. Crop production and commodity prices are strongly affected by weather and can fluctuate significantly. Housing starts and other construction activity are sensitive to interest rates and government spending. Some of the other significant factors for us include general economic and capital market conditions, the cyclical nature of our business, customer buying patterns and preferences, foreign currency exchange rate movements, our hedging practices, our and our customers' access to credit, actions by rating agencies, political uncertainty and civil unrest or war in various areas of the world, pricing, product initiatives and other actions taken by competitors, disruptions in production capacity, excess inventory levels, the effect of changes in laws and regulations (including government subsidies and international trade regulations), technological difficulties, results of our research and development activities, changes in environmental laws, employee and labor relations, pension and health care costs, energy prices, real estate values, animal diseases, crop pests, harvest yields, government farm programs and consumer confidence, housing starts and construction activity, concerns related to modified organisms and fuel and fertilizer costs. Additionally, our achievement of the anticipated benefits of our profit improvement initiatives depends upon, among other things, industry volumes as well as our ability to effectively rationalize operations and to execute our multiple brand strategy. Further information concerning factors that could significantly affect expected results are included in this Form 20-F for the year ended December 31, 2003.

We can give no assurance that the expectations reflected in our forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in these forward-looking statements. All written and oral forward-looking statements attributable to us are expressly qualified in their entirety by the factors we disclose that could cause our actual results to differ materially from our expectations. We undertake no obligation to update or revise publicly any forward-looking statements.

**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, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 has been derived from the audited consolidated financial statements of CNH included herein. Financial data as of December 31, 2001, 2000 and 1999 and for the years ended December 31, 2000 and 1999 has been derived from our published financial statements.

CNH acquired Case on November 12, 1999, which approximately doubled the annual revenues and asset base of CNH. The accompanying selected financial data reflects the historical operating results of CNH, including the results of operations of Case since November 12, 1999. As a result of this acquisition, the historical financial statements may not be comparable from year to year.

CNH has presented the selected historical financial data as of and for each of the five years ended December 31, 2003 in accordance with U.S. GAAP.

|  | For the Years Ended December 31,     |                     |                 |                  |                 |
|--|--------------------------------------|---------------------|-----------------|------------------|-----------------|
|  | 2003                                 | 2002                | 2001            | 2000             | 1999            |
|  | (in millions, except per share data) |                     |                 |                  |                 |
| <b>Statements of Operations Data:</b>  |                                      |                     |                 |                  |                 |
| Revenues:  |                                      |                     |                 |                  |                 |
| Net sales  | \$ 10,069                            | \$ 9,331            | \$ 9,030        | \$ 9,337         | \$ 5,949        |
| Finance and interest income  | 597                                  | 609                 | 685             | 704              | 324             |
| <b>Total revenues</b>  | <b>\$ 10,666</b>                     | <b>\$ 9,940</b>     | <b>\$ 9,715</b> | <b>\$ 10,041</b> | <b>\$ 6,273</b> |
| Net income (loss) before cumulative effect of change in accounting principle, net of tax               | \$ (157)                             | \$ (101)            | \$ (332)        | \$ (381)         | \$ 148          |
| Cumulative effect of change in accounting principle, net of tax  |                                      | (325)               |                 |                  |                 |
| <b>Net income (loss)</b>   | <b>\$ (157)</b>                      | <b>\$ (426)</b>     | <b>\$ (332)</b> | <b>\$ (381)</b>  | <b>\$ 148</b>   |
| Per share data:  |                                      |                     |                 |                  |                 |
| Basic earnings (loss) per share before cumulative effect of change in accounting principle, net of tax | \$ (1.19)                            | \$ (1.05)<br>(3.35) | \$ (6.00)       | \$ (8.95)        | \$ 4.95         |



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| Cumulative effect of change in accounting principle, net of tax                              |           |           |           |           |         |
|--|-----------|-----------|-----------|-----------|---------|
| Basic earnings (loss) per share  | \$ (1.19) | \$ (4.40) | \$ (6.00) | \$ (8.95) | \$ 4.95 |
| Diluted earnings (loss) per share before cumulative effect of change in accounting principle |           |           |           |           |         |
|  | \$ (1.19) | \$ (1.05) | \$ (6.00) | \$ (8.95) | \$ 4.85 |
| Cumulative effect of change in accounting principle, net of tax                              |           | (3.35)    |           |           |         |
| Diluted earnings (loss) per share  | \$ (1.19) | \$ (4.40) | \$ (6.00) | \$ (8.95) | \$ 4.85 |
| Cash dividends declared per common share   |           |           |           |           |         |
|  | \$ 0.25   | \$ 0.50   | \$ 0.50   | \$ 2.75   | \$ 2.75 |

|  | As of December 31, |           |           |           |           |
|--|--------------------|-----------|-----------|-----------|-----------|
|  | 2003               | 2002      | 2001      | 2000      | 1999      |
|  | (in millions)      |           |           |           |           |
| <b>Balance Sheet Data:</b>                   |                    |           |           |           |           |
| Total assets                                 | \$ 18,661          | \$ 16,760 | \$ 17,212 | \$ 17,577 | \$ 17,678 |
| Short-term debt                              | \$ 2,110           | \$ 2,749  | \$ 3,217  | \$ 4,186  | \$ 4,953  |
| Long-term debt, including current maturities | \$ 4,886           | \$ 5,115  | \$ 6,646  | \$ 5,539  | \$ 4,558  |
| Common shares, 2.25 par value                | \$ 309             | \$ 305    | \$ 143    | \$ 143    | \$ 88     |
| Common shares outstanding                    | 133                | 131       | 55        | 55        | 30        |
| Shareholders' equity                         | \$ 4,874           | \$ 2,761  | \$ 1,909  | \$ 2,514  | \$ 1,710  |

**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.***

CNH combines 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 allows for a reduction in product platforms, consolidation of suppliers and a consolidation and rationalization of manufacturing facilities and the parts depots that serve both the manufacturing operations and the networks.

In total, our cost and efficiency actions for 2003 through 2006 should contribute approximately \$650 million in additional profit improvements as compared with the base levels of revenues and costs incurred by CNH for the full year 2002. This estimate is not based on any assumption of an appreciable increase in industry volumes from 2002 levels. In the year ended December 31, 2003, we achieved \$225 million of the \$650 million of expected additional profit improvements.

Our ability to realize the full extent of the expected profit improvement levels depends on, among other things, our ability to complete our cost-containment initiatives. See Item 4.B. Business Profit Improvement Initiatives. Our failure to complete these 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.

*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 our new product launches 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 from our existing products. You should read the discussion under the heading Item 4.B. Business 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.

***Production capacity constraints and inventory fluctuations could adversely affect our results of operations.***

Changes in demand for our products and our program to rationalize our manufacturing facilities and realign our manufacturing process have at times resulted in, and may in the future result in, temporary constraints upon our ability to produce the quantities necessary to fill orders and thereby deliver products in a timely manner. A prolonged delay in our ability to fulfill orders on a timely basis could adversely affect our operations. In addition, 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. Moreover, our continuous development and production of new products often involves the retooling of existing manufacturing facilities. This retooling may limit our production capacity at certain times in the future, which could adversely affect our results of operations.

Our sales are influenced by the volume of inventories of finished products maintained by us and our dealers. Our management believes that we and our dealers have generally managed inventories in a relatively prudent manner, which could cause us to lose certain sales as a result of product unavailability at certain locations during periods of increased demand. However, in periods of sudden declines in industry demand, larger inventories could lead to substantial excesses in supply over demand, causing future reductions in our manufacturing schedules and adversely affecting our operating results.

***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 positive, we cannot be certain that 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, our contract with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the UAW) expires in May 2004. Negotiations began in the first quarter of 2004.

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.

These 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.***

Health care inflation rates have increased significantly, leading to higher costs for both active and retired employees. Should such inflation rates continue, we may record additional charges or make changes to our benefit plans. In addition, fluctuations in the financial markets, primarily during 2000 through 2002, had caused the valuation of the assets in our defined benefit pension plans to decrease, while our liability has increased, which has resulted in an under-funding in some of our defined benefit pension plans and the recognition of a minimum pension liability on our balance sheet.

As of December 31, 2003, our pension benefit obligations were underfunded by \$1.0 billion and our other postretirement benefit obligations were underfunded by \$1.5 billion. Benefits for salaried employees under our U.S. defined benefit plans were frozen for pay and service as of December 31, 2000, and U.S. employees now receive benefits only under our defined contribution plans. Our U.S. and Canadian employees hired after January 1, 2001 and January 1, 2002, respectively, are not eligible for postretirement health and life insurance under our plan. Beginning in 2005, a defined dollar benefit will apply to salaried retiree medical coverage. Once the defined dollar benefit is reached, contributions paid by the retirees will increase by an amount equal to any premium cost increases above that amount. Despite these measures, we cannot assure you that future fluctuations in the financial markets will not result in additional under-funding of our defined benefit pension plans and require contributions by us that could adversely affect our results of operations and financial position.

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

Beginning in 1998, as part of a diversification strategy for its Financial Services operations, Case expanded into the financing of trucks and trailers, marine vessels and agricultural and construction equipment sold through its competitors' dealers. As a result of a deterioration in these markets, we recorded significant losses in 2000, 2001 and 2002 in our Financial Services operations. Non-core financing activities were discontinued during 2001. During 2002 and 2003, the non-core portfolio decreased 39% and 41% respectively due to liquidations and write-offs. We believe we have established adequate reserves for possible losses on these receivables from our non-core financing activities; 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. 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. Similarly, changes in interest rates affect our results of operations by increasing or decreasing borrowing costs and finance income. In 2003, the generally lower interest rate environment in our principal currencies had a favorable impact on our profitability; however, they were offset by a less favorable debt mix and by higher spreads on our borrowings. We mitigate these risks, which arise in the ordinary course of business, through the use of financial hedging instruments. We have historically entered into, and expect to continue to enter into hedging arrangements, a substantial portion of which are with counterparties that are members of the Fiat Group. 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 members of the Fiat Group, could adversely affect us.

Despite our use of financial hedging transactions, we cannot assure you that 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 or elimination of current price protections for commodities in the European Union 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.

***You are unlikely to be able to seek remedies against Arthur Andersen LLP, our former independent auditor.***

The audited consolidated financial statements and schedules of CNH for the year ended December 31, 2001 included in this Annual Report have been audited by Arthur Andersen LLP, independent accountants, whose report thereon is also included in this Annual Report. On June 15, 2002, Arthur Andersen was convicted of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corporation. On August 31, 2002, Arthur Andersen ceased practicing before the SEC. SEC rules require us to present our audited financial statements in various SEC filings, along with Arthur Andersen's consent to our inclusion of its audit report on our financial statements for 2001 included in this Annual Report, and we do not expect to receive Arthur Andersen's consent in any filing that we make with the SEC. Without this consent, it may become more difficult for you to seek remedies against Arthur Andersen. Furthermore, relief in connection with claims, which may be available to investors under the federal securities laws against auditing firms may not be available as a practical matter against Arthur Andersen. You are unlikely to be able to exercise effective remedies or judgments against Arthur Andersen.

**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.

*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; and

used equipment prices.

The nature of the agricultural and construction equipment industries is such that a downturn in demand can occur suddenly, resulting in excess inventories and 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 additional restructuring. Our profit improvement initiatives will require additional restructuring charges in future periods.

***Changes in European agricultural policy could adversely affect industry sales of agricultural equipment.***

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Government subsidies are a key income driver for farmers raising certain commodity crops. The Common Agricultural Policy ( 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 World Trade Organization ( WTO ). 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. We do not expect any change in the CAP for 2004. The revisions to the Common Agricultural Policy delegates to individual states of the EU15 more control over the structure and level of agricultural subsidy payments. The EU15 countries may individually decide to defer implementation from 2005 to 2007, may fully or partially decouple payments from production and may divert a proportion of funds to rural development. Given the disparate structure and production of farm holdings in Europe, the impact of this CAP reform will only become clear as individual governments determine in detail how and when they will implement changes.

Transition plans for the ten countries joining the EU in 2004 are in place and are not affected by this reform. However, 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, farmers could delay purchasing agricultural equipment, causing a further 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, particularly in North America, Europe, Australia and Latin America. We compete primarily with large global full-line suppliers, including Deere & Company and AGCO/VALTRA; manufacturers focused on particular industry segments, including Kubota Corporation and various implement manufacturers; regional manufacturers in mature markets, including Claas KgaA/Renault, ARGO Group and SAME Duetz-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 is highly competitive, worldwide. We compete primarily 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 Ltd., Sumitomo Construction, Manitou B.F., Merlo UK Ltd., Gehl Company, Mustang Manufacturing Company, Inc., Yanmar Agricultural Equipment Co. Ltd. and Kubota Corporation.

In 2002, we terminated our European alliance with Hitachi Construction Machinery, Ltd. ( 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. 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 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.

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.

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.

***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.

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. Market demand for under 40 horsepower tractors has continued to increase dramatically, from about 29,000 units in 1992 to over 130,000 units in 2003. These same customers have started to demand higher horsepower tractors in the 40- to under 100-horsepower segment, in which industry volumes in North America also have tended to increase since 1992. Market demand in this segment increased until 1998 then declined slightly in 1999. Since 1999 demand has continued to increase through 2003. For higher horsepower tractors and combines, which generally have the highest margins, market demand peaked in 1997. Demand dropped sharply in 1998 and 1999 with a further slight decline in 2000. Demand increased slightly in 2001 but declined in 2002 and was essentially stable in 2003.

In Western Europe, industry unit sales of tractors last hit a low in 1993 and then increased steadily through the mid-1990 s, peaking in 1999. Since 1999 industry sales of tractors generally have been declining except for a slight up-tick in 2002. Industry unit sales in 2003 were approximately 13% below the 1999 peak. Industry unit sales of combines peaked in 1998 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.

In Latin America tractor industry volumes increased from 1996 thru 2002, but declined in 2003. Combine industry unit volumes also have increased since 1995 and volumes in 2003 were the highest in at least the last ten years. In markets in the rest of the world tractor volumes peaked in 2000, declined sharply in 2001, but have recovered in 2002 and again in 2003. Combine volumes peaked in 1997, declined in 1998 and remained low through 2000, recovering in 2001 and 2002 but declined again in 2003.

In total, worldwide demand for agricultural tractors hit a low in 1992 and has been on an increasing trend since. Volumes reached a peak in 2000 but declined in 2001. Volumes increased in 2002 and again in 2003, reaching levels higher than in 2000. Combine industry volumes reached a low point in 1991, increasing to a high in 1998 and then dropping in 1999. Since 1999 worldwide combine industry volumes have remained relatively flat, in total.

In response to the lower market levels of higher horsepower tractors and combines particularly in North America and Western Europe, many companies, including us, have undertaken restructuring programs to reduce capacity. We cannot assure you that industry sales of higher horsepower tractors and combines in North America and Western Europe will not continue to experience declines or that unit sales of the higher horsepower tractors and combines will ever return to levels experienced in the 1998 - 1999 period.

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 been in general decline since the peaks, although sales of both heavy and light equipment increased in 2003 compared with 2002. In Western Europe industry sales of both heavy and light equipment increased from the trough of 1993 until peaking in 2000. Industry sales have declined since, except for industry sales of heavy equipment which improved slightly in 2003. 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. As with the agricultural equipment industry, we cannot assure you that the North American and Western European construction equipment industry will return to their peak demand levels of 1998 or 2000.

In 2002, we recorded a one-time, non-cash charge of approximately \$325 million 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 from the time of the merger through 2001. With the improvement in the construction equipment market in 2002 and 2003, no additional impairment has occurred. We cannot assure you that further decreases in demand will not result in additional impairment charges by our various reporting units in the future.

A decrease in industry-wide demand for agricultural and construction equipment or a lack of recovery in the number of unit sales could result in lower sales of our equipment and hinder our ability to operate profitably.

We have a significant deferred tax asset recorded as a result of U.S. Federal tax loss carryforwards, which we believe it is more likely than not that we will utilize. This determination was based, in part, on the expectation of sufficient future U.S. taxable income prior to the years in which the carryforwards expire. A further decrease in demand, a lack of recovery in unit sales or other factors could affect the operating results of our various reporting units. This could result in us determining that it is more likely than not that some or all of the deferred tax assets currently recorded will not be realized. This would adversely affect our results of operations and financial position.

***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, there has been consolidation of some commercial rental agencies into nationwide rental conglomerates, some of which have experienced financial distress and sought bankruptcy protection. These larger rental companies have become sizeable purchasers of new equipment and can have a significant impact on total industry sales, particularly in light construction equipment.

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 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.

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.

#### **Risks Related to Our Indebtedness**

***Our indebtedness could adversely affect our financial condition.***

As of December 31, 2003, we have an aggregate of \$7.0 billion of outstanding total consolidated indebtedness, and our shareholders' equity was \$4.9 billion. In addition, we are heavily dependent on ABS transactions, both term and asset backed commercial paper transactions, to fund our Financial Services activities in North America and Australia.

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; and

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.

***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 largely 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 indenture governing our 9 1/4% 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 of the 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. 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, 2003, 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 CNH for so long as it controls CNH and, in any event, at least until December 31, 2004.

***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, Case Credit Corporation and New Holland Credit Company suffered a series of credit rating 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 New Holland Credit Company, Case Credit Corporation 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.

On June 26, 2003, Fiat announced the Industrial and Financial Plan to Relaunch the Fiat Group (the Fiat Relaunch Plan). Following this announcement, Standard & Poor's announced that it was placing the BB corporate credit ratings of CNH and Case, as well as Fiat's BB+ corporate credit rating, on credit watch with negative implications.

On July 7, 2003, Moody's downgraded Fiat's long-term senior unsecured debt ratings to Ba3 from Ba1, with a negative outlook. At the same time, Moody's assigned Fiat a Ba3 senior implied rating, also with a negative outlook. Also on July 7, 2003, Moody's lowered the senior debt ratings of Case and Case Credit Corporation to Ba3 from Ba2, with a negative outlook. On July 8, 2003, Fitch Ratings downgraded Fiat's senior unsecured debt rating to BB from BB+, with a negative outlook.

On July 11, 2003, Standard & Poor's lowered its corporate credit ratings on CNH and related entities to BB- from BB, with a stable outlook, and removed them from credit watch. Also on July 11, 2003, Standard & Poor's lowered Fiat's long-term corporate credit rating to BB- from BB+, with a stable outlook, and removed it from credit watch.

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

We cannot assure you that the rating agencies will not further downgrade our or Fiat's credit ratings. These downgrades have already affected our ability to borrow funds, and 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.

***We are exposed to Fiat credit risk due to our participation in the Fiat Group's cash management system.***

Like other companies that are part of multinational groups, we participate in a group-wide cash management system with other members of 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 to a central pooling account. Our positive cash balances, 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 balances 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 pool or may benefit from guarantees of payment by certain Fiat Group

members. As a result, we are exposed to Fiat Group credit risk to the extent that Fiat is unable to return any such offset amounts at the beginning of the following business day, and in the event of a bankruptcy or insolvency of Fiat (or any other Fiat Group member in the jurisdictions with set off agreements) 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 funds. We cannot assure you that in the future the operation of this cash management system may not adversely impact our ability to recover our funds to the extent one or more of the above-described events were to occur.

***The performance of our Financial Services business is dependent on access to funding at competitive rates.***

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 our Financial Services business' ability to continue to offer attractive financing to its dealers and end-user customers. In particular, 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 our Financial Services results of operations and financial position. On a global level, we will continue to evaluate 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 likely that there would be a material impact on our Financial Services results of operations, financial position, liquidity and capital resources.

**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.***

Fiat owns, indirectly through Fiat Netherlands, approximately 84% of our outstanding common shares as of December 31, 2003. Additionally, Fiat and an affiliate of Fiat own 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, 2003, 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. 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. The New York Stock Exchange listed company guidelines require that we maintain a



minimum of two independent directors on our board of directors. We currently have six independent 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.

***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. Fiat has agreed to maintain its existing treasury and debt financing arrangements with us for as long as it maintains control of us and, in any event, at least until December 31, 2004. 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. 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 purposes of service of process in the United States is Mr. Roberto Miotto, 100 South Saunders Road, Lake Forest, Illinois 60045 (telephone number: +(1)-847-955-3910).

We combine the operations of New Holland and Case as a result of their business merger on November 12, 1999. Effective with the closing of the merger, New Holland changed its name to CNH. 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 on a stand-alone basis, or (2) the continued use of the New Holland and Case product brands.

##### ***B. Business Overview.***

###### **General**

We believe that we are one of the largest manufacturers of agricultural equipment in the world based on units sold, one of the largest manufacturers of construction equipment based on units sold and have one of the industry's largest equipment finance operations. We organize our operations into three business segments: agricultural equipment, construction equipment and financial services.

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 Construction, Fiat Kobelco, FiatAllis, Kobelco and O&K brand names. We manufacture our products in 45 facilities throughout the world and distribute our products in approximately 160 countries through an extensive network of over 12,000 dealers and distributors.

We are the only 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

businesses. Our global scope and scale includes integrated engineering, manufacturing, marketing and distribution of equipment on five continents.

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, and 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, 2003, our sales of agricultural equipment represented approximately 67% of our net revenues, sales of construction equipment represented approximately 27% of our net revenues and Financial Services represented approximately 6% 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, 2003, approximately 41% of our net sales of agricultural equipment were generated from sales in North America, approximately 35% in Western Europe, approximately 8% in Latin America and approximately 16% in the Rest of World. For the same period, approximately 44% of our net sales of construction equipment were generated in North America, approximately 41% in Western Europe, approximately 5% in Latin America and approximately 10% in the Rest of World. Our broad manufacturing base includes facilities in Europe, Latin America, North America, Australia, China, India and Uzbekistan.

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. To facilitate the sale of our products, we offer wholesale financing to 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 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, 2003, our total managed receivables were approximately \$12 billion.

## Recent Developments

Our Board of Directors recommended a dividend of \$0.25 per common share on March 19, 2004. The dividend will be payable on May 25, 2004 to shareholders of record at the close of business on May 18, 2004. Declaration of the dividend is subject to approval at our Annual General Meeting, which will be held on April 26, 2004.

## 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 impacted by the volume of acreage planted, commodity and/or livestock prices, crop yields, farm operating expenses, including fuel and fertilizer costs, 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 equipment selling season, which begins in May and June. Similarly, in the Southern Hemisphere, equipment dealers generally order between September and November for the primary 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 the most geographically diversified manufacturer of agricultural equipment and our broad geographic network of dealers allows us to supply customers in each of these significant markets 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 cyclicity 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 Common Agricultural Policy 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 Common Agricultural Policy of the European Union was last revised in 2000 and typically is revised about every seven years, depending on the timing of changes to U.S. farm policy and negotiations conducted by the WTO. 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. There will be no change in the CAP for 2004. The new program will be introduced in 2005 and will be gradually phased in over two years. The current available information on the EU reforms is general in nature, and it will take time for the European Commission and national governments to determine

and enact the precise changes to the CAP program. However, 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. Also, it is unclear how this new program will apply to the ten new member countries joining the EU in 2004. With the uncertainty created by these changes and the continuing negotiations of the Doha round of the WTO talks, farmers could delay purchasing agricultural equipment, causing a further decline in industry unit volumes.

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

## [AGRICULTURAL EQUIPMENT SHIPMENTS GRAPH]

|      | North America<br>Tractors | North America<br>Over 40 HP<br>Tractor | Western Europe<br>Tractors | North America<br>Combines | Western Europe<br>Combines |
|------|---------------------------|--|----------------------------|---------------------------|----------------------------|
| 1991 | 106426                    | 67845                                  | 175366                     | 11227                     | 10864                      |
| 1992 | 99029                     | 62704                                  | 154553                     | 10469                     | 8647                       |
| 1993 | 110517                    | 69992                                  | 142976                     | 11388                     | 6737                       |
| 1994 | 119228                    | 73423                                  | 154389                     | 11097                     | 6638                       |
| 1995 | 121014                    | 75334                                  | 163780                     | 11277                     | 7117                       |
| 1996 | 128856                    | 78357                                  | 180793                     | 11966                     | 9081                       |
| 1997 | 144616                    | 89046                                  | 178885                     | 12965                     | 10246                      |
| 1998 | 150594                    | 88121                                  | 180949                     | 12441                     | 11399                      |
| 1999 | 153629                    | 76061                                  | 185562                     | 6584                      | 9433                       |
| 2000 | 165359                    | 78313                                  | 173479                     | 6909                      | 7454                       |
| 2001 | 181663                    | 85679                                  | 161547                     | 7585                      | 6579                       |
| 2002 | 183292                    | 81384                                  | 169543                     | 6044                      | 7477                       |
| 2003 | 219271                    | 88342                                  | 161197                     | 5887                      | 6966                       |

Sources: North America – Association of Equipment Manufacturers; Canadian Farm and Industrial Equipment Institute. Western Europe Management estimates based on equipment registrations in each country.

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 and units of equipment sold. The agricultural equipment industry, in most markets, began to experience an increase in demand in the early 1990s 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. This trend was maintained through 1997, but in North America the market started to decline in 1998 as a result of unfavorable economic conditions in certain parts of the world, lower commodity prices and reduced aid to developing countries. Worldwide industry unit demand for over-40 horsepower tractors peaked in 1999, as global prices for agricultural commodities continued to decline. However, demand for combines in Western Europe and North America declined significantly. In 2000, total worldwide demand continued to increase based on the strength of the

demand for the under-40 horsepower tractors, but demand for over-40 horsepower tractors started to decline and combine sales also declined. Since 2000 worldwide market demand for tractors has continued to increase, on the strength of the under-40 horsepower tractor demand. Market demand for higher horsepower tractors and combines has remained below 2000 levels although demand for tractors did improve somewhat in 2003.

In North America, and to a lesser extent in certain other regions, there has been significant growth in the under 40-horsepower tractor industry. In 2003, approximately 145,200 under 40-horsepower tractors were sold worldwide, compared to approximately 116,500 in 2002, 93,900 sold in 1999 and 36,300 sold in 1992. The growth in this segment has been due primarily to the generally favorable economic conditions in North America, which accounted for 130,900 of the under-40 horsepower tractors sold in 2003.

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. Market demand for under-40 horsepower tractors has continued to increase dramatically, from about 29,000 units in 1992 to over 130,000 units in 2003. These same customers have started to demand higher horsepower tractors in the 40- to under 100-horsepower segment, in which industry volumes in North America also have tended to increase since 1992. Market demand in this segment increased until 1998 then declined slightly in 1999. Since 1999 demand has continued to increase through 2003. For higher horsepower tractors and combines, which generally have the highest margins, market demand peaked in 1997. Demand dropped sharply in 1998 and 1999 with a further slight decline in 2000. Demand increased slightly in 2001 but declined in 2002 and was essentially stable in 2003. 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.

In Western Europe, industry unit sales of tractors last reached their low point in 1993 and then increased steadily through the mid-1990 s, peaking in 1999. Since 1999 industry sales of tractors generally have been declining except for a slight up-tick in 2002. Industry unit sales in 2003 were approximately 13% below the 1999 peak. Industry unit sales of combines peaked in 1998 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.

In Latin America tractor industry volumes increased from 1996 thru 2002, but declined in 2003. Combine industry unit volumes also have increased since 1995 and volumes in 2003 were the highest in at least the last ten years. In markets in the rest of the world tractor volumes peaked in 2000, declined sharply in 2001, but have recovered in 2002 and again in 2003. Combine volumes peaked in 1997, declined in 1998 and remained low through 2000, recovering in 2001 and 2002 but declined again in 2003.

In total, worldwide demand for agricultural tractors hit bottom in 1992 and have been on an increasing trend since. Volumes reached a peak in 2000 but declined in 2001. Volumes increased in 2002 and again in 2003, reaching levels higher than in 2000. Combine industry volumes reached their low point in 1991, increasing to a high in 1998 and then dropping in 1999. Since 1999 worldwide combine industry volumes have remained relatively flat, in total.

#### *Construction Equipment*

We divide construction equipment into two principal segments: heavy construction equipment, which is over 12 metric tons, 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, 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 manual work. Product demand in the United States and Europe has generally tended to mirror housing starts, but with lags of six to 12 months. However, the recent financial difficulties and restructuring of national rental companies in North America have adversely influenced demand despite relatively strong levels of housing starts. In areas where the cost of labor is inexpensive relative to other inputs such as 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, is primarily a replacement market that follows cyclical economic patterns. Cycles in the United States and Western Europe tend to be about ten years in duration. The industry in emerging markets generally exhibits an overall growth trend, but with unpredictable and volatile cycles. In prior years, demand for heavy construction equipment in North America had been increasing as interest rates remained relatively stable and the level of government spending on infrastructure projects increased. In Europe, demand had also been increasing, primarily as a result of higher spending by European governments.

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 has 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. The rapid consolidation of local and regional rental companies in North America into national and large regional companies combined with the economic and financial market declines created financial pressures on these market participants. They have, in turn, substantially reduced their new equipment purchases, 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 cyclicity 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 fleets appeared to be increasing their fleets during the second half of 2003.

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 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, most 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:

[CONSTRUCTION EQUIPMENT INDUSTRY SHIPMENT GRAPH]

|      | North America Light<br>CE | Western Europe Light<br>CE | North America Heavy<br>CE | Western Europe Heavy<br>CE |
|------|---------------------------|----------------------------|---------------------------|----------------------------|
| 1991 | 46234                     | 57684                      | 29116                     | 26992                      |
| 1992 | 45524                     | 57684                      | 25425                     | 26992                      |
| 1993 | 56485                     | 51543                      | 31312                     | 20903                      |
| 1994 | 68732                     | 58846                      | 39114                     | 26411                      |
| 1995 | 76244                     | 65621                      | 43783                     | 29957                      |
| 1996 | 84947                     | 65418                      | 44218                     | 23943                      |
| 1997 | 97314                     | 70781                      | 50570                     | 26367                      |
| 1998 | 110375                    | 74640                      | 56516                     | 33256                      |
| 1999 | 117935                    | 89791                      | 54330                     | 36912                      |
| 2000 | 123007                    | 99256                      | 49415                     | 41746                      |
| 2001 | 107037                    | 93706                      | 44267                     | 38012                      |
| 2002 | 94275                     | 87978                      | 41605                     | 33668                      |
| 2003 | 101587                    | 86001                      | 46554                     | 36025                      |

Sources: North America – Association of Equipment Manufacturers; Canadian Farm and Industrial Equipment Institute. Western Europe Management estimates based on shipment data in each country.

Major trends in the construction equipment industry include the transition in machinery usage from crawler dozers to modern 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 in North America and mini-excavators in the Rest of World.

Recent low levels of public spending on new infrastructure, particularly in North America and Western Europe, have limited recent growth in the heavy equipment segments of the market and consequently, the market for light equipment has grown as a percentage of total construction equipment sales.

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 been in general decline since the peaks, although sales of both heavy and light equipment increased in 2003 compared with 2002. In Western Europe industry sales of both heavy and light equipment increased from the trough of 1993 until peaking in 2000. Industry sales have declined since, except for industry sales of heavy equipment which improved slightly in 2003. 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 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 Construction, Fiat Kobelco, FiatAllis, Kobelco and O&K brand names. All of our brands have strong histories of quality and superior performance. We will 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 the world leader in backhoe loaders, second in the world in skid steer loaders and the market leader in Western Europe in crawler excavators. 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 45 facilities throughout the world and distribute our products in approximately 160 countries through an extensive network of over 12,000 dealers and distributors. We are the only 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 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 strong 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, 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. 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 costs and reducing cross-border financing costs and potential penalties, such as withholding taxes. As of December 31, 2003, Fiat provided us with approximately \$2.4 billion in debt, 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 and in any event until December 31, 2004. While no extension of this agreement was formalized as of December 31, 2003 or as of the date of this report, we believe that it is not the current intention of Fiat to withdraw its support of CNH. 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.

### **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 realizing 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 through our global alliance with Kobelco Japan and, in the longer term, in areas such as China and India.

The following are the key elements of our strategy:

#### *Dual Brand Families*

We capitalize on our world-class brand names, Case, Case IH, New Holland, New Holland Construction, Steyr, Fiat Kobelco, FiatAllis, Kobelco and O&K, which represent our dual brand families, Case and New Holland.

The Case and New Holland distribution networks optimize our position in all principal existing markets, and we enhance growth opportunities by entering new market segments, filling out the product lines offered within each brand family. We believe this strategy will maintain a high level of dealer and customer loyalty, enhance our global market position and leverage the combined product portfolio and geographic strength to create cross-selling opportunities among brands.

A key element of this strategy is 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.

#### *Develop Common Components/ Platforms for New Products*

We have developed and are continuing to develop global product lines to support our dual brand families. By using common design elements and sharing capital-intensive components, we are reducing 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. Agricultural Equipment platforms are being reduced from 66 to 35 and Construction Equipment platforms are being reduced from 77 to 39 without reducing the number of final product lines. We intend to use a smaller number of global product platforms with differentiated product features for our different brands. This should permit us to lower product development and manufacturing costs and complexity and increase production efficiencies, while reducing inventories, order-to-delivery cycle times and invested capital requirements.

For the year ended December 31, 2003, approximately 64% of our revenues from the sale of agricultural equipment products and 66% of our revenues from the sale of construction equipment products were derived from new products developed with common components since the merger. By 2005, we anticipate that substantially all of our product revenue, excluding parts, will be from products introduced since the merger. To retain existing customers and attract new customers, we plan to continue to invest in product development to strengthen and broaden our product lines. We plan to:

introduce products with leading-edge technology, such as the new Axial-Flow combines and new lines of backhoe loaders and skid steer loaders;

tailor product offerings for entering new geographic markets and customer segments;

continue emphasis on improved quality, reliability and product simplification; and

pursue complementary product lines through strategic partnerships, joint ventures and acquisitions.

#### *Profit Improvement Initiatives*

CNH 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 product platforms, consolidation of suppliers and a consolidation and rationalization of manufacturing facilities and the parts depots that serve both the manufacturing operations and the networks. In addition, management planned to integrate systems and processes allowing for significant reductions in overhead costs.

In 2002 and again in 2003, we expanded on and extended our original goals. Through year-end 2002, our cumulative merger-related profit improvements totaled approximately \$600 million as compared to the base levels of revenues and costs incurred in the combined equipment operations of New Holland and Case for the full year 1999. These improvements resulted from selling, general and administrative ( SG&A ) savings (\$244 million), purchasing savings (\$182 Million), manufacturing rationalization savings (\$81 million), and the contributions from cross-selling existing products (\$40 million) and margin improvements from new products (\$52 million).

We believe that the continuation of these actions through 2006 will result in additional savings of approximately \$650 million. Margin improvements from our new products, further SG&A reductions, research and development efficiencies and further manufacturing and depot system efficiencies will comprise the majority of the savings. These actions represent improvements as compared with the base levels of revenues and costs incurred by CNH for the full year 2002. This estimate is not based on any assumption of an appreciable increase in industry volumes from 2002 levels. In the year ended December 31, 2003, we achieved \$225 million of the \$650 million of additional profit improvements expected by 2006.

Our consolidated worldwide employment level has declined from approximately 36,000 at the time of the merger in late 1999 to approximately 26,800 at December 31, 2003. This decline of over 26% was achieved despite the addition of employees from acquisitions occurring subsequent to the merger.

*Restructure Manufacturing Process* By consolidating and rationalizing our manufacturing activities, we are reducing excess capacity and firmly focusing each facility, creating a lean, flexible manufacturing system. In addition to downsizing certain of our facilities, we continue to reduce our number of plants, both through required and voluntary divestitures or closures, from 60 at the time of the merger to 39 by the end of 2004, excluding new acquisitions. At December 31, 2003, excluding two new plants obtained via acquisitions, we had 43 plants. In the process, we are redistributing production of various products among the remaining plants to firmly focus each facility on either the production of components or the assembly of one product category across brand families. We are concentrating on certain key technologies or competencies while outsourcing other non-core activities.

During 2003, we recorded \$271 million in restructuring costs for the CNH Merger Integration Plan, including \$268 million in Equipment Operations and \$3 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, costs related to closing, selling, and downsizing existing facilities. See Note 13, Restructuring to the Consolidated Financial Statements for a detailed analysis of our restructuring programs.

*Manufacturing Capacity* We have sought a balance between high capacity utilization and responsiveness to growth opportunities. 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. Our lean manufacturing techniques also improve flexibility by reducing exposure to rapidly changing market demands. We also manage the business cycle by establishing flexible work rules and setting staffing levels that are supported by temporary employees. Manufacturing capacity utilization is projected to increase from approximately 62% utilization at the end of 2003 to approximately 73% utilization by the end of 2006.

*Global Outsourcing* Our global outsourcing improves efficiency and competitiveness in several ways. The benefits of outsourcing include: allowing our investments to focus on core competency operations; leveraging the expertise of our supply base; simplifying manufacturing complexity; reducing exposure to business cycles; and mitigating capital expenditures due to new technology or changes in regulation. Our use of global outsourcing also extends to non-core services such as information systems and maintenance.

*Focused Manufacturing Facilities* Our more focused manufacturing strategy will capitalize on facilities that are focused on manufacturing a single product, to the extent possible. We believe that this approach achieves economies of scale and improved quality.

*Presence Close to Market* We continue to utilize regional manufacturing locations that are strategically located close to our primary markets. This geographic proximity impacts all areas of the supply chain and enhances our responsiveness to changing market demands.

*Maintain/ Improve Quality* Throughout the manufacturing capacity rationalization process, our primary focus has been on maintaining and improving product quality by embedding key quality improvement activities into the process, such as global product development and current product management processes.

*Reduce Purchasing Costs* Our global sourcing strategy calls for a reduction in the number of our global suppliers and the use of common components on our product platforms to continue to reduce our purchasing costs. This will increase the volumes sourced from each supplier, permitting us to reduce our costs and allowing suppliers to realize economies of scale. We have initiated a plan to reduce the number of our suppliers from 6,000 at the time of the merger to 3,000 by the end of 2004. As of December 31, 2003, we have reduced the number of our suppliers to approximately 3,500.

We have been able to achieve cost savings on materials in a number of ways. The merger has permitted us to benefit from the savings associated with higher volume materials purchases on a global basis. In addition, we have reevaluated our global supplier network and, in some cases, changed suppliers to enhance cost savings. Our manufacturing reengineering initiatives have further reduced materials costs through the more efficient design of some of our components. For purposes of this target, our management has classified all materials cost savings as part of our profit improvement initiatives. Materials cost savings were approximately \$8.4 million in 2003.

*Consolidate Parts Distribution Network* We are reducing distribution complexity and costs by reducing the number of global parts depots from 45 to 24 and instituting a new global common parts system. As of December 31, 2003, we had reduced the number of parts depots to 43, excluding two depots added in the Kobelco Japan alliance and our Shanghai joint venture with China's leading producer of agricultural tractors, Shanghai Tractor. 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 are beginning to utilize common CNH packaging. This is further reducing our costs of servicing new products by capitalizing on the common spare parts requirements of the common components in the new products.

*Integrate Systems and Processes to Create a Lean Structure* We have completed our plan to reduce SG&A costs to less than 8.5% of net sales of Equipment Operations two years ahead of schedule. This compares to 10.8% in the first year of operations after the merger, and has been achieved by eliminating duplicative functions and streamlining processes. In addition, with the completion of the majority of the new common platforms for our agricultural products, we will be able to achieve greater efficiencies in our research and development activities. Going forward, we intend to maintain our SG&A costs at approximately 2003 levels as a percentage of net sales. We realized profit improvements from SG&A reductions of approximately \$95 million in 2003.

*Improved Margins from New Products* With the launch of our first all new products based on our common platform strategy, we anticipate realizing further profit improvements in the form of higher margins. In addition, our common product platforms have enabled us to offer through all of our dealer networks certain products previously available only through certain dealers. We estimate we have realized incremental profit margin contributions of approximately \$78 million in 2003 from new products, the majority of which are on common platforms.

*Expand Globally to New Markets*

We view geographic expansion as an additional opportunity for future growth and will consider the profitable expansion into markets characterized by rapidly increasing food, housing and infrastructure demand. On the construction equipment side, our commitment to growth is evidenced by the global alliance with Kobelco Japan. This alliance opened Japan and the other markets of the Asia-Pacific region to CNH-built heavy and light equipment. We have demonstrated our commitment to expansion in our agricultural business through our Shanghai New Holland Agricultural Machinery Corp. Ltd. (Shanghai) joint venture. See Note 3, Acquisitions and Divestitures of Business and Investments to the Consolidated Financial Statements.

*Expand Support of Dealers and Customers Through Our Refocused Financial Services Operations*

Our Financial Services operations are 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 exited the commercial lending and retail financing activities outside our own dealer networks and reduced the scope of our operating lease business. These actions are expected to generate approximately \$400 million in positive cash flow through asset runoff between 2004 and 2006. We are concentrating on maintaining and enhancing the quality of our core portfolio through a focus on fundamental underwriting, processing and monitoring capabilities, augmented by intensive follow-up and remarketing efforts in troubled situations. Our continued access to the U.S., Canadian and Australian ABS markets is evidence of the quality of our retail receivables portfolio, and we seek to broaden our access to other retail and wholesale ABS opportunities. We believe we are maintaining a conservative capital structure while continuing to pay dividends to Equipment Operations out of current Financial Services earnings. Finally, we are continually pursuing further systems and process efficiencies, striving to reduce our Financial Services SG&A costs to less than one percent of managed assets.

We plan to expand our support to dealers and customers in as many areas of the world as is feasible using minimal amounts of invested capital. Partnerships similar to our arrangement entered into in 2002 with

BPLG, which broadened our product offerings throughout Europe and significantly reduced our current and future capital requirements, will continue to be evaluated in other regions.

In total, we believe these actions should result in an improvement in the results of our Financial Services activities through 2006.

### **Restructuring**

Our management formulated a plan to integrate the operations of the Case and New Holland businesses at the time of the merger. Our goal was to divest or close more than 30% of our manufacturing locations, including those required to be divested by the regulatory authorities, and integrate our manufacturing systems, reduce capacity and increase capacity utilization. In addition, we planned to close approximately 14 of our 45 parts depots while migrating to one global parts system and common parts packaging for parts that could be utilized by multiple brands or distribution networks. As of December 31, 2003, we have closed 17 plants and 11 parts depots. Through the consolidation of all functional areas, and including the Kobelco Japan alliance and our Shanghai joint venture, our employment levels are down from approximately 36,000 at the time of the merger to approximately 26,800 at December 31, 2003, a reduction of approximately 26%.

### **Competition**

The agricultural equipment industry is highly competitive, particularly in North America and Europe. We compete primarily with large global full-line suppliers, including Deere & Company and AGCO/ VALTRA; manufacturers focused on particular industry segments, including Kubota Corporation and various implement manufacturers; regional manufacturers in mature markets, including Claas KgaA/Renault, ARGO Group and SAME Duetz-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 is highly competitive, particularly in Western Europe, North America, Latin America and the Asia-Pacific region. We compete primarily 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 Ltd., Sumitomo Construction, Manitou B.F., Merlo UK Ltd., Gehl Company, Mustang Manufacturing Company, Inc., Yanmar Agricultural Equipment Co. Ltd. and Kubota Corporation.

We believe that multiple factors influence a buyer's choice of equipment. These factors include brand loyalty, product performance, availability of a full product range, the strength and quality of a company's dealers, 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, large numbers of Construction Equipment products, such as telehandlers, skid steer loaders and backhoe loaders, are sold to agricultural equipment customers. We also sell tractors under the Steyr brand in Western Europe.

In order to capitalize on customer loyalty to dealers and our company, relative distribution strengths and historical brand identities, we continue to use the Case IH, Steyr (tractors only) and New Holland brands, and to produce equipment in the historical colors of each brand. We believe that these brands enjoy high levels of brand identification and loyalty among both customers and dealers. Although new generation tractors will have a higher percentage of common mechanical components, each brand and product remains significantly differentiated by color, interior and exterior styling, internal operator features and model designation. In addition, flagship products such as row crop tractors and large combine harvesters have significantly greater differentiation. Distinctive features that are specific to a particular brand such as the Supersteer® axle for New Holland, the Case IH tracked four wheel drive tractor, Quadtrac®, and front axle mounted hitch for Steyr have been retained as part of each brand's identity.

*Tractors* Tractors are used to pull, push and provide power for farm machinery and other agricultural equipment. Tractors are classified by horsepower size. We manufacture and market a broad range of tractors under the Case IH, New Holland and Steyr brands. Tractors represented approximately 48% of our sales of agricultural equipment in 2003.

*Combine Harvesters* Combine harvesters are large, self-propelled machines used for harvesting coarse and cereal grain crops, primarily soybeans, corn, wheat, barley, oats and rice. These machines cut, convey, thresh and clean grain. We offer two basic harvesting technologies, rotary and conventional, each of which possesses advantages with respect to certain crops and conditions. Our recently launched CX conventional combine and CR rotary combine are the first of a new generation of modular combines designed so that either of the two different threshing systems can be installed in the same basic combine frame.

*Other Key Product Lines* Hay and forage equipment is used primarily to harvest and mow, package and condition hay and forage crops for livestock feed. This product line includes: self-propelled windrowers and tractor-powered mower/conditioners, hay tedders and rakes, round balers, square balers, and forage harvesters which may be either self-propelled or pulled by a tractor. We also produce and market a full line of seeding and planting equipment; tillage equipment; sprayers; grape harvesters; sugar cane harvesters; and cotton pickers.

*Parts Support* We offer a full line of parts for all of our various agricultural equipment product lines.

### *Construction Equipment*

Our present brand and product portfolio is the heritage of many companies that have been merged into the global Case or New Holland brand families. Case Construction provides a full line of products on a global scale. The New Holland family has a regionalized focus capitalizing on heritage brand names and customer relationships. For example, Fiat Kobelco focuses on the Japanese-technology segment of the European market, O&K focuses on the segment of the Western European market that prefers German-developed technology and FiatAllis has a strong full-line offering, which serves the Latin American market.

Our new generation products, currently being developed and introduced, share common components to achieve economies of scale in research and development ( R&D ) and manufacturing. We differentiate these products based on the relative product value and volume in areas such as precision of handling, productivity, operator controllability, product serviceability, color and styling to preserve the unique identity of each brand.

### Heavy Construction Equipment

*Crawler Excavators* Crawler excavators are anthropomorphic machines on a 360-degree rotating crawler tread base equipped with one arm that can perform a wide variety of applications with extremely precise control by the operator. Excavators are classified by the weight of the machine and heavy crawler excavators weigh more than 12 metric tons. Excavators are versatile machines that can utilize a wide variety of attachments and are very efficient in terms of operating cost per ton of earth moved. Generally, the crawler excavator is the principal heavy construction equipment product that draws customers into dealerships. Upon purchasing a particular excavator, they tend to purchase additional heavy construction products of the same brand to simplify maintenance and service requirements. Crawler excavators are the most popular construction equipment machine in the Asia-Pacific market.

*Wheeled Excavators* Wheeled excavators are a specialty excavator product on a wheeled base rather than a crawler base, typically used in the Western European market. Wheeled excavators, like backhoes, are self-transporting, while crawler excavators must be transported by truck from location to location.

*Wheel Loaders* Wheel loaders are four wheel drive articulated machines equipped with a front loader bucket. The engine is located behind the driver for better operator visibility. Wheel loaders are classified by engine horsepower and we offer a broad product range from 80-horsepower to 450-horsepower. One of the more traditional earth moving machines, wheel loaders also are popular for non-construction applications such as bulk material handling, waste management and snow removal, contributing to a more stable level of industry demand for these products. We believe that we hold the number four position in the world wheel loader market.

*Other Key Product Lines* In addition, we offer a full range of heavy equipment product lines including wheeled excavators, graders for all applications, dozers, and both articulated and rigid dumpers.

*Parts Support* We offer a full line of parts for all of our various heavy construction equipment product lines.

### Light Construction Equipment

*Backhoe Loaders* Backhoe loaders, based on a tractor shaped chassis, combine two of the most important operations of earth-moving equipment, loading and excavating. Our backhoe loaders range from the newest mini-backhoe loader designed for light maintenance and landscaping activities to the largest four wheel drive, four wheel steering machine, which combines the excavating capability of a mini-excavator with the loading capacity and maneuverability of a compact wheel loader. The backhoe loader is one of the most popular light equipment products in the North American market, with a fundamental role in construction applications where flexibility and mobility are required.

*Skid Steer Loaders* The skid steer loader is a versatile, compact four-wheeled machine. It can be considered a tool carrier with a wide array of tool-type attachments that can be utilized for a variety of operations, such as loading, digging, cleaning, snow removal, boring, lifting, transporting, towing or planting trees. Skid steer loaders are classified by their lifting capacity. Our products cover all market segments from 500 pounds to over 3,100 pounds lifting capacity. We are the second largest producer of skid steer loaders in the world and offer industry leading products in each of the two different lifting arm designs, parallel lift and radial lift. North America is the largest market for this product, accounting for over 75% of the world demand.

*Mini-Excavators* Mini-excavators include all excavators that weigh less than 12 tons. Mini-excavators are the most popular light equipment product in the Western European and Japanese markets. Our new global alliance partner, Kobelco Japan, is a world leader in mini-excavators and is the developer of the short radius technology, which allows the machine's arm to turn 360 degrees within the space of its own tracks. This flexibility creates additional opportunities for machine usage in extremely tight working conditions.

*Other Key Products* In addition, we offer a full range of compact wheel loaders and telehandlers, which are four wheel drive, four wheel steering machines popular in Europe, equipped with a telescoping arm

designed for lifting, digging and loading. Smaller telehandler machines are often used in agricultural applications while larger machines are often used for industrial and construction applications. Both can accommodate a wide range of attachments.

*Parts Support* We offer a full line of parts for all of our various light construction equipment product lines.

#### *New Products and Markets*

We continuously review opportunities for the expansion of our product lines and the geographic range of our activities. To this end, we are enhancing our new product development program by using common components for our different product lines. Using common components allows us to balance the benefits of product differentiation with the efficiency achieved through greater manufacturing volumes. Common components allow us to preserve the strengths of the various brands, while reducing the total number of product platforms and generating significant cost savings.

In 2003, 64% of our revenues from the sale of agricultural equipment products and 66% of our revenues from the sale of construction equipment products were derived from new products developed with common components since the merger. In 2002, these percentages were 30% and 53%, respectively. The primary application of this strategy in 2003 was the new high horsepower all-purpose tractors, the Case IH MXU line and the New Holland TS-A line. These all-new tractor ranges are differentiated to appeal to their respective customer bases, but share significant common componentry.

To increase our global presence and gain access to technology, we participate in a number of international manufacturing joint ventures and strategic partnerships. We are integrating our manufacturing facilities and joint ventures into a global manufacturing network designed to source products from the most economically advantageous locations and to reduce our exposure to any particular market.

See Item 5. Operating and Financial Review and Prospects, A. Operating Results for information concerning the principal markets in which CNH competes, including the breakdown of total revenues by geographic market for each of the last three years.

#### **Suppliers**

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 price fluctuations in respect of the materials or commodities we purchase.

We are currently rationalizing our supply chain to substantially reduce the number of our global suppliers from over 6,000 at the time of the merger to approximately 3,000. In implementing this program, we are building mutually beneficial partnerships with long-term suppliers based on increased volumes and shared product development activities. We believe that a reduction in the number of suppliers will result in more cost-effective arrangements, lower investment requirements, greater access to technological developments and lower per-unit costs. Although we are increasing our dependence on our remaining suppliers, most of the products that we purchase from our suppliers are available from other sources. As of December 31, 2003, we have reduced the number of our suppliers to approximately 3,500.

In addition to the equipment manufactured by our joint ventures and us, we also purchase both agricultural and construction equipment from other sources for resale to our dealers. The terms of purchase from an original equipment manufacturer ( OEM ), allow us to market the equipment under our brands. As part of our normal course of business, under these arrangements we generally forecast our equipment needs based on market demand for periods of two to four months and thereafter are effectively committed to purchase such equipment for those periods. Certain manufactured components are also purchased on an OEM basis. OEM purchases allow us to offer a broader line of products and range of models to our dealer network and global customer base. In 2003, the total value of OEM purchases comprised less than 11% of our total purchases.



## Distribution and Sales

We possess one of the industry's most extensive dealer networks. We sell and distribute our products through over 12,000 dealers and distributors in approximately 160 countries worldwide. Dealers typically sell either agricultural equipment or construction equipment, although some dealers sell both types of equipment. Construction equipment dealers tend to be fewer in number, larger in size, better capitalized and located in more urban areas. Agricultural dealers tend to be greater in number, but smaller in size and located in rural areas.

Large construction equipment dealers often complete their product offering with products from more than one manufacturer due to historical relationships that have persisted through the consolidation of the industry.

In connection with our program of promoting our unified brand names and identity, we generally seek to have our dealers sell a full line of our products (such as tractors, crop production and crop harvesting). Generally, we achieve greater market penetration where each of our dealers sells the full line of products from only one CNH brand. Although appointing dealers that sell more than one of our brands is not part of our business model, some joint dealers exist, either for historical reasons or in limited markets where it is not feasible to have separate dealers for each CNH brand. In some limited cases, dealerships are operated under common ownership with separate facilities for each of our brands.

Exclusive, dedicated dealers generally provide a higher level of market penetration. Therefore, such dealers complement our strategy of full product lines for all global brands. Some of our dealers in the United States, Germany and Australia may sell more than one brand of equipment, including models sold by our competitors. Elsewhere, our dealers are generally exclusive, but may share complementary products manufactured by other suppliers in other product categories in order to complete their product offerings, or where there was a historical relationship with another product line that existed before that product was available through us. This is particularly true of specialty products, such as equipment adapted for particular crops or uses.

In the United States, Canada, Mexico, most of Western Europe, Brazil and Australia, the distribution of our products is generally accomplished directly through the dealer network. In other parts of the world, our products are sold initially to distributors who then resell them to dealers in an effort to take advantage of such distributors' expertise and to minimize our marketing costs. Generally, each of our distributors has responsibility for an entire country.

We believe that it is generally more cost-effective to distribute our products through independent dealers, and therefore we maintain company-owned dealerships only in markets where we have experienced difficulty in establishing satisfactory independent dealer relationships. At December 31, 2003, we operated 28 company-owned dealerships, located in the United States, Canada, Germany, Austria and Spain. In the mature markets, we expect a decrease in the number of our dealers in the coming years, as the process of farm consolidation pressures dealers' financial positions. In North America, we operate a dealer development program that allows approved dealer candidates to purchase dealerships from us over a fixed period of time, with payments being made from the dealer's profits.

A strong dealer network with wide geographic coverage is a critical element in the success of any manufacturer of agricultural and construction equipment. We possess one of the industry's broadest dealer networks and are working to further enhance the network through the expansion of our lines of products and customer services, including enhanced Financial Services, and an increased focus on dealer support. To assist our dealers in building rewarding relationships with their customers, we have introduced focused customer satisfaction programs and seek to incorporate customer input into our product development and service delivery processes.

As the equipment rental business becomes a more significant factor in both agricultural and construction equipment markets, we are continuing to support our dealer network by facilitating sales of equipment to the local, regional and national rental companies through our dealers as well as by encouraging dealers to develop their own rental activities. We believe that a strong dealer service network is required to maintain the rental

equipment and to insure that the equipment remains at peak performance levels both during its life as rental equipment and afterward when resold into the second hand market. As a leader in light construction equipment and the most requested rental products, our product performance is key to maintaining our quality reputation, its attractiveness to the rental customer and its resale value on the used equipment markets. We have launched several programs to support our dealer service and rental operations including training, improved dealer standards, financing, and advertising. Also, as the rental market is a capital-intensive activity and sensitive to variations in construction demand, we believe that any such activities should be expanded gradually, with special attention to managing the resale of rental units into the secondary market by our dealers, who can utilize this opportunity to improve their customer base and generate additional parts business.

In the United States and Canada, we are contractually obligated to repurchase new equipment, new parts, business signs and manuals from former dealers following our termination of the dealership if the former dealer so elects. Outside of North America, repurchase obligations and practices vary by region. In addition to the contractual repurchase obligation, certain jurisdictions have agricultural and construction equipment dealership laws that require us to repurchase new equipment and new parts at statutory amounts.

In Japan, CNH owns 50% of New Holland HFT Japan Inc. ( HFT ), which distributes our products in that country. HFT imports and sells a full range of New Holland s agricultural equipment through approximately 50 retail sales and service centers located throughout Japan. In order to complete its product offering, HFT also sells certain equipment manufactured by other producers. HFT is the leading importer of agricultural tractors in the highly competitive Japanese market and has a leading share of the Japanese markets for combine harvesters and self-propelled forage harvesters.

### **Pricing and Promotion**

The actual retail price of any particular piece of equipment is determined by the individual dealer or distributor and generally depends on market conditions, features and options. Actual retail sales prices may be lower than the suggested list prices. We sell equipment to our dealers and distributors at wholesale prices, which reflect a discount from the suggested list price. In the ordinary course of our business, we engage in promotional campaigns that may include price incentives or preferential credit terms on the purchase of certain products.

We regularly advertise our products to the community of farmers, contractors, builders and agricultural and construction contractors, as well as to distributors and dealers in each of our major markets. To reach our target audience, we use a combination of general media, specialized design and trade magazines, the internet and direct mail. We also regularly participate in major international and national trade shows and engage in co-operative advertising programs with major distributors and dealers. The promotion strategy of the Case IH and New Holland brands varies according to our customer targets for those brands.

### **Parts and Services**

The replacement parts and associated service business is a major source of revenue for both our company and our dealers. The quality and timely availability of parts and service are important competitive factors, as they are significant elements in overall customer satisfaction and strong contributors to the original equipment purchase decision. Our sales of parts represented approximately 19% of our total net sales in 2003.

We supply a complete range of parts, many of which are proprietary, to support items in our current product line as well as for products that we have sold in the past. As many of the products that we sell can have economically productive lives of up to 20 years when properly maintained, each unit that is retailed into the marketplace has the potential to produce a long-term revenue stream for both CNH and our dealers. Sales of replacement parts have historically been less subject to sharp changes in demand than sales of new equipment and typically generate higher gross margins than sales of new equipment.

In order to improve the distribution of replacement parts and the efficiency of our parts and services network, we have entered into arrangements with two major suppliers of warehousing services. TNT Logistics,

a subsidiary of TPG N.V., provides warehousing services in Latin America, and in North America, Caterpillar Logistics Services, Inc., a subsidiary of Caterpillar Inc., provides warehousing services to us on a fee for service basis. We handle logistical arrangements directly with respect to parts operations in other areas of the world.

At December 31, 2003, we operated and administered 45 parts depots worldwide, either directly or through arrangements with our warehouse service providers, including 24 in North America, 13 in Europe, 2 in Latin America and 4 in Australia and New Zealand and two resulting from our Kobelco Japan and Shanghi joint ventures. These depots supply parts to dealers and distributors, which are responsible for sales to retail customers. Management believes that these parts depots and our parts delivery systems provide our customers with timely access to substantially all of the parts required to support our equipment.

Through the establishment of common platforms and systems for various product lines, we have enhanced the efficiency and cost effectiveness of our parts business by centralizing the production of these components.

As part of the expansion of our product range and the renewal of most of our agricultural and construction equipment product lines, many new parts have entered or will enter into our parts system. To take advantage of the significant number of shared parts being designed for the new common component system, we have developed a new common parts packaging system for parts that can be used by any of our multiple brands. A small number of high volume parts will be distinctly packaged for each brand or brand family, even if the parts are identical. These would typically be the parts that a customer might see in a dealer's showroom. All remaining parts will utilize common CNH packaging to minimize costs and distribution complexity.

The development of a common global parts system for all products and brands is another key merger profit improvement action that is facilitating the depot rationalization program. We also expect the new parts system to improve parts inventory management and customer service levels. The new system was launched for the North American market in January 2003 and we are developing systems integration and implementation plans for Western Europe.

#### **Service and Warranty**

Our products are warranted to the end-user to ensure confidence in design, workmanship and material quality. Warranty lengths vary depending on competitive standards established within individual markets. In general, warranties tend to be for one to three years, with some as short as six months, and cover all parts and labor for non-maintenance repairs and wear items, provided operator abuse, improper use or negligence did not necessitate the repair. Warranty on some products is limited by hours of use, and a purchased warranty is available on most products in major markets. Dealers submit claims for warranty reimbursement to us and are credited for the cost of repairs if the repairs meet our prescribed standards. Warranty expense is accrued at the time of sale, and purchased warranty revenue is deferred and amortized over the life of the warranty contract.

Our distributors and dealers provide service support outside of the warranty period. Our service engineers or service training specialists train service personnel in one of several CNH training facilities around the world or on location at dealerships.

#### **Seasonality and Production Schedules**

Seasonal industry conditions affect our sales of agricultural equipment and, to a lesser extent, construction equipment. Our production levels are based upon estimated retail demand. These estimates take into account the timing of dealer shipments, which are 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 not 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.

## Financial Services

### *Overview*

CNH Capital is the captive financing arm of CNH, providing financial services to dealers and customers in North America, Australia and Brazil. Through our joint venture with BPLG, CNH Capital provides customer financing in Western Europe. The principal products offered on a worldwide basis are retail loans to final customers and wholesale financing to our dealers. As of December 31, 2003, CNH Capital had total managed assets of approximately \$12 billion, including assets managed for our joint venture in Western Europe. The United States accounts for 55% of the serviced portfolio, Western Europe 22%, Canada 11%, Brazil 7% and Australia 5%. CNH Capital provides retail loans, leases and insurance products to end-user customers as the local market requires and provides a variety of wholesale and insurance products to our dealer network.

CNH Capital's mission is to improve the effectiveness of its finance activities in supporting the growth of our equipment sales and contribute to building dealer and end-user loyalty. Its strategy for meeting these objectives is to grow its core financing business through higher financing penetration of our equipment sales, expansion of its services offering, new product development and marketing promotions and events. In addition, CNH Capital is focused on improving credit quality and service levels and increasing operational effectiveness. CNH Capital also plans to grow significantly its financing business in Western Europe as it leverages its joint venture arrangement with BPLG to broaden its financing activities to cover CNH-branded products in all the countries it services. CNH Capital also seeks to expand its financing of used equipment through our dealers and related services, including expanded insurance offerings.

Access to funding at competitive rates is key to the growth of CNH Capital's core business and expansion of its financing activities into new and existing geographic markets with new retail and wholesale product offerings. On a global level, we will continue to evaluate alternatives to ensure that CNH Capital continues to have access to capital on favorable terms in support of its business, including 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. Joint venture or partnerships, similar to the BPLG arrangement entered in 2002, allow us to be more responsive to customer needs, introduce a wider range of products more rapidly and to enter geographic and product markets at a faster pace. Additional joint ventures may also reduce uncertainty and operational risks while utilizing the partner's balance sheet strength and credit rating to support CNH Capital's funding requirements on more advantageous terms.

### *Finance Operations*

In North America, CNH Capital offers a wide variety of financial products including wholesale equipment financing for our dealers and end users, retail loans, finance leases, operating leases, credit cards, rental programs and insurance products. We have established separate sales and underwriting groups to service the Agricultural Equipment and Construction Equipment businesses. This distinction allows CNH Capital to strengthen customer service and reduce risk by deploying industry-specific expertise in each of these businesses.

In the past, in North America, we provided financing options to dealers and non-captive third parties to finance inventory, working capital, real estate acquisitions, construction and remodeling, business acquisitions, dealer systems and service and maintenance equipment. We also offered a broad range of retail and wholesale financing products, including equipment and commercial loans and leases for other North American manufacturers' products, dealers, distributors and their customers. Due to the higher credit losses in these businesses, CNH Capital discontinued all of the diversified retail financing business in the marine, trucking and forestry industries and in dealer financing not related to its wholesale equipment sales. We are focused on being a captive Financial Services company dedicated solely to the support of our dealers and customers.

across all our brands. Despite discontinuing new diversified retail financing in 2001, CNH Capital continues to service its existing non-core portfolio, which represents less than 5% of CNH Capital's current managed portfolio. CNH Capital also strengthened its organization by hiring personnel with specific expertise in our Equipment Operations industries, and by creating a special work-out team to manage troubled accounts more effectively.

Outside of North America, CNH Capital is developing its capabilities to service our dealers and customers in more stable markets as legal regulations, business and funding conditions and market and economic conditions permit. Building on our experience in North America, we are introducing products developed in North America into other markets to expand the product offerings and customer service capabilities in those markets. CNH Capital continues to evaluate and implement what it believes to be the most efficient cost structures for expanding its Financial Services business outside of North America. Through joint venture agreements, such as the BPLG arrangement in Western Europe, we seek to leverage our partners' established expertise, cost efficiencies, access to low cost sources of funding and established market presence.

Today, CNH Capital is focusing primarily on efficient risk management, operational efficiency and strong customer service. We have significantly expanded our risk management procedures at all stages of the financing process, including definition, underwriting, remarketing and recovery. CNH Capital has a dedicated team to address operational improvement opportunities, including the complete re-engineering of some key processes. CNH and its predecessors have a long history of successful financing relationships with North American agricultural and construction equipment customers. We leverage our strong relationships with our existing financing customers to implement innovative customer tools and higher service standards. In 2003, new initiatives implemented included: risk-adjusted pricing on retail originations to maintain overall portfolio margin and enhance financing penetration on high credit quality customers, behavioral scoring to improve efficiencies within the collections process for retail customers and focus on origination of receivables that are self-financing via the global asset-backed markets.

At the retail level, CNH Capital sells retail financial products primarily through our dealers, whom we train in the use of the various financial products. Our sales force may assist directly with some of the larger or more complex financing proposals. Dedicated credit analysis teams perform retail credit underwriting.

At the dealer financing level in North America, CNH Capital provides wholesale floor plan financing for our dealers, which allows dealers to maintain a representative inventory of products. CNH Capital also provides some working capital and real estate loans on a limited basis. For our floor plan financing, we generally provide a fixed period of "free" financing for the dealers, during which the manufacturer of the equipment on the floor pays the finance charges. This practice helps to level fluctuations in factory demand and provides a buffer from the impact of seasonal sales. After the "free" period, if the equipment remains unsold, the dealer pays for interest costs.

A wholesale underwriting group reviews dealer financials and payment performance to establish credit lines for each dealer. In setting these credit lines, we seek to meet the reasonable requirements of each dealer while controlling our exposure to any one dealer. The credit lines are secured by the dealer's unsold equipment assets and are used to facilitate wholesale sales. The dealer credit agreements include a requirement to pay at the time of the retail sale. CNH Capital employees or third-party contractors conduct periodic stock audits at each dealership to confirm that financed equipment is still in inventory. The frequency of these audits varies by dealer and depends on the dealer's financial strength, payment history and prior performance.

Marketing personnel from CNH Capital work with our equipment operations commercial staff to develop and structure financial products that will optimize equipment sales and generate Financial Services income. CNH Capital also develops products to finance non-CNH equipment sold through our dealer network or within the core businesses of agricultural or construction equipment. This equipment includes used equipment taken in trade on new CNH product or equipment used in conjunction with or attached to our equipment.

We compete primarily with banks, finance companies and other financial institutions. Typically, this competition is based upon customer service and finance rates charged to the borrower. CNH Capital finances the majority of our new equipment sales in the regions where it is present due to its ability to offer, in some circumstances, below market finance rates as part of special marketing programs offered by our commercial organization. Long-term profitability in our Financial Services operations is largely dependent on the cyclical nature of the agricultural and construction equipment industries, interest rate volatility and access to low-cost funding sources. CNH Capital relies on the financial markets, asset-backed securitizations, intercompany lending and cash flows to provide funding for its activities. Currently, CNH Capital's funding strategy in North America is threefold; i) access capital markets through asset backed securitization transactions, ii) expand the use of asset-backed commercial paper securitization financing to other portfolios such as credit cards and finance leases, and iii) liquidation of the existing portfolio of discontinued business to reduce overall funding requirements and reliance on intercompany and intersegment funding.

#### *Asset-Backed Securitizations*

CNH Capital periodically accesses the public asset-backed securities market in the United States, Canada and Australia, and will continue to rely on the availability of liquidity through that market to fund its retail financing programs. We anticipate that, depending on continued market interest and other economic factors, CNH Capital will continue to securitize its retail receivables in the United States, Canadian and Australian markets. CNH Capital's access to the asset-backed securities market will depend in part upon its financial condition, portfolio performance and market conditions. These factors can be negatively affected by cyclical swings in the industries we serve. CNH Capital typically has entered into two securitization transactions per year in the United States and one to two a year in Canada. CNH Capital securitizes retail receivables every six to twelve months. Securitization transactions in the United States are typically about \$1.0 billion in size and in Canada are generally C\$200 million to C\$400 million in size. CNH Capital applies the proceeds of the securitizations to repay outstanding debt that was funding the receivables while on our consolidated balance sheet.

#### **Insurance**

We maintain insurance with third-party insurers to cover various risks resulting from our business activities including, but not limited to, risk of loss or damage to our facilities, business interruption losses, general liability, automobile liability and directors and officers liability insurance. We believe that our present level of insurance coverage is adequate to cover such potential losses arising out of these and other insurable risks. We use a broker that is an affiliate of Fiat to purchase a portion of our insurance coverage.

#### **Legal Proceedings and Regulation**

We are party to various legal proceedings in the ordinary course of its business, including, product warranty, dealer disputes, workers compensation, patent infringement, and customer and employment matters. The ultimate outcome of all of these other legal matters pending against us or our subsidiaries cannot be predicted, and although such lawsuits are not expected individually to have a material adverse effect on us, such lawsuits could have, in the aggregate, a material adverse effect on our consolidated financial condition, cash flows or results of operations.

#### *Product Liability*

Product liability claims against CNH arise from time to time in the ordinary course of business. There is an inherent uncertainty as to the eventual resolution of unsettled claims. However, in the opinion of management, any losses with respect to these existing claims will not have a material adverse effect on CNH's financial position or results of operations.

*Other Litigation*

In December 2002, six named individuals filed a purported class action lawsuit in the Federal District Court for the Eastern District of Michigan against El Paso Tennessee Pipeline Co. (formerly Tenneco, Inc.) ( El Paso ) and Case. (Yolton, et. al v. El Paso Tennessee Pipeline Co., and Case Corporation a/k/a/ Case Power Equipment Corporation, Docket number 02-74276). The lawsuit alleged breach of contract and violations of various provisions of the Employee Retirement Income Security Act arising due to alleged changes in health insurance benefits provided to employees of the Tenneco, Inc. agriculture and construction equipment business who retired before selected assets of that business were transferred to us in June 1994. The changes resulted from an agreement between an El Paso subsidiary and the UAW to cap (prior to the transfer of the agricultural and construction equipment business to us) the amount of retiree health insurance costs (the Cap ). The UAW retirees were to bear the costs above the Cap. El Paso administers the health insurance programs for the purported plaintiff class, and we and El Paso are parties to a 1994 agreement under which El Paso has agreed to indemnify us for the costs of the health insurance program. The lawsuit arose after El Paso notified the retirees that the retirees will be required to pay a portion of the cost of those benefits because the Cap had been reached. The plaintiffs also filed a motion for preliminary injunction, asking the court to prevent El Paso and/or us from requesting the retirees to pay a portion of the health benefits. On December 31, 2003, the court entered a preliminary injunction order requiring El Paso to pay the full costs of health insurance benefits for the purported plaintiff class. El Paso filed a motion for reconsideration. On March 9, 2004, the court entered an order granting plaintiffs motion for preliminary injunction. Pursuant to the March 9, 2004 order, the court vacated its December 31, 2003 order and ordered Case to pay the full costs of health insurance benefits for the purported plaintiff class from March 2004. However, El Paso has not disputed its responsibility to pay amounts up to the Cap. We have filed a motion with the court seeking to have the preliminary injunction stayed and the order reconsidered because we believe El Paso is primarily responsible for the costs of the health insurance benefits including amounts over the Cap and, in any event, we should not be responsible for amounts up to the Cap. We also have filed a motion for summary judgment that El Paso indemnify us pursuant to the terms of the 1994 agreement. Until the court rules on our motion to reconsider and our summary judgment motion, we are obligated to pay the amounts above the Cap. While we are unable to predict the outcome of this proceeding, we believe we have good legal and factual defenses and we will continue to vigorously defend against this lawsuit.

**C. Organizational Structure.**

As of December 31, 2003, Fiat Netherlands, a wholly owned subsidiary of Fiat, owns approximately 84% of CNH s outstanding common shares and all of our outstanding Series A Preferred Stock. Fiat was founded in Turin on July 11, 1899.

The Fiat Group is a global industrial manufacturer with a primary focus on the production and sale of automobiles, agricultural and construction equipment and commercial vehicles. The Fiat Group also manufactures products and systems for use by its automotive sectors and for sale to third parties, principally components, metallurgical products and production systems. In addition, the Fiat Group is involved in other sectors, including publishing and communications and service operations.

As of December 2003, Fiat is one of the world s largest industrial groups, operating in 58 countries. Fiat employs over 162,000 people worldwide.

The Fiat Group s operations are currently conducted through nine operating sectors: Automobiles, Agricultural and Construction Equipment, Commercial Vehicles, Ferrari, Components, Production Systems, Metallurgical Products, Services, Publishing and Communications. These companies include Fiat Auto Holdings, CNH, Iveco, Ferrari, Magneti Marelli, Comau, Teksid, Business Solutions and Itedi.

At December 31, 2002, the Group also included Insurance and Aviation sectors, which Fiat divested in 2003.

A listing of our significant directly and indirectly owned subsidiaries as of December 31, 2003 is set forth in an exhibit to this Form 20-F.

**D. Property, Plants and Equipment.**

Our facilities are well maintained, in good operating condition and are suitable for their present purposes. These facilities, including the planned restructuring actions and planned capital expenditures, are expected to meet our manufacturing needs in the foreseeable future. Planned capacity is adequate to satisfy anticipated retail demand and the operations are designed to be flexible enough to accommodate the planned product design changes required to meet market conditions and new product programs.

The following table provides information about our principal manufacturing, engineering and administrative facilities, as of December 31, 2003:

| Location              | Primary Functions  | Approximate Covered Area* | Ownership Status |
|-----------------------|--|---------------------------|------------------|
| <b>United States</b>  |  |                           |                  |
| Belleville, PA        | Hay and Forage   | 540                       | Owned            |
| Benson, MN            | Agricultural Sprayers  | 219                       | Owned            |
| Burlington, IA        | Backhoe Loaders; Fork Lift Trucks                                      | 989                       | Owned            |
| Burr Ridge, IL        | Technology (Engineering) Center  | 549                       | Owned            |
| Calhoun, GA           | Crawler Excavators and Dozers  | 267                       | Owned**          |
| Dublin, GA            | Compact Tractors   | 60                        | Owned            |
| East Moline, IL       | Combine Harvesters; Cotton Pickers                                     | 2,375                     | Owned            |
| Fargo, ND             | Tractors; Wheel Loaders  | 531                       | Owned            |
| Goodfield, IL         | Soil Management (Tillage Equipment)                                    | 233                       | Owned            |
| Grand Island, NE      | Combine Harvesters   | 680                       | Owned            |
| Lake Forest, IL       | Global Management Offices  | 65                        | Leased           |
| New Holland, PA       | Administrative Facilities; Hay and Forage; Engineering Center          | 1,190                     | Owned            |
| Racine, WI            | Administrative Facilities; Tractor Assembly; Transmissions and Foundry | 1,343                     | Owned/ Leased    |
| Wichita, KS           | Skid Steer Loaders   | 455                       | Owned            |
| <b>Italy</b>          |  |                           |                  |
| Imola                 | Backhoe Loaders; Emergency Center                                      | 384                       | Owned            |
| Jesi                  | Tractors   | 710                       | Owned            |
| Lecce                 | Construction Equipment; Engineering Center                             | 1,550                     | Owned            |
| Modena                | Components   | 1,150                     | Owned            |
| San Matteo            | Research and Development   | 540                       | Owned            |
| San Mauro             | Crawler Excavators   | 590                       | Owned**          |
| <b>France</b>         |  |                           |                  |
| Coex                  | Grape Harvesters; Engineering Center                                   | 280                       | Owned            |
| Crepy-En-Valois       | Excavators   | 676                       | Owned            |
| Croix                 | Cabs   | 466                       | Owned            |
| Tracy-Le-Mont         | Hydraulic Cylinders  | 204                       | Owned            |
| <b>United Kingdom</b> |  |                           |                  |
| Basildon              | Tractors; Components; Engineering Center; Administrative Facilities    | 1,390                     | Owned            |
| <b>Germany</b>        |  |                           |                  |
| Berlin                | Construction Equipment; Engineering Center                             | 1,113                     | Leased           |
| Dortmund              | Administrative Facilities; Test and Parts Centers                      | 348                       | Leased           |
| Heidelberg            | Administrative and Warehouse Facilities                                | 162                       | Owned            |
| Neustadt              | Combine Harvesters   | 515                       | Owned            |



| Location                   | Primary Functions                                      | Approximate Covered Area* | Ownership Status |
|----------------------------|--|---------------------------|------------------|
| <b>Brazil</b>              |  |                           |                  |
| Belo Horizonte             | Construction Equipment; Engineering Center             | 510                       | Owned            |
| Curitiba                   | Tractors; Combine Harvesters; Engineering Center       | 760                       | Owned            |
| Piracicaba                 | Sugar Cane Harvesters                                  | 108                       | Owned            |
| <b>Canada</b>              |  |                           |                  |
| Saskatoon                  | Air-Seeding Equipment; Engineering Center              | 750                       | Owned            |
| <b>Belgium</b>             |  |                           |                  |
| Antwerp                    | Components   | 645                       | Leased           |
| Zedelgem                   | Combine Harvesters; Hay and Forage; Engineering Center | 1,655                     | Owned            |
| <b>Others</b>              |  |                           |                  |
| Bundaberg, Australia       | Sugar Cane and Coffee Harvesters                       | 206                       | Owned            |
| St. Valentin, Austria      | Tractors   | 398                       | Leased           |
| Shanghai, China            | Tractors   | 775                       | Leased**         |
| New Delhi, India           | Tractors; Engineering Center                           | 360                       | Owned            |
| Plock, Poland              | Combine Harvesters                                     | 1,020                     | Owned            |
| Amsterdam, The Netherlands | Administrative   | 2                         | Leased           |

\* in thousands of square feet

\*\* consolidated joint venture

In addition, we own or lease a number of other manufacturing and non-manufacturing facilities, including office facilities, parts depots and dealerships, worldwide.

### Environmental Matters

Our operations and products are subject to extensive environmental laws and regulations in each of the countries in which we operate. We have an ongoing Pollution Prevention Program to reduce industrial waste, air emissions and water usage. We also have a program designed to implement environmental management practices and compliance, to promote continuing environmental improvements and to identify and evaluate environmental risks at manufacturing and other facilities worldwide.

Our engines and equipment are subject to extensive statutory and regulatory requirements that impose standards with respect to air emissions. Further emissions reductions in the future from non-road engines and equipment have been promulgated or are contemplated in the United States as well as by non-U.S. regulatory authorities in many jurisdictions throughout the world. We expect that we may make significant capital and research expenditures to comply with these standards now and in the future. We anticipate that these costs are likely to increase as emissions limits become more stringent. At this time, however, we are not able to quantify the dollar amount of such expenditures as the levels and timing are not agreed by the regulatory bodies. The failure to comply with these emission limits could result in adverse effects on future financial results.

Capital expenditures for environmental control and compliance in 2003 was approximately \$2 million and projections for 2004 are approximately \$3 million. The Clean Air Act Amendments of 1990 and European Commission directives affect directly the operations of all of our manufacturing facilities in the United States and Europe currently and in the future. The manufacturing processes affected include painting, coating and foundry operations. Although capital expenditures for environmental control equipment and compliance costs in future years will depend on legislative, regulatory and technological developments that cannot accurately be predicted at this time, we anticipate that these costs are likely to increase as environmental requirements

become more stringent. We believe that these capital costs, exclusive of product-related costs, will not have a material adverse effect on our business, financial position or results of operations.

Pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), which imposes strict and, under certain circumstances, joint and several liability for remediation and liability for natural resource damages, and other federal and state laws that impose similar liabilities, we have received inquiries for information or notices of our potential liability regarding 45 non-owned sites at which hazardous substances allegedly generated by us were disposed ( Waste Sites ). Of the Waste Sites, 19 are on the National Priority List promulgated pursuant to CERCLA. At 40 of the Waste Sites, the monetary amount or extent of our liability has been resolved, we have not been named as a potentially responsible party ( PRP ), or our liability is likely *de minimis*. Because estimates of remediation costs are subject to revision as more information becomes available about the extent and cost of remediation and because settlement agreements can be reopened under certain circumstances, our potential liability for remediation costs associated with the 45 Waste Sites could change. Moreover, because liability under CERCLA and similar laws can be joint and several, we could be required to pay amounts in excess of our pro rata share of remediation costs. However, when appropriate, our understanding of the financial strength of other PRPs has been considered in the determination of our potential liability. We believe that the costs associated with the Waste Sites will not have a material adverse effect on our business, financial position or results of operations.

We are conducting environmental investigatory or remedial activities at certain properties that are currently or were formerly owned and/or operated or which are being decommissioned. We believe that the outcome of these activities will not have a material adverse effect on our business, financial position or results of operations.

The actual costs for environmental matters could differ materially from those costs currently anticipated due to the nature of historical handling and disposal of hazardous substances typical of manufacturing and related operations, the discovery of currently unknown conditions, and as a result of more aggressive enforcement by regulatory authorities and changes in existing laws and regulations. As we have in the past, we will fund our costs of environmental compliance from operating cash flows.

#### **Item 5. Operating and Financial Review and Prospects**

We have prepared our financial statements in accordance with generally accepted accounting principles in the United States ( U.S. GAAP ).

Our agricultural and construction equipment businesses are collectively referred to as our Equipment Operations. Our financial services businesses are collectively referred to as Financial Services. Unless otherwise indicated, all financial data set forth herein is expressed in U.S. Dollars.

The Consolidated data in this section includes CNH Global N.V. and its consolidated subsidiaries and conforms to the requirements of Statement of Financial Accounting Standards ( SFAS ) No. 94. In the supplemental consolidating data in this section, Equipment Operations (with Financial Services on the equity basis) include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services consolidating data in this section include primarily CNH Global N.V.'s financial services business. Transactions between Equipment Operations and Financial Services have been eliminated to arrive at the Consolidated data. This presentation is consistent with the other consolidated and supplemental financial information presented throughout this report.

**A. Operating Results.****2003 Compared to 2002***Revenues*

Consolidated revenues for 2003 totaled approximately \$10,666 million as compared to approximately \$9,940 million in 2002. Adjusted for variations in foreign exchange rates (approximately \$810 million) and 2002 acquisitions (approximately \$60 million), consolidated revenues were down slightly compared to 2002 despite a strengthening equipment market as we continued efforts to reduce dealer inventory levels. The largest component of our consolidated revenues is our net sales of agricultural and construction equipment, which were \$10,069 million in 2003 as compared to approximately \$9,331 million in 2002. Adjusted for the impact of variations in foreign exchange rates and acquisitions, net sales of equipment were down slightly from 2002 levels.

*Net Sales of Equipment*

Net sales of our Equipment Operations for the years ended December 31, 2003 and 2002 by geographic area were as follows:

|                  | <u>2003</u>       | <u>2002</u>       |
|------------------|-------------------|-------------------|
|                  | (in millions)     |                   |
| <b>Net sales</b> |                   |                   |
| North America    | \$ 4,206          | \$4,140           |
| Western Europe   | 3,739             | 3,317             |
| Latin America    | 712               | 638               |
| Rest of World    | 1,412             | 1,236             |
|                  | <u>          </u> | <u>          </u> |
| Total net sales  | \$ 10,069         | \$9,331           |
|                  | <u>          </u> | <u>          </u> |

Net sales of equipment were up 8% in 2003, \$800 million of which was due to currency variances and approximately \$60 million which was related to the impact of 2002 acquisitions. The increase in sales was primarily the result of increases in sales of agricultural equipment.

*Agricultural Equipment*

|                  | <u>2003</u>       | <u>2002</u>       |
|------------------|-------------------|-------------------|
|                  | (in millions)     |                   |
| <b>Net sales</b> |                   |                   |
| North America    | \$2,893           | \$2,803           |
| Western Europe   | 2,543             | 2,141             |
| Latin America    | 579               | 486               |
| Rest of World    | 1,110             | 975               |
|                  | <u>          </u> | <u>          </u> |
| Total net sales  | \$7,125           | \$6,405           |
|                  | <u>          </u> | <u>          </u> |

Net sales of agricultural equipment in 2003 were approximately 11% higher than in 2002. Approximately 8% of this increase resulted from the effects of currency translation, as the Euro and the Australian dollar were approximately 20% stronger in 2003 than in 2002, the Canadian dollar was approximately 12% stronger, the British pound about 9% stronger while the Yen was about 7% stronger. Additional revenue from new products launched during the year and higher pricing, especially in Brazil, contributed approximately \$250 million, while declining volume and mix was a partial offset.

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Overall in 2003, world market demand for major agricultural equipment product lines was approximately 7% higher than in 2002. Worldwide demand for tractors, on a unit basis, increased by about 7% as increases of approximately 20% in North America and 14% in Rest of World markets were partially offset by declines of

approximately 14% in Latin America and 5% in Western Europe. Worldwide demand for combines was approximately equal to 2002. Demand in North America declined by about 3% while demand in Western Europe declined by about 7% and in Rest of World markets demand declined by about 20%. Combine demand in Latin America, however, was up approximately 25%. On a unit basis, our agricultural equipment sales penetration declined slightly, as our overall tractor market share declined by about one-half of a percentage point from 2002, partially offset by an increase in our combine market share of approximately one and one-half percentage points. In total, we under produced retail demand by about 7% in order to reduce company and dealer inventories. At year-end total company and dealer inventories had declined by slightly more than one-half of one month's supply, on a forward months supply basis.

In North America, net sales of agricultural equipment increased by about 3% in 2003 compared with 2002, reflecting increases related to exchange rate changes of approximately 2% and all other increases of about 1%. Wholesale unit sales of tractors and combines increased by almost 1%. Total market demand for agricultural tractors in North America increased by about 7%. Demand for under 40 horsepower tractors increased by 28%. Industry demand for mid-sized (40 to 100 horsepower) tractors increased by about 10%; demand for large two wheel drive tractors over 100 horsepower increased by approximately 3% while demand for four wheel drive articulated tractors increased by 19%. Combine market demand declined by about 3%. Our market penetration declined by about two percentage points principally related to under-40 horsepower tractors, while our combine market penetration increased by more than five percentage points.

In Western Europe, net sales of agricultural equipment increased by 19%, principally reflecting the 20% increase in the average value of the Euro and the 9% increase in the average value of the British Pound, in each case as compared with the U.S. Dollar from 2003 to 2002. Overall tractor market demand, as measured in units, declined by about 5% in 2003 and overall combine market demand declined by about 3%. Our wholesale unit sales increased slightly as market penetration increased slightly for tractors and by about three percentage points for combines.

In Latin America, net sales of agricultural equipment in 2003 were 19% higher than in 2002. Pricing was strong and more than offset the decline of approximately 5% in the average value of the Brazilian Real in 2003 compared with 2002. In addition, while market demand for tractors declined by approximately 14%, demand for combines increased by 25%, resulting in essentially no change, year-over-year in our unit wholesale volumes, but with a substantially improved mix of higher valued combines. This richer combine sales mix was the prime contributor to the revenue increase in addition to pricing. The decline in total market demand for agricultural tractors in Latin America was led by an almost 11% decline in market demand for tractors in Brazil, based on reported unit sales. Tractor market demand in Argentina, however, increased significantly from the low levels experienced in 2002 after its devaluation. The substantial increase in total market demand for combines was almost totally accounted for by the resurgence of the Argentine combine market as it rebounded from less than 1,000 units in 2002 to over 3,500 units in 2003, while total industry unit sales of combines in Brazil declined by about 4%.

In markets throughout the Rest of the World, net sales of agricultural equipment in 2003 increased by approximately 14% compared to 2002. Variations in exchange rates, in particular the 20% strengthening of the Australian dollar, accounted for about 11% of the increase. Wholesale unit sales of tractors and combines in 2003 were lower than in 2002. Stronger parts sales and improved product mix accounted for the balance of the increase.

*Construction Equipment*

|                  | <b>2003</b>   | <b>2002</b> |
|------------------|---------------|-------------|
|                  | (in millions) |             |
| <b>Net sales</b> |               |             |
| North America    | \$ 1,313      | \$ 1,337    |
| Western Europe   | 1,196         | 1,176       |
| Latin America    | 133           | 152         |
| Rest of World    | 302           | 261         |
|                  | —             | —           |
| Total net sales  | \$ 2,944      | \$ 2,926    |

Net sales of construction equipment increased by approximately 1% in 2003 compared with 2002. Excluding acquisitions, net sales decreased by approximately 1%. This increase was more than accounted for by the effects of currency translation, as the Euro and the Australian dollar were approximately 20% stronger in 2003 than in 2002, the Canadian dollar was approximately 12% stronger, the British pound about 9% stronger and the Yen was about 7% stronger. Pricing was slightly positive, but wholesale unit volumes declined as we under-produced retail demand by 7% to reduce company and dealer inventories. At year-end total company and dealer inventories had declined by slightly more than one-half of one month's supply, on a forward months supply basis.

World market demand for major construction equipment product lines in which we compete, on a unit basis, increased by about 11% in 2003 compared with 2002. Market demand increased in both North America and in Rest of World markets in all of our major product categories. These increases were partially offset by declines in demand in both Western European and Latin American markets, in all of our major product lines. World market demand for backhoe loaders, on a units basis, increased by about 6% while demand for skid steer loaders increased by about 1%. Worldwide demand for our heavy construction equipment product lines increased by approximately 19%. On a unit basis, our construction equipment market penetration declined by approximately three percentage points, with declines in all of our major product categories in nearly every market.

In North America, net sales of construction equipment decreased by approximately 2% in 2003 compared with 2002. Variations in exchange rates, principally the Canadian dollar, increased net sales by about 1%. Wholesale unit sales declined by almost 9% and production was approximately 11% lower than retail in order to reduce dealer and company inventories. Wholesale unit sales of backhoe loaders and skid steer loaders declined, while unit sales of heavy construction equipment products increased. The total North American market demand for construction equipment increased by about 8%, including increases of 8% for backhoe loaders, 4% for skid steer loaders and 12% for heavy construction equipment.

In Western Europe, net sales of construction equipment increased by 2%. Excluding the acquisition of Kobelco Europe in the third quarter of 2002, net sales declined by 3%. Variations in exchange rates, principally the 20% increase in the average value of the Euro and the 9% increase in the average value of the British Pound, as compared with the U.S. Dollar from 2003 to 2002, increased revenue by approximately 16%. Offsetting the increases due to currency, our net sales reflected 18% lower wholesale unit sales, resulting from a decline in overall market demand, as measured in units, by approximately 4% in 2003, a 2% reduction in production versus retail sales in order to reduce company and dealer inventories, and difficulties associated with the company's transition from the Fiat-Hitachi association and dealer network to the Fiat-Kobelco network.

In Latin America, net sales of construction equipment decreased by 13% in 2003 compared with 2002. Excluding the impact of the 5% decline in the average value of the Brazilian Real in 2003, our sales in Latin America were down approximately 3%, while our wholesale unit sales declined by approximately 24%. Total Latin American market demand, as measured in units, declined by about 18%, including a 23% decline in market demand for backhoe loaders, a 17% decline in demand for heavy construction equipment and a 10%

decline in market demand for skid steer loaders. We also slightly under-produced retail sales to control inventories in this declining market.

In markets throughout the Rest of World, where we have a minimal presence, net sales of construction equipment increased by 16% in 2003 compared with 2002. Approximately 13% of the increase is due to variations in exchange rates. Our wholesale unit sale increased by approximately 7% and production was in-line with retail sales.

#### *Finance and Interest Income*

Consolidated finance and interest income decreased from \$609 million in 2002 to \$597 million in 2003 largely due to the decrease in Financial Services revenues. Revenues for Financial Services totaled \$621 million in 2003, a decrease of \$20 million from the \$641 million reported in 2002. The decrease in revenues was primarily caused by lower average receivable balances resulting from the successful completion of asset-backed securitization transactions, lower yields on certain on-book portfolios due to reduced market interest rates and lower operating lease revenues.

#### *Costs and Expenses*

Costs of goods sold increased by \$688 million to \$8,590 million in 2003, but as a percentage of net sales of equipment increased from 84.7% in 2002 to 85.3% in 2003. Gross margin (net sales of equipment less cost of goods sold), expressed as a percentage of net sales of equipment, was 14.7% in 2003 as compared to 15.3% in 2002. This decrease in gross margin percentage reflected an increase in the gross margin of construction equipment from 11.5% in 2002 to 12.5% in 2003, which was more than offset by a decline in the gross margin of agricultural equipment from 17.1% in 2002 to 15.6% in 2003. In total, the gross margin increase, expressed in dollars, was more than accounted for by favorable changes in the exchange rates, increased pricing, our profit improvement actions and margin increases from new products. Partial offsets were adverse volume and mix, production, labor and other inefficiencies caused by the launch of new products, labor economics and increased pension and post-retirement benefit costs.

In 2003, consolidated SG&A expenses decreased by \$52 million to \$1,042 million from \$1,094 million in the prior year, as those expenses decreased in both Equipment Operations and Financial Services. In Equipment Operations, SG&A expenses decreased by \$45 million to \$839 million in 2003 from \$884 million in 2002, or expressed as a percentage of net sales of equipment, a decrease from 9.5% in 2002 to 8.3% in 2003. The decrease in SG&A expenses in Equipment Operations was driven primarily by the reduction during the year in total salaried headcount by almost 1,000 persons, from approximately 11,250 at the end of 2002 to approximately 10,250 at the end of 2003. Approximately 900 of the reductions in salaried personnel were at Equipment Operations. The remaining 100 reductions occurred at Financial Services. These reductions were part of the plan to achieve an additional \$650 million of profit improvements and additional margins from new products by 2006. Savings resulting from these actions were partially offset by higher employee pension and post-retirement benefit costs, by the impacts of inflation and the \$70 million impact of the strengthening Euro, British Pound and Australian Dollar on overseas SG&A expenses.

At Financial Services, SG&A expenses decreased by \$7 million. Costs declined primarily due to a lower loan loss provisions of approximately \$12 million, which was mainly due to a reduction in losses in the non-core portfolio and improvements in the credit quality of the core portfolios. These reductions were partially offset by increased costs in Europe resulting from the management of an increasing European wholesale receivables portfolio.

Although we believe that the cessation of originations in these non-core portfolios has significantly reduced the potential for additional future charges, we may need to record additional loan loss provisions if there is a further, unanticipated deterioration in market conditions affecting the underlying industries. The

following information summarizes the significance of these North American non-core portfolios relative to our total loan portfolios and certain performance-related data as of December 31, 2003, 2002 and 2001:

|                               | 2003          | 2002   | 2001   |
|-------------------------------|---------------|--------|--------|
|                               | (in millions) |        |        |
| Non-core portfolio            | \$ 330        | \$ 570 | \$ 939 |
| Percentage of total portfolio | 3%            | 5%     | 10%    |
| Delinquency percentage*       | 29%           | 28%    | 25%    |
| Annual loss percentage        | 15.40%        | 8.66%  | 6.45%  |
| Loss provision provided       | \$ 68         | \$ 63  | \$ 110 |

\* Calculated as the percentage of loans in the relevant portfolio more than 30 days past due.

By comparison, delinquency percentages for our North American core portfolio were 2.9% and 3.9% for 2003 and 2002, respectively, and annual loss percentages for the North American core portfolio increased to 1.0% at December 31, 2003 from 0.8% at December 31, 2002.

Ongoing R&D expenses decreased by \$24 million from \$283 million in 2002 to \$259 million in 2003. Expressed as a percentage of net sales of equipment, R&D expenses decreased to 2.6% in 2003 compared with 3.0% in 2002. These reductions were part of the plan to achieve an additional \$650 million of profit improvements and additional margins from new products by 2006. Savings resulting from these actions were partially offset by increased pension and post-retirement benefit costs and by the impacts of inflation and the strengthening Euro, British pound and Australian dollar on overseas R&D expenses.

Our consolidated worldwide employment level has declined by approximately 1,700 persons from approximately 28,500 at the end of 2002 to approximately 26,800 at the end of 2003. As indicated above, year-end 2003 salaried headcount declined from approximately 11,250 at year-end 2002 to approximately 10,250 at year-end 2003.

During 2003, we recorded \$271 million in restructuring costs, including \$268 million in Equipment Operations and \$3 million in Financial Services. These restructuring costs primarily relate to severance, benefit plan curtailments and other costs incurred due to headcount reductions and facility closings under the CNH Merger Integration Plan. See Note 13, Restructuring to the Consolidated Financial Statements for a detailed analysis of our restructuring programs.

The reduction in consolidated interest expense Fiat affiliates from \$236 million in 2002 to \$113 million in 2003 was principally due to lower borrowings resulting from the April 2003 issuance 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.

The decline in interest expense Fiat affiliates was partially offset by an increase in interest expense other which was the direct effect of the August and September 2003 issuance of a total of \$1.05 billion of the 9 1/4% Senior Notes.

Interest expense Fiat affiliates in Equipment Operations decreased to \$85 million in 2003 from \$198 million in 2002 primarily as a result of the Series A Preferred Stock exchange for debt. Interest expense other increased from \$192 million to \$236 million, primarily as a result of the 9 1/4% Senior Notes transactions described above. The decrease in Financial Services interest expense other, of \$22 million to \$182 million was mainly due to lower average funding costs and to lower average borrowing levels supporting the approximately \$400 million lower average balances of on-book retail and wholesale receivables and operating leases. During 2003 Financial Services repaid approximately \$800 million of borrowings from Equipment Operations primarily due to the runoff of the old non-core portfolio assets and operating leases.

Financial Services provides interest free floor plan financing to our Equipment Operations dealers, primarily in North America, to support wholesale net sales of equipment to those dealers. During 2003 and



2002, Equipment Operations incurred approximately \$79 million and \$76 million, respectively, of interest compensation to Financial Services for the cost of providing interest free floor plan financing to our Equipment Operations dealers.

Other, net increased to \$241 million in 2003 from \$182 million in 2002. The increase in other expenses was primarily attributable to higher pension and post-retirement benefit costs for retired, inactive employees, lower gains on the sale of fixed assets, higher product liability accruals and higher franchise taxes.

During 2003, total equity in income (loss) of unconsolidated subsidiaries and affiliates was a net profit of \$19 million, the same as 2002. Financial Services equity in income of unconsolidated subsidiaries increased \$2 million during 2003 due primarily to 2003 reflecting a full year of results from our joint venture with BPLG in Europe which was formed in mid-2002. Equity in income from our unconsolidated Equipment Operations activities decreased from a profit of \$15 million in 2002 to a profit of \$13 million in 2003. Profits declined as improved results in Japan and Pakistan did not offset deteriorations in Turkey and Mexico.

#### *Tax Rates Consolidated*

Our effective tax rate was approximately 25% in 2003. Our effective tax rate was 3% in 2002. Excluding the impact of the cumulative effect of a change in accounting principle recognized in 2002, our effective tax rate, was approximately 13%. For an analysis of the principal factors affecting our effective tax rate, see Note 12, *Income Taxes* to the Consolidated Financial Statements.

#### *Net Income*

For the year ending December 31, 2003, our consolidated net loss, after pre-tax restructuring charges of \$271 million, was \$157 million. This compares to a 2002 consolidated net loss, after pre-tax restructuring charges of \$51 million and a \$325 million after tax charge for the cumulative effect of a change in accounting principle of \$426 million. On a diluted basis, losses per share were \$1.19 and \$4.40 per share in 2003 and 2002, respectively, based on diluted weighted average shares outstanding of 132.0 million and 96.9 million, respectively.

Based on the jurisdictions impacted by our restructuring actions, we utilized an effective tax rate of 31% and 25%, respectively in 2003 and 2002 to evaluate the results of our operations, net of these restructuring costs. Additionally, as our goodwill is not deductible for income tax purposes, there was no tax impact on 2002 results from the related cumulative effect of a change in accounting principle.

#### *Effect of Currency Translation*

For financial reporting purposes, we convert the financial results of each of our operating companies into U.S. Dollars, using average exchange rates calculated with reference to those rates in effect during the year. As a result, any change from year to year in the U.S. Dollar value of the other currencies in which we incur costs or receive income is reflected in a currency translation effect on our financial results.

The impact of currency translation on the results of Financial Services operations is minimal, reflecting the geographic concentration of such operations within the United States. For Equipment Operations, the impact of currency translation on net sales generally is largely offset by the translation impact on costs and expenses.

During 2003, most of the currencies of our major operations, as compared with the U.S. Dollar, strengthened. Specifically the euro (20%), the Australian dollar (20%), the British pound (9%), the Canadian dollar (12%) and the Japanese yen (7%) all strengthened when compared to the U.S. dollar while the Brazilian real (5%) weakened. The impact of these movements increased net sales by approximately \$800 million or 8.6% and increased the absolute gross margin by approximately \$95 million or 6.6%. However, the impact on net income was a decrease of approximately \$10 million, as SG&A and R&D costs increased by approximately \$83 million and other income/ expense net, interest expense and taxes also increased.

**2002 Compared to 2001***Revenues*

Consolidated revenues for 2002 totaled approximately \$9,940 million as compared to approximately \$9,715 million in 2001. Adjusted for the favorable impact of foreign exchange rates (\$55 million) and acquisitions (\$305 million), consolidated revenues were essentially flat compared to 2001 despite a declining equipment market. The largest component of our consolidated revenues is our net sales of agricultural and construction equipment, which were \$9,331 million in 2002 as compared to approximately \$9,030 million in 2001. Adjusted for the impact of favorable exchange rates and acquisitions, net sales of equipment were essentially unchanged from 2001 levels.

*Net Sales of Equipment*

Net sales of our Equipment Operations for the years ended December 31, 2002 and 2001 by geographic area were as follows:

|                  | <u>2002</u>       | <u>2001</u>       |
|------------------|-------------------|-------------------|
|                  | (in millions)     |                   |
| <b>Net sales</b> |                   |                   |
| North America    | \$4,140           | \$4,197           |
| Western Europe   | 3,317             | 3,168             |
| Latin America    | 638               | 587               |
| Rest of World    | 1,236             | 1,078             |
|                  | <u>          </u> | <u>          </u> |
| Total net sales  | \$9,331           | \$9,030           |
|                  | <u>          </u> | <u>          </u> |

Net sales of equipment were up 3% in 2002 reflecting approximately \$55 million in favorable currency translation impacts, and acquisitions which accounted for a further increase of \$305 million. Overall in 2002, world market demand for major agricultural equipment product lines was approximately 5% higher than in 2001. Increased worldwide demand for tractors and increased demand for combines in Western Europe and Latin America more than offset declines in the North American and Rest of World markets. Our mix of agricultural equipment sales remained relatively constant as our overall tractor market share was essentially unchanged from 2001 while our combine market share increased slightly. World market demand for major construction equipment product lines declined in 2002, reflecting decreased demand in North America and Western Europe partially offset by increases in demand in Latin American and Rest of World markets. World market demand for backhoe loaders and skid steer loaders declined while demand for heavy construction equipment increased. Our mix of sales weakened slightly as our overall backhoe loader and skid steer loader market shares declined, partially offset by an improvement in our heavy construction equipment market share.

*Agricultural Equipment*

|                  | <u>2002</u>       | <u>2001</u>       |
|------------------|-------------------|-------------------|
|                  | (in millions)     |                   |
| <b>Net sales</b> |                   |                   |
| North America    | \$2,803           | \$2,876           |
| Western Europe   | 2,141             | 1,970             |
| Latin America    | 486               | 420               |
| Rest of World    | 975               | 807               |
|                  | <u>          </u> | <u>          </u> |
| Total net sales  | \$6,405           | \$6,073           |
|                  | <u>          </u> | <u>          </u> |

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Net sales of agricultural equipment in 2002 were approximately 5% higher than in 2001. This increase was due primarily to increases in wholesale unit sales of tractors and combines and the favorable effects of currency translation, pricing and acquisitions (\$55 million). Overall worldwide tractor market demand in 2002, as measured in units, increased by about 5% from 2001 levels, and overall combine demand increased by

about 1%. Our overall worldwide retail market share of major agricultural equipment products was less than one-half of a percentage point lower in 2002 compared with 2001.

In North America, net sales of agricultural equipment decreased by about 3% in 2002 compared with 2001, reflecting lower wholesale tractor and combine unit sales. Total market demand for agricultural tractors in North America increased by about 1%. Demand for under 40 horsepower tractors increased by 6%. Industry demand for mid-sized (40 to 100 horsepower) tractors decreased by about 1%, demand for large two wheel drive tractors over 100 horsepower decreased by approximately 15% while demand for four wheel drive tractors decreased by almost 19%. Combine market demand decreased by about 20%.

In Western Europe, net sales of agricultural equipment increased by 9%, reflecting lower tractor but higher combine wholesale unit sales and the 5% increase in the average value of the Euro and the 4% increase in the average value of the British Pound, in each case as compared with the U.S. Dollar from 2002 to 2001. Overall tractor market demand, as measured in units, increased by about 5% in 2002 and overall combine market demand increased by about 14%.

In Latin America, net sales of agricultural equipment in 2002 were 16% higher than in 2001. Wholesale unit sales increased by about 21% and pricing and mix were favorable, but the average value of the Brazilian Real declined by approximately 20% in 2002 compared with 2001. Total market demand for agricultural tractors in Latin America increased by 14%, led by approximately 18% higher market demand for tractors in Brazil, based on unit sales, as the Brazilian government sustained its programs to assist farmers in purchasing equipment. Total market demand for combines rose by about 25%, with total industry unit sales of combines in Brazil increasing by about 38%.

In markets throughout the Rest of the World, net sales of agricultural equipment in 2002 increased by approximately 21% compared to 2001. Wholesale unit sales of tractors in 2002 were higher than in 2001, while unit sales of combines declined slightly. The increase in Rest of World markets was also due partially to an increase in the value of the Australian Dollar as compared with the U.S. Dollar by about 5% from 2001 to 2002.

*Construction Equipment*

|                  | <u>2002</u>       | <u>2001</u>       |
|------------------|-------------------|-------------------|
|                  | (in millions)     |                   |
| <b>Net sales</b> |                   |                   |
| North America    | \$1,337           | \$1,321           |
| Western Europe   | 1,176             | 1,198             |
| Latin America    | 152               | 167               |
| Rest of World    | 261               | 271               |
|                  | <u>          </u> | <u>          </u> |
| Total net sales  | \$2,926           | \$2,957           |
|                  | <u>          </u> | <u>          </u> |

Net sales of construction equipment decreased by approximately 1% in 2002 compared with 2001. Excluding acquisitions, sales declined by approximately 9%. The decline in net sales reflects lower wholesale unit sales of backhoe loaders and skid steer loaders in the North American and Western European markets, partially offset by higher unit sales of heavy construction equipment products in the North American and Rest of World markets. Our overall unit sales decreased in 2002 by about 10%. Overall worldwide market demand as measured in units decreased by about 4% from 2001 to 2002, led by a 10% decline in the worldwide market demand for skid steer loaders for which we are the second largest producer in the industry, followed closely by an 8% decline in worldwide market demand for backhoe loaders, for which we are the industry leader. Worldwide market demand for heavy construction equipment increased by approximately 2%. Our overall worldwide retail market share declined by less than two percentage points in 2002 compared with 2001.

In North America, net sales of construction equipment increased by approximately 1% in 2002 compared with 2001, reflecting primarily the acquisition of Kobelco America, which occurred in the first quarter of 2002.

Excluding Kobelco America, wholesale unit sales of backhoe loaders and skid steer loaders declined while unit sales of heavy construction equipment products increased. The total market demand for construction equipment decreased by about 12%, including a 17% decline in demand for backhoe loaders, a 14% decline in demand for skid steer loaders and a 12% decline in demand for heavy construction equipment.

In Western Europe, net sales of construction equipment decreased by 2% including the acquisition of Kobelco Europe in the third quarter of 2002. Excluding Kobelco Europe, the decline in our net sales reflected 10% lower wholesale unit sales, partially offset by the 5% increase in the value of the Euro and the 5% increase in the value of the British Pound from 2001 to 2002. Overall market demand, as measured in units, decreased by approximately 9% in 2002.

In Latin America, net sales of construction equipment decreased by 9% in 2002 compared with 2001. The decrease in net sales was principally due to the decline in the average value of the Brazilian Real by approximately 20% in 2002 compared with 2001, and a decrease of 9% in wholesale unit sales in that region. Total market demand, as measured in units, increased by about 2%, including a 4% increase in market demand for backhoe loaders, a 2% increase in Latin American market demand for heavy construction equipment and flat market demand for skid steer loaders.

In markets throughout the Rest of World, where we have a minimal presence, net sales of construction equipment decreased by 4% in 2002 compared with 2001. The reduction in net sales is primarily due to the sale of our construction equipment operations in Australia and China to Kobelco Japan.

#### *Finance and Interest Income*

Consolidated finance and interest income declined from \$685 million in 2001 to \$609 million in 2002 largely due to the decrease in Financial Services revenues. Revenues for Financial Services totaled \$641 million in 2002, down \$98 million from the \$739 million reported in 2001. The decline in revenues was primarily caused by an approximately \$110 million decrease in finance and interest income earned on retail and wholesale receivables in 2002 due principally to a 1.21% decrease in the average yield and a decrease in the average balance of outstanding retail and wholesale receivables of approximately \$320 million. Securitization related revenues remained essentially unchanged. As a partial offset, revenues from operating leases increased slightly.

#### *Costs and Expenses*

Costs of goods sold increased by \$316 million to \$7,902 million in 2002, but as a percentage of net sales of equipment increased slightly from 84.0% in 2001 to 84.7% in 2002. Gross margin (net sales of equipment less cost of goods sold), expressed as a percentage of net sales of equipment, was 15.3% in 2002 as compared to 16.0% in 2001. This decline in gross margin reflected a decline in the gross margin of construction equipment from 15.3% in 2001 to 11.4% in 2002, which was only partially offset by an increase in the gross margin of agricultural equipment from 16.4% in 2001 to 16.9% in 2002. In total, gross margin deterioration was principally due to lower absorption of fixed costs, pricing pressures and unfavorable mix, all primarily related to construction equipment, that was partially offset by favorable agricultural equipment volume and pricing, the favorable impact of the Shanghai joint venture and the global alliance with Kobelco Japan completed during the year and a total of \$76 million of merger-related profit improvements, primarily related to lower material costs.

In 2002, consolidated SG&A expenses declined by \$130 million to \$1,094 million from \$1,224 million in the prior year, as those expenses declined in both Equipment Operations and Financial Services. In Equipment Operations, SG&A expenses declined by \$31 million to \$884 million in 2002 from \$915 million in 2001, or expressed as a percentage of net sales of equipment, a decrease from 10.1% in 2001 to 9.5% in 2002. The decrease in SG&A expenses in Equipment Operations was driven primarily by the reduction in pre-acquisition salaried headcount by approximately 700 persons. These reductions were principally due to the ongoing cost reduction initiatives and merger integration profit improvement activities initiated by us totaling approximately \$38 million and by reductions in bad debt expense. These actions were partially offset by higher

employee medical and pension costs, the impacts of inflation and the strengthening euro, British pound and Australian dollar on overseas SG&A expenses and by the inclusion in 2002 of SG&A costs from our Shanghai joint venture, Kobelco America and Kobelco Europe, which increased year-end salaried headcount by approximately 500 persons. SG&A expenses in Financial Services decreased by \$104 million due to lower loan loss provisions of approximately \$106 million, on a pre-tax basis, which were mainly due to a reduction in loans in the non-core businesses and reductions in the impairment charge related to retained interests in ABS trust facilities.

Non-core financing activities were discontinued during 2001. During 2002, the non-core portfolio decreased 39% due to liquidations and write-offs, and the non-core portfolio loss provision also decreased.

Although we believe that the cessation of originations in these non-core portfolios has significantly reduced the potential for additional future charges, we may need to record additional loan loss provisions for these portfolios if there is a further, unanticipated deterioration in market conditions affecting the underlying industries. The following information summarizes the significance of these North American non-core portfolios relative to our total loan portfolios and certain performance-related data as of December 31, 2002 and 2001:

|                               | 2002          | 2001   |
|-------------------------------|---------------|--------|
|                               | (in millions) |        |
| Non-core portfolio            | \$ 570        | \$ 939 |
| Percentage of total portfolio | 5%            | 10%    |
| Delinquency percentage*       | 28%           | 25%    |
| Annual loss percentage        | 8.66%         | 6.45%  |
| Loss provision provided       | \$ 63         | \$ 110 |

\* Calculated as the percentage of loans in the relevant portfolio more than 30 days past due.

By comparison, delinquency percentages for our North American core portfolio were 3.9% and 4.3% for 2002 and 2001, respectively, and annual loss percentages for the North American core portfolio remained constant at 0.8% for both 2002 and 2001.

Ongoing R&D expenses declined by \$23 million from \$306 million in 2001 to \$283 million in 2002. Expressed as a percentage of net sales of equipment, R&D expenses declined slightly to 3.0% in 2002 compared with 3.4% in 2001 due to the timing of costs related to various phases of new model development programs and new product launches in the two years.

Our consolidated worldwide employment level has increased by approximately 400 persons from approximately 28,100 at the end of 2001 to approximately 28,500 at the end of 2002. This includes an increase of approximately 1,500 persons related to the Kobelco Japan global alliance and Shanghai joint venture, which were completed during 2002. Excluding acquisitions, consolidated worldwide employment levels have been reduced to approximately 27,100 in 2002 compared with 28,100 at the end of 2001 and approximately 36,000 at the time of the merger in late 1999. On this basis, total employment has now been reduced by approximately 8,900, or 25%, since the merger; salaried employment has been reduced by approximately 30% from approximately 15,200 at the time of the merger to approximately 10,700 at year-end 2002. Including acquisitions, year-end 2002 salaried headcount also declined from approximately 11,400 at year-end 2001 to approximately 11,200 at year-end 2002.

During 2002, we recorded \$51 million in restructuring costs for the CNH Merger Integration Plan, including \$50 million in Equipment Operations and \$1 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, costs related to closing, selling, and downsizing existing facilities. The CNH Merger Integration Plan realized \$114 million in annual profit improvements related to product offerings made available through



our multiple distribution channels in 2002 in addition to the \$430 million realized in 2000 and 2001. See Note 13, *Restructuring* to the Consolidated Financial Statements for a detailed analysis of our restructuring programs.

The reduction in consolidated interest expense from \$726 million in 2001 to \$554 million in 2002 was principally due to lower borrowings resulting from the June 2002 public offering of common shares and the concurrent conversion of debt with Fiat to equity and lower average interest rates. Interest expense in Equipment Operations decreased to \$466 million in 2002 from \$585 million in 2001 primarily as a result of the Fiat debt conversion described above. The decrease in Financial Services interest expense of \$97 million from \$339 million in 2001 to \$242 million in 2002 was mainly due to lower average funding costs and to lower average borrowing levels supporting the approximately \$400 million lower average balances of on-book retail and wholesale receivables and operating leases. In 2002, we incurred \$236 million in consolidated interest expense relating to financing from Fiat as compared to \$358 million in 2001.

Other, net decreased to \$182 million in 2002 from \$193 million in 2001. The decrease in other expenses was primarily attributable to the adoption of SFAS No. 142, which requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Thus, the expense incurred in 2001 as a result of amortizing such goodwill and intangibles did not recur in 2002. The decrease in goodwill was partially offset by higher pension and medical benefit costs for retired, inactive employees.

During 2002, total equity in income (loss) of unconsolidated subsidiaries and affiliates increased by \$27 million to a net profit of \$19 million as compared to net loss of \$8 million in 2001. Financial Services equity in income of unconsolidated subsidiaries decreased \$2 million during 2002 due primarily to the liquidation of pre-merger joint venture activities in Europe and start-up costs related to the new BPLG joint venture in Europe. Equity in income from our unconsolidated Equipment Operations activities increased from a loss of \$14 million in 2001 to a profit of \$15 million in 2002. The improvement was primarily due to the non-recurrence of the devaluation of the Turkish Lira that occurred in the first quarter of 2001.

#### *Cumulative Effect of a Change in Accounting Principle, Net of Tax*

In January 2002, we adopted SFAS No. 142, which requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, SFAS No. 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon the adoption of SFAS No. 142 on January 1, 2002 and annually thereafter.

We identified three reporting units under the criteria set forth by SFAS No. 142: Agricultural Equipment, Construction Equipment and Financial Services. To determine fair value, we relied on two valuation models: guideline company method and discounted cash flow.

Upon adoption of SFAS No. 142 and effective in the first quarter of 2002, we recorded a one-time, non-cash charge of approximately \$325 million, including approximately \$6 million related to an equity method joint venture, to reduce the carrying value of goodwill attributed to our Construction Equipment reporting unit. Such charge is reflected as a cumulative effect of change in accounting principle, net of tax, in the accompanying consolidated statements of operations.

The impairment was associated principally with goodwill recorded in connection with New Holland's acquisition of Case in 1999. The impairment was primarily a result of the decline in the construction equipment market experienced by CNH and its competitors since the acquisition.

#### *Tax Rates - Consolidated*

Our effective tax rate was approximately 3% in 2002. Excluding the impact of the cumulative effect of a change in accounting principle, our effective tax rate, was approximately 13% in 2002 compared to 24% in 2001. For an analysis of the principal factors affecting our effective tax rate, see Note 12, *Income Taxes* to the Consolidated Financial Statements.



*Net Income*

The consolidated net loss in 2002 was \$426 million, compared with a net loss of \$332 million in 2001. On a diluted basis, losses per share were \$4.40 and \$6.00 per share in 2002 and 2001, respectively, based on diluted weighted average shares outstanding of 96.9 million and 55.4 million in 2002 and 2001, respectively.

*Effect of Currency Translation*

For financial reporting purposes, we convert the financial results of each of our operating companies into U.S. Dollars, using average exchange rates calculated with reference to those rates in effect during the year. As a result, any change from year to year in the U.S. Dollar value of the other currencies in which we incur costs or receive income is reflected in a currency translation effect on our financial results.

The impact of currency translation on the results of Financial Services operations is minimal, reflecting the geographic concentration of such operations within the United States. For Equipment Operations, the impact of currency translation on net sales generally is largely offset by the translation impact on costs and expenses.

During 2002, the average change in the currencies of our major operations as compared with the U.S. Dollar were increases in the average values of the Euro by 5.1%, the Australian Dollar by 5.1% and the British Pound by 4.1%. The average value of the Canadian Dollar declined by 1.4%, the value of the Japanese Yen declined by 3.2% and the Brazilian Real by 19.5%. The impact of these movements increased net sales by approximately \$55 million or 0.6% and reduced the absolute gross margin by \$52 million or 3.6%. The impact on net income was approximately \$46 million unfavorable, as the impact on overhead costs was favorable.

**Application of Critical Accounting Policies**

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results may differ from these estimates under different assumptions or conditions. Our senior management has discussed the development and selection of the critical accounting policies, related accounting estimates and the disclosure set forth below with the Audit Committee of our Board of Directors. We believe that our most critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, are summarized below.

*Allowance for Doubtful Accounts*

Our wholesale and retail note receivables have significant concentration of credit risk in the agricultural and construction equipment industry and are subject to potential credit losses. We have reserved for the expected credit losses based on past experience with similar receivables including current and historical past due amounts, dealer termination rates, write-offs and collections. We believe that our reserves are adequate; however, if the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances may be required.

*Equipment on Operating Lease Residual Values*

Our Financial Services segment purchases equipment that is leased to retail customers under operating leases from dealers. Income from these operating leases is recognized over the term of the lease. Financial Services' investment in operating leases is based upon estimated residual values of the leased equipment, which are calculated at the lease inception date. Realization of the residual values is dependent on Financial Services' future ability to market the equipment under the then prevailing market conditions. We continually evaluates whether events and circumstances have occurred which impact the estimated residual values of

equipment on operating leases. Although realization is not assured, management believes that the estimated residual values are realizable.

*Off Balance Sheet Financing*

In connection with our securitization of retail receivables, we retain interest only strips and other interests in the securitized receivables. Interest-only strips represent rights to future cash flows arising after the investors in the securitization trust have received the return for which they contracted and other expenses of the trust are paid. Our retained interests are subordinate to the investors' interests. Gain or loss on sale of receivables depends in part on the fair value of the retained interests at the date of transfer. Additionally, retained interests after transfer are measured for impairment based on the fair value of the retained interests at the measurement date. We estimate fair value based on the present value of future expected cash flows using our estimate of key assumptions—credit losses, prepayment spreads, and discount rates commensurate with the risks involved. While we use our best estimates, there can be significant differences between those estimates and actual results. See Note 4, Accounts and Notes Receivables to the Consolidated Financial Statements for sensitivity information.

*Sales Allowances*

We grant certain sales incentives to stimulate sales of our products to retail customers. The expense for such incentive programs is reserved for and recorded as a deduction in arriving at net sales at the time of sales to the dealer. The amounts of incentives to be paid are estimated based upon future market demand for our products, competitive pricing and interest rates, among other things. If market conditions were to decline, we may take actions to increase customer incentives possibly resulting in an increase in the reduction of net sales at the time the incentive is offered.

*Recoverability of Long-lived Assets*

Long-lived assets includes property, plant and equipment, goodwill and other intangible assets such as patents and trademarks. Reference is made to Note 2, Summary of Significant Accounting Policies, to the Consolidated Financial Statements for further information on our accounting practices related to Long-lived assets. Our estimates of undiscounted cash flow related to recoverability of assets other than goodwill and intangible assets with indefinite lives may differ from actual cash flow due to, among other things, technological changes, economic conditions and the achievement of the anticipated benefits of our profit improvement initiatives. Upon adoption of SFAS No. 142 in 2002, we recorded a one-time, non-cash charge of approximately \$325 million, net of tax, to reduce the carrying value of goodwill attributed to its Construction Equipment reporting unit. Each year, goodwill and indefinite-lived intangible assets are tested for impairment, and they will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

*Realization of Deferred Tax Assets*

We have deferred tax assets of \$3.0 billion and a valuation allowance against these assets of \$1.2 billion as of December 31, 2003. Of this amount, \$1.6 billion of the deferred tax assets and a corresponding valuation allowance of \$739 million relate to tax loss carryforwards.

We have recorded a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In completing this determination, we generally evaluate by taxing jurisdiction recent losses after considering the impact of nonrecurring items, the impact of the cyclical nature of the business on past and future profitability, our expectations of sufficient future taxable income prior to the years in which the carryforwards expire as well as the impact of our profit improvement initiatives on future earnings. Our expectations of future profitability were based on assumptions regarding our market share, the profitability of new model introductions and the benefits from our capital and operating restructuring actions.

Reference is made to Note 12, *Income Taxes*, of our Consolidated Financial Statements for further information on our accounting practices related to the realizability of deferred tax assets.

*Modification Programs and Warranty Costs*

Our warranty obligation is affected by component failure rates, replacement costs and dealer service costs, partially offset by recovery from certain of our vendors. If actual failure rates or costs to replace and install new components differ from our estimates, a revision in the modification and warranty liability would be required. Reference is made to Note 2, *Summary of Significant Accounting Policies* and Note 16, *Commitments and Contingencies* of the Consolidated Financial Statements for further information on our accounting practices and recorded obligations related to modification programs and warranty costs.

*Defined Benefit Pension and Other Post-Retirement Benefits*

We sponsor pension and other retirement plans in various countries. In the United States and the United Kingdom, we have major defined benefit pension plans that are separately funded. Our pension plans in Germany are not funded. Benefits for salaried employees in the U.S. plan were frozen for pay and service as of December 31, 2000. Several statistical and judgmental factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets, rate of future compensation increases and health care cost trend rates, as determined by us within certain guidelines. In addition, we, with the assistance of our actuarial consultants, also use subjective factors such as withdrawal and mortality rates to estimate these factors. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, longer or shorter life spans of participants and changes in actual costs of health care. These differences may result in a significant impact to the amount of pension and other post-retirement benefit expenses recorded by us. Due to the poor performance of equity markets in 2000, 2001 and 2002, the value of CNH pension fund assets declined. Since U.S. plan assets earned a rate of return of less than the assumed rate of 9% in these years, our management reevaluated this assumption. Although not a guarantee of future results, the average annual return of key indices, allocated in a fashion similar to our U.S. plan assets, reflect a return of 10.25% over the last ten years and 12.06% over the past 20 years. After considering all relevant factors, management reduced its estimate of the expected long-term rate of return on plan assets, beginning in 2003, to 8.75% from 9% for our U.S. plans. Return on asset rates have also been reduced for non-U.S. plans to between 6.00% and 7.50%. We will continue to review and update this assumption on an annual basis.

The expected long-term rate of return on plan assets reflects management's expectations of long-term average rates of earnings on funds invested to provide for benefits included in the projected benefit obligations. The return is based on the outlook for inflation, fixed income returns and equity returns, while also considering the plans' historical returns, their asset allocation and investment strategies, as well as the views of investment managers and other large pension plan sponsors.

Additionally, we have experienced a continuing high level of other post-retirement employee benefit costs, principally related to healthcare, during 2003. Consequently, we will maintain the 2003 initial annual estimated rate of increase in the per capita cost of healthcare at 10% for 2004 despite earlier expectations that this rate would decrease.

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The following table summarizes the effects of a one percentage-point change in our primary defined benefit pension and other post-retirement benefit actuarial assumptions on 2003 pension and other post-retirement benefit costs and obligations:

|  | 2003 Benefit Cost<br>(income)/expense |                                   | Year End Benefit Obligation<br>increase/(decrease) |                                   |
|--|---------------------------------------|-----------------------------------|--|-----------------------------------|
|  | One Percentage-<br>Point Increase     | One Percentage-<br>Point Decrease | One Percentage-<br>Point Increase                  | One Percentage-<br>Point Decrease |
| (in millions)                                    |                                       |                                   |  |                                   |
| Pension benefits U.S.:                           |                                       |                                   |  |                                   |
| Assumed discount rate                            | \$ (8.4)                              | \$ 9.8                            | \$ (81.6)  | \$ 98.2                           |
| Expected long-term rate of return on plan assets | (4.8)                                 | 4.8                               | N/A  | N/A                               |
| Pension benefits International:                  |                                       |                                   |  |                                   |
| Assumed discount rate                            | (14.6)                                | 15.1                              | (182.9)  | 215.7                             |
| Expected rate of compensation increase           | 8.4                                   | (5.9)                             | 49.2   | (34.0)                            |
| Expected long-term rate of return on plan assets | (7.3)                                 | 7.3                               | N/A  | N/A                               |
| Other post-retirement benefits:                  |                                       |                                   |  |                                   |
| Assumed discount rate                            | (14.4)                                | 15.2                              | (134.9)  | 151.6                             |
| Assumed health care cost trend rate              | 22.0                                  | (19.0)                            | 142.0  | (120.0)                           |

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit program under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans. Certain accounting issues raised by the Act, such as how to account for the federal subsidy, are not explicitly addressed by FASB Statement No. 106 Employers Accounting for Postretirement Benefits Other Than Pensions.

The FASB issued FASB Staff Position (FSP) No. FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, (FSP No. 106-1) that allows sponsors to elect to defer recognition of the effects of the Act.

In accordance with FSP No. 106-1, we have elected to defer recognition of the effects of the Act. Accordingly, the financial statements in this report do not reflect the effects of the Act.

### *Revenue Recognition*

Our Equipment Operations segment records sales of equipment and replacement parts when title and all risks of ownership have transferred to the independent dealer or other customer. For further information related to when risk of loss transfers in various countries, see Note 2, Summary of Significant Accounting Policies of the Consolidated Financial Statements. Management's judgments and estimates in reserving for collectability of receivables, sales incentives and product warranties related to sales, are discussed in further detail in the discussion above of our other critical accounting policies.

Our Financial Services segment records earned finance charges (interest income) on retail and other notes receivables and finance leases using the effective interest method.

### **New Accounting Pronouncements**

In December 2003, the FASB issued FASB Interpretation No. 46, (Revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (Interpretation No. 46R). This standard replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46) that was issued in January 2003. Interpretation No. 46R modifies or clarifies various provisions of FIN 46. Interpretation No. 46R addresses the consolidation by business enterprises of variable interest entities (VIEs), as defined by Interpretation No. 46R. Interpretation No. 46R exempts certain entities from its



requirements and provides for special effective dates for entities that have fully or partially applied FIN 46 prior to issuance of Interpretation No. 46R. Otherwise, application of Interpretation No. 46R is required in financial statements of public entities that have interest in structures commonly referred to as special purpose entities for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of VIEs is required in financial statements for periods ending after March 15, 2004. The Company will adopt the provisions of Interpretation No. 46R during the quarter ended March 31, 2004.

As disclosed in Note 4, Accounts and Notes Receivables, our Financial Services operation uses certain special purpose entities (SPE) in the securitization and sale of its receivables. These SPEs meet the criteria of qualified special purpose entities (QSPE) as defined by FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which are exempt from consolidation as SPEs under Interpretation No. 46R. The Company is currently evaluating its other VIEs, but does not believe the adoption of the remaining provisions of Interpretation No. 46R will have a material effect on the Company's financial condition or results of operations.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS No. 149). SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 was implemented for contracts entered into or modified after June 30, 2003 and the disclosure requirements are reflected in the accompanying Consolidated Financial Statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) when many of those instruments were previously classified as equity. Adoption of SFAS No. 150 in 2003 did not have a material impact on our Consolidated Financial Statements.

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits (SFAS No. 132) which retains the disclosures originally required by SFAS No. 132, in addition to new disclosures relating to types of plan assets, investment strategy, measurement dates, plan obligations, cash flows and components of net periodic benefit cost recognized in interim periods of defined benefit pension plans and other defined benefit postretirement plans. The provisions of SFAS No. 132 are effective for domestic plans in financial statements issued for years ending after December 15, 2003 and for interim periods beginning after December 15, 2003 at which time the additional disclosures will be included. Full implementation is required for financial statements issued for years ending after December 15, 2004. CNH, a Netherlands based entity, has provided the required disclosure information for its U.S. and U.K. plans in advance of the required implementation date. We have no plans in the Netherlands. The U.S. and U.K. plans make up the majority of our defined benefit obligation. We do not anticipate that final adoption of this statement will have a significant effect on our reported financial position, results of operations or cash flows.

In December 2003, the Act became law. In January 2004, the FASB issued FSP No. 106-1. FSP No. 106-1 allows a plan sponsor to elect to defer recognition of the effects of the Act in accounting for its plan and in providing related disclosures, until authoritative guidance on the accounting for the federal subsidy is issued, or until certain other events, as defined, occur. We have elected to defer recognition of the Act in accordance with the provisions of FSP No. 106-1.

**B. Liquidity and Capital Resources.**

The discussion of liquidity and capital resources focuses on the balance sheets, statements of cash flows and off-balance sheet financing. Our operations are capital intensive and subject to seasonal variations in financing requirements for dealer receivables and inventories. Whenever necessary, funds from operating activities are supplemented from external sources. We expect to have available to us cash from operations and from sources of debt financing that are sufficient to fund our working capital requirements, capital expenditures, including acquisitions, and debt service at least through the end of 2004.

Beginning in 2002, we have taken actions to recapitalize our balance sheet, reducing our net debt to net capitalization ratio of our Equipment Operations from 73% at December 31, 2001 to 28% at December 31, 2003. On June 11, 2002, we sold 10 million common shares to the public (as adjusted for the 1-for-5 reverse stock split of our common shares on April 1, 2003). The proceeds were used to repay a portion of our outstanding debt and for other general corporate purposes. Concurrently with the offering of common shares, Fiat and one of its subsidiaries contributed \$1.3 billion principal amount of our debt to us in exchange for 65 million of our common shares (as adjusted for the reverse stock split). On April 7 and 8, 2003, we 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. On August 1, 2003 and September 12, 2003 Case New Holland issued a total of \$1.05 billion of 9 1/4% Senior Notes due 2011 which are fully and unconditionally guaranteed by us and certain of our direct and indirect subsidiaries.

*Consolidated Debt*

As of December 31, 2003, our consolidated debt was \$7.0 billion compared to \$7.9 billion as of December 31, 2002. Consolidated long-term debt as of December 31, 2003 was \$4.9 billion, including \$843 million of current maturities, compared to \$5.1 billion and \$1.1 billion respectively, as of the end of the prior year.

Net Debt is defined as total debt less intersegment notes receivable and cash and cash equivalents ( Net Debt ). We believe that Net Debt, as defined, is a useful analytical tool for measuring our effective borrowing requirements while our ratio of Net Debt to Net Capitalization provides useful supplementary information to investors so that they may evaluate our financial performance using the same measures we use.

The calculation of Net Debt and Net Debt to Net Capitalization as of December 31, 2003 and 2002 is shown below:

|                                | Consolidated                      |         | Equipment Operations |         | Financial Services |         |
|--------------------------------|-----------------------------------|---------|----------------------|---------|--------------------|---------|
|                                | 2003                              | 2002    | 2003                 | 2002    | 2003               | 2002    |
|                                | (in millions, except percentages) |         |                      |         |                    |         |
| Total Debt                     | \$6,996                           | \$7,864 | \$4,715              | \$5,776 | \$3,293            | \$4,225 |
| Less:                          |                                   |         |                      |         |                    |         |
| Cash and cash equivalents      | 1,944                             | 775     | 1,801                | 469     | 143                | 306     |
| Intersegment notes receivables |                                   |         | 1,012                | 1,783   |                    | 354     |
| Net Debt                       | 5,052                             | 7,089   | 1,902                | 3,524   | 3,150              | 3,565   |
| Equity                         | 4,874                             | 2,761   | 4,874                | 2,761   | 1,241              | 1,019   |
| Net Capitalization             | \$9,926                           | \$9,850 | \$6,776              | \$6,285 | \$4,391            | \$4,584 |
| Net Debt to Net Capitalization | 51%                               | 72%     | 28%                  | 56%     | 72%                | 78%     |

As of December 31, 2003, we had \$1.9 billion of cash and cash equivalents available, compared to \$775 million as of December 31, 2002. Consolidated Net Debt was \$5.1 billion as of December 31, 2003, compared to \$7.1 billion a year earlier.

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The year-over-year decline in Consolidated Net Debt was mainly due to the exchange of \$2 billion in Equipment Operations indebtedness, including \$1.2 billion of long term debt, for 8 million shares of Series A



Preferred Stock described below. The reduction of long term debt reflects the \$1.2 billion exchange of Equipment Operations indebtedness for Series A Preferred Stock, the maturity of certain notes outstanding, and the offsetting effect of the issuance of \$1.05 billion of 9 1/4% Senior Notes maturing in 2011 and of other long term notes to affiliates. The increase in cash and cash equivalents reflects cash generated by Financial Services, the residual proceeds from the issuance of the 9 1/4% Senior Notes in August and September and additional borrowings from Fiat.

Equipment Operations Net Debt was \$1.9 billion at December, 31, 2003, compared to \$3.5 billion for the prior year. The decline primarily reflects the effect of the issuance of the Series A Preferred Stock in exchange for debt. At exchange rates comparable to those at December 31, 2002, Consolidated Net Debt for Equipment Operations as of December 31, 2003 would have been \$1.8 billion. Equipment Operations long-term debt as of December 31, 2003 was \$3.2 billion, including \$88 million of current maturities, compared to \$3.5 billion and \$824 million respectively, as of the end of the prior year. The reduction of long term debt reflects the exchange of \$1.2 billion of debt for shares of Series A Preferred Stock, the maturity of certain notes outstanding, and the offsetting effect of the issuance of \$1.05 billion of 9 1/4% Senior Notes maturing in 2011 and of other long term notes to affiliates. As of December, 31, 2003, short term debt and current maturities of long term debt declined to approximately 34% of total debt compared to 53% in the prior year, while cash and cash equivalents at December 31, 2003 of \$1.8 billion exceed short term debt plus current maturities.

Financial Services Net Debt was \$3.1 billion at December 31, 2003, compared to \$3.6 billion as of December 31, 2002, reflecting the use of cash generated by the reduction of receivables carried by our operations, primarily in non-core activities. At comparable exchange rates, Net Debt for Financial Services as of December 31, 2003 would have been \$2.9 billion. Financial Services long-term debt as of December 31, 2003 was \$2.4 billion, including \$755 million of current maturities, compared to \$2.3 billion and \$294 million of current maturities respectively, as of the end of the prior year. The increase in long term debt primarily reflects funding the expansion of the Financial Services retail portfolio in Brazil.

*Debt and cash and cash equivalents with Fiat*

On December 31, 2003, our outstanding consolidated debt with Fiat and its affiliates was \$2.4 billion, or approximately 35% of our consolidated debt, compared to \$3.9 billion or approximately 50% as of December 31, 2002. The reduction reflects the exchange of \$2 billion of debt with Fiat for 8 million shares of Series A Preferred Stock, offset by additional short and long term borrowings utilized primarily for working capital requirements.

An additional \$1.4 billion of consolidated third party debt outstanding under certain facilities was guaranteed by Fiat or a Fiat subsidiary at December 31, 2003. In 2003, we paid guarantee fees to Fiat of between 0.03125% per annum and 0.0625% per annum on the average amount outstanding under these facilities. Fiat has agreed to maintain its existing treasury and debt financing arrangements with us for as long as it maintains control of CNH and, in any event, at least until December 31, 2004. 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.

Like other companies that are part of multinational groups, we participate in a group-wide cash management system with other members of 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 to a central pooling account. Our positive cash balances, 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. On December 31, 2003, our outstanding consolidated cash balances with Fiat and its affiliates were \$1.3 billion, compared to \$544 million at December 31, 2002, reflecting our generally higher cash equivalent levels, excluding proceeds from the 9 1/4% Senior Notes which were invested with third parties.

*Credit Ratings*

On June 26, 2003, Fiat announced the Fiat Relaunch Plan. Following this announcement, Standard & Poor's announced that it was placing the BB corporate credit ratings of CNH and Case, as well as Fiat's BB+ corporate credit rating, on credit watch with negative implications.

On July 7, 2003, Moody's downgraded Fiat's long-term senior unsecured debt ratings to Ba3 from Ba1, with a negative outlook. At the same time, Moody's assigned Fiat a Ba3 senior implied rating, also with a negative outlook. Also on July 7, 2003, Moody's lowered the senior debt ratings of Case and Case Credit Corporation to Ba3 from Ba2, with a negative outlook. On July 8, 2003, Fitch Ratings downgraded Fiat's senior unsecured debt rating to BB from BB+, with a negative outlook.

On July 11, 2003, Standard & Poor's lowered its corporate credit ratings on CNH and related entities to BB- from BB, with a stable outlook, and removed them from credit watch. Also on July 11, 2003, Standard & Poor's lowered Fiat's long-term corporate credit rating to BB- from BB+, with a stable outlook, and removed it from credit watch.

At December 31, 2003 and as of the date of this report, our long-term unsecured debt was rated BB- by Standard & Poor's and Ba3 by Moody's. Fiat's long-term unsecured debt was rated on par with ours, by both Moody's and Standard and Poor's. In addition, our long term unsecured debt was rated BB (high) by Dominion Bond Ratings Service.

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

We cannot assure you that the rating agencies will not further downgrade our or Fiat's credit ratings. These downgrades have already affected our ability to borrow funds, and 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.

**Cash Flows**

*Cash Flows from Operating Activities*

|                      | For the Years Ended<br>December 31, |         |         |
|----------------------|-------------------------------------|---------|---------|
|                      | 2003                                | 2002    | 2001    |
|                      | (in millions)                       |         |         |
| Equipment Operations | \$ 66                               | \$ 485  | \$(468) |
| Financial Services   | 560                                 | 693     | 286     |
| Eliminations         | (22)                                | (3)     |         |
| Consolidated         | \$604                               | \$1,175 | \$(182) |

In 2003, consolidated cash flows from operating activities were \$604 million compared to \$1.2 billion in 2002 with decreases resulting in both Equipment Operations and Financial Services.

The decline in year over year cash flows from operating activities for Equipment Operations is due principally to increased cash utilized for working capital (defined by CNH as receivables and inventory less accounts payable), offset by improved Equipment Operations operating results for the year.

The overall decline in cash flows from operating activities for Financial Services is attributable to increased operating results being more than offset by the increased use of cash for receivables, intersegment activity with Equipment Operations and other assets.



*Cash Flow from Investing Activities*

|                      | For the Years Ended<br>December 31, |         |         |
|----------------------|-------------------------------------|---------|---------|
|                      | 2003                                | 2002    | 2001    |
|                      | (in millions)                       |         |         |
| Equipment Operations | \$(221)                             | \$(473) | \$(169) |
| Financial Services   | 94                                  | (59)    | (158)   |
| Eliminations         | 54                                  | 73      | 55      |
| Consolidated         | \$ (73)                             | \$(459) | \$(272) |

Consolidated cash used by investing activities was \$73 million in 2003 compared to \$459 million in 2002. The reduction in cash used resulted from decreases at both Equipment Operations and Financial Services.

During 2003, cash used by investing activities at Equipment Operations declined to \$221 million from \$473 million in 2002. The decline is principally attributed to the completion of the Kobelco and Shanghi acquisitions in 2002. During 2003, no acquisitions of a similar magnitude occurred. Other uses from investing activities remained relatively consistent with prior year levels. These expenditures were principally related to capital expenditures to acquire the property, plant and equipment necessary to introduce new products, enhance manufacturing efficiency, further integrate our operations and expand environmental and safety programs.

Cash flows from investing activities at Financial Services changed from a use of \$59 million for the year ended December 31, 2002 to source of \$94 million for the year ended December 31, 2003. This change is attributed to a decrease in cash used to fund operating lease activities.

*Cash Flow from Financing Activities*

|                      | For the Years Ended<br>December 31, |         |        |
|----------------------|-------------------------------------|---------|--------|
|                      | 2003                                | 2002    | 2001   |
|                      | (in millions)                       |         |        |
| Equipment Operations | \$1,403                             | \$ 87   | \$ 441 |
| Financial Services   | (833)                               | (593)   | (123)  |
| Eliminations         | (32)                                | (70)    | (55)   |
| Consolidated         | \$ 538                              | \$(576) | \$ 263 |

Cash provided by financing activities in 2003 were principally the result of the issuance, on August 1, 2003 and September 12, 2003, of a total \$1.05 billion of 9 1/4% Senior Notes due 2011. The 9 1/4% Senior Notes are fully and unconditionally guaranteed by CNH and certain of its direct and indirect subsidiaries and contain certain covenants that restrict our ability 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; 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 of the related agreements governing our subsidiaries indebtedness contain covenants limiting their incurrence of secured debt or structurally senior debt.

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Additionally, on April 7 and 8, 2003 CNH completed a non-cash financing transaction by issuing 8 million shares of Series A Preferred Stock in exchange for \$2 billion in Equipment Operations indebtedness owed to Fiat Group companies, of which approximately \$1.2 billion was debt maturing in 2003. The Series A Preferred Stock will not accrue dividends until January 1, 2005. Subsequently, the Series A Preferred Stock will pay a dividend at the then prevailing common dividend yield. However, should we 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 convert into 100 million CNH common shares at a conversion price of \$20 per share automatically 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. In the event of dissolution or liquidation, 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.

Cash provided by financing activities for Equipment Operations in 2003 was \$1.4 billion primarily as a result of the issuance of the 9 1/4% Senior Notes, and a net reduction of \$484 million of intersegment loans to Financial Services resulting from our strategy to reduce the dependence of Financial Services on Equipment Operations funding. Financial Services used \$833 million of cash for financing activities by repaying third-party and intersegment debt, reflecting cash available from operating and investing activities.

## Sources of Funding

### *Funding Policy*

Our policy is to maintain a high degree of flexibility in our funding and investment activities, by using a broad variety of financial instruments to maintain our desired level of liquidity.

In managing our liquidity requirements, we are pursuing a financing strategy that includes maintaining continuous access to a variety of financing sources, including U.S. and international capital markets and commercial bank lines and funding Financial Services with a combination of receivables securitizations and on-book financing. A significant portion of our financing has historically come from Fiat and Fiat affiliates.

A summary of our strategy is:

To fund our Equipment Operations short-term financing requirements and to ensure near-term liquidity, we rely primarily on bank facilities, predominantly through uncommitted credit facilities and receivables discounting lines; we also maintain a funding relationship with Fiat through the cash pooling arrangements operated by Fiat in a number of jurisdictions. We manage our aggregate short-term borrowings so as not to exceed availability under our lines of credit with banks and Fiat.

As funding needs of our Equipment Operations are determined to be of a longer-term nature, we access medium-and long-term debt markets, as appropriate, to refinance short-term borrowings and replenish our short-term liquidity; we have relied in the past, and may, from time to time, continue to rely on our relationship with Fiat to obtain term funding as a complement to our access to banks and capital markets.

We maintain sufficient unutilized committed lines of credit and other liquidity facilities, complemented by available cash and cash equivalents, to cover our expected funding needs on both a short-term and long-term basis.

Increasingly, the most significant source of liquidity for our Financial Services business has been the ability to finance the receivables we originate in the secondary markets through loan securitizations. We complement this funding strategy as appropriate with access to bank facilities, both short and long term, to the capital markets and to Fiat funding via its cash pooling arrangements. Our Financial Services business has relied in the past on intersegment notes from Equipment Operations to offset the unavailability of commercial paper funding in certain jurisdictions following our credit rating downgrades; however, it is our policy to reduce such dependency over time and ensure that our Financial Services business can directly fund their operations.

Certain events might impair our ability to successfully execute our funding strategy.

Our liquidity needs could increase in the event of an extended economic slowdown or recession. Reduced commodity prices and farm cash receipts, as well as decreased levels of commercial, residential and major infrastructure construction or other adverse economic conditions, would impair the ability of our dealers and retail end users to meet their payment obligations. Higher industry levels of used equipment may affect resale prices and result in decreased cash flows. In addition, in an economic slowdown or recession, our servicing and litigation costs would increase. Any sustained period of increased delinquencies, losses or costs would have an adverse effect on our liquidity. 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.

Adverse changes in the securitization market could impair our ability to originate, purchase and sell receivables or other assets on a favorable or timely basis, as well as affect the interest rate spreads we earn on the receivables we originate, and could have an adverse effect on our asset-backed liquidity facilities. These facilities typically provide financing of a certain percentage of the underlying collateral and are subject to the availability of eligible collateral and, in many cases, the willingness of our banking partners to continue to provide financing. Some of these agreements provide for annual terms, which are extended by mutual agreement of the parties for an additional annual term. Although we expect to replace our financing when our current facilities expire, there can be no assurance that we will obtain financing 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.

Access to funding at competitive rates is key to the growth of our Financial Services core business and expansion of its financing activities into new product and geographic markets. Further ratings downgrades of either our or Fiat's debt could adversely affect our Financial Services ability to continue to offer attractive financing to our dealers and end-user customers. On a global level, we will continue to evaluate alternatives to ensure that our Financial Services business continues to have access to capital on favorable terms in support of their business, including 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, similar to our arrangement entered in 2002 with BPLG, which broadened our product offerings throughout Europe.

#### *Long term debt*

As of December 31, 2003, our consolidated long-term debt was \$4.9 billion, including \$843 million of current maturities, compared to \$5.1 billion and \$1.1 billion respectively as of the end of the prior year.

Equipment Operations long-term debt as of December 31, 2003 was \$3.2 billion, including \$88 million of current maturities, compared to \$3.5 billion and \$824 million respectively, as of the end of the prior year. The reduction of long term debt reflects the exchange of \$1.2 billion of debt for shares of the Series A Preferred Stock, the maturity of certain notes outstanding, and the offsetting effect of the issuance of \$1.05 billion of 9 1/4% Senior Notes maturing in 2011 and of other long term notes to affiliates.

Equipment Operations long-term debt consisted, as of December 31, 2003, of \$1.5 billion in bonds and medium term notes, \$1.3 billion of affiliated notes with Fiat and \$210 million of medium term loans with third parties. The remaining \$109 million related to drawings maturing beyond December 31, 2004 under committed credit lines with banks discussed below.

Financial Services long-term debt as of December 31, 2003 was \$2.4 billion, including \$755 million of current maturities, compared to \$2.3 billion and \$294 million respectively as of the end of the prior year. The increase in long term debt primarily reflects funding the expansion of the Financial Services retail portfolio in Brazil.

As of December 31, 2003, Financial Services long-term debt consisted of \$719 million of borrowings maturing beyond December 31, 2004 under committed credit lines with banks related to our activities in Brazil and \$500 million of drawings under a line of credit maturing in December 2004 as discussed below; in

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addition, Financial Services has \$700 million of intersegment term notes payable in 2006, \$351 million of affiliated notes with Fiat and \$123 million in bonds and medium term notes maturing in 2007.

*Commercial paper*

Given our current credit ratings, we have not had access to the commercial paper market since 2000. During 2003 we have formally begun the cancellation of our commercial paper programs. We anticipate canceling all remaining programs in 2004.

*Credit and liquidity facilities*

As of December 31, 2003, we had approximately \$4.5 billion available under our \$7.9 billion total lines of credit, including the asset backed liquidity facilities described below. Approximately \$1.3 billion drawn under such lines were classified as long term, while approximately \$2.1 billion was classified as short term debt.

Our ability to incur additional debt may be limited by certain covenants in the 9 1/4% Senior Notes as discussed above.

The following table summarizes our credit facilities at December 31, 2003:

|  | Maturity | Amount   | Drawn                |                    | Total    | Available | Guarantor |
|--|----------|----------|----------------------|--------------------|----------|-----------|-----------|
|  |          |          | Equipment Operations | Financial Services |          |           |           |
| (in millions)  |          |          |                      |                    |          |           |           |
| Committed Lines:   |          |          |                      |                    |          |           |           |
| Revolving syndicated backup credit facility                                    | 2005     | \$ 1,800 | \$                   | \$                 | \$       | \$ 1,800  | Fiat      |
| Backup credit facilities with third parties shared with some Fiat subsidiaries | 2004-5   | 275      |                      |                    |          | 275       | Fiat      |
| Other backup facilities with third parties                                     | 2004-6   | 150      |                      |                    |          | 150       | Fiat      |
| Other committed lines guaranteed by Fiat                                       | various  | 55       | 55                   |                    | 55       |           | Fiat      |
| Revolving credit facility (Fin.Serv., USA)                                     | 2004     | 500      |                      | 500                | 500      |           | Fiat      |
| Other committed lines (Fin.Serv., Brazil)                                      | various  | 866      |                      | 719                | 719      | 147       | Fiat      |
| Revolving credit facility with Fiat affiliate                                  | 2004     | 1,000    | 403                  | 294                | 697      | 303       | Fiat      |
| Other committed lines  | various  | 230      | 155                  | 53                 | 208      | 22        |           |
|  |          | 4,876    | 613                  | 1,566              | 2,179    | 2,697     |           |
| Uncommitted Lines  |          | 1,112    | 871                  | 131                | 1,002    | 110       |           |
| Asset-backed Programs  | 2004     | 1,931    | 147                  | 83                 | 230      | 1,701     |           |
|  |          | \$7,919  | \$ 1,631             | \$ 1,780           | \$3,411  | \$ 4,508  |           |
|  |          | \$4,646  | \$ 458               | \$ 1,513           | \$ 1,971 | \$ 2,675  |           |

Committed lines of credit



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As of December 31, 2003, we had approximately \$2.7 billion available under our \$4.9 billion total committed lines of credit. The majority of such lines are supported by a guarantee from Fiat.

The \$1.8 billion syndicated credit facility represents the amount allocated to us under a \$2 billion Fiat syndicated facility maturing July 2005. This facility is available to us and certain of our Financial Services subsidiaries; its original purpose was as a backup to our commercial paper programs in the U.S., and it now provides backup liquidity to our drawings under uncommitted credit lines. An additional \$425 million of unutilized credit facilities are available to us for the same purpose, in certain cases under Fiat umbrella lines which are available to other Fiat affiliates as well.

Our Financial Services business has certain dedicated committed credit facilities available to them which are mostly utilized. In particular, a \$500 million revolving credit facility available to us in the U.S. was fully utilized at year end 2003 and 2002. Approximately \$719 million was drawn by our Brazilian Financial Services subsidiary under long term facilitated financing arrangements provided by the Banco Nacional de Desenvolvimento Economico e Social ( BNDES ), supported by the Brazilian government under agricultural development programs.

The \$1.0 billion revolving facility with Fiat matures on October 1, 2004 and serves as the umbrella under which we borrow from Fiat for day-to-day liquidity needs under the cash pooling arrangements operated by Fiat. We do not expect Fiat to cancel such pooling arrangements, and the corresponding credit facility under which they operate.

Uncommitted lines of credit

Our \$1.1 billion uncommitted lines of credit primarily reflect facilities available to us in Europe and certain other jurisdictions, under which we discount or factor certain wholesale receivables primarily for our Equipment Operations business, on a with recourse basis.

Asset-backed programs

We also have access to asset-backed commercial paper ( ABCP ) liquidity facilities through which we may sell retail receivables generated in the United States, Canada and Australia. We utilize these facilities to fund new receivable generations prior to selling such receivables in the term ABS markets. Under these facilities, the maximum amount of proceeds that can be accessed at one time is \$1.7 billion.

The following table summarizes our asset-backed commercial paper liquidity facilities at December 31, 2003:

|  | <u>Program<br/>Size</u> | <u>Availability</u> |
|--|-------------------------|---------------------|
|  | (in millions)           |                     |
| United States (expiring in January 2004) | \$ 1,200                | \$ 1,135            |
| Canada (expiring in June 2004)           | 234                     | 215                 |
| Australia (expiring in 2008)             | 301                     | 301                 |
| Total                                    | <u>\$ 1,735</u>         | <u>\$ 1,651</u>     |

Subsequent to December 31, 2003, we have extended the U.S. facility through January 2005.

In addition, as of December 31, 2003 we had available an asset backed, 155 million facility under which we were selling certain receivables generated in the U.K., France, Germany and Spain. This facility has been amortizing during the first quarter of 2004 and will terminate on April 8, 2004. Receivables previously sold under this facility have progressively been funded by available liquidity, including liquidity available from the \$1.05 billion 9 1/4% Senior Notes due 2011 which were issued in 2003. During 2004, we plan on establishing a new ABCP liquidity facility for wholesale receivables in Europe, with approximately 600 million of conduit capacity; this facility would enable us to reduce the utilization of the uncommitted lines of credit discussed above.

*Other Short Term Debt*

As of December 31, 2003, an additional \$26 million of other short term debt for our Financial Services subsidiaries was outstanding.

**Securitization**

The following table summarizes the principal amount of our retail and wholesale asset-backed securitization programs in the United States, Canada and Australia as well as receivables discounted without recourse and classified as off balance sheet at December 31, 2003 and 2002:

|   | <u>2003</u>     | <u>2002</u>     |
|---|-----------------|-----------------|
|   | (in millions)   |                 |
| Wholesale receivables                     | \$1,550         | \$1,164         |
| Retail and other notes and finance leases | 4,503           | 4,264           |
| Receivables discounted without recourse   | 174             | 171             |
|   | <u>        </u> | <u>        </u> |
| Total                                     | <u>\$6,227</u>  | <u>\$5,599</u>  |

*Retail*

We securitize and transfer financial assets, using financial asset securitization procedures, as an alternative funding source to borrowing. Securitization of assets allows us to diversify funding sources while contributing to lower our overall cost of funds. We use trusts that are SPEs in securitization transactions to achieve, for the benefit of securitization investors, segregation of the receivables securing the securities issued by the SPE so that they would be beyond the reach of our creditors. This allows the SPE to issue highly-rated securities in a highly liquid and efficient market, thereby providing us with a cost-effective source of funding. Termination of the activities described below would reduce the number of funding resources currently available to us for funding our finance activities. Any such reduction of funding sources could increase our cost of funds and reduce our profit margins, which could materially adversely affect our results of operations.

We maintain access to the asset-backed term market in the United States, Canada and Australia. During 2003, SPE affiliates of our U.S. credit companies executed \$2,477 million in retail asset-backed transactions, SPE affiliates of our Canadian credit companies executed C\$455 million in retail asset-backed transactions and SPE affiliates of our Australian credit companies executed A\$402 million in retail asset-backed transactions. The securities in each of these transactions are backed by agricultural and construction equipment retail receivables contracts and finance leases originated through our dealerships. CNH Capital applied the proceeds from the securitizations to repay outstanding debt.

Our receivable asset securitization program is further described in Note 4 *Accounts and Notes Receivables*, to our Consolidated Financial Statements. In the program, retail finance receivables are sold to limited purpose, bankruptcy-remote, consolidated subsidiaries of CNH. In turn, these subsidiaries establish separate trusts to which they transfer the receivables in exchange for the proceeds from asset-backed securities and make payments on the securities. At December 31, 2003, \$4.5 billion of asset-backed securities issued to investors out of U.S., Canadian and Australian SPEs were still outstanding with a weighted average remaining maturity of between 16 to 17 months.

Due to the nature of the assets held by the SPEs and the limited nature of each SPE's activities, they are each classified as a QSPE under SFAS No. 140. In accordance with SFAS No. 140, assets and liabilities of QSPEs are not consolidated in our consolidated balance sheets.

We agree to service the receivables transferred to the QSPEs for a fee and earn other related ongoing income customary with the programs and in accordance with generally accepted accounting principles. We also may retain all or a portion of subordinated interests in the QSPEs; these interests are reported as assets in our Consolidated Balance Sheets. The amount of the fees earned and the levels of retained interests that we maintain are quantified and described in Note 4, *Accounts and Notes Receivable* to the Consolidated Financial Statements.

No recourse provisions exist that allow holders of the asset-backed securities issued by the QSPEs to put those securities back to us. Moreover, we do not guarantee any securities issued by the QSPEs. Our exposure related to these QSPEs is limited to the cash deposits held for the benefit of the holders of the asset-backed

securities issued by the QSPEs including the retained interests in the QSPEs, which are reported in our consolidated Balance Sheets. The QSPEs have a limited life and generally terminate upon final distribution of amounts owed to investors or upon exercise of a cleanup-call option by us, in our role as Servicer, when the servicing of the sold contracts becomes burdensome.

We intend to continue our financing activity in the United States, Canadian and Australian asset-backed term markets as long as it continues to provide low rate financing.

#### *Wholesale*

CNH also sells wholesale receivables on a revolving basis to privately and publicly structured securitization facilities. The receivables are initially sold to wholly owned SPE, which are consolidated by CNH, but legally isolate the receivables from the creditors of CNH. These transactions are utilized as an alternative to the issuance of debt and allow CNH to realize a lower cost of funds due to the asset-backed nature of the receivables and the credit enhancements offered to investors.

Upon the sale of receivables to a SPE in a securitization transaction, receivables are removed from the balance sheet and proceeds are received for the difference between the receivables sold and the undivided interests in receivables that are required to be retained by us. In the event of a reduction in the receivables pool sold caused by charge-offs, the investors in the facility have recourse against our retained interests in the sold receivables. These retained interests fluctuate with the size of the sold portfolio as they are specified as percentages of the sold receivables. Investors have no recourse to us in excess of these retained interests. We continue to service the sold receivables and receive a fee, which approximates the fair value of the servicing obligation.

The facilities consist of a 364-day, C\$325 million facility that is renewable annually (June 2004) upon agreement of the parties and a new facility established for the U.S. wholesale receivables portfolio. During 2003, CNH established a new wholly owned bankruptcy-remote SPE, which in turn established a new master trust facility to replace the privately structured facilities that existed at December 31, 2002. The new master trust facility consists of \$522 million term senior and subordinated asset-backed notes with a 2 year maturity, \$522 million term senior and subordinated asset-backed notes with a 3 year maturity and a 364-day, \$500 million conduit facility that is renewable annually (September 2004) at the sole discretion of the purchasers.

At December 31, 2003, C\$325 million and \$1,297 million were outstanding under these facilities, consisting of C\$441 million and \$1,525 million of wholesale receivables sold less our retained undivided interest of C\$116 million and \$228 million. At December 31, 2002, \$958 million was outstanding under the former U.S. facilities, consisting of \$1,153 million of wholesale receivables sold less our retained undivided interest of \$195 million. For the Canadian facility at December 31, 2002, C\$325 million was outstanding, consisting of C\$382 million of wholesale receivables sold less our retained undivided interest of C\$57 million. Additional information regarding these transactions is described in Note 4, *Accounts and Notes Receivable* to the Consolidated Financial Statements.

#### *Other*

In addition to the securitizations described above, certain foreign subsidiaries of CNH securitized or discounted receivables without recourse. For the year ended December 31, 2003 and 2002, \$174 million and \$171 million of wholesale receivables remained outstanding under these programs. CNH records a discount each time receivables are sold to the counterparties in the facilities. This discount, which reflects the difference between interest income earned on the receivables sold and interest expense paid to the investors in the facilities, along with related transaction expenses, is computed at the then prevailing market rates as stated in the sale agreement.

In Europe, our joint venture with BPLG, held approximately \$1.2 billion and approximately \$700 million of receivables from CNH related transactions as of December 31, 2003 and 2002, respectively.

### **Pension and Other Post-Retirement Benefits**

Due to the poor performance of equity markets in 2000, 2001 and 2002, the value of our pension fund assets, which principally relate to plans in the United States and United Kingdom, declined. SFAS No. 87, *Employers' Accounting for Pensions* requires recognition of an additional minimum liability if the market value of plan assets is less than the accumulated benefit obligation at the end of the plan year. At December 31, 2003, this resulted in a decrease in accumulated other comprehensive income, a component of shareholders' equity, of approximately \$398 million, net of tax of \$222 million. These amounts are essentially unchanged from December 31, 2002.

A key factor in determining our pension obligation is the expected long-term rate of return on plan assets, which reflects management's expectations of long-term average rates of earnings on funds invested to provide for benefits included in the projected benefit obligations. The return is based on the outlook for inflation, fixed income returns and equity returns, while also considering the plans' historical returns, their asset allocation and investment strategy, as well as the views of investment managers and other large pension plan sponsors. The average annual return of key indices, allocated in a fashion similar to our U.S. plan assets, was 10.25% over the last ten years and 12.06% over the past 20 years. After considering all relevant factors, management reduced its estimate of the expected long-term rate of return on plan assets. CNH used an assumed long-term rate of return of 8.75% for the U.S. plans and between 6.00% and 7.50% for non-U.S. plans beginning in 2003.

We have experienced a continuing high level of other post-retirement employee benefit costs, principally related to health care, during 2003. Consequently, we will maintain the 2003 initial annual estimated rate of increase in the per capita cost of healthcare at 10% for 2004 despite earlier expectations that this rate would decrease.

Overall, we anticipate that expense related to employee medical and pension costs will increase by approximately \$30 million in 2004. During 2003, we contributed \$75 million to our U.S. pension plans and we anticipate that we will make contributions in 2004 of up to \$155 million. We anticipate that cash flows for other post-retirement employee benefit costs will rise somewhat in 2004 compared to 2003, but not significantly.

Effective January 31, 2003, we began providing matching contributions to the CNH defined contribution plans in the form of CNH common shares rather than cash.

In March 2003, a temporary interest rate relief bill was enacted by Congress that mitigated the impact of a decline in interest rates used in pension funding calculations required by the U.S. Government. Congress is currently considering legislation that would extend interest rate relief beyond 2003. The planned employer contributions in 2004 for CNH's U.S. defined benefit plans are currently based on the assumption that this legislation will be enacted. In the event the pending legislation does not become law, employer contributions required by CNH in 2004 and later years could increase significantly.

### ***C. Research and Development, Patents and Licenses, etc.***

Our research, development and engineering personnel design, engineer, manufacture and test new products, components and systems. We incurred \$259 million, \$283 million and \$306 million of research, development and engineering costs in the years ended December 31, 2003, 2002, and 2001, respectively.

We also benefit from the research, development and engineering expenditures of our joint ventures, which are not included in our research, development and engineering expenditure figures, and from the continuing engineering efforts of our suppliers.

### **Patents and Trademarks**

*Agricultural Equipment* We are promoting the New Holland, Case IH and Steyr brands and logos as the primary brand names for our agricultural equipment products. We sell some products under heritage brand names or sub-brand names such as Braud, FiatAllis, Flexi-Coil, Austoft, Concord, DMI and Tyler.

*Construction Equipment* For construction equipment under New Holland, we are promoting the New Holland Construction, O&K, Kobelco and FiatAllis brands in particular regions of the world. For construction equipment under Case, we are promoting the Case construction brand name and logo.

Most of these brand names have been registered as trademarks in the principal markets in which we use them. Other than the New Holland, Case, IH and Case IH trademarks, we do not believe that our business is materially dependent on any single patent or trademark or group of patents or trademarks.

We, through New Holland and Case, have a significant tradition of technological innovation in the agricultural and construction equipment industries. We hold over 3,000 patents, and over 800 additional applications are pending. We believe that we are among the market leaders for patented innovations in the product classes in which we compete.

#### **D. Trend Information.**

*Agricultural equipment market outlook for 2004* We expect North American industry sales of combines and over-40 horsepower tractors to show a 3 to 5 percent improvement from 2003 levels, with most of the increase in tractor sales likely in the first half of the year. In Europe, industry sales of tractors and combines are expected to decline by as much as 3 to 5 percent for the year. In Latin America, tractor sales may be off slightly, while combine sales are expected to decline moderately following an exceptionally strong performance in 2003.

*Construction equipment market outlook for 2004* Industry sales of both heavy and light construction equipment are expected to increase slightly in North America in 2004. In Europe where there is no clear sign of recovery as yet, we believe that industry sales of both light and heavy construction equipment should be flat.

*CNH Outlook for 2004* In 2004, we expect the bottom line contribution from new products launched in 2002 and 2003 to grow, through both higher volumes and improved pricing realization. The new products launched in 2003 should position us to take full advantage of the expected growth in the markets. Continued progress on our profit improvement initiatives are also expected to yield tangible results with most of the benefits in 2004 coming from our global sourcing and footprint rationalization actions.

These gains are expected to be partially offset by an increase in medical costs for active employees and retirees of about \$30 million for the year. Our profit performance may also be impacted should the dollar weaken further against the euro and yen.

In 2004, we expect to incur restructuring charges of about \$100 million, pretax, as we should complete most of our restructuring initiatives. These initiatives, begun in 2000, have helped position us for continued bottom line growth in 2004.

Through a combination of margin improvement and top line growth, we expect to achieve a 2004 improvement in the bottom line comparable to that of 2003, excluding restructuring charges.

#### **E. Off Balance Sheet Arrangements.**

We have incorporated a discussion of our off balance sheet arrangements into our discussion of liquidity and capital resources. Please see Item 5. B. Liquidity and Capital Resources for a detailed description of our off balance sheet arrangements.

**F. Contractual Obligations.**

The following table sets forth the aggregate amounts of our contractual obligations and commitments with definitive payment terms that will require significant cash outlays in the future. The commitment amounts as of December 31, 2003 are as follows:

|   | Payments Due by Period |                     |                |              |                |
|---|------------------------|---------------------|----------------|--------------|----------------|
|   | Total                  | Less than<br>1 year | 1-3 years      | 4-5 years    | After 5 years  |
|   | (in millions)          |                     |                |              |                |
| Long-Term Debt                            | \$4,886                | \$843               | \$2,319        | \$385        | \$1,339        |
| Operating Leases(1)                       | 199                    | 43                  | 50             | 34           | 72             |
| <b>Total Contractual Cash Obligations</b> | <b>\$5,085</b>         | <b>\$886</b>        | <b>\$2,369</b> | <b>\$419</b> | <b>\$1,411</b> |

(1) Minimum rental commitments.

We expect that our Other Long-Term Liabilities and Purchase Obligations, described below, will be funded with cash flows from operations and additional borrowings under our credit facilities.

**Other Long-Term Liabilities**

Financial Services private label credit cards had various commitments to extend credit, net of balances outstanding of approximately \$2.7 billion and \$2.8 billion for the years ended December 31, 2003 and 2002, respectively.

In the normal course of business, CNH and its subsidiaries issue guarantees in the form of bonds guaranteeing the payment of value added taxes, performance bonds, custom bonds, bid bonds and bonds related to litigation. As of December 31, 2003, total commitments of this type total approximately \$201 million.

As of December 31, 2003, we have restructuring reserves totaling approximately \$72 million. Of this total, approximately \$50 million will ultimately be settled in cash. We anticipate this settlement will occur in 2004.

While our funding policy requires contributions to our defined benefit plans equal to the amounts necessary to, at a minimum, satisfy the funding requirements as prescribed by the laws and regulations of each country, we do make discretionary contributions when management determines it is prudent to do so. For 2004, we project total contributions to our defined benefit plans of approximately \$220 million, including currently anticipated discretionary contributions of up to \$155 million to our U.S. plans.

Our post-retirement health and life insurance plans are unfunded. We are required to make contributions equal to the amount of current plan expenditures, less participant contributions. For 2004, we anticipate contributions to our post-retirement health and life insurance plans of approximately \$65 million.

As of December 31, 2003, we have accrued income taxes payable in 2004 of approximately \$15 million. Income tax payments beyond 2004 are contingent on many variable factors and can not be reasonably predicted.

Based on current and projected debt levels, we anticipate cash payments for interest expense in 2004 of approximately \$250 million and \$175 million for Equipment Operations and Financial Services, respectively. Interest expense payments beyond 2004 are contingent on many variable factors and can not be reasonably predicted.

## Purchase Obligations

We estimate that for 2004, expenditures for property, plant and equipment and other investments to support our profit improvement initiatives, our new product programs and other requirements will be approximately \$210 million.

The Kobelco Japan alliance allows for CNH to increase its interest in Kobelco Japan from 20% to 35% by the third quarter of 2004 for \$63 million.

Purchase orders made in the ordinary course of business are excluded from this section. Any amounts for which we are liable under purchase orders are reflected in our Consolidated Balance Sheets as accounts payable.

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management.

As of March 31, 2004, our directors and our executive officers are as set forth below:

| Name                   | Position with CNH                                    | Director/<br>Executive<br>Officer Since |
|------------------------|--|---|
| Jean-Pierre Rosso      | Director and Chairman                                | 1999                                    |
| Alfredo Diana          | Director   | 1999                                    |
| Edward A. Hiler        | Director   | 2002                                    |
| Katherine M. Hudson    | Director   | 1999                                    |
| Kenneth Lipper         | Director   | 1996                                    |
| Paolo Monferino        | Director, President and Chief Executive Officer      | 2000                                    |
| Giuseppe Morchio       | Director   | 2003                                    |
| Michael E. Murphy      | Director   | 2002                                    |
| James L.C. Provan      | Director   | 1995                                    |
| Michel Lecomte         | Chief Financial Officer                              | 2000                                    |
| Harold D. Boyanovsky   | President, Construction Equipment Business           | 1999                                    |
| Mario Ferla            | President of CNH Capital Corporation                 | 2003                                    |
| William J. McGrane III | Vice President, Corporate Controller                 | 2003                                    |
| Roberto Miotto         | Senior Vice President, General Counsel and Secretary | 1991                                    |
| Giovanni B. Ravina     | Senior Vice President, Human Resources               | 2000                                    |
| Roland Sundén          | President, Agricultural Equipment Business           | 2004                                    |

Directors are elected for an indefinite term and serve until their removal, resignation or termination.

Jean-Pierre Rosso, Director and Chairman, born on July 11, 1940, has served as Chairman of the Board of Directors of CNH since November 12, 1999 and as its Chief Executive Officer until November 7, 2000. Prior to this, Mr. Rosso served as Chairman and Chief Executive Officer of Case from October 1997 until November 1999. From March 1996 through October 1997, he served as Case's Chairman, President and Chief Executive Officer, and from April 1994 through March 1996, he served as its President and Chief Executive Officer. Prior to April 1994, Mr. Rosso served in various capacities with Honeywell, Inc., a producer of advanced technology products, including as President of the Home and Building Control Business from 1992 through April 1994, and as President of its European operations from 1987 through 1991. Mr. Rosso is also director of ADC Telecommunications, Inc. and Medtronic, Inc.

Alfredo Diana, Director, born on June 2, 1930, has served as a director of CNH since November 1999. Prior to that, Mr. Diana served as the Italian governor of the International Fund for Agricultural Development from 1977 to 1999. He was an elected member of the European Parliament in 1979, and an elected senator of the Italian Republic in 1983. Mr. Diana held several government positions, including President of the General Federation of Agriculture, Commissioner and President of the Experimental Institute for fruit-growing, Vice President of the National Council of Economy and Labour, President of the National Council for Forestry and Timber, and Minister of Agriculture and Forestry



in the first Amato and Ciampi governments. He was also

President of Tecnagro, an association for innovations in agriculture, and president of Montedison agricultural services. Mr. Diana is also the president of the Italian Agricultural Society.

Dr. Edward A. Hiler, Director, born on May 14, 1939, was elected a director of CNH on May 7, 2002. Dr. Hiler presently serves the Texas A&M University System as Vice Chancellor for Agriculture and Life Sciences and dean of the College of Agriculture and Life Sciences. He is also Director of the Texas Agricultural Experiment Station. Since joining the faculty of Texas A&M as an assistant professor in 1966, Dr. Hiler has held a series of positions including professor and head of the University's Department of Agricultural Engineering, and deputy chancellor for Academic and Research Programs of the Texas A&M University system. Dr. Hiler earned his Ph.D. in Agricultural Engineering at Ohio State University. He has served as President of the American Society of Agricultural Engineers and is an elected member of the National Academy of Engineering. He consults on aspects of water conservation, environmental quality, and energy from biological processes to various government agencies and the U.S. Congress. A licensed professional engineer, Dr. Hiler is the author of over 100 professional publications.

Katherine M. Hudson, Director, born on January 19, 1947, has served as a director of CNH since November 1999. Ms. Hudson served as the President and Chief Executive Officer of Brady Corp., an international manufacturer of identification and material solution products, from January 1994 to April 2003. Prior to assuming her position with that company, she was Vice President and General Manager of the Professional, Printing and Publishing Imaging Division of Eastman Kodak Company. Prior to the business merger of New Holland and Case, Ms. Hudson served as a director of Case since 1996. Ms. Hudson is also a Director of Charming Shoppes, Inc.

Kenneth Lipper, Director, born on June 19, 1941, has served as a director of CNH since 1996. He is the Chairman of Lipper & Company, Inc., since 1987. Previously, he was the Deputy Mayor of the City of New York under Mayor Edward Koch from 1983 to 1985. He was a managing director and an associate and general partner of Salomon Brothers during the years 1976-1982 and an associate and general partner at Lehman Brothers during the years 1969-1975. Mr. Lipper was the Director of Industrial Policy for the Office of Foreign Direct Investment at the U.S. Department of Commerce from 1968 to 1969. Mr. Lipper was an associate lawyer with the law firm of Fried, Frank, Harris, Shriver & Jacobson from 1967 to 1968.

Paolo Monferino, Director, President and Chief Executive Officer, born on December 15, 1946, served as President and Chief Operating Officer of CNH from March 24, 2000 to November 7, 2000. On November 8, 2000, Mr. Monferino was appointed a director and President and Chief Executive Officer, leading the overall management of CNH, including the execution of the Company's wide-ranging integration plan. Mr. Monferino has more than 20 years of experience in the agricultural and construction equipment business beginning in the United States with FiatAllis, a joint venture between Fiat's construction equipment business and Allis Chalmers. In 1983, he was named Chief Executive Officer of FiatAllis Latin American operations in Brazil. Two years later, he was appointed Chief Operating Officer at FiatAllis and in 1987 was named the Chief Operating Officer at FiatAgri, the farm machinery division of the Fiat Group. Following Fiat Geotech's 1991 acquisition of Ford New Holland, Monferino was named executive vice president of the new company headquartered in London. He was responsible for strategy and business development, including product, marketing and industrial policies.

Giuseppe Morchio, Director, born on November 20, 1947, was appointed director on March 27, 2003. Mr. Morchio was appointed Chief Executive Officer of Fiat in February 2003. Prior to becoming Chief Executive Officer of Fiat, Mr. Morchio served as Chairman and Chief Executive Officer of Pirelli Cavi e Sistemi S.p.A Holding Worldwide in Energy and Telecommunications Systems and from 1993 to 1995 he was Chief Executive Officer of Pirelli Cavi S.p.A. Mr. Morchio joined the Pirelli Group in 1980, holding a number of key positions, including vice president, manufacturing, quality and logistics for Pirelli Tire, before becoming the Chief Executive Officer for its operations in Spain and then North America. Mr. Morchio is also on the board of directors of Banco di Desio e della Brianza.

Michael E. Murphy, Director, born on October 16, 1936, has served as a director of CNH since September 2002. From 1994 to 1997, Mr. Murphy served as Vice Chairman and Chief Administrative Officer

of Sara Lee Corporation. Mr. Murphy also served as a director of Sara Lee from 1979 through October 1997. Mr. Murphy joined Sara Lee in 1979 as Executive Vice President and Chief Financial and Administrative Officer and, from 1993 until 1994, also served as Vice Chairman. Mr. Murphy is also a director of Basset Furniture Industries, Inc., Civic Federation, Big Shoulders Fund, Chicago Cultural Center Foundation, GATX Corporation, Payless Shoe Source, Inc. and Coach Inc. He is also a member of the Board of Trustees of Northern Funds (a family of mutual funds). Mr. Murphy holds a Bachelor of Science degree in Business Administration from Boston College and an MBA degree from the Harvard Business School.

James L. C. Provan, Director, born on December 19, 1936, has served as director of CNH, and previously of New Holland, since 1995. A farmer in Scotland, Mr. Provan was elected to the European Parliament in 1979 where he is currently Vice-President (Deputy Speaker) and chairs the Conciliation Committee to the Council of Ministers and the Internal Audit Committee. He has also served on the Agriculture Committee, the Environment and Consumer Affairs Committee and the Transport and Tourism Committee. Mr. Provan has been Chairman of the Board of the Rowett Research Institute, Aberdeen, one of Europe's leading nutritional research centers, for ten years. Mr. Provan was Chairman of McIntosh Donald & McIntosh of Dyce (food company in Scotland) from 1989 to 1994 and Chairman of Baxters (Milnathort) Ltd. (agricultural engineering and distribution) from 1965 to 1975.

Michel Lecomte, Chief Financial Officer, born on January 27, 1949, was appointed Chief Financial Officer and President, Financial Services and President, CNH Capital on November 8, 2000. Prior to joining CNH, Mr. Lecomte served as Chief Financial Officer of Iveco, a sector of the Fiat Group and Transolver, Iveco's financial services business. From 1989 to 1996, he served as Chief Financial Officer of the Framatome Group based in France. Mr. Lecomte also served as Chief Financial Officer of CertainTeed Corporation in the United States from 1984 to 1989.

Harold D. Boyanovsky, President, Construction Equipment Business, born on August 15, 1944, was appointed President, Construction Equipment Business on September 1, 2002. He served as President, Worldwide Agricultural Equipment Products of CNH from November 1999 to October 2002. Prior to the business merger of New Holland and Case, he served as a Senior Vice President of Case from May 1997 to November 1999. Between December 1966 and November 1999, Mr. Boyanovsky served in a variety of executive positions with Case and International Harvester.

Mario Ferla, President, CNH Capital, born on September 28, 1946, was appointed President, CNH Capital in 2003 and Chief Operating Officer for CNH Capital in 2001. Mr. Ferla served as Executive Vice President of Fremont General Credit Corporation, a commercial and real estate lending operation in Santa Monica, California, from 1997 to 2001. From 1975 to 1997, Mr. Ferla held a variety of positions with General Electric Company, including various officer positions with GE Capital Corporation from 1988 to 1997.

William J. McGrane III, Vice President, Corporate Controller of CNH America LLC, born on October 26, 1969, was appointed Vice President, Corporate Controller in March 2003. He served as the Vice President and Controller of CNH Capital from June 2001 until March 2003. Prior to joining CNH, Mr. McGrane held the position of Controller for GE Capital Corporations' Auto Financial Services business, where he was employed from December 1998 until June 2001. From 1992 to 1998, he held a variety of positions with Arthur Andersen LLP. Mr. McGrane holds Bachelor of Science degrees in Finance and Accountancy from the University of Illinois and a Masters of Management degree from the J.L. Kellogg Graduate School of Management.

Roberto Miotto, Senior Vice President, General Counsel and Secretary, born on December 15, 1946, has served as Senior Vice President, General Counsel and Secretary of CNH since November 1999. Prior to the business merger of New Holland and Case, Mr. Miotto served as Vice President, General Counsel and Secretary of New Holland. Prior to that, Mr. Miotto served in a variety of executive positions with the Fiat Group.

Giovanni B. Ravina, Senior Vice President, Human Resources, born on April 21, 1951, was appointed Senior Vice President, Human Resources of CNH, effective December 1, 2000. Prior to joining CNH, he

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served as Managing Director, Fiat India. Between September 1978 and December 2000, Mr. Ravina served in a variety of executive positions with the Fiat Group.

Roland Sundén, President, Agricultural Equipment Business, born on August 20, 1953, was appointed President, Agricultural Equipment Business on January 12, 2004. Prior to joining CNH, Mr. Sundén served as Executive Vice President for Volvo Construction Equipment in Belgium from April 2000 until December 2003. Mr. Sundén began his career with Volvo in 1978 as a Design Engineering Specialist. In 1981 he spent two years as a Project Manager and Senior Development Engineer at Allied Signal in the U.S. Mr. Sundén returned to Volvo in 1983 as a Program Manager for Flygmotor's Rocket Engine Program. He subsequently held a broad range of management and executive positions including Director of Space Technology at Volvo Flygmotor from October 1985 until March 1990; Vice President and General Manager, Space Propulsion at Volvo Aero Corporation from April 1990 until December 1993; Senior Vice President, Military Engines at Volvo Aero Corporation from January 1994 until January 1998; Executive Vice President at Volvo Aero Corporation in 1998; and President & CEO of the U.S.-based Volvo Bus North America Operations from October 1998 until April 2000.

**B. Compensation.**  
**Directors Compensation**

The following table summarizes remuneration paid to or accrued for Directors for the year ended December 31, 2003, excluding directors who are employees of Fiat and are not compensated by CNH:

|                                | <u>Grant</u> | <u>Alfredo</u> | <u>Katherine</u> | <u>Kenneth</u> | <u>James</u>  | <u>Edward</u> | <u>Michael</u> | <u>Jean-Pierre</u> | <u>Paolo</u>     | <u>Total</u> |
|--------------------------------|--------------|----------------|------------------|----------------|---------------|---------------|----------------|--------------------|------------------|--------------|
|                                | <u>Price</u> | <u>Diana</u>   | <u>M.</u>        | <u>Lipper</u>  | <u>L.C.</u>   | <u>A.</u>     | <u>E.</u>      | <u>Rosso</u>       | <u>Monferino</u> |              |
|                                |              |                | <u>Hudson</u>    |                | <u>Provan</u> | <u>Hiler</u>  | <u>Murphy</u>  |                    |                  |              |
| Periodic Remuneration in Cash: |              |                |                  |                |               |               |                |                    |                  |              |
| Salary                         |              | \$             | \$               | \$             | \$            | \$            | \$             | \$446,007          | \$1,864,435      | \$2,310,442  |
| Meeting Fees                   |              | 28,750         | 22,500           | 13,750         | 28,750        | 21,250        | 21,250         |                    |                  | 136,250      |
| Annual Fees                    |              | 10,000         |                  | 20,000         |               | 20,000        | 15,000         |                    |                  | 65,000       |
| Common Shares Granted:         |              |                |                  |                |               |               |                |                    |                  |              |
| 1/31/03                        | \$ 15.70     |                |                  |                | 8,745         |               | 5,244          |                    |                  | 13,989       |
| 5/07/03                        | 9.15         |                |                  |                | 8,757         |               | 5,252          |                    |                  | 14,009       |
| 8/04/03                        | 9.90         | 5,000          |                  |                | 9,999         |               | 5,999          |                    |                  | 20,998       |
| 11/03/03                       | 13.49        | 5,005          |                  |                | 9,996         |               | 6,003          |                    |                  | 21,004       |
| Future Remuneration:           |              |                |                  |                |               |               |                |                    |                  |              |
| Pension Plan                   |              |                |                  |                |               |               |                | 58,400             | 84,421           | 142,821      |
| Allowance Upon Termination     |              |                |                  |                |               |               |                |                    | 162,157          | 162,157      |
| Bonus:                         |              |                |                  |                |               |               |                |                    |                  |              |
| Cash                           |              |                |                  |                |               |               |                | 352,800            | 620,934          | 973,734      |
| Restricted Stock               |              |                |                  |                |               |               |                | 138,690            | 267,723          | 406,413      |
| Loans:                         |              |                |                  |                |               |               |                |                    |                  |              |
| Total                          |              | \$48,755       | \$22,500         | \$33,750       | \$66,247      | \$41,250      | \$58,748       | \$995,897          | \$2,999,670      | \$4,266,817  |

Outside directors also may elect to have a portion of their compensation paid in stock options. See CNH Outside Directors, Compensation Plan and Share Ownership below. Directors who are employees of Fiat do not receive compensation from CNH.

**Other Executive Officers Compensation**

The aggregate amount of compensation paid to or accrued for executive officers that held office during 2003 was approximately \$5.2 million.

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Certain executives participate in a special plan approved by the Board of Directors of Fiat and CNH (the Individual Top Hat Scheme ), which provides a lump sum to be paid in installments if an executive, in certain circumstances, leaves Fiat and/or its subsidiaries before the age of 65. Contributions to the Individual Top Hat Scheme totaled \$745,000, \$446,000 and \$1,717,000 in 2003, 2002 and 2001, respectively. The aggregate amount paid or set aside by CNH with respect to pension and similar benefits during 2003, including \$275,000 related to the Individual Top Hat Scheme, totaled approximately \$499,000.

Certain CNH officers were a party to Change in Control agreements in 1999 that provided for severance benefits if the officer's employment terminated other than for cause within 12 months following a potential change in control or within 24 to 36 months following a change in control. Those agreements were either exercised or amended in 2000. The amendment included three annual installment payments, the first of which was paid in 2000. The aggregate amounts paid by CNH to its current executive officers under these agreements were approximately \$350,000 in 2002, 2001 and 2000, respectively. The aggregate amounts paid by CNH to all officers under these agreements were approximately \$750,000 in 2002, 2001 and 2000, respectively.

### CNH Outside Directors Compensation Plan

The CNH Global N.V. Outside Directors Compensation Plan (CNH Directors Plan), which was amended in 2003, provides for (1) the payment of an annual retainer fee of \$40,000 and committee chair fee of \$5,000 (collectively, the Annual Fees) to independent outside members of the Board in the form of common shares of CNH by way of quarterly stock grants at the end of each Plan Year Quarter; (2) an annual grant of 20,000 options to purchase common shares of CNH that vest on the third anniversary of the grant date (Annual Automatic Stock Option); (3) in lieu of the quarterly stock grants, an opportunity to receive all or a portion of their Annual Fees in cash (Cash Election); (4) an opportunity to convert all or a portion of their Annual Fees into stock options (Stock Option Election); and (5) on May 8, 2003, each outside director received a one time grant of an amount of options equal to 20% of the Annual Automatic Stock Options and 15% of the elective stock options each outside director was granted prior to May 6, 2002. Each of our outside directors is paid a fee of \$1,250 plus expenses for each Board of Directors and committee meeting attended. The Stock Option Election gives the outside directors the option to purchase common shares at a purchase price equal to the fair market value of the common shares on the date that the Annual Fees would otherwise have been paid to the director. The number of shares subject to such an option will be equal to the amount of fees that the director elected to forego, multiplied by four and divided by the fair market value of a common share on the date the fees would otherwise have been paid to the director. Stock options granted as a result of such an election vest immediately upon grant, but the shares purchased under the option cannot be sold for six months following the date of grant. The exercise price of all options granted under the CNH Directors Plan is equal to or greater than the fair market value of our common shares on the date of grant. There are 1 million common shares reserved for issuance under this plan. As of February 28, 2004, there were 848,694 common shares available for issuance under the CNH Directors Plan. Outside directors do not receive benefits upon termination of their service as directors.

The following table reflects option activity under the CNH Directors Plan for the years ended December 31, 2003, 2002 and 2001:

|                                  | 2003    |                 | 2002    |                 | 2001    |                 |
|----------------------------------|---------|-----------------|---------|-----------------|---------|-----------------|
|                                  | Shares  | Exercise Price* | Shares  | Exercise Price* | Shares  | Exercise Price* |
| Outstanding at beginning of year | 82,464  | \$33.10         | 48,314  | \$42.00         | 24,151  | \$59.25         |
| Granted                          | 60,036  | 10.28           | 39,322  | 21.35           | 28,456  | 30.20           |
| Forfeited                        |         |                 | (5,172) | 29.35           | (4,293) | 60.45           |
| Outstanding at end of year       | 142,500 | 22.76           | 82,464  | 33.10           | 48,314  | 42.00           |
| Exercisable at end of year       | 95,009  | 25.68           | 61,954  | 31.80           | 31,814  | 31.80           |

\* Weighted-average

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The following table summarizes outstanding stock options under the CNH Directors Plan at December 31, 2003:

| Range of Exercise Price | Options Outstanding |                   |                 | Options Exercisable |                 |
|-------------------------|---------------------|-------------------|-----------------|---------------------|-----------------|
|                         | Shares Outstanding  | Contractual Life* | Exercise Price* | Shares Exercisable  | Exercise Price* |
| \$ 9.15 - \$26.20.      | 97,984              | 9.0               | \$ 13.52        | 55,460              | \$ 13.47        |
| \$26.21 - \$40.00.      | 24,657              | 7.4               | 30.31           | 19,690              | 30.39           |
| \$40.01 - \$56.00.      | 5,882               | 6.8               | 49.31           | 5,882               | 49.31           |
| \$56.01 - \$77.05.      | 13,977              | 6.3               | 63.04           | 13,977              | 63.04           |

\* Weighted-average

**CNH Equity Incentive Plan**

As amended, the CNH Equity Incentive Plan (the CNH EIP ) provides for grants of various types of awards to officers and employees of CNH and its subsidiaries. There are 5,600,000 common shares reserved for issuance under this plan. Certain options vest ratably over four years from the award date, while certain performance-based options vest subject to the attainment of specified performance criteria but no later than seven years from the award date. All options expire after ten years. Except as noted below, the exercise prices of all options granted under the CNH EIP are equal to or greater than the fair market value of CNH common shares on the respective grant dates. During 2001, we granted stock options with an exercise price less than the quoted market price of our common shares at the date of grant. The 2001 exercise price was based upon the average official price of our common shares on the New York Stock Exchange during the thirty-day period preceding the date of grant. The original \$3,729,600 of compensation cost related to the 2001 award has been deferred and is being charged to expense over the four-year service period of the related options. No options were granted in 2003 under the CNH EIP. As of December 31, 2003, there were 2,611,254 common shares available for issuance under the CNH EIP.

The following table reflects option activity under the CNH EIP for the years ended December 31, 2003, 2002 and 2001:

|                                  | 2003      |                 | 2002      |                 | 2001      |                 |
|----------------------------------|-----------|-----------------|-----------|-----------------|-----------|-----------------|
|                                  | Shares    | Exercise Price* | Shares    | Exercise Price* | Shares    | Exercise Price* |
| Outstanding at beginning of year | 3,219,995 | \$ 34.35        | 1,907,182 | \$ 48.65        | 1,040,387 | \$ 68.85        |
| Granted                          |           |                 | 1,424,140 | 16.20           | 1,065,600 | 31.70           |
| Forfeited                        | (503,153) | 41.97           | (111,327) | 46.60           | (198,805) | 63.75           |
| Outstanding at end of year       | 2,716,842 | 32.94           | 3,219,995 | 34.35           | 1,907,182 | 48.65           |
| Exercisable at end of year       | 1,216,093 | 42.43           | 774,780   | 57.10           | 355,585   | 68.85           |

\* Weighted-average

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The following table summarizes outstanding stock options under the CNH Equity Incentive Plan at December 31, 2003:

| Range of Exercise Price | Options Outstanding |                   |                 | Options Exercisable |                 |
|-------------------------|---------------------|-------------------|-----------------|---------------------|-----------------|
|                         | Shares Outstanding  | Contractual Life* | Exercise Price* | Shares Exercisable  | Exercise Price* |
| \$15.20 - \$26.20       | 1,275,215           | 8.6               | \$ 16.18        | 320,284             | \$ 16.18        |
| \$26.21 - \$40.00       | 818,600             | 7.6               | 31.70           | 410,800             | 31.70           |
| \$40.01 - \$77.05       | 623,027             | 6.1               | 68.85           | 485,009             | 68.85           |

\* Weighted-average

Under the CNH EIP, shares may also be granted as restricted shares. We establish the period of restriction for each award and hold the shares during the restriction period. Certain restricted shares vest over time, while certain performance-based restricted shares vest subject to the attainment of specified performance criteria. Such performance-based restricted shares vest no later than seven years from the award date.

We maintain a management bonus program that links a portion of the compensation paid to senior executives to our achievement of financial performance criteria specified by the Nominating and Compensation Committee of the CNH Board of Directors. Effective for the 2002 plan year only, a special incentive plan (the 2002 Special Incentive Program) was approved which provides a grant of restricted stock to certain senior executives upon meeting a specified financial position target. The 2002 Special Incentive Program was administered under the CNH EIP. Since the specified target was achieved, we issued 207,215 restricted shares under the program in 2003, which will vest in March 2004. Additionally, for individuals electing to not take the restricted stock earned under the 2002 Special Incentive Program, CNH agreed to issue an equivalent number of common shares if the individual remained employed by CNH as of the vesting date for the restricted shares issued to other participants in the 2002 Special Incentive Program. No restricted shares were awarded during 2002 and 2001. At December 31, 2003, restricted common shares outstanding under the EIP, including the 2002 Special Incentive Program, totaled 209,783 shares.

Beginning in 2004 awards granted under the EIP will be subject to the achievement of certain performance criteria over a 3-year period, as defined by the Nominating and Compensation Committee of our Board of Directors. Under this program, earned awards will be satisfied equally with cash and CNH common shares.