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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

or

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

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

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 132,797,008 Common Shares

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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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

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.

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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)				
Statements of Operations Data:					
Revenues:					
Net sales	$10,069	$9,331	$9,030	$ 9,337	$5,949
Finance and interest income	597	609	685	704	324
Total revenues	$10,666	$9,940	$9,715	$10,041	$6,273
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)			
Net income (loss)	$ (157)	$ (426)	$ (332)	$ (381)	$ 148
Per share data:					
Basic earnings (loss) per share before cumulative effect of change in accounting principle, net of tax	$ (1.19)	$ (1.05)	$ (6.00)	$ (8.95)	$ 4.95
		(3.35)			

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)				
Balance Sheet Data:					
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.

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