

FARMERS & MERCHANTS BANCORP INC
Form 10-Q
July 31, 2013
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period June 30, 2013

or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number 0-14492

FARMERS & MERCHANTS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

OHIO
(State or other jurisdiction of
incorporation or organization)

34-1469491
(IRS Employer
Identification No.)

307 North Defiance Street, Archbold, Ohio
(Address of principal executive offices)

(419) 446-2501

43502
(Zip Code)

Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, No Par Value
Class

4,679,938
Outstanding as of July 31, 2013

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

FARMERS & MERCHANTS BANCORP, INC.

INDEX

Form 10-Q Items	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets - June 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statement of Income & Comprehensive Income Three Months and Six Months Ended June 30, 2013 and June 30, 2012</u>	4
<u>Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2013 and June 30, 2012</u>	5
<u>Notes to Condensed Financial Statements</u>	6-26
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27-44
Item 3. <u>Qualitative and Quantitative Disclosures About Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	45
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	46
Item 1A. <u>Risk Factors</u>	46
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3. <u>Defaults Upon Senior Securities</u>	46
Item 4. <u>Mine Safety Disclosures</u>	46
Item 5. <u>Other Information</u>	46
Item 6. <u>Exhibits</u>	46
<u>Signatures</u>	47
Exhibit 31. Certifications Under Section 302	
Exhibit 32. Certifications Under Section 906	
101.INS XBRL Instance Document (1)	
101.SCH XBRL Taxonomy Extension Schema Document (1)	
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (1)	
101.DEF XBRL Taxonomy Extension Definition Linkbase Document (1)	
101.LAB XBRL Taxonomy Extension Label Linkbase Document (1)	
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (1)	

(1) Pursuant to Rule 406T of Regulation S-T, the interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

ITEM 1 FINANCIAL STATEMENTS
FARMERS & MERCHANTS BANCORP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands of dollars)

Farmers & Merchants Bancorp, Inc. and Subsidiary

Condensed Consolidated Balance Sheets

(in thousands of dollars)

	June 30, 2013	December 31, 2012
Assets		
Cash and due from banks	\$ 15,054	\$ 25,620
Interest bearing deposits with banks	6,463	11,941
Federal Funds Sold	946	6,531
Total cash and cash equivalents	22,463	44,092
Securities - available for sale (Note 2)	354,474	355,905
Other Securities, at cost	4,216	4,365
Loans, net (Note 4)	495,777	496,178
Bank premises and equipment	18,287	17,599
Goodwill	4,074	4,074
Mortgage Servicing Rights	2,047	2,063
Other Real Estate Owned	1,754	2,310
Accrued interest and other assets	19,241	20,074
Total Assets	\$ 922,333	\$ 946,660
Liabilities and Stockholders Equity		
Liabilities		
Deposits		
Noninterest-bearing	\$ 95,442	\$ 103,966
Interest-bearing		
NOW accounts	201,843	196,971
Savings	195,888	192,808
Time	254,439	269,507
Total deposits	747,612	763,252
Federal funds purchased and securities sold under agreement to repurchase	54,728	51,312
FHLB Advances	7,100	11,600
Dividend payable	930	931
Accrued expenses and other liabilities	4,673	9,326
Total liabilities	\$ 815,043	\$ 836,421
Stockholders Equity		
Common stock - No par value - authorized 6,500,000 shares; issued & outstanding 5,200,000 shares	12,677	12,677
Treasury Stock - 515,902 shares 2013, 515,942 shares 2012	(10,677)	(10,588)

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Unearned Stock Awards - 30,210 shares 2013, 30,670 shares 2012	(572)	(584)
Retained earnings	105,434	102,641
Accumulated other comprehensive income	428	6,093
Total stockholders' equity	107,290	110,239
Total Liabilities and Stockholders' Equity	\$ 922,333	\$ 946,660

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2012 Balance Sheet has been derived from the audited financial statements of that date.

Table of Contents

FARMERS & MERCHANTS BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENT OF INCOME & COMPREHENSIVE INCOME

(Unaudited)

(in thousands of dollars, except per share data)

Farmers & Merchants Bancorp, Inc. and Subsidiary

Condensed Consolidated Statement of Income & Comprehensive Income

(in thousands of dollars, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Interest Income				
Loans, including fees	\$ 6,089	\$ 6,804	\$ 12,167	\$ 13,601
Debt securities:				
U.S. Treasury securities	64	92	125	173
Securities of U.S. Government Agencies	1,016	1,055	2,008	2,080
Municipalities	541	518	1,049	1,028
Dividends	45	46	94	95
Federal funds sold	4	4	11	11
Other	6	6	13	13
Total interest income	7,765	8,525	15,467	17,001
Interest Expense				
Deposits	1,079	1,470	2,206	2,909
Federal funds purchased and securities sold under agreements to repurchase	62	60	122	121
Borrowed funds	43	123	89	247
Total interest expense	1,184	1,653	2,417	3,277
Net Interest Income - Before provision for loan losses	6,581	6,872	13,050	13,724
Provision for Loan Losses (Note 4)	112	78	279	206
Net Interest Income After Provision For Loan Losses	6,469	6,794	12,771	13,518
Noninterest Income				
Customer service fees	1,256	1,245	2,617	2,569
Other service charges and fees	967	860	1,829	1,618
Net gain (loss) on sale of other assets owned	(110)	(210)	(126)	(277)
Net gain on sale of loans	322	622	802	783
Net gain on sale of securities	377		598	169
Total noninterest income	2,812	2,517	5,720	4,862
Noninterest Expenses				
Salaries and Wages	2,260	2,193	4,697	4,479
Pension and other employee benefits	610	744	1,454	1,572
Occupancy expense (net)	288	386	618	791
Furniture and equipment	358	349	707	701
Data processing	300	286	610	551
Franchise taxes	255	236	510	473
FDIC Assessment	141	89	260	219
Mortgage servicing rights amortization	120	178	257	372
Other general and administrative	1,438	1,292	2,783	2,450

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Total Noninterest Expense	5,770	5,753	11,896	11,608
Income Before Federal Income Taxes	3,511	3,558	6,595	6,772
Federal Income Taxes	1,009	1,020	1,941	1,950
Net Income	\$ 2,502	\$ 2,538	\$ 4,654	\$ 4,822
Other Comprehensive Income (Net of Tax):				
Unrealized gains (loss) on securities	\$ (4,916)	\$ 1,159	\$ (5,666)	\$ 6,764
Comprehensive Income	\$ (2,414)	\$ 3,697	\$ (1,012)	\$ 11,586
Net Income Per Share	\$ 0.53	\$ 0.54	\$ 0.99	\$ 1.02
Weighted Average Shares Outstanding	4,679,971	4,695,151	4,681,805	4,704,674
Dividends Declared	\$ 0.20	\$ 0.19	\$ 0.40	\$ 0.38

See Notes to Condensed Consolidated Unaudited Financial Statements

Table of Contents

FARMERS & MERCHANTS BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands of dollars)

Farmers & Merchants Bancorp, Inc. and Subsidiary**Condensed Consolidated Statements of Cash Flows****Six Months Ended**

	Six Months Ended	
	June 30, 2013	June 30, 2012
Cash Flows from Operating Activities		
Net income	\$ 4,654	\$ 4,822
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	609	577
Accretion and amortization of securities	1,220	1,587
Amortization of servicing rights	257	372
Amortization of core deposit intangible	156	156
Stock Based Compensation	93	86
Provision for loan loss	279	206
Gain on sale of loans held for sale	(802)	(783)
Originations of loans held for sale	(43,331)	(69,946)
Proceeds from sale of loans held for sale	46,881	71,746
Loss on sale of other assets	126	277
Gain on sales of investment securities	(598)	(169)
Change in operating assets and other liabilities, net	(194)	4,728
Net cash provided by operating activities	9,350	13,659
Cash Flows from Investing Activities		
Activity in securities:		
Maturities, prepayments and calls	17,305	16,428
Securities	58,413	24,584
Purchases	(83,310)	(71,740)
Proceeds from sales of assets	3	2
Additions to premises and equipment	(1,300)	(477)
Loan originations and principal collections, net	(3,428)	5,786
Net cash used in investing activities	(12,317)	(25,417)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	(15,640)	10,769
Net change in short-term debt	3,416	2,034
Repayments of long-term debt	(4,500)	(34)
Purchase of Treasury Stock	(77)	(683)
Cash dividends paid on common stock	(1,861)	(1,780)
Net cash provided by (used in) financing activities	(18,662)	10,306
Decrease in Cash and Cash Equivalents	(21,629)	(1,452)
Cash and Cash Equivalents - Beginning of Year	44,092	43,143
Cash and Cash Equivalents - End of Period	\$ 22,463	\$ 41,691

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

RECONCILIATION OF CASH AND CASH EQUIVALENTS:

Cash and cash due from banks	\$ 15,054	\$ 15,579
Interest bearing deposits with banks	6,463	14,049
Federal funds sold	946	12,063

Cash at end of period	\$ 22,463	\$ 41,691
-----------------------	-----------	-----------

Supplemental Information

Cash paid during the year for:

Interest	\$ 2,528	\$ 3,295
----------	----------	----------

Income taxes	\$ 1,770	\$ 2,266
--------------	----------	----------

Noncash investing activities:

Transfer of loans to other real estate owned	\$ 175	\$ 182
--	--------	--------

See Notes to Condensed Consolidated Unaudited Financial Statements

Table of Contents

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10Q and Rule 10-01 of Regulation S-X; accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results that are expected for the year ended December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

NOTE 2 FAIR VALUE OF INSTRUMENTS
FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are management's estimate of the values at which the instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including deferred tax assets, premises, equipment and intangibles. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of the estimates.

The following assumptions and methods were used in estimating the fair value for financial instruments.

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash, cash equivalents and federal funds sold approximate their fair values. Also included in this line item are the carrying amounts of interest-bearing deposits maturing within ninety days which approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities

Fair values for securities, excluding Federal Home Loan Bank stock, are based on quoted market price, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other Securities

The carrying value of Federal Home Loan Bank stock, listed as other securities, approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Loans

For those variable-rate loans that re-price frequently, and with no significant change in credit risk, fair values are based on carrying values. The fair values of the fixed rate and all other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Deposits - Interest Bearing, Non-interest Bearing and Time

The fair values disclosed for deposits with no defined maturities are equal to their carrying amounts, which represent the amount payable on demand. The carrying amounts for variable-rate, fixed term money market accounts and certificates of deposit approximate their fair value at the reporting date. Fair value for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Short-Term Borrowings

The carrying value of short-term borrowings approximates fair values.

FHLB Advances

Fair values of FHLB advances are estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types or borrowing arrangements.

Accrued Interest Receivable and Payable

The carrying amounts of accrued interest approximate their fair values.

Dividends Payable

The carrying amounts of dividends payable approximate their fair values and are generally paid within forty days of declaration.

Off Balance Sheet Financial Instruments

Fair values for off-balance sheet, credit related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter-parties' credit standing.

The estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of June 30, 2013 and December 31, 2012 are reflected below.

	Carrying Amount	Fair Value	(In Thousands) June 2013		
			Level 1	Level 2	Level 3
Financial Assets:					
Cash and Cash Equivalents	\$ 22,463	\$ 22,463	\$ 22,463	\$	\$
Securities - available for sale	354,474	354,474	25,479	316,571	12,424
Other Securities	4,216	4,216			4,216
Loans, net	495,777	504,731			504,731
Interest receivable	3,776	3,776			3,776
Total Assets	\$ 880,706	\$ 889,660	\$ 47,942	\$ 316,571	\$ 525,147
Financial Liabilities:					
Interest bearing Deposits	\$ 397,731	\$ 399,483	\$	\$	\$ 399,483
Non-interest bearing Deposits	95,442	96,348		96,348	
Time Deposits	254,439	255,153			255,153
Total Deposits	\$ 747,612	\$ 750,984	\$	\$ 96,348	\$ 654,636
Short-term debt	54,728	54,728			54,728
Federal Home Loan Bank advances	7,100	8,489			8,489
Interest payable	270	270			270
Dividends payable	930	930		930	

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Total Liabilities	\$ 810,640	\$ 815,401	\$	\$ 97,278	\$ 718,123
-------------------	------------	------------	----	-----------	------------

7

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	(In Thousands) December 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and Cash Equivalents	\$ 44,092	\$ 44,092	\$ 44,092	\$	\$
Securities - available for sale	355,905	355,905	10,568	328,929	16,408
Other Securities	4,365	4,365			4,365
Loans, net	496,178	502,125			502,125
Interest receivable	3,603	3,603			3,603
Total Assets	\$ 904,143	\$ 910,090	\$ 54,660	\$ 328,929	\$ 526,501
Financial Liabilities:					
Interest bearing Deposits	\$ 389,779	\$ 390,066	\$	\$	\$ 390,066
Non-interest bearing Deposits	103,966	104,529		104,529	
Time Deposits	269,507	272,591			272,591
Total Deposits	\$ 763,252	\$ 767,186	\$	\$ 104,529	\$ 662,657
Short-term debt	51,312	51,312			51,312
Federal Home Loan Bank advances	11,600	11,012			11,012
Interest payable	288	288			288
Dividends payable	931	931		931	
Total Liabilities	\$ 827,383	\$ 830,729	\$	\$ 105,460	\$ 725,269
Fair Value Measurements					

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities in active markets that the Company has the ability to access.

Available-for-sale securities- When quoted prices are available in an active market, securities are valued using the quoted price and are classified as Level 1. The quoted prices are not adjusted.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Available-for-sale securities classified as Level 2 are valued using the prices obtained from an independent pricing service. The prices are not adjusted. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the market place.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. Local municipals have been purchased that the Bank evaluates based on the credit strength of the underlying project such as the hospital or retirement home. The fair value is determined by valuing similar credit payment streams at similar rates.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurement (Continued)

The following summarizes financial assets measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012, segregated by level or the valuation inputs within the fair value hierarchy utilized to measure fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis			
(In Thousands)	Quoted Prices in Active Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
June 30, 2013			
Assets-(Securities Available for Sale)			
U.S. Treasury	\$ 25,479	\$	\$
U.S. Government agency		210,915	
Mortgage-backed securities		45,338	
State and local governments		60,318	12,424
Total Securities Available for Sale	\$ 25,479	\$ 316,571	\$ 12,424
(In Thousands)	Quoted Prices in Active Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
December 31, 2012			
Assets-(Securities Available for Sale)			
U.S. Treasury	\$ 10,568	\$	\$
U.S. Government agency		220,200	
Mortgage-backed securities		53,006	
State and local governments		55,723	16,408
Total Securities Available for Sale	\$ 10,568	\$ 328,929	\$ 16,408

Most of the Company's available for sale securities, including any bonds issued by local municipalities, have CUSIP numbers or have similar characteristics of those in the municipal markets, making them marketable and comparable as Level 2.

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. At June 30, 2013 and December 31, 2012, such assets consist primarily of impaired loans. Impaired loans categorized as Level 3 assets consist of non-homogeneous loans that are considered impaired. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals.)

At June 30, 2013 and December 31, 2012, impaired loans categorized as Level 3 were \$4.5 and \$4.6 million, respectively. The specific allocation for impaired loans was \$771 and \$865 thousand as of June 30, 2013 and December 31, 2012, respectively, which are accounted for in the allowance for loan losses (see Note 4).

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Other real estate is reported at either the lower of the fair value of the real estate minus the estimated costs to sell the asset or the cost of the asset. The determination of fair value of the real estate relies primarily on appraisals from third parties. If the fair value of the real estate, minus the estimated costs to sell the asset, is less than the asset's cost, the deficiency is recognized as a valuation allowance against the asset through a charge to expense. The valuation allowance is therefore increased or decreased, through charges or credits to expense, for changes in the asset's fair value or estimated selling costs.

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents impaired loans and other real estate owned as recorded at fair value on June 30, 2013 and December 31, 2012:

(\$ in Thousands)	Assets Measured at Fair Value on a Nonrecurring Basis at June 30, 2013				Change in fair value for Six-month period ended June 30, 2013
	Balance at June 30, 2013	Markets for Identical sets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 4,521	\$	\$	\$ 4,521	\$ (3)
Other real estate owned residential mortgages	\$ 609	\$	\$	\$ 609	\$ (16)
Other real estate owned commercial	\$ 1,145	\$	\$	\$ 1,145	\$ (64)
					\$ (83)

(\$ in Thousands)	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2012				Change in fair value for twelve-month period ended Dec. 31, 2012
	Balance at December 31, 2012	Markets for Identical sets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 4,591	\$	\$	\$ 4,591	\$ (76)
Other real estate owned residential mortgages	\$ 783	\$	\$	\$ 783	\$ (62)
Other real estate owned commercial	\$ 1,526	\$	\$	\$ 1,526	\$ (214)
					\$ (352)

The Company also has other assets, which under certain conditions, are subject to measurement at fair value. These assets include loans held for sale, bank owned life insurance, and mortgage servicing rights. The Company estimated the fair values of these assets utilizing Level 3 inputs, including, the discounted present value of expected future cash flows. At June 30, 2013 and December 31, 2012, the Company estimates that there is no impairment of these assets, with the exception of mortgage servicing rights. Mortgage servicing rights recognized impairment in one stratum with a charge of \$16 thousand in 2012 to expense. The impairment however was eliminated, as of June 30, 2013. Therefore, no impairment charge to other expense was required to adjust these assets to their estimated fair values.

NOTE 3 ASSET PURCHASES

In connection with a December 31, 2007 Knisely acquisition, the Company recognized a core deposit intangible asset of \$1.1 million, which is being amortized on a straight line basis over 7 years, which represents the estimated remaining economic useful life of the deposits.

The Company also recognized core deposit intangible assets of \$1.09 million with the purchase of the Hicksville office on July 9, 2010. These are being amortized over an estimated remaining economic useful life of the deposits of 7 years on a straight line basis.

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

The amortization expense for the year ended December 31, 2012 was \$312 thousand. Of the \$312 thousand to be expensed in 2013, \$156 thousand has been expensed as of June 30, 2013.

Table of Contents

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 3 ASSET PURCHASES (Continued)

	(In Thousands)		
	Knisley	Hicksville	Total
2013	\$ 157	\$ 155	\$ 312
2014	157	155	312
2015		155	155
2016		155	155
2017		79	79
Thereafter			
	\$ 314	\$ 699	\$ 1,013

NOTE 4 LOANS

The Company had \$565.7 thousand in loans held for sale as of June 30, 2013 as compared to \$2.5 million in loans held for sale on December 31, 2012. Due to lack of materiality, these loans are included in the Consumer Real Estate loans below.

Loan balances as of June 30, 2013 and December 31, 2012:

	(In Thousands)	
Loans:	June 30, 2013	December 31, 2012
Commercial real estate	\$ 215,246	\$ 199,999
Agricultural real estate	35,746	40,143
Consumer real estate	77,948	80,287
Commercial and industrial	93,978	101,624
Agricultural	55,331	57,770
Consumer	19,881	20,413
Industrial Development Bonds	3,102	1,299
	501,232	501,535
Less: Net deferred loan fees and costs	(158)	(133)
	501,074	501,402
Less: Allowance for loan losses	(5,297)	(5,224)
Loans - Net	\$ 495,777	\$ 496,178

The following is a maturity schedule by major category of loans as of June 30, 2013:

	Maturities (In Thousands)		
	Within One Year	After One Year Within Five Years	After Five Years

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Commercial Real Estate	\$ 36,770	\$ 103,283	\$ 75,193
Agricultural Real Estate	2,609	9,126	24,011
Consumer Real Estate	11,501	13,082	53,365
Commercial/Industrial	61,597	27,005	5,376
Agricultural	32,792	19,349	3,190
Consumer	5,210	12,573	1,940
Industrial Development Bonds	2,220	490	392

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of June 30, 2013. Variable rate loans whose current rates are equal to their floor or ceiling are classified as fixed in this table.

	(In Thousands)	
	Fixed Rate	Variable Rate
Commercial Real Estate	\$ 127,488	\$ 87,758
Agricultural Real Estate	\$ 25,836	\$ 9,910
Consumer Real Estate	\$ 64,041	\$ 13,907
Commercial/Industrial	\$ 73,134	\$ 20,844
Agricultural	\$ 50,697	\$ 4,634
Consumer	\$ 16,415	\$ 3,308
Industrial Development Bonds	\$ 3,102	\$

As of June 30, 2013 and December 31, 2012 one to four family residential mortgage loans amounting to \$26.8 and \$26.8 million, respectively, have been pledged as security for loans the Bank has received from the Federal Home Loan Bank.

The percentage of delinquent loans has trended downward since the beginning of January 2010 from a high of 2.85% of total loans to a low of .64% as of March 31, 2012. As of June 30, 2013, past dues were 1.07%. These percentages do not include nonaccrual loans which are not past due (nonaccruals are not considered past due if current). This level of delinquency is due in part to an adherence to sound underwriting practices over the course of time, an improvement in the financial status of companies to which the Bank extends credit, continued financial stability in the agricultural loan portfolio, and the writing down of uncollectable credits in a timely manner.

Industrial Development Bonds are included in the commercial and industrial category for the remainder of the tables in this Note 4.

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

The following table represents the contractual aging of the recorded investment in past due loans by portfolio segment of loans as of June 30, 2013 and December 31, 2012, net of deferred fees:

June 30, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Residential	\$ 453	\$ 249	\$ 319	\$ 1,021	\$ 76,927	\$ 77,948	\$
Ag Real Estate	104		88	192	35,554	35,746	
Ag					55,331	55,331	
Commercial Real Estate	501		1,035	1,536	213,710	215,246	
Commercial and Industrial	65		2,552	2,617	94,463	97,080	
Consumer	13	7		20	19,703	19,723	
Total	\$ 1,136	\$ 256	\$ 3,994	\$ 5,386	\$ 495,688	\$ 501,074	\$

December 31, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Residential	\$ 575	\$	\$ 648	\$ 1,223	\$ 79,064	\$ 80,287	\$
Ag Real Estate					40,143	40,143	
Ag	11			11	57,759	57,770	
Commercial Real Estate			877	877	199,122	199,999	
Commercial and Industrial	78		2,567	2,645	100,278	102,923	
Consumer	65	7		72	20,208	20,280	1
Total	\$ 729	\$ 7	\$ 4,092	\$ 4,828	\$ 496,574	\$ 501,402	\$ 1

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

The following table presents the recorded investment in nonaccrual loans by class of loans as of June 30, 2013 and December 31, 2012:

	(In Thousands)	
	June 30 2013	December 31 2012
Consumer Real Estate	\$ 551	\$ 964
Agricultural Real Estate	88	
Agriculture		
Commercial Real Estate	1,035	877
Commercial and Industrial	2,935	2,987
Consumer		
Total	\$ 4,609	\$ 4,828

The Bank uses a nine tier risk rating system to grade its loans. The grade of a loan may change during the life of the loan.

The risk ratings are described as follows.

1. Zero (0) Unclassified. Any loan which has not been assigned a classification.
2. One (1) Excellent. Credit to premier customers having the highest credit rating based on an extremely strong financial condition, which compares favorably with industry standards (upper quartile of Risk Management Association ratios). Financial statements indicate a sound earnings and financial ratio trend for several years with satisfactory profit margins and excellent liquidity exhibited. Prime credits may also be borrowers with loans fully secured by highly liquid collateral such as traded stocks, bonds, certificates of deposit, savings account, etc. No credit or collateral exceptions exist and the loan adheres to the Bank's loan policy in every respect. Financing alternatives would be readily available and would qualify for unsecured credit. This grade is summarized by high liquidity, minimum risk, strong ratios, and low handling costs.
3. Two (2) Good. Desirable loans of somewhat less stature than Grade 1, but with strong financial statements. Loan supported by financial statements containing strong balance sheets, generally with a leverage position less than 1.50, and a history of profitability. Probability of serious financial deterioration is unlikely. Possessing a sound repayment source (and a secondary source), which would allow repayment in a reasonable period of time. Individual loans backed by liquid personal assets, established history and unquestionable character.
4. Three (3) Satisfactory. Satisfactory loans of average or slightly above average risk having some deficiency or vulnerability to changing economic conditions, but still fully collectible. Projects should normally demonstrate acceptable debt service coverage. Generally, customers should have a leverage position less than 2.00. May be some weakness but with offsetting features of other support readily available. Loans that are meeting the terms of repayment.

Loans may be graded 3 when there is no recent information on which to base a current risk evaluation and the following conditions apply:

At inception, the loan was properly underwritten and did not possess an unwarranted level of credit risk:

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

- a. At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss;
 - b. The loan exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance;
 - c. During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the business is in an industry which is known to be experiencing problems. If any of the credit weaknesses is observed, a lower risk grade is warranted.
5. Four (4) Satisfactory / Monitored. A 4 (Satisfactory/Monitored) risk grade may be established for a loan considered satisfactory but which is of average credit risk due to financial weakness or

Table of Contents

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

uncertainty. The loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in Satisfactory/Monitored classification is considered acceptable and within normal underwriting guidelines, so long as the loan is given management supervision.

6. Five (5) Special Mention. Loans that possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a 5 (Special Mention) classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered potential, versus defined, impairments to the primary source of loan repayment and collateral.
7. Six (6) Substandard. One or more of the following characteristics may be exhibited in loans classified substandard:
 - a. Loans, which possess a defined credit weakness and the likelihood that a loan will be paid from the primary source, are uncertain. Financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss.
 - b. Loans are inadequately protected by the current net worth and paying capacity of the borrower.
 - c. The primary source of repayment is weakened, and the Bank is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees.
 - d. Loans are characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
 - e. Unusual courses of action are needed to maintain a high probability of repayment.
 - f. The borrower is not generating enough cash flow to repay loan principal; however, continues to make interest payments.
 - g. The lender is forced into a subordinate position or unsecured collateral position due to flaws in documentation.
 - h. Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.
 - i. The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
 - j. There is significant deterioration in the market conditions and the borrower is highly vulnerable to these conditions.

8. Seven (7) Doubtful. One or more of the following characteristics may be exhibited in loans classified Doubtful:
 - a. Loans have all of the weaknesses of those classified as Substandard. Additionally, however, these weaknesses make collection or liquidation in full based on existing conditions improbable.
 - b. The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
 - c. The possibility of loss is high, but, because of certain important pending factors which may strengthen the loan, loss classification is deferred until its exact status is known. A Doubtful classification is established deferring the realization of the loss.

9. Eight (8) Loss. Loans are considered uncollectable and of such little value that continuing to carry them as assets on the institution's financial statements is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

The following table represents the risk category of loans by class based on the most recent analysis performed as of June 30, 2013 and December 31, 2012:

(in Thousands)	Agriculture Real Estate	Agriculture	Commercial Real Estate	Commercial and Industrial	Industrial Development Bonds
June 30, 2013					
1-2	\$ 3,258	\$ 5,014	\$ 2,573	\$ 605	\$
3	12,953	21,695	53,936	23,894	2,758
4	18,625	28,588	147,286	63,047	344
5	786	34	5,283	2,245	
6	36		6,168	1,517	
7	88			2,670	
8					
Total	\$ 35,746	\$ 55,331	\$ 215,246	\$ 93,978	\$ 3,102

	Agriculture Real Estate	Agriculture	Commercial Real Estate	Commercial and Industrial	Industrial Development Bonds
December 31, 2012					
1-2	\$ 2,719	\$ 5,022	\$ 4,046	\$ 750	\$ 97
3	15,111	23,525	42,467	21,750	859
4	21,481	29,188	137,537	71,228	343
5	794	35	8,984	3,385	
6	38		6,295	2,202	
7			670	2,309	
8					
Total	\$ 40,143	\$ 57,770	\$ 199,999	\$ 101,624	\$ 1,299

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

For consumer residential real estate, and other, the Company also evaluates credit quality based on the aging status of the loan, which was previously stated, and by payment activity. The following tables present the recorded investment in those classes based on payment activity and assigned risk grading as of June 30, 2013 and December 31, 2012.

	(In Thousands)	
	Consumer Real Estate	Consumer Real Estate
	June 30 2013	December 31 2012
Grade		
Pass	\$ 77,531	\$ 79,766
Special Mention (5)		
Substandard (6)	393	110
Doubtful (7)	24	411
Total	\$ 77,948	\$ 80,287

	(In Thousands)			
	Consumer - Credit		Consumer - Other	
	June 30 2013	December 31 2012	June 30 2013	December 31 2012
Performing	\$ 3,498	\$ 3,470	\$ 16,225	\$ 16,775
Nonperforming		3		32
Total	\$ 3,498	\$ 3,473	\$ 16,225	\$ 16,807

Information about impaired loans as of June 30, 2013, December 31, 2012 and June 30, 2012 are as follows:

	(In Thousands)		
	June 30, 2013	December 31, 2012	June 30, 2012
Impaired loans without a valuation allowance	\$ 1,703	\$ 730	\$ 806
Impaired loans with a valuation allowance	2,818	3,861	3,548
Total impaired loans	\$ 4,521	\$ 4,591	\$ 4,354
Valuation allowance related to impaired loans	\$ 771	\$ 865	\$ 557
Total non-accrual loans	\$ 4,609	\$ 4,828	\$ 4,893
Total loans past-due ninety days or more and still accruing	\$	\$ 1	\$
Three months ended average investment in impaired loans	\$ 4,363	\$ 4,468	\$ 2,772

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Six months ended average investment in impaired loans	\$	4,342	\$	4,508	\$	2,363
---	----	-------	----	-------	----	-------

No additional funds are committed to be advanced in connection with impaired loans.

The Bank had approximately \$2.9 million of its impaired loans classified as troubled debt restructured as of June 30, 2013, \$627.3 thousand as of December 31, 2012 and \$207 thousand as of June 30, 2012.

Table of Contents

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

The following table represents three months and six months ended June 30, 2013.

Three Months June 30, 2013	Number of Contracts Modified in the Last 3 Months	Modification Outstanding Recorded Investment	Modification Outstanding Recorded Investment	Six Months June 30, 2013	Number of Contracts Modified in the Last 3 Months	Modification Outstanding Recorded Investment	Modification Outstanding Recorded Investment
Troubled Debt Restructurings				Troubled Debt Restructurings			
Commercial Real Estate		\$	\$	Commercial Real Estate		\$	\$
Ag Real Estate		\$	\$	Ag Real Estate		\$	\$
Commercial and Industrial	3	\$ 2,251	\$ 2,251	Commercial and Industrial	4	\$ 2,294	\$ 2,332

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts Modified in the Last 3 Months	Recorded Investment	Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts Modified in the Last 3 Months	Recorded Investment
Commercial Real Estate		\$	Commercial Real Estate		\$
Ag Real Estate		\$	Ag Real Estate		\$
Commercial and Industrial		\$	Commercial and Industrial		\$

The following table represents three months and six months ended June 30, 2012.

Three Months June 30, 2012	Number of Contracts Modified in the Last 6 Months	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Six Months June 30, 2012	Number of Contracts Modified in the Last 6 Months	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled Debt Restructurings				Troubled Debt Restructurings			
Commercial Real Estate	1	\$ 1,937	\$ 1,937	Commercial Real Estate	1	\$ 1,937	\$ 1,937
Ag Real Estate		\$	\$	Ag Real Estate		\$	\$
Commercial and Industrial		\$	\$	Commercial and Industrial		\$	\$

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts Modified in the Last 6 Months	Recorded Investment	Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts Modified in the Last 6 Months	Recorded Investment
Commercial Real Estate		\$	Commercial Real Estate		\$
Ag Real Estate		\$	Ag Real Estate		\$
Commercial and Industrial		\$	Commercial and Industrial		\$

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

For the majority of the Bank's impaired loans, the Bank will apply the observable market price methodology. However, the Bank may also utilize a measurement incorporating the present value of expected future cash flows discounted at the loan's effective rate of interest. To determine observable market price, collateral asset values securing an impaired loan are periodically evaluated. Maximum time for re-evaluation is every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations are obtained and heavily relied upon. Until such time that updated appraisals are received, the Bank may discount the collateral value used.

The Bank uses the following guidelines as stated in policy to determine when to realize a charge-off, whether a partial or full loan balance. A charge-off in whole or in part is realized when unsecured consumer loans, credit card credits and overdraft lines of credit reach 90 days delinquency. At 120 days delinquent, secured consumer loans are charged down to the value of the collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency. Commercial and agricultural credits are charged down at 120 days delinquency, unless an established and approved work-out plan is in place or litigation of the credit will likely result in recovery of the loan balance. Upon notification of bankruptcy, unsecured debt is charged off. Additional charge-off may be realized as further unsecured positions are recognized.

The following table presents loans individually evaluated for impairment by class of loans for three months ended June 30, 2013.

Three Months Ended June 30, 2013 (in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Consumer real estate	\$ 359	\$ 431	\$	\$ 202	\$
Agriculture real estate					
Agriculture					
Commercial real estate	1,035	1,459		1,038	
Commercial and industrial	309	309		309	
Consumer		3			
With a specific allowance recorded:					
Consumer real estate	111	111	38	111	
Agriculture real estate	88	88	15	111	
Agriculture					
Commercial real estate				15	
Commercial and industrial	2,619	2,619	718	2,659	
Consumer					
Totals:					
Consumer real estate	\$ 470	\$ 542	\$ 38	\$ 313	\$
Agriculture real estate	\$ 88	\$ 88	\$ 15	\$ 111	\$
Agriculture	\$	\$	\$	\$	\$
Commercial real estate	\$ 1,035	\$ 1,459	\$	\$ 1,053	\$
Commercial and industrial	\$ 2,928	\$ 2,928	\$ 718	\$ 2,968	\$
Consumer	\$	\$ 3	\$	\$	\$

Table of ContentsITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)
NOTE 4 LOANS (Continued)

Three Months Ended June 30, 2012		Unpaid	Related	Average	Interest		
(in thousands)	Recorded	Principal	Allowance	Recorded	Income		
	Investment	Balance		Investment	Recognized		
With no related allowance recorded:							
Consumer real estate	\$ 340	\$ 355	\$	\$ 213	\$		
Agriculture real estate							
Agriculture							
Commercial real estate	207	384		207			
Commercial and industrial	364	364		122			
Consumer		10					
With a specific allowance recorded:							
Consumer real estate	398	425	139	400	77	282	718 Fiat
Various committed lines							
Brazil	Jan 06-Sept 07	165	EO	165		165	
Various committed lines							
Australia	Jan 06-Jul 06	58	FS		51	51	7
Total committed lines		3,207		499	1,619	2,118	1,089
Uncommitted Lines							
Portion of Fiat revolving syndicated backup credit facility shared with Fiat subs.							
	Jul 08	826	EO				826
Factoring lines	Jan 06	185	EO	185		185	
Factoring lines	Jan 06	50	FS				50
Other	Jan 06	8	EO				8
Asset-backed Programs							
United States	Jan 06	1,200	FS		157	157	1,043
United States (Credit Cards)							
	Jun 07	250	FS		129	129	121
Canada	Aug 06	257	FS		26	26	231
Australia	Apr 06	293	FS		206	206	87
ABS Retained Assets financing							
	Dec 08	300	FS		247	247	53
Total uncommitted lines and ABCP		3,369		185	765	950	2,419
Total credit facilities		\$ 6,576		\$ 684	\$ 2,384	\$ 3,068	\$ 3,508
Drawn short-term debt				\$ 495	\$ 579	\$ 1,074	
Drawn long-term debt				\$ 189	\$ 1,805	\$ 1,994	

Total credit facilities with Fiat affiliates or guaranteed by Fiat affiliates	\$ 3,254	\$ 334	\$ 1,014	\$ 1,348	\$ 1,906
---	----------	--------	----------	----------	----------

* EO = Equipment Operations; FS = Financial Services

** BNDES Subsidized Financing in Brazil is guaranteed by Fiat for up to \$726 million (1.7 billion Brazilian real equivalent).

Committed lines of credit

As of December 31, 2005, we had \$1.1 billion available under our \$3.2 billion total committed lines of credit. The majority of such lines are supported by a guarantee from Fiat.

The 300 million (\$354 million) syndicated credit facility represents the amount allocated to us by Fiat under a 1.0 billion Fiat syndicated facility which matures in July 2008 and remained undrawn at December 31, 2005. Loans under this new facility bear interest at fluctuating rates based on EURIBOR (or other index rates, such as LIBOR depending on the currency borrowed), plus a margin relating to the credit ratings of Fiat. Fiat and each current borrower under the new credit facility (other than CNH) has jointly and severally guaranteed the performance of the obligations of all borrowers under the new facility. This new facility contains a number of affirmative and negative covenants, including financial covenants based on Fiat results, limitations on indebtedness, liens, acquisitions and dispositions, and certain reporting obligations. Failure to comply with these covenants, payment defaults or other events of default under the new facility could cause the facility to terminate and all loans outstanding under the facility to become due, regardless of

Table of Contents

whether the default related to CNH. In addition to paying interest on any borrowings it makes under this new facility, CNH is required to pay the commitment fees applicable to the 300 million (\$354 million) allocation as well as its pro rata share (based on the number of borrowers from time to time, currently one-sixth) of the remaining commitment fees and other fees relating to the new facility.

Financial Services has certain dedicated committed credit facilities available to them which are mostly utilized. In particular, approximately \$1.3 billion was drawn by our Brazilian Financial Services subsidiary under long-term financing arrangements provided by the Banco Nacional de Desenvolvimento Economico e Social, supported by the Brazilian government under agricultural development programs.

The \$1.0 billion revolving facility with Fiat matures on January 31, 2007 and serves as the umbrella under which we borrow from Fiat and its affiliates for day-to-day liquidity needs under the cash pooling arrangements operated by Fiat affiliates.

Uncommitted lines of credit

Our \$1.1 billion of uncommitted lines of credit, as of December 31, 2005, primarily reflects the 700 million (\$826 million) portion of the 1.0 billion (\$1.2 billion) syndicated credit facility shared with other Fiat entities. It also reflects 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 ABCP liquidity facilities through which we may sell retail receivables generated by Financial Services in the United States, Australia and Canada. We utilize these facilities to fund the origination of receivables 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 \$2.3 billion.

The following table summarizes our ABCP liquidity facilities at December 31, 2005:

	Program Size	Availability
	(in millions)	
United States (expiring in January 2006)	\$ 1,200	\$ 1,043
United States credit card (expiring in June 2007)	250	121
Canada (expiring in August 2006)	257	231
Australia (expiring in April 2006)	293	87
ABS Retained Assets financing (expiring in December 2008)	300	53
 Total	 \$ 2,300	 \$ 1,535

Subsequent to December 31, 2005, we have extended the U.S. facility through January 2007.

Cash, cash equivalents, Deposits with Fiat and Intersegment notes receivable

Cash and cash equivalents were \$1.2 billion as of December 31, 2005, compared to \$931 million as of December 31, 2004. The following table shows cash and cash equivalents, together with additional information

Table of Contents

on Deposits with Fiat and intersegment notes receivable, which together contribute to our definition of Net Debt as of December 31, 2005 and 2004.

	Consolidated		Equipment Operations		Financial Services	
	2005	2004	2005	2004	2005	2004
	(in millions)					
Cash and cash equivalents	\$ 1,245	\$ 931	\$ 858	\$ 637	\$ 387	\$ 294
Deposits with Fiat	\$ 580	\$ 1,151	\$ 578	\$ 1,136	\$ 2	\$ 15
Intersegment notes receivable:						
Short-term	\$	\$	\$ 1,067	\$ 414	\$	\$ 24
Long-term				700		
Total intersegment notes receivables	\$	\$	\$ 1,067	\$ 1,114	\$	\$ 24

The increase in cash and cash equivalents reflects additional cash deposits with third parties made by Equipment Operations, in particular in the U.S., rather than depositing funds within the Fiat cash pooling system as described below, and cash deposits with third parties made by Financial Services, including the growth of cash reserves held by Banco CNH in Brazil as a result of the growth in its total asset base.

The amount of Deposits with Fiat and cash and cash equivalents held by us on a consolidated basis fluctuates daily. The ratio of cash equivalents to Deposits with Fiat also varies, as a function of the cash flows of those CNH subsidiaries that participate in the various cash pooling systems managed by Fiat worldwide. As of December 31, 2005, Deposits with Fiat were \$580 million, compared with \$1.2 billion at the end of the prior year.

As of December 31, 2005, Equipment Operations held a total of \$1.1 billion in intersegment notes receivable from Financial Services subsidiaries, of which \$300 million is a note maturing in 2006. The short-term notes held by Equipment Operations typically represent a form of a cash management optimization tool in place in those jurisdictions where the most efficient structure is for Equipment Operations to lend directly to Financial Services, such as Australia.

Debt and Deposits with Fiat

Our debt and Deposits with Fiat as of December 31, 2005 and 2004, respectively, can be analyzed as follows:

	Consolidated		Equipment Operations		Financial Services	
	2005	2004	2005	2004	2005	2004
	(in millions)					
Long-term debt with Fiat excluding current maturities	\$ 133	\$ 1,021	\$ 95	\$ 873	\$ 38	\$ 148
Current maturities of long-term debt with Fiat	413	90	279	19	134	71
Short-term debt with Fiat	565	672	479	331	86	341
Total debt with Fiat	1,111	1,783	853	1,223	258	560

Less Deposits with Fiat	(580)	(1,151)	(578)	(1,136)	(2)	(15)
Net Debt with Fiat	\$ 531	\$ 632	\$ 275	\$ 87	\$ 256	\$ 545

On December 31, 2005, our outstanding consolidated debt with Fiat and its affiliates was \$1.1 billion, or approximately 18% of our consolidated debt, compared to \$1.8 billion or approximately 26% as of December 31, 2004. The reduction resulted primarily from cash generated by the reduction of intersegment notes made possible by the issuance of new debt by Financial Services.

Table of Contents

The total amount of consolidated debt with Fiat and Fiat affiliates outstanding as of December 31, 2005 included (i) \$244 million in long-term debt under several notes maturing through 2006, (ii) \$282 million in short-term debt, drawn under a \$1 billion revolving credit line granted to us by Fiat and maturing on January 31, 2007 and (iii) an additional \$585 million, of which \$274 million is related to the funding of our Brazilian equipment operations subsidiary, \$182 million is related to notes funding Financial Services subsidiaries and \$129 million is related to notes funding other Equipment Operations subsidiaries. An additional \$937 million of consolidated third party debt outstanding under certain facilities was guaranteed by Fiat or a Fiat subsidiary at December 31, 2005. We have continued to reduce our debt to Fiat and increasingly rely on third-party financing, and we expect this trend to continue over time.

Like other companies that are part of multinational groups, we participate in a group-wide cash management system with the Fiat Group. Under this system, which is operated by Fiat in a number of jurisdictions, the cash balances of Fiat Group members, including us, are aggregated at the end of each business day in central pooling accounts, the Fiat affiliates cash management pools. As well as being invested by Fiat in highly rated, highly liquid money market instruments or bank deposits, our positive cash deposits, if any, at the end of any given business day may be applied by Fiat to offset negative balances of other Fiat Group members and vice versa.

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

At December 31, 2005, CNH had approximately \$580 million of cash deposited in the Fiat affiliates cash management pools compared with \$1.2 billion at the end of the prior year. Of the total amount deposited with Fiat as of December 31, 2005, the principal components included \$8 million deposited by our North American subsidiaries with a Fiat treasury vehicle in the United States, \$377 million deposited by certain of our European subsidiaries with a vehicle managing cash in most of Europe excluding Italy, \$194 million deposited our Italian subsidiaries with a vehicle managing cash in Italy, and less than \$1 million deposited by Latin American subsidiaries with other local subsidiaries. Historically, our debt exposure towards each of these vehicles usually is higher than the amounts deposited with them. However, we may not, in the event of a bankruptcy or insolvency of these Fiat entities, be able to offset our debt against our deposit with each vehicle.

Securitization

The following table summarizes the principal amount of our retail and wholesale ABS programs in the United States, Canada, Australia and Europe, and receivables discounted without recourse and classified as off-balance sheet at December 31, 2005 and 2004:

	2005	2004
	(in millions)	
Wholesale receivables	\$ 3,080	\$ 2,432
Retail and other notes and finance leases	4,580	4,475
Receivables discounted without recourse		108
Total	\$ 7,660	\$ 7,015

The amount above includes wholesale receivables discounted under our securitization program in Europe activated in September 2004. In September 2005, Spanish receivables, previously not qualifying for off book treatment, met the requirements and are now accounted for as off book.

Table of Contents*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. Within CNH's asset securitization program, qualifying retail finance receivables are sold to limited purpose, bankruptcy-remote consolidated subsidiaries of CNH, where required by bankruptcy laws. In turn, these subsidiaries establish separate trusts to which the receivables are transferred in exchange for proceeds from asset-backed securities issued by the trusts. This allows the special purpose entity (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 our ABS activities 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 2005, SPE affiliates of our U.S. Financial Services subsidiaries executed \$2.6 billion in retail asset-backed transactions and SPE affiliates of our Canadian Financial Services subsidiaries executed C\$300 million (\$258 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. Financial Services applied the proceeds from the securitizations to repay outstanding debt. At December 31, 2005, \$4.6 billion of asset-backed securities issued to investors out of the U.S., Canadian and Australian SPEs were still outstanding with a weighted average remaining maturity of between 16 to 18 months.

Due to the nature of the assets held by the SPEs and the limited nature of each SPE's activities, each SPE is classified as a qualifying special purpose entity (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 U.S. GAAP. 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 of our 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 although we provide customary representations and warranties that could give rise to an obligation to repurchase from the QSPE receivables for which the representations and warranties are not true. 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.

Our ABS program is further described in Note 4: Accounts and Notes Receivable, in our consolidated financial statements.

Wholesale

We also sell wholesale receivables on a revolving basis to privately and publicly structured securitization facilities. The receivables are initially sold to wholly-owned SPEs, which are consolidated by CNH, but legally isolate the receivables from our creditors. Upon the sale of receivables to a QSPE in a securitization transaction, receivables are removed from our consolidated balance sheet and proceeds are received for the

Table of Contents

difference between the receivables sold and the retained undivided interests that are required to be retained by us. These transactions are utilized as an alternative to the issuance of debt and allow us to realize a lower cost of funds due to the asset-backed nature of the receivables and the credit enhancements offered to investors.

In the event charge-offs reduce the receivables pool sold, the investors in the facility have recourse against our retained undivided interests in the sold receivables. These retained undivided 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 undivided 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 master trust facility in the U.S., Canada and Australia. The U.S. master trust facility consists of the following: \$521 million term senior and subordinated asset-backed notes with a three year maturity issued in June 2003, \$750 million term senior and subordinated asset-backed notes issued with a three year maturity issued in June 2005 and a 364-day, \$700 million conduit facility that is renewable annually (September 2006) at the sole discretion of the purchasers. The Canadian master trust facility consists of the following: C\$162 million term senior and subordinated asset-backed notes with a two year maturity issued in July 2004, C\$189 million term senior and subordinated asset-backed notes with a three year maturity issued in July 2004 and a 364-day C\$250 million conduit facility that is renewable annually (August 2006) at the sole discretion of the purchaser. The Australian facility consists of a 364-day, A\$165 million conduit facility that is renewable annually (May 2006) at the sole discretion of the purchaser.

At December 31, 2005, \$2.0 billion, C\$445 million (\$382 million) and A\$108 million (\$79 million) were outstanding under these facilities, consisting of \$2.4 billion, C\$569 million (\$489 million) and A\$149 million (\$109 million) of wholesale receivables sold less CNH's retained undivided interest of \$452 million, C\$124 million (\$106 million) and A\$41 million (\$30 million) respectively. At December 31, 2004, \$1.5 billion was outstanding under the U.S. facility, consisting of \$1.9 billion of wholesale receivables sold less CNH's retained undivided interest of \$330 million. Under the Canadian facility at December 31, 2004, C\$405 million (\$348 million) was outstanding, consisting of C\$507 million (\$436 million) of wholesale receivables sold less CNH's retained undivided interest of C\$102 million (\$88 million). Under the Australian facility at December 31, 2004, A\$90 million (\$66 million) were outstanding, consisting of A\$128 million (\$88 million) of wholesale receivables sold, less CNH's retained undivided interest of A\$38 million (\$28 million). The retained undivided interests provide recourse to investors in the event of default and are recorded at cost, which approximates fair value due to the short-term nature of the receivables.

On September 13, 2004, certain of our Equipment Operations subsidiaries in Europe sold, on a non-recourse basis, euro and British pound denominated wholesale receivables, directly or indirectly, to an Irish trust, funded by two bank-sponsored conduits and by an Irish Financial Services subsidiary of CNH. In June 2005, this program was expanded to include Equipment Operation entities in Italy and Belgium. The expansion of the program resulted in receivable sales totaling approximately \$216 million in June 2005. In September 2005, the one entity in this program, previously not qualifying for off book treatment, met the requirements and is now accounted for as off book. A total of \$531 million was funded by the two conduits under a \$425 million, (\$501 million) plus £40 million (\$47 million) 364-day facility maturing in July 2006. As part of the extension of our wholesale receivable management practices from North America to other regions, we also plan to have certain of our Financial Services subsidiaries in Europe purchase wholesale receivables from Equipment Operations subsidiaries and become sellers into the Irish trust. At December 31, 2005, the balance of Equipment Operation receivables sold into this program in 2005, as a result of its expansion, totaled \$266 million. At December 31, 2005 and 2004, the amounts outstanding under this program were \$709 million and \$466 million, respectively, and Financial Services had a retained undivided interest of \$251 million and \$228 million, respectively.

Other

A master note trust was formed in September 2004 to facilitate the sale of U.S. credit card receivables. The U.S. Financial Services subsidiaries originates credit card receivables and transfers them without

Table of Contents

recourse to a bankruptcy remote SPE through which receivables are then transferred to the trust. The maximum amount of funding eligible through the facility is \$250 million and is accounted for as a secured financing. At December 31, 2005 and 2004, total receivables pledged under this program were \$160 million and \$159 million, respectively. The facility is renewable in June 2007.

Certain foreign subsidiaries of CNH securitized or discounted receivables without recourse. As of December 31, 2005, there were no outstanding discounted receivables without recourse. As of December 31, 2004, \$108 million of wholesale receivables were outstanding. 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 \$1.4 billion and approximately \$1.6 billion of receivables from our related transactions as of December 31, 2005 and 2004, respectively.

In December 2005, Financial Services entered into a transaction to securitize certain of its retained interests which resulted from its U.S. retail ABS programs. The retained interests were sold without recourse to a newly formed bankruptcy remote SPE which, in turn, pledged the retained interests as collateral for a revolving loan from a third-party multi-seller ABCP conduit facility. The maximum amount of funding eligible through the facility is \$300 million and it is accounted for as a secured financing. At December 31, 2005, total retained interests pledged under this program were \$324 million. The facility is renewable in December 2008.

Pension and Other Postretirement Benefits

The obligations and expenses recognized in our consolidated financial statements for our employee benefit plans are not necessarily indicative of our projected obligations and cash funding requirements. The reason is that we normally experience actual results that differ from the assumptions used in the actuarial determination of our benefit plan obligations and costs. We recognize the accumulated differences in our Consolidated Financial Statements through amortization over future periods when certain conditions are met.

See Item 5. Operating and Financial Review and Prospects A. Operating Results Application of Critical Accounting Estimates, as well as Note 13: Employee Benefit Plans and Postretirement Benefits of our consolidated financial statements for additional information on pension and other postretirement benefits accounting.

Pension Benefit Obligations

Current funding and asset allocation. Plan assets, which are primarily held in trusts and invested to provide for current and future pension benefits, partially offset our projected pension benefit obligations. Plan assets consist of investments in equity securities, debt securities, and cash.

The funded status of our pension benefit obligations expresses the extent to which plan assets are available to satisfy our obligations. At December 31, 2005 and 2004, our pension plans had an underfunded status of \$1.0 billion and \$1.1 billion, respectively. Pension plan obligations for plans that we do not currently fund were \$521 million and \$443 million at December 31, 2005 and 2004, respectively. After deducting the accrued liabilities recognized on our consolidated balance sheets for our pension obligations at December 31, 2005 and 2004 of \$142 million and \$224 million, respectively, we had underfunded pension obligations of \$852 million and \$907 million at December 31, 2005 and 2004, respectively, which were unrecognized.

During 2005, we contributed \$182 million to our pension benefit plans. The improvement in the funded status of our pension benefit plans in 2005 is mainly attributable to the total contribution of \$182 million in 2005, and overall favorable returns on assets which more than offset the decrease in discount rates. Actual rates of return for U.S. and U.K. plans, our primary plans, were positive at 4.5% and 16.9%, respectively.

Table of Contents

Accounting rules that are applicable due to the underfunded status of our accumulated pension benefit obligations required us to recognize an additional minimum pension liability. The initial recognition and subsequent changes in the additional pension minimum liability do not affect our consolidated statements of operations. During 2005, our minimum pension liability decreased by \$43 million, resulting in a net of tax credit to equity of approximately \$16 million.

Further funding requirements. During 2005, we contributed \$120 million to our U.S. defined benefit pension plans and we anticipate that we will make contributions in 2006 of up to \$120 million. During 2005, we contributed \$62 million to our International defined benefit plans and we anticipate that we will make contributions in 2006 of up to \$70 million.

Future pension expense. We estimate that our total pension benefit expense in 2006 will be less than our 2005 expense of \$130 million.

Other Postretirement Benefit Obligations

Current funding and asset allocation. These benefit obligations are unfunded. At December 31, 2005 and 2004, our other postretirement benefit obligations had an underfunded status of \$1.7 billion, and \$1.6 billion, respectively. After deducting the accrued liabilities recognized on our consolidated balance sheets for our other postretirement benefit obligations at December 31, 2005 and 2004 of \$929 million and \$862 million, respectively, we had underfunded other postretirement benefit obligations of \$741 million and \$754 million at December 31, 2005 and 2004, respectively, which were unrecognized.

Further funding requirements. We are not required by law or labor agreements to make contributions to our other postretirement benefit plans. We anticipate that cash requirements for other postretirement employee benefit costs will rise slightly in 2006 when compared to 2005.

Future postretirement benefit expense. We estimate that our total other postretirement benefit expense in 2006 will be higher than our 2005 expense of \$138 million. This is the result of continued higher healthcare cost trend rates, lower discount rates used and the resulting amortization of higher unrecognized net losses in 2006.

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 \$296 million, \$267 million and \$259 million of R&D costs in the years ended December 31, 2005, 2004 and 2003, respectively.

We also benefit from the R&D expenditures of our unconsolidated joint ventures, which are not included in our R&D 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 and Kobelco 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 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 3,700 patents, and over 1,000 additional

Table of Contents

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 2006 We expect worldwide industry unit sales in 2006 to be down slightly from record levels of 2005. The principal factors influencing sales of agricultural equipment are the level of total farm cash receipts and, to a lesser extent, general economic conditions, interest rates and the availability of financing. Farm cash receipts are primarily impacted by the volume of acreage planted, commodity and/or livestock prices, crop yields, farm operating expenses, fluctuations in currency exchange rates and government subsidies. In particular, we expect that the factors contributing to the anticipated decline in 2006 will include farmers concerns over higher input costs, especially for fuel and fertilizer, government policies and the future direction of farm subsidies, concerns regarding foot-and-mouth disease, Asian Rust and Avian Flu, and the continuing relative strength of the Brazilian real with respect to the U.S. dollar.

Construction equipment market outlook for 2006 We expect worldwide industry unit sales of heavy and light construction equipment to remain consistent with 2005 levels or to increase slightly. The key drivers influencing sales of construction equipment are the level of residential and commercial construction, remodeling and renovation, and major infrastructure construction and repair projects. The level of construction undertaken is generally a function of government spending, general economic growth and interest rates. We expect that the factors contributing to continued market strength in 2006 will include healthy levels of construction spending and economic growth, especially in the United States and in China, and relatively low interest rates (although slightly higher than in 2005).

CNH outlook for 2006 We have recently undertaken a comprehensive review of our global operations designed to close the performance gap to best-in-class industry competitors. We have designed, and are in the process of implementing, a three-year plan to achieve this objective. We believe the plan will benefit operating results in 2006, but we expect the full benefit of the plan will not be achieved until 2008.

We expect our net sales of equipment to be slightly higher than in 2005. We believe that improvements in market share, continuing pricing and ongoing margin improvements at Equipment Operations will contribute to better results in 2006. We expect, however, that the benefit achieved through improvement from Equipment Operations will be partially offset by an increase to our effective tax rate due to the higher tax rates in jurisdictions where improvements are expected. Also, we expect that profitability at Financial Services and at our joint ventures will remain in line with 2005 results.

In addition, full year restructuring costs, net of tax, are expected to be slightly higher than in 2005, as CNH recognizes the balance of the costs related to the planned manufacturing rationalization in Germany.

We expect to contribute approximately \$120 million to our U.S. defined benefit pension plan in 2006. After giving effect to this contribution, we expect to use cash flows generated from Equipment Operations to reduce our debt by up to approximately \$250 million.

By their nature, statements relating to trends are only estimates. These statements are based on management's current views and assumptions and involve risks and uncertainties. As a result, actual results, performance or events could differ materially from those expressed or implied in the statements above. See A. Safe Harbor Statement under the Private Security Litigation Reform Act and Item 3. Key Information D. Risk Factors.

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. Operating and Financial Review and Prospectus A. Operating Results Application of Critical Accounting Estimates Off-Balance Sheet Financing for a detailed description of our off-balance sheet arrangements.

Table of Contents**F. Tabular Disclosure of 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, 2005 are as follows:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(in millions)				
Long-term debt	\$ 4,765	\$ 1,059	\$ 1,629	\$ 761	\$ 1,316
Interest on fixed rate debt	1,214	256	453	333	172
Interest on floating rate debt ⁽¹⁾	899	209	354	308	28
Operating leases ⁽²⁾	162	35	50	29	48
Joint venture funding requirements	33	10	23		
 Total contractual cash obligations	 \$ 7,073	 \$ 1,569	 \$ 2,509	 \$ 1,431	 \$ 1,564

(1) The interest funding requirements are based on the 2005 interest rates and the assumption that short-term and maturing debt will be renewed for the next five years.

(2) 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 Liabilities

We had cash interest payments of approximately \$151 million for the year ended December 31, 2005 on floating rate debt. If the average floating interest rate increased by 0.5%, our cash payment would have increased approximately \$10 million for the year.

Financial Services private label credit cards had various commitments to extend credit, net of balances outstanding of approximately \$3.2 billion as of December 31, 2005.

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, 2005, total commitments of this type were approximately \$164 million.

As of December 31, 2005, we have restructuring reserves totaling approximately \$47 million. These will be settled in cash, primarily by December 31, 2006. During 2006 and 2007, we anticipate total cash payments for restructuring costs to be approximately \$90 million and \$20 million, respectively.

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 2006, we project total contributions to our defined benefit plans of approximately \$190 million, including currently anticipated discretionary contributions of up to \$120 million to our U.S. plans.

Our postretirement 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 2006, we anticipate contributions to our postretirement health and life insurance plans of approximately \$74 million.

We expect to pay income taxes in 2006 of approximately \$28 million for income taxes due for years ended December 31, 2005 and prior. Income tax payments beyond 2006 are contingent on many variable factors and cannot be reasonably predicted.

Table of Contents

As noted in the table above, we are a member of a joint venture which has a Note Agreement with an outstanding balance of \$65 million at December 31, 2005. We are required to fund \$33 million of the principal as follows: \$10 million, \$10 million and \$13 million in 2006, 2007 and 2008, respectively.

Purchase Obligations

We estimate that for 2006, 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 \$260 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.

G. 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 press release, 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, could, should, intend, estimate, anticipate, believe, outlook, continue, remain, or similar terminology.

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 concerning the ratings on our debt and asset backed securities and the ratings of Fiat S.p.A., risks related to our relationship with Fiat S.p.A., 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), technology difficulties, results of our research and development activities, changes in environmental laws, employee and labor relations, pension and health care costs, relations with and the financial strength of dealers, the cost and availability of supplies from our suppliers, raw material costs and availability, 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 our operations and to execute our 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, 2005.

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.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management.

On March 16, 2006, we announced proposed changes to the term of office and composition of the Board of Directors. The Board will consist of eleven directors, seven of which will be independent directors as

Table of Contents

provided in the listing standards and rules of the NYSE. The directors will serve for a term of one year and may stand for re-election the following year. Such changes will become effective at the Annual General Meeting of Shareholders to be held on April 7, 2006.

Léo W. Houle, Rolf M. Jeker, Peter Kalantzis, John Lanaway and Jacques Theurillat will be proposed as new independent Board members. Messrs. Harold D. Boyanovsky, Edward A. Hiler, Kenneth Lipper, Ferruccio Luppi, Sergio Marchionne, and Paolo Monferino will stand for re-election. Mrs. Katherine M. Hudson, and Messrs. Michael E. Murphy and James L.C. Provan have expressed their intention not to stand for re-election.

As of March 1, 2006, our directors and our executive officers are as set forth below:

Name	Position with CNH	Director/ Executive Officer Since
Harold D. Boyanovsky	President and Chief Executive Officer; Director	2005/1999
Katherine M. Hudson	Director; Chairman of the Board	1999
Edward A. Hiler	Director	2002
Kenneth Lipper	Director	1996
Ferruccio Luppi	Director	2005
Sergio Marchionne	Director	2004
Paolo Monferino	Director	2000
Michael E. Murphy	Director	2002
James L.C. Provan	Director	1995
Michel Lecomte	Chief Financial Officer	2000
Steven Bierman	President, CNH Capital	2005
Franco Fenoglio	President, New Holland Construction Equipment	2005
Mario Ferla	President, Case IH Agricultural Equipment	2003
Richard J. Hoffman	Corporate Controller and Chief Accounting Officer	2004
Marco Mazzú	President, New Holland Agricultural Equipment	2005
James E. McCullough	President, Case Construction Equipment	2005
Roberto Miotto	Senior Vice President, General Counsel and Secretary	1991
Roberto Pucci	Senior Vice President, Human Resources	2005
James P. Sharp	President, Parts and Service	2005

Harold D. Boyanovsky, President and Chief Executive Officer and Director, born on August 15, 1944, was appointed President, Construction Equipment Business on September 1, 2002, President and Chief Executive Officer on February 28, 2005 and Director on December 7, 2005. 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.

Katherine M. Hudson, Director, Chairman of the Board, born on January 19, 1947, has served as a director of CNH since November 1999 and Chairman of the Board since April 2004. Ms. Hudson previously 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.

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 the Ellison Chair in International Floriculture and Professor of Horticultural Science. He previously held the position of Vice Chancellor for

Table of Contents

Agriculture and Life Sciences and Dean of the College of Agriculture and Life Sciences and was 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 The Ohio State University. Dr. Hiler is a Fellow and member of the Board of Directors and has served as President of the American Society of Agricultural Engineers, and he 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 and recipient of numerous educational and research awards, Dr. Hiler is the author of over 100 professional publications.

Kenneth Lipper, Director, born on June 19, 1941, has served as a director of CNH since 1996. He is Executive Vice President of Cushman & Wakefield, Inc. since 2005, where he has served as Senior Advisor since 2004 and Chairman of Lipper & Company, LLC 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 general partner of Salomon Brothers during the years 1976-1982 and an associate and general partner at Lehman Brothers during the years 1969-1975. Prior to that, Mr. Lipper was the Director of Industrial Policy for the Office of Foreign Direct Investment at the U.S. Department of Commerce and an associate with the law firm of Fried, Frank, Harris, Shriver & Jacobson. Mr. Lipper received an Academy Award in 1999 as Producer of *The Last Days* and has been involved as a producer and/or author in *The Winter Guest*, *City Hall*, and *Wall Street*. He is a partner and co-publisher of the celebrated biography series *Penguin Lives*, under the Lipper/ Viking Penguin imprint. Mr. Lipper is a Trustee of the Council of Excellence in Government, the Governor's Committee on Scholastic Achievement and a member of the Council on Foreign Relations, Economic Club of New York and The Century Club. Mr. Lipper received a B.A. from Columbia University, a J.D. from Harvard Law School and Masters in Civil Law from New York University/ Faculty of Law & Economics, Paris.

Ferruccio Luppi, Director, born on November 3, 1950, was appointed as a director of CNH on June 28, 2005. Mr. Luppi has been Senior Vice President of Business Development of Fiat S.p.A. since April 2005. He is also Chief Executive Officer of Business Solutions S.p.A., following his appointment in January 2004. He was Chief Financial Officer of Fiat S.p.A. from October 2002 to December 2003. Prior to joining Fiat, Mr. Luppi was named Managing Director and a member of the Board of Directors of the Worms Group at the beginning of 1998, an investment holding company listed on the Paris Stock Exchange. He began his career at the Worms Group in 1997 as head of the Industrial Investments Control Department. From 1984 until 1996, Mr. Luppi worked at the IFIL Group, where he was first responsible for Equity Investments Control and then head of the Group's Development and Control Department. From 1973 to 1983, Mr. Luppi was associated with several major Italian corporate groups. He holds a degree in Economics and is on the boards of Fiat Auto S.p.A. and Iveco S.p.A.

Sergio Marchionne, Director, born on June 17, 1952, has served as a director of CNH since July 22, 2004. Mr. Marchionne has been Chief Executive Officer of Fiat S.p.A., whose Board of Directors he joined in May 2003. He is also Chief Executive Officer of Fiat Auto S.p.A., Fiat's car division since February 2005. He has been a member of the Board of SGS S.A. since May 2001. From February 2002 to June 2004, he served as Chief Executive Officer and Managing Director of SGS and since June 2004 as Vice-Chairman. Since May 2000, he has served as a member of the Board of Serono S.A. From October 1999 until January 2002, Mr. Marchionne served as Chief Executive Officer and Board member of Lonza Group AG, which was spun-off from Alusuisse-Lonza Group in October 1999. Mr. Marchionne served as Chairman of Lonza Group AG from October 2002 until April 2005. He previously worked at Alusuisse-Lonza in various capacities, and as Chief Executive Officer from 1997 until October 2000. From January 2006, he is also Chairman of ACEA (European Automobile Manufacturers Association). Mr. Marchionne received an LLB from Osgoode Hall Law School in Toronto, Canada and an MBA from the University of Windsor, Canada. He is a barrister and solicitor and a Chartered Accountant. Mr. Marchionne holds dual Canadian and Italian nationalities and is a resident of Switzerland.

Table of Contents

Paolo Monferino, Director, 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 as President and Chief Executive Officer (as well as a director), leading the overall management of CNH, including the execution of the company's wide-ranging integration plan. Mr. Monferino resigned as President and Chief Executive Officer on February 28, 2005 and became Chief Executive Officer of Iveco, the lead company of Fiat Group's Commercial Vehicle Sector. 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, Mr. 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.

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 Civic Federation, Big Shoulders Fund, Chicago Cultural Center Foundation, the Metropolitan Pier and Exposition Authority, 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 a MBA degree from the Harvard Business School.

James L. C. Provan, Director, born on December 19, 1936, has served as a director of CNH, and previously of New Holland, since 1995. A farmer in Scotland, Mr. Provan served in the European Parliament from 1979 to 2004 where he was Vice-President (Deputy Speaker), chair of the Conciliation Committee to the Council of Ministers and chair of the Internal Audit Committee. He also served on the Agriculture Committee, the Environment and Consumer Affairs Committee and the Transport and Tourism Committee. Mr. Provan has been Chairman for 8 years and a director for 14 years of the Board of the Rowett Research Institute, Aberdeen, one of Europe's leading nutritional research centers. 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. Mr. Lecomte served as President, Financial Services and President, CNH Capital until 2003. 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.

Steven Bierman, President, CNH Capital, born on March 20, 1955, was appointed President, CNH Capital on September 30, 2005 and was previously Vice President of Commercial Finance for CNH Capital. Prior to joining CNH, Mr. Bierman was employed by Fremont General Corporation in Santa Monica, California, from 1998 to 2004. From 2002 to 2004, Mr. Bierman served as Chief Information Officer for Fremont Investment and Loan, a subsidiary of Fremont General Corporation. From 1998 to 2002, Mr. Bierman was employed by Fremont Financial Corporation, also a subsidiary of Fremont General Corporation, first as Senior Vice President for its syndicated loan group and after as President and Chief Operating Officer. Between 1996 and 1998, Mr. Bierman served as Senior Vice President/National Credit Manager of the Union Bank of California in the Commercial Finance Division. From 1986 to 1996, Mr. Bierman held a variety of positions with General Electric Capital Corporation.

Table of Contents

Franco Fenoglio, President, New Holland Construction Equipment, born on March 31, 1953, was appointed President, New Holland Construction Equipment on September 30, 2005. Prior to joining CNH, he served in a variety of positions with the Fiat Group. Prior to joining CNH, Mr. Fenoglio held positions with Iveco as Vice President, Commercial Operations from August 1999 until March 2004; Senior Vice President Sales and Marketing from March 2004 until May 2005; and Senior Vice President, International Operations and Business Development from May 2005 until his recent appointment with CNH.

Mario Ferla, President, Case IH Agricultural Equipment, born on September 28, 1946, was appointed President, Case IH Agricultural Equipment in 2005. He previously served as President, CNH Capital from 2003 to 2005 and Chief Operating Officer for CNH Capital from 2001 to 2003. 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.

Richard J. Hoffman, Corporate Controller and Chief Accounting Officer, born on July 27, 1966, was appointed Corporate Controller and Chief Accounting Officer on July 23, 2004. He served as Senior Director, Accounting, Consolidations and Reporting and Chief Accounting Officer for CNH since October 23, 2000. Prior to joining CNH, Mr. Hoffman served as Senior Manager at Deloitte & Touche LLP from 1996 to 2000 and held various positions with Deloitte & Touche LLP from 1988 to 1996.

Marco Mazzú, President, New Holland Agricultural Equipment, born on December 19, 1958, was appointed President, New Holland Agricultural Equipment on September 30, 2005. From 2002 until 2005 he served as Ag Latin America Regional Leader and Ag Europe Regional Leader. Prior to joining CNH, he served in a variety of positions with the Fiat Group, including Vice President, Business (U.K.) from September 1998 until April 2000. In April 2000 Mr. Mazzú joined Fiat Auto in Latin America and was responsible for Industrial Operations until June 2001 when he assumed worldwide responsibility for manufacturing for Fiat Auto.

James E. McCullough, President, Case Construction Equipment, born on June 27, 1950, was appointed President, Case Construction Equipment on September 30, 2005 and was previously President, Construction Equipment N.A. of CNH from June 2003. Mr. McCullough served as Senior Vice President, Construction Equipment Commercial Operations, N.A. from 2002 to 2003 and Senior Vice President, Case Commercial Operations Worldwide from 1999 to 2002. Prior to the business merger of New Holland and Case, he served as Vice President and General Manager, Case Construction Equipment Division from 1995 to 1998. Between 1988 and 1990, Mr. McCullough served in a variety of positions with Case.

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.

Roberto Pucci, Senior Vice President, Human Resources, born on December 19, 1963, was appointed Senior Vice President, Human Resources on November 1, 2005. Prior to joining CNH, Mr. Pucci served as Vice President, Human Resources for Agilent Technologies Europe from January 2003 until October 2005. Prior to January 2003, Mr. Pucci was Director, Compensation and Benefits with Agilent. From 1987 until April 1999, Mr. Pucci served in various human resources capacities with Hewlett-Packard in Europe.

James P. Sharp, President, Parts and Service, born on August 6, 1952, was appointed President, Parts and Service on September 30, 2005. He has served as President, Agricultural Equipment N.A. since January 2005. Prior to joining CNH, Mr. Sharp served as President, Construction Equipment for Ingersoll Rand Company from 2003 until 2004. Mr. Sharp began his career with Ingersoll Rand in various controller positions between 1982 and 1985. He subsequently held a broad range of executive positions including Vice President and

Table of Contents

General Manager, Road Machinery Division from 1995 until 1999; President, Road Development from 2000 until 2001; and President, Bobcat Company in 2002.

B. Compensation.**Directors Compensation**

The following table summarizes remuneration paid to or accrued for Directors for the year ended December 31, 2005, excluding directors who are employees of Fiat and are not compensated by CNH:

	Grant	Edward	Katherine	Kenneth	Michael	James	Paolo	Harold	
	Price	A.	M.		E.	L.C.	Monferino(1)	Boyanovsky	Total
		Hiler	Hudson	Lipper	Murphy	Provan			
Periodic Remuneration in Cash:									
Salary		\$	\$	\$	\$	\$	\$ 780,203	\$ 727,616	\$ 1,507,819
Meeting Fees		18,750	22,500	16,250	22,500	28,750			108,750
Annual Fees		52,500	150,000		26,500	17,500			246,500
Relocation							717,486		717,486
Common Shares Granted:									
1/20/2005	\$ 18.44				6,749	11,248			17,997
5/2/2005	17.81				6,750	11,256			18,006
7/31/2005	21.08				8,748	8,748			17,496
10/29/2005	18.37				8,744	8,744			17,488
Future Remuneration:							7,934	51,224	59,158
Pension Plan Allowance Upon Termination							16,713		16,713
Bonus: Cash								130,000	130,000
Restricted Stock							2,568		2,568
Loans:									
Total		\$ 71,250	\$ 172,500	\$ 16,250	\$ 79,991	\$ 86,246	\$ 1,524,904	\$ 908,840	\$ 2,859,981

(1) Mr. Monferino resigned as President and Chief Executive Officer on February 28, 2005.

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.

CNH Outside Directors Compensation Plan

The CNH Global N.V. Outside Directors Compensation Plan (CNH Directors Plan), as amended in 2003, provided 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; (2) an annual grant of 4,000 options to purchase common shares of CNH that vest on the third anniversary of the grant date (Annual Automatic Stock Option); (3) an opportunity to receive all or a portion of their Annual Fees in cash; (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. 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 prices of all options granted under the CNH Directors Plan are equal to or greater than

Table of Contents

the fair market value of CNH common shares on the respective grant dates. On April 26, 2004, the CNH shareholders resolved to amend the annual compensation of the outside director serving as the Chairman of the Board to \$150,000. On May 3, 2005, the CNH shareholders resolved to amend the CNH Directors' Plan to provide for an annual retainer of \$65,000. Each of our outside directors is paid a fee of \$1,250 plus expenses for each Board of Directors and committee meeting attended. At December 31, 2005, there were one million common shares reserved for issuance under the CNH Directors' Plan, and, as of December 31, 2005, there are 786,945 common shares available for issuance. 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, 2005 and 2004:

	2005		2004	
	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	142,005	\$ 22.41	142,500	\$ 22.76
Granted	31,037	17.90	39,065	19.12
Forfeited	(4,000)	17.28	(18,877)	35.18
Exercised			(20,683)	11.23
Outstanding at end of year	169,042	\$ 21.71	142,005	\$ 22.41
Exercisable at end of year	141,872	\$ 22.50	112,714	\$ 23.45

* Weighted-average

The following table summarizes outstanding stock options under the CNH Directors' Plan at December 31, 2005:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Shares Outstanding	Contractual Life*	Exercise Price*	Shares Exercisable	Exercise Price*
\$9.15 - \$15.70	64,348	7.3	\$ 11.54	60,628	\$ 11.68
\$15.71 - \$26.20	71,055	8.4	\$ 20.80	47,605	\$ 21.76
\$26.21 - \$40.00	18,654	5.5	\$ 30.31	18,654	\$ 30.31
\$40.01 - \$56.00	4,460	4.9	\$ 49.31	4,460	\$ 49.31
\$56.01 - \$77.05	10,525	4.3	\$ 53.03	10,525	\$ 63.03

* 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. As of December 31, 2005, there were 3,042,012 common shares available for issuance under the CNH EIP.

Table of Contents

The following table reflects option activity under the CNH EIP for the years ended December 31, 2005 and 2004.

	2005		2004	
	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	2,464,575	\$ 33.68	2,719,842	\$ 32.92
Granted	10,000	18.06	20,000	18.21
Exercised	(178,700)	16.18	(62,690)	16.18
Forfeited	(254,805)	49.83	(212,577)	51.80
Outstanding at end of year	2,041,070	\$ 34.62	2,464,575	\$ 33.68
Exercisable at end of year	1,747,634	\$ 36.76	1,655,585	\$ 39.38

* Weighted-average

The following table summarizes outstanding stock options under the CNH EIP at December 31, 2005:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Shares Outstanding	Contractual Life*	Exercise Price*	Shares Exercisable	Exercise Price*
\$15.20 - \$26.20	886,260	6.6	\$ 16.21	623,969	\$ 16.19
\$26.21 - \$40.00	625,000	5.6	31.70	625,000	31.70
\$40.01 - \$77.05	529,810	4.1	68.85	498,665	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. Effective for the 2002 plan year only, a special incentive plan (the 2002 Special Incentive Program) was approved which provided 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. In 2004, for individuals electing to not take the restricted stock earned under the 2002 Special Incentive Program, CNH issued an equivalent number of common shares to individuals who remained employed by CNH as of the vesting date for the restricted shares. For this group, in March 2004, we issued 33,019 unrestricted shares under the CNH EIP. In 2003, we issued 207,215 restricted shares under the program, which vested in 2004. No restricted shares were issued in 2005. At December 31, 2005, restricted common shares outstanding under the CNH EIP totaled 2,568 shares.

In 2004, a new performance vesting long-term incentive (LTI) award was developed under the CNH EIP for selected key employees and executive officers. The LTI awards are subject to the achievement of certain performance criteria over a three-year period. At the end of the three-year performance cycle, any earned awards will be satisfied equally with cash and CNH common shares as determined at the beginning of the performance cycle, for minimum,

target and maximum award levels.

Table of Contents

As of December 31, 2005, outstanding amounts under the 2005 and 2004 LTI awards were as follows:

	2005 Award	2004 Award
Total potential shares subject to award	206,118	171,966
Total potential cash portion of award	\$ 3,836,479	\$ 3,164,306
Of which amounts relate to executive officers of CNH		
Shares	31,119	24,634
Cash	\$ 563,137	\$ 458,000

As a transition to the LTI, for the first award under the performance cycle of 2004-2006, participants were granted an opportunity to receive an accelerated payment of 50% of the targeted award after the first two years of the performance cycle. The criteria has been met for the accelerated payment. On March 16, 2006, we issued 64,938 shares as part of the accelerated payment. CNH may make additional LTI awards for three-year performance cycles, beginning with a 2006-2008 performance cycle.

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 Corporate Governance and Compensation Committee of the CNH Board of Directors.

Fiat Stock Option Program

Certain employees of CNH are eligible to participate in stock option plans of Fiat (Fiat Plans) whereby participants are granted options to purchase ordinary shares of Fiat (Fiat Shares). A summary of options under the Fiat Plans as of December 31, 2005 follows:

Date of Grant	Date of Grant Share Price	Exercise Price		Options					
		Original	Current	Granted	Transfers	Forfeiture	Exercise	Outstanding	Exercisable
3/30/1999	29.38	28.45	26.12	53,300	2,200	(24,900)		30,600	30,600
2/18/2000	33.00	30.63	28.12	102,500	(3,000)	(24,500)		75,000	75,000
2/27/2001	26.77	27.07	24.85	50,000	(50,000)				
10/31/2001	18.06	18.00	16.52	249,000	10,000	(95,000)		164,000	164,000
9/12/2002	11.88	11.16	10.39	513,000	(43,000)	(150,000)		320,000	240,000

The original exercise prices were determined by an average of the price of Fiat Shares on the Italian Stock Exchange prior to grant. Following Fiat capital increases in January 2002 and July 2003, the exercise prices were adjusted by applying the factors calculated by the Italian Stock Exchange, in the amount of 0.98543607 and 0.93167321, respectively. The Fiat capital increase of September 2005, did not give rise to exercise price adjustments. The options vest ratably over a four year period. No options to purchase Fiat Shares were issued to employees of CNH subsequent to 2002. All options under the Fiat Plans expire eight years after the grant date. The fair value of these options did not result in a material amount of compensation expense.

Other Programs

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 \$659,000 and \$972,000 in 2005 and 2004, respectively. The aggregate amount we paid or set aside for executive officers during 2005 and 2004 related to the Individual Top Hat Scheme, totaled approximately \$234,000 and \$525,000, respectively.

Table of Contents***C. Board Practices.***

Responsibility for our management lies with our Board of Directors, which supervises the policies of CNH and the general course of corporate affairs. The members of the Board are appointed at the meetings of shareholders, and did not have fixed terms of office until May 2004. Pursuant to the Articles of Association as amended in May 2004, future appointments of directors will be for four-year terms. On March 16, 2006 we announced proposed changes to the term of office and composition of the Board of Directors. The Board will consist of eleven directors, who will serve for a term of one year and may stand for re-election the following year. See **A. Directors and Senior Management** above.

We are subject to both Dutch law and the laws and regulations applicable to foreign private issuers in the U.S. The Dutch Corporate Governance Code (the **Dutch Code**), which became effective as of January 1, 2005, the Sarbanes-Oxley Act of 2002 and the NYSE listing standards are of particular significance.

Both the Dutch and NYSE corporate governance regimes were adopted with the goal of restoring trust and confidence in the honesty, integrity and transparency of how business is conducted at public companies. Because these corporate governance regimes are based on the same principles, they are similar in many respects. However, certain differences exist between Dutch and NYSE corporate governance rules, as described below. Any deviations from the Dutch Code not particularly herein described are attributable to our compliance with the NYSE rules referred to below. In general we believe that our corporate governance practices and guidelines (the **Guidelines**) are consistent with those required of foreign private issuers listed on the NYSE. Our Guidelines were approved by the Board on March 24, 2005 and by our shareholders on May 3, 2005.

We have a one-tier management structure, i.e. a management board which may be comprised of both members having responsibility for our day-to-day operations, who are referred to as executive directors, and members not having such responsibility, referred to as non-executive directors. A majority of our directors will be non-executive directors, who meet the independence requirements of the Dutch Code.

Dutch legal requirements concerning director independence differ in certain respects from the NYSE independence rules. While under most circumstances both legal regimes require a majority of board members be independent, the definition of this term under Dutch law is not identical to that used by the NYSE.

In some cases the Dutch requirement is more stringent, such as by requiring a longer **look back** period for executive directors. In other cases, the NYSE rule is stricter. For example, directors of a Dutch company who are affiliated with a direct or indirect parent company are considered independent under Dutch law (unless the parent company is a Dutch company and is listed in a member state of the European Union), whereas the same directors are not considered independent pursuant the NYSE rules. The current composition of the Board is in compliance with the provisions of the Dutch Code regarding the independence of directors. The members that do not qualify as **independent** within the meaning of these provisions are Mr. Monferino, who was our President and Chief Executive Officer until February 28, 2005, and Mr. Boyanovsky, who is our current President and Chief Executive.

The Board believes that it is appropriate for the role of the Chief Executive Officer and the Chairman to be separate, and that the Chairman of the Board should be a non-executive director. Should an executive director be appointed as Chairman, the Board will also designate a non-executive director as the lead director, who will chair executive sessions of the Board.

We currently have an Audit Committee, and a Corporate Governance and Compensation Committee, which are described in more detail below. During 2005, there were 10 meetings of our Board of Directors. Attendance at these meetings exceeded 87%. The Audit Committee met seven times during 2005 with 100% attendance at those meetings. The Corporate Governance and Compensation Committee met five times during 2005 with 95% attendance at those meetings. The Board of Directors and the Corporate Governance and Compensation Committee have each discussed the performance of the Board and its committees. The Board is undertaking a self-assessment process that it will repeat on an annual basis. The Audit Committee discusses our risk assessment and management processes. The work plan of the Audit Committee provides

Table of Contents

that this assessment will take place annually. The Board also has scheduled one annual meeting that is devoted to discussing our strategy.

Audit Committee. The Audit Committee is appointed by the Board to assist in monitoring (1) the integrity of the financial statements of CNH, (2) qualifications and independence of our independent registered public accounting firm, (3) the performance of CNH's internal audit function and our independent registered public accounting firm, (4) the compliance by CNH with legal and regulatory requirements and (5) approve any related party transaction and transactions under which any director would have a material conflict of interest. The directors shall immediately report any actual or potential conflict of interest that is of material significance to CNH or to themselves.

The Audit Committee currently consists of Ms. Hudson and Messrs. Provan and Murphy. The Audit Committee is currently chaired by Mr. Murphy. At its meetings, the Audit Committee customarily meets with the Chief Financial Officer, the General Counsel and Corporate Secretary, the Chief Accounting Officer, Internal Auditor and representatives from the Company's independent registered public accounting firm. After such meetings, the Audit Committee routinely meets separately, in executive session, with the Chief Financial Officer, the Internal Auditor and representatives of the Company's independent registered public accounting firm. In addition, at least once per year (and more often as necessary) the Audit Committee meets with representatives from our independent registered public accounting firm without any management being present.

Corporate Governance and Compensation Committee. The purpose of the Corporate Governance and Compensation Committee is to design, develop, implement and review the compensation and terms of employment of the executive officers and of the fees of the members of the Board to be adopted by the General Meeting of Shareholders. The Corporate Governance and Compensation Committee is responsible to make sure that the compensation of the executive personnel is related to the short-term and long-term objectives of CNH and its shareholders and the operating performance of CNH. The compensation of the independent directors is set forth in the Outside Directors' Compensation Plan and any amendments are approved by the shareholders. The Corporate Governance and Compensation Committee makes its recommendations to the Board. The Corporate Governance and Compensation Committee also advises the Board on candidates for the Board for a first appointment to fill a vacancy and on members for the Board for possible reappointment after each term. The Corporate Governance and Compensation Committee currently consists of Messrs. Provan, Marchionne, Hiler and Lipper. The Corporate Governance and Compensation Committee is currently chaired by Mr. Provan.

For a discussion of certain provisions of our Articles of Association applicable to our Board, see Item 10. Additional Information - Memorandum and Articles of Association.

D. Employees.

At December 31, 2005, 2004 and 2003, we had approximately 25,400, 25,700 and 26,800 employees, respectively. There were approximately 17,900 employees in the agricultural equipment business, 4,900 in the construction equipment business and 900 in the financial services business, with the remaining 1,700 shared by all business units. As of December 31, 2005, as broken down by geographic location, there were 8,900 employees in North America, 12,000 employees in Europe, 2,500 employees in Latin America and 2,000 employees in the Rest of World.

Unions represent many of our worldwide production and maintenance employees. Our collective bargaining agreement with the UAW, which represents approximately 3,100 of our active and retiree hourly production and maintenance employees in the United States, expired in May 2004. In the United States, the UAW represents approximately 640 of our workers at facilities in Burlington, Iowa; Burr Ridge, Illinois; Racine, Wisconsin; and St. Paul, Minnesota. On March 21, 2005, following a strike that began November 3, 2004, the UAW ratified a new labor contract that continues through 2011. Following the ratification of the new UAW contract, we have transitioned work at these facilities from salaried employees and temporary workers back to the employees represented by the UAW.

Table of Contents

Our employees in Europe are also protected by various worker co-determination and similar laws that afford employees, through local and central works councils, certain rights of consultation with respect to matters involving the business and operations of their employers, including the downsizing or closure of facilities and the termination of employment. Over the years, we have experienced various work slow-downs, stoppages and other labor disruptions.

E. Share Ownership.

All of CNH's directors and executive officers beneficially own, or were granted options with respect to, less than one percent of CNH's common shares. Directors' automatic option awards vest after the third anniversary of the grant date. Elective option awards vest immediately upon grant. Directors' options terminate six months after a Director leaves the Board of Directors if not exercised. In any event, Directors' options terminate if not exercised by the tenth anniversary of the grant date.

Options issued to outside directors are issued from the CNH Directors' Plan. Options issued to employees who are also board members are issued from the CNH EIP. The following table summarizes outstanding stock options for Directors as of December 31, 2005, excluding directors who are employees of Fiat and are not compensated by CNH:

Grant Date	Exercise Price	Katherine M. Hudson	Kenneth Lipper	James L.C. Provan	Edward A. Hiler	Michael E. Murphy	Harold Boyanovs	Paolo Monferino(1)	Total
Opening Balance as of 1/1/05									
(automatic option)	11/12/1999	\$ 77.05	750	750	750				2,250
	12/20/1999	68.85					60,000		60,000
	2/29/2000	56.09	624	713	624				1,961
	4/18/2000	68.85						45,000	45,000
	6/6/2000	60.63	577	660	577				1,814
(automatic option)	6/7/2000	60.00	1,500	1,500	1,500				4,500
	9/4/2000	49.55	706	807	706				2,219
	12/3/2000	49.08	713	815	713				2,241
	3/2/2001	38.63	906	1,036	906				2,848
	5/2/2001	26.90	1,301	1,487	1,301				4,089
(automatic option)	5/3/2001	27.88	1,500	1,500	1,500				4,500
	7/23/2001	31.70					17,000		17,000
	7/31/2001	36.35	963	1,101	963				3,027
	10/29/2001	26.25	1,333	1,524	1,333				4,190
	1/27/2002	29.48	1,188	1,357	1,188				3,733
	5/6/2002	26.60	1,436	1,368	1,316				4,120
(automatic option)	5/7/2002	26.45	1,500	1,500	1,500	1,500			6,000
	7/22/2002	16.18					24,600	34,000	58,600
	8/2/2000	15.23	2,627	2,299		2,299			7,225
(automatic option)	9/3/2002	18.53				1,011			1,011
	11/2/2002	15.18	2,636	2,307		2,307			7,250
	1/31/2003	15.70	2,547	2,229		2,229			7,005

(automatic option)	5/7/2003	9.15	4,374	3,827				8,201
(automatic option)	5/8/2003	9.23	6,212	6,380	6,194	4,000	4,000	26,786
	8/4/2003	9.90	1,136					1,136
	11/3/2003	13.49	834					834
	2/1/2004	16.54	2,721					2,721
	3/22/2004	9.90	3,409					3,409
	3/22/2004	13.49	2,502					2,502
	4/25/2004	20.66	2,178					2,178
(automatic option)	4/26/2004	21.22	4,000	4,000	4,000	4,000	4,000	20,000
	7/24/2004	20.44		1,957				1,957
	10/22/2004	17.41		2,298				2,298

Table of Contents

Grant Date	Exercise Price	Katherine M. Hudson	Kenneth Lipper	James L.C. Provan	Edward A. Hiler	Michael E. Murphy	Harold Boyanovskiy	Paolo Monferino(1)	Total
Opening Total		50,173	41,415	25,071	16,335	9,011	101,600	79,000	322,605
Vested/ Not Exercised		38,461	29,535	13,377	6,835	0	79,914	54,296	222,418
Not Vested		11,712	11,880	11,694	9,500	9,011	21,686	24,704	100,187
Options Granted in 2005									
	1/20/2005	\$ 18.44	2,169						2,169
	5/2/2005	17.81	2,246						2,246
(automatic option)	5/3/2005	17.28	4,000	4,000	4,000	4,000			20,000
	7/31/2005	21.08		3,084					3,084
	10/28/2005	18.37		3,538					3,538
2005 Sub-Total			4,000	15,037	4,000	4,000	4,000		31,037
Options Terminated Total									
Options Terminated Total									
Options Exercised in 2005 Total									
Options Exercised in 2005 Total									
Closing Balance as 12/31/05									
Closing Total		54,173	56,452	29,071	20,335	13,011	101,600	79,000	353,642
Vested/ Not Exercised		39,961	42,072	14,877	8,335	1,011	90,314	62,796	259,366
Not Vested		14,212	14,380	14,194	12,000	12,000	11,286	16,204	94,276

(1) Mr. Monferino resigned as President and Chief Executive Officer on February 28, 2005.

Effective January 31, 2003, CNH began providing matching contributions to its U.S. Defined Contribution Plan in the form of CNH common shares rather than in cash. Employees may transfer these contributions out of the CNH stock fund after a maximum of 90 days. For the years ended December 31, 2005 and 2004 approximately 904,000 and 918,000 shares, respectively were contributed to this plan.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders.

As of December 31, 2005, our outstanding capital stock consisted of common shares, par value 2.25(U.S. \$2.65) per share and Series A Preferred Stock, par value 2.25(U.S. \$2.65) per share. As of December 31, 2005, there were 134,865,624 common shares and 8,000,000 shares of Series A Preferred Stock outstanding. At December 31, 2005, we had approximately 660 registered holders of record of our common shares in the United States, holding approximately 17% of the outstanding common shares. Since certain of the common shares are held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

The following table sets forth the outstanding common shares of CNH as of December 31, 2005:

Shareholders	Number of Outstanding Common Shares	Percentage Ownership Interest
Fiat Netherlands	111,866,037	83%
Other shareholders	22,999,587	17
Total	134,865,624	100%

Each of our directors and executive officers, individually and collectively, own less than 1% of our common shares. At December 31, 2005, all of the Series A Preferred Stock was held by Fiat Netherlands.

Pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon completion of the

Table of Contents

conversion, Fiat's ownership of CNH rose to approximately 90%. Due to the conversion, there are no shares of Series A Preferred Stock outstanding as of the date of this report.

We are controlled by our largest single shareholder, Fiat Netherlands, a wholly owned subsidiary of Fiat. Consequently, Fiat controls all matters submitted to a vote of our shareholders, including approval of annual dividends, election and removal of its directors and approval of extraordinary business combinations. Fiat Netherlands has the same voting rights as our other shareholders. Before the conversion on March 22, 2006, none of the Series A Preferred Stock was held by a shareholder in the United States.

B. Related Party Transactions.

As of December 31, 2005, we had a total of 8 million shares of Series A Preferred Stock issued and outstanding which were held by Fiat Netherlands. Beginning in 2006, outstanding shares of Series A Preferred Stock were eligible for a dividend at the then prevailing common dividend yield, based on 2005 results. The prevailing common dividend yield was calculated based upon the average dividend yield of the common shares for the 30 trading days ending on the trading day prior to the date the shareholders approve the dividend on the common shares. The average dividend yield of the common shares means the amount of dividend per share of the common shares declared by the shareholders divided by the average of the closing price per share of the common shares on the New York Stock Exchange for each trading day, during the period of 30 consecutive trading days ending on the trading day prior to the date the shareholders approve the common share dividend. However, should CNH achieve certain defined financial performance measures which were not achieved for 2005, the annual dividend could have been fixed at the prevailing common dividend yield plus an additional 150 basis points (or approximately \$30 million annually). Dividends on the Series A Preferred Stock were not cumulative. Dividends, if declared, were expected to be payable annually in arrears; however, the Board of Directors could have deferred the payment of dividends on the Series A Preferred Stock for a period not to exceed five consecutive years. The Series A Preferred Stock had a liquidation preference of \$250 per share and each share was entitled to one vote on all matters submitted to CNH's shareholders. The Series A Preferred Stock were convertible automatically 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, was 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. For the period of 30 consecutive trading days ending on March 22, 2006, such average was \$24.01. Accordingly, pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon completion of the conversion, Fiat's ownership of CNH rose to approximately 90%. Upon issuance, the new 100 million common shares became eligible for our proposed \$0.25 per share dividend, subject to approval at the Annual General Meeting of shareholders, which will be held on April 7, 2006 at our registered offices in Amsterdam, the Netherlands. If approved, the dividend will be payable on May 5, 2006 to all shareholders of record at the close of business on April 28, 2006. There will be no preferred dividend, as none of our preference shares will be outstanding.

In July 2005, our \$2 billion syndicated facility with Fiat was terminated when various Fiat affiliates (including CNH) entered into a \$1 billion bank (\$1.2 billion) credit facility with a group of banks maturing in July 2008. The borrowers have allocated \$300 million (\$354 million) of this borrowing capacity to CNH with additional amounts potentially available depending on the usage by other borrowers. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Sources of Funding Committed Lines of Credit.

CNH has historically relied on Fiat to provide either guarantees or funding in connection with some of CNH's external debt financing needs. At December 31, 2005, outstanding debt with Fiat and its affiliates was approximately 18% of CNH total debt, compared with 26% at December 31, 2004. Fiat guarantees \$1.3 billion of CNH debt with third parties or approximately 19% of CNH's outstanding debt. CNH pays Fiat a guarantee fee based on the average amount outstanding under facilities guaranteed by Fiat. For 2005, 2004, and 2003, CNH paid a guarantee fee of between 0.03125% per annum and 0.0625% per annum. Fiat agreed to maintain its existing treasury and debt financing arrangements with CNH for as long as it maintains control of CNH

Table of Contents

and, in any event, at least until December 31, 2004. After that time, Fiat committed that it will not terminate CNH's access to these financing arrangements without affording CNH 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. See Note 10: Debt and Credit Lines of our consolidated financial statements for further information regarding financing with Fiat.

Like other companies that are part of multinational groups, we participate in a group-wide cash management system with the Fiat Group. Under this system, which is operated by Fiat in a number of jurisdictions, the cash balances of Fiat Group members, including us, are aggregated at the end of each business day in central pooling accounts, the Fiat affiliates cash management pools. As well as being invested by Fiat in highly rated, highly liquid money market instruments or bank deposits, our positive cash deposits, if any, at the end of any given business day may be applied by Fiat to offset negative balances of other Fiat Group members and vice versa. Deposits with Fiat earn interest at rates that range from LIBOR plus 10 to 30 basis points. Interest earned on our deposits with Fiat included in Finance and interest income were approximately \$7 million, \$11 million and \$18 million in the years ended December 31, 2003, 2004 and 2005, respectively.

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

For material related party transactions involving the purchase of goods and services, we generally solicit and evaluate bid proposals prior to entering into any such transactions, and in such instances, the Audit Committee generally conducts a review to determine that such transactions are what the committee believes to be on arm's-length terms.

CNH purchases some of its engines and other components from the Fiat Group, and companies of the Fiat Group provide CNH administrative services such as accounting and internal audit, cash management, maintenance of plant and equipment, research and development, information systems and training. CNH sells certain products to subsidiaries and affiliates of Fiat. In addition, CNH enters into hedging arrangements with counterparties that are members of the Fiat Group. The principal purchases of goods from Fiat and its affiliates include diesel engines from Iveco N.V., robotic equipment and paint systems from Comau Pico Holdings Corporation, dump trucks from Astra V.I. S.p.A., and castings from Teksid. CNH also purchases tractors from its Mexican joint venture for resale in the United States.

Fiat has executed, on behalf of CNH, certain foreign exchange and interest rate-related contracts. As of December 31, 2005, CNH and its subsidiaries were parties to derivative or other financial instruments having an aggregate contract value of \$2 billion as of December 31, 2005 and 2004, to which affiliates of Fiat were counterparties.

Fiat provides accounting services to CNH in Europe and Brazil through an affiliate that uses shared service centers to provide such services at competitive costs to various Fiat companies and third party customers. Fiat provides internal audit services at the direction of CNH's internal audit department in certain locations where it is more cost effective to use existing Fiat resources. Through the end of 2005, routine maintenance of CNH plants and facilities in Europe was provided by a Fiat affiliate that also provides similar services to third parties. CNH purchases network and hardware support from and outsources a portion of its information services to a joint venture that Fiat had formed with IBM. On June 30, 2005, Fiat announced that it had entered into a nine-year strategic agreement with IBM under which IBM will assume full ownership of this joint venture as well as the management of a significant part of the information technology needs of members of the Fiat Group, including us. Fiat also provides training services through an affiliate. CNH uses a

Table of Contents

broker that is an affiliate of Fiat to purchase a portion of its insurance coverage. CNH purchases research and development from an Italian joint venture set up by Fiat and owned by various Fiat subsidiaries. This joint venture benefits from Italian government incentives granted to promote work in the less developed areas of Italy.

In certain tax jurisdictions, CNH has entered into tax sharing agreements with Fiat and certain of its affiliates. CNH management believes the terms of these agreements are customary for agreements of this type and are at least as advantageous as filing tax returns on a stand-alone basis.

If the goods or services or financing arrangements described above were not available from Fiat, we would have to obtain them from other sources. We can offer no assurance that such alternative sources would provide goods and services on terms as favorable as those offered by Fiat.

Additionally, CNH participates in the stock option program of Fiat as described in Note 18: Option and Incentive Plans of our consolidated financial statements.

The following table summarizes CNH's sales, purchase, and finance income with Fiat and affiliates of Fiat, CNH dealer development companies and joint ventures that are not already separately reflected in the consolidated statements of operations for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
	(in millions)		
Sales of equipment	\$ 6	\$ 9	\$ 6
Sales to affiliated companies and joint ventures	115	115	179
Total sales to affiliates	121	\$ 124	\$ 185
Purchase of materials, production parts, merchandise and services	\$ 525	\$ 565	\$ 584
Finance and interest income	\$ 41	\$ 28	\$ 25

C. Interests of Experts and Counsel.

Not applicable.

Item 8. Financial Information**A. Consolidated Statements and Other Financial Information.**

See Item 18. Financial Statements for a list of the financial statements filed with this document.

B. Significant Changes.

Our Board of Directors recommended a dividend of \$0.25 per common share on February 27, 2006. The dividend will be payable on May 5, 2006 to shareholders of record at the close of business on April 28, 2006. Declaration of the dividend is subject to approval of the shareholders at the Annual General Meeting which will be held on April 7, 2006.

Additionally, following the recommendation of a dividend on the common shares and in compliance with the terms of the Series A Preferred Stock, our Board of Directors recommended a dividend on the Series A Preferred Stock. The dividend on the Series A Preferred Stock is computed based on the prevailing common dividend yield, which is calculated using the average dividend yield of the common shares for the thirty trading days up to and including the date the shareholders approve the dividend on the common shares. The average dividend yield of the common shares means the amount of dividend per share of the common shares declared by the shareholders divided by the average of the closing price per share of the common shares on the New York Stock Exchange for each of the 30 consecutive trading days prior to the date the shareholders approve the common share dividend. Pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon

Table of Contents

issuance, the new 100 million common shares became eligible for the proposed \$0.25 per share dividend, described above. There will be no preferred dividend, as none of our preference shares will be outstanding.

We believe that we will be able to declare at our 2006 annual general meeting of shareholders and pay a dividend of \$0.25 per common share on all common shares outstanding, including common shares issued upon conversion of the Series A Preferred Stock, and we estimate, based on the relevant calculations contained in the terms of certain Senior Notes issued by Case New Holland, that such dividend will not constitute a restricted payment under the terms of the Senior Notes. See Item 10. Additional Information Memorandum and Articles of Association Dividends.

On March 3, 2006, Case New Holland completed a private offering of its 7.125% Senior Notes. The 7.125% Senior Notes bear interest at a fixed rate of 7.125% and are due in 2014. Case New Holland intends to use the proceeds from the offering to refinance debt.

Item 9. The Offer and Listing**A. Offer and Listing Details.**

Our common shares are quoted on the New York Stock Exchange under the symbol CNH. The following table provides the high and low closing prices of our common shares as reported on the New York Stock Exchange for each of the periods indicated:

Common Share Price

	High	Low
Most recent six months:		
February 2006	\$ 25.58	\$ 19.50
January 2006	19.18	18.14
December 2005	18.60	16.07
November 2005	18.51	16.60
October 2005	20.37	17.98
September 2005	22.10	19.70
Year ended December 31, 2005		
First Quarter	\$ 19.06	\$ 16.70
Second Quarter	19.03	16.90
Third Quarter	22.10	18.90
Fourth Quarter	20.37	16.07
Full Year	22.10	16.07
Year ended December 31, 2004		
First Quarter	\$ 18.88	\$ 16.37
Second Quarter	21.38	17.99
Third Quarter	20.80	16.55
Fourth Quarter	19.90	16.22
Full Year	21.38	16.22
2003	19.00	5.95
2002	\$ 32.15	\$ 14.00
2001	\$ 48.75	\$ 25.50

On March 27, 2006, the last reported sales price of our common shares as reported on the New York Stock Exchange was \$26.31 per share. There were approximately 650 registered holders of record of our common shares in the United States as of that date.

B. Plan of Distribution.

Not applicable.

Table of Contents

C. Markets.

The outstanding common shares of CNH are listed on the NYSE under the symbol CNH.

D. Selling Shareholders.

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the Issue.

Not applicable.

Item 10. Additional Information

A. Share Capital.

Not applicable.

B. Memorandum and Articles of Association.

Set forth below is a summary description of the material provisions of our Articles of Association, effective May 27, 2004 (the Articles of Association), and particular provisions of Dutch law relevant to our statutory existence. This summary does not restate our Articles of Association or relevant Dutch law in their entirety.

Registration and Objectives

We are registered at the Commercial Register kept at the Chamber of Commerce in Amsterdam under file number 33283760.

As provided in Article 2 of our Articles of Association, our objectives are to:

engage in, and/ or to participate in and operate one or more companies engaged in the design, engineering, manufacture, sale or distribution of agricultural and construction equipment;

engage in and/ or to participate in and operate one or more companies engaged in any business, financial or otherwise, which we may deem suitable to be carried on in conjunction with the foregoing;

render management and advisory services;

issue guarantees, provide security, warrant performance or in any other way assume liability for or in respect of obligations of group companies; and

do anything which a company may lawfully do under the laws of The Netherlands which may be deemed conducive to the attainment of the objectives set out in the foregoing paragraphs.

Authorized Capital

Our authorized share capital is 1,350,000,000, consisting of 400,000,000 common shares and 200,000,000 Series A Preferred Stock with each having a par value of 2.25 per share. We will issue common shares only in registered form. We have an agent that maintains the share register relating to the common and preference shares and acts as transfer agent and registrar for the common shares and Series A Preferred Stock.

Dividends

Our shareholders may establish reserves out of our annual profits at a general meeting of shareholders, subject to a proposal of our board of directors. The shareholders have discretion as to the use of that portion of

Table of Contents

our annual profits remaining after the establishment of reserves and payment of dividends on the preference shares for distribution of dividends on the common shares. No dividends were distributed on the preference shares in 2005.

Beginning in 2006, based on 2005 results, the outstanding shares of Series A Preferred Stock were eligible for a dividend at the then prevailing common dividend yield. The prevailing common dividend yield was to be calculated based upon the average dividend yield of the common shares for the 30 trading days ending on the trading day prior to the date the shareholders approve the dividend on the common shares. The average dividend yield of the common shares was to be the amount of dividend per share of the common shares declared by the shareholders divided by the average of the closing prices per share of the common shares on the New York Stock Exchange for each trading day, during the period of 30 consecutive trading days ending on the trading day prior to the date the shareholders approve the common share dividend. However the annual dividend could have been fixed at the prevailing common dividend yield, plus an additional 150 basis points. If (i) Equipment Operations total debt divided by Equipment Operations earnings before interest, taxes depreciation and amortization (EBITDA) was less than two and a half times and (ii) Equipment Operations EBITDA divided by Equipment Operations interest expense was greater than four times, as calculated in accordance with the terms and provisions of the preference shares. These performance measures were not achieved for 2005. The dividends on the preference shares were not cumulative. Dividends on the preference shares, if declared, were expected to be payable annually in arrears; however, the board of directors could have deferred the payment of dividends on the preference shares for a period not to exceed five consecutive annual periods, in which case payment of dividends on common shares for the relevant financial year will be deferred for the same period. A resolution to reduce the capital of the preference shares or apply the share premium reserve attributable to the preference shares to recoup losses we have suffered would require the prior approval of all holders of the preference shares.

Under the terms of the Senior Notes issued by Case New Holland, dividends declared or paid on our common shares, taken together with other distributions on our capital stock, repurchases of capital stock and specified other items, that are in excess of an amount calculated, from time to time, as provided in the Senior Notes are considered restricted payments under the terms of the Senior Notes. Dividends on our common shares are also considered restricted payments if we could not incur additional indebtedness pursuant to the terms of a financial covenant contained in the Senior Notes or if a default or event of default with respect to the Senior Notes has occurred and is continuing. Such restricted payments are generally prohibited under the terms of the Senior Notes unless certain limited exceptions apply. Specifically, the terms of the Senior Notes provide that dividends on the common shares that are considered restricted payments may nevertheless be paid in an amount not to exceed \$33.0 million in any calendar year, provided that no default or event of default has occurred and is continuing. In addition, the terms of the Senior Notes provide that cash dividends on the shares of the Series A Preferred Stock that are considered restricted payments may nevertheless be paid in an amount not to exceed \$50 million in any calendar year, commencing in calendar year 2005, provided that no event of default has occurred and is continuing. Due to the conversion of shares of Series A Preferred Stock into common stock, there will be no preferred dividend in 2006, as none of the preference shares will be outstanding.

The Board of Directors may recommend to the shareholders that they resolve at the annual general meeting that we pay dividends out of our share premium account or out of any other reserve available for shareholder distributions under Dutch law, provided that payment from reserves may only be made to the shareholders who are entitled to the relevant reserve upon our dissolution. However, we may not pay dividends if the payment would reduce shareholders equity to an amount less than the aggregate share capital plus required statutory reserves. The Board of Directors may resolve that we pay interim dividends, but the payments are also subject to these statutory restrictions. If a shareholder does not collect any cash dividend or other distribution within six years after the date on which it became due and payable, the right to receive the payment reverts to us.

At any general meeting of shareholders, our shareholders may declare dividends in the form of cash (in U.S. dollars), common shares or a combination of both.

Table of Contents

Shareholder Meetings and Voting Rights

Each shareholder has a right to attend general meetings of shareholders, either in person or by proxy, and to exercise voting rights in accordance with the provisions of our Articles of Association. We must hold at least one general meeting of shareholders each year. This meeting must be convened at one of four specified locations in The Netherlands within six months after the end of our fiscal year. Our Board of Directors may convene additional general meetings as often as it deems necessary, or upon the call of holders representing at least 10% of our outstanding shares or other persons entitled to attend the general meetings. Dutch law does not restrict the rights of shareholders who do not reside in The Netherlands to hold or vote their shares.

We will give notice of each meeting of shareholders by notice published in at least one national daily newspaper distributed throughout The Netherlands and in any other manner that we may be required to follow in order to comply with applicable stock exchange requirements. In addition, we will notify registered holders of the shares by letter, cable, telex or telefax. We will give this notice no later than the fifteenth day prior to the day of the meeting. As deemed necessary by the Board of Directors, the notice will include or be accompanied by an agenda identifying the business to be considered at the meeting or will state that the agenda will be available for shareholders and other persons who are entitled to attend the general meeting, at our offices or places of business.

Each share of the common shares and the preference shares, including the Series A Preferred Stock, is entitled to one vote. Unless otherwise required by our Articles of Association or Dutch law, shareholders may validly adopt resolutions at the general meeting by a majority vote. Except in circumstances specified in the Articles of Association or provided under Dutch law, there is no quorum requirement for the valid adoption of resolutions. Pursuant to the Articles of Association, so long as the Series A Preferred Stock is issued and outstanding, any resolution to amend the terms and conditions of the Series A Preferred Stock requires approval of shareholders representing at least 95% of our issued and outstanding share capital. Consistent with Dutch law, the terms and conditions of the common shares may be amended by an amendment of the Articles of Association pursuant to a vote by a majority of the capital shares at a meeting of our shareholders.

We are exempt from the proxy rules under the U.S. Securities Exchange Act of 1934, as amended.

Board of Directors; Adoption of Annual Accounts

The shareholders elect the members of our Board of Directors at a general meeting. The shareholders may also dismiss or suspend any member of the Board of Directors at any time by the vote of a majority of the votes cast at a general meeting.

Our Board of Directors must prepare our annual accounts and make them available to the shareholders for inspection at our offices within five months after the end of our fiscal year. Under some special circumstances, Dutch law permits an extension of this period for up to six additional months by approval of the shareholders at a general meeting. During this period, including any extension, the Board of Directors must submit the annual accounts to the shareholders for adoption at a general meeting.

Under Dutch law, the Board of Directors must consider in the performance of its duties our interests, the interests of our shareholders and our employees, in all cases with reasonableness and fairness. In addition, under our Articles of Association, a member of our Board of Directors must not take part in any vote on a subject or transaction in relation to which he has a conflict of interest.

When our shareholders adopt the annual accounts prepared by the Board of Directors, they may discharge the members of the Board of Directors from potential liability with respect to the exercise of their duties during the fiscal year covered by the accounts. This discharge may be given subject to such reservations as the shareholders deem appropriate and is subject to a reservation of liability required under Dutch law. Examples of reservations of liability required by Dutch law include: (1) liability of members of management boards and supervisory boards upon the bankruptcy of a company; and (2) general principles of reasonableness and fairness. Under Dutch law, a discharge of liability does not extend to matters not properly disclosed to shareholders. As of the financial year 2002, the discharge of the Board of Directors must be a separate item on

Table of Contents

the agenda of the general meeting and the members of the Board of Directors are no longer automatically discharged by adoption of the annual accounts.

See Item 6. Directors, Senior Management and Employees C. Board Practices for a discussion of our corporate governance practices and guidelines.

Liquidation Rights

In the event of our dissolution and liquidation, the assets remaining after payment of all debts will first be applied to distribute to the holders of preference shares the nominal amount of the preference shares and then the amount of the share premium reserve relating to the preference shares. The Series A Preferred Stock had a liquidation preference of \$250 per share. Any remaining assets will be distributed to the holders of common shares in proportion to the aggregate nominal amount of the common shares and, if only preference shares are issued and outstanding, to the holders of the preference shares in proportion to the aggregate nominal amount of preference shares. No liquidation payments will be made on shares that we hold in treasury.

Issue of Shares; Preference Rights

Our Board of Directors has the power to issue common shares and/or preference shares if and to the extent that a general meeting of shareholders has designated the board to act as the authorized body for this purpose. A designation of authority to the Board of Directors to issue shares remains effective for the period specified by the general meeting and may be up to five years from the date of designation. A general meeting of shareholders may renew this designation for additional periods of up to five years. Without this designation, only the general meeting of shareholders has the power to authorize the issuance of shares. At a general meeting of shareholders in February 2002, the shareholders authorized our board of directors to issue shares and/or rights to purchase shares for five years.

In the event of an issue of shares of any class, every holder of shares of that class will have a ratable preference right to subscribe for shares of that class that we issue for cash unless a general meeting of shareholders, or its designee, limits or eliminates this right. In addition, the right of our shareholders in the United States to subscribe for shares pursuant to this preference right may be limited under some circumstances to a right to receive approximately the market value of the right, if any, in cash. Our shareholders have no ratable preference subscription right with respect to shares issued for consideration other than cash. If a general meeting of shareholders delegates its authority to the Board of Directors for this purpose, then the Board of Directors will have the power to limit or eliminate the preference rights of shareholders. In the absence of this designation, the general meeting of shareholders will have the power to limit or eliminate these rights. Such a proposal requires the approval of at least two-thirds of the votes cast by shareholders at a general meeting if less than half of the issued share capital is represented at the meeting. Designations of authority to the Board of Directors may remain in effect for up to five years and may be renewed for additional periods of up to five years. At our extraordinary general meeting of shareholders on February 4, 2002, our shareholders authorized our Board of Directors to limit or eliminate the preference rights of shareholders for five years following the date of the meeting.

These provisions apply equally to any issue by us of rights to subscribe for shares.

Under Dutch law, shareholders are not liable for our further capital calls.

Repurchases of Shares

We may acquire shares, subject to applicable provisions of Dutch law and of our Articles of Association, to the extent:

our shareholders' equity, less the amount to be paid for the shares to be acquired, exceeds the sum of (1) our share capital account plus (2) any reserves required to be maintained by Dutch law; and

Table of Contents

after the acquisition of shares, we and our subsidiaries would not hold, or hold as pledges, shares having an aggregate par value that exceeds 10% of our issued share capital account, as these amounts would be calculated under generally accepted accounting principles in The Netherlands.

Our Board of Directors may repurchase shares only if our shareholders have authorized the repurchases. Under Dutch law, an authorization to repurchase shares will remain in effect for a maximum of 18 months.

Reduction of Share Capital

At a general meeting of shareholders, our shareholders may vote to reduce the issued share capital by canceling shares held by us or by reducing the par value of our shares. In either case, this reduction would be subject to applicable statutory provisions. Holders of at least two-thirds of the votes cast must vote in favor of a resolution to reduce our issued share capital if less than half of the issued share capital is present at the general meeting in person or by proxy.

Amendment of the Articles of Association

A majority of the votes cast by holders of our shares at a general meeting must approve any resolution proposed by our Board of Directors to amend the Articles of Association or to wind up CNH. Any such resolution proposed by one or more shareholders must likewise be approved by a majority of the votes cast at a general meeting of shareholders.

Significant Transactions

As required under Dutch law, decisions of the Board of Directors involving a significant change in the identity or character of CNH are subject to the approval of the shareholders.

Such decisions include:

the transfer of all or substantially all of CNH's business to a third party;

the entry into or termination of a long-term joint venture of CNH or of any of CNH's subsidiaries with another legal entity or company, or of CNH's position as a fully liable partner in a limited partnership or a general partnership, where such entry into or termination is of far-reaching importance to CNH; or

the acquisition or disposal, by CNH or any of CNH's subsidiaries, of an interest in the capital of a company valued at one-third or more of CNH's assets according to CNH's most recently adopted consolidated annual balance sheet.

Disclosure of Holdings

Under Dutch law regarding the disclosure of holdings in listed companies, if our shares are admitted to official quotation or listing on Euronext or on any other stock exchange in the European Union, registered holders and some beneficial owners of our shares must promptly notify us and the Securities Board of The Netherlands if their shareholding reaches, exceeds or thereafter falls below 5%, 10%, 25%, 50% or 66²/₃ % of our outstanding shares. For this purpose, shareholding includes economic interests, voting rights or both. Failure to comply with this requirement would constitute a criminal offense and could result in civil sanctions, including the suspension of voting rights.

Limitations on Right to Hold or Vote Shares

Our Articles of Association and relevant provisions of Dutch law do not currently impose any limitations on the right of holders of shares to hold or vote their shares.

Table of Contents

C. Material Contracts.

For a discussion of our related party transactions, see Item 7. Major Shareholders and Related Party Transactions
B. Related Party Transactions.

On May 18, 2004, Case New Holland issued a total of \$500 million of 6% Senior Notes. On August 1, 2003 and September 16, 2003 Case New Holland issued a total of \$1.05 billion of 9¹/₄% Senior Notes. On March 3, 2006, Case New Holland issued a total of \$500 million of 7.125% Senior Notes. The Senior Notes are fully and unconditionally guaranteed by us and certain of our direct and indirect subsidiaries. Case New Holland, indirectly through its subsidiaries, owns substantially all of the U.S. assets of our Equipment Operations and certain of our non-U.S. assets. The 6% Senior Notes were issued under an indenture dated as of May 18, 2004, the 9¹/₄% Senior Notes were issued pursuant to an indenture dated as of August 1, 2003 as supplemented by a supplemental indenture dated as of September 16, 2003 and the 7.125% Senior Notes were issued pursuant to an indenture dated as of March 3, 2006, which together we refer to as the Indentures by and among Case New Holland, the Guarantors and the Trustee. The Senior Notes are unsecured obligations of Case New Holland, ranking senior in right of payment to all future obligations of Case New Holland that are, by their terms, expressly subordinated in right of payment to the Senior Notes and *pari passu* in right of payment with all existing and future unsecured obligations of Case New Holland that are not so subordinated. The 6% Senior Notes mature on June 1, 2009, the 9¹/₄% Senior Notes mature on August 1, 2011 and the 7.125% Senior Notes mature on March 1, 2014. The 6% Senior Notes are redeemable at any time at a price equal to 100% of the principal amount of the notes plus a make-whole premium defined in the indenture governing the 6% Senior Notes. The 9¹/₄% Senior Notes are redeemable at specified premiums after August 1, 2007 and after August 1, 2009 without a premium. The 7.125% Senior Notes are redeemable at a price equal to 100% of the principal amount of the notes plus a premium declining ratably to par on or after March 1, 2010 and at a price equal to 100% of the principal amount of the notes plus a make-whole premium (as defined in the indenture governing the 7.125% Senior Notes) before March 1, 2010.

The Indentures contain covenants limiting, among other things, our ability and the ability of our restricted subsidiaries to:

- 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;
- limit dividends 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.

Some of these covenants will cease to apply if the Senior Notes are given investment grade ratings by both S&P's Ratings Services and Moody's Investors Service, Inc.

D. Exchange Controls.

Under existing laws of The Netherlands there are no exchange controls applicable to the transfer to persons outside of The Netherlands of dividends or other distributions with respect to, or of the proceeds from the sale of, shares of a Dutch company.

Table of Contents***E. Taxation.*****United States Federal Income Taxation**

The following is a discussion of the material U.S. federal income tax consequences of the ownership and disposition of our common shares by a U.S. Holder (as defined below). The discussion is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations, published rulings of the Internal Revenue Service (IRS) and court decisions as well as the U.S./Netherlands Income Tax Treaty (as described below) all as currently in effect. Such authorities are subject to change or repeal, possibly on a retroactive basis.

This discussion does not contain a full description of all tax considerations that might be relevant to ownership of our common shares or a decision to purchase such shares. In particular, the discussion is directed only to U.S. Holders that will hold our common shares as capital assets and whose functional currency is the U.S. dollar. Furthermore, the discussion does not address the U.S. federal income tax treatment of holders that are subject to special tax rules such as banks and other financial institutions, security dealers, dealers in currencies, securities traders who elect to account for their investment in shares on a mark-to-market basis, persons that hold shares as a position in a straddle, hedging or conversion transaction, insurance companies, tax-exempt entities, holders liable for alternative minimum tax and holders of ten percent or more (actually or constructively) of our voting shares. The discussion also does not consider any state, local or non-U.S. tax considerations and does not cover any aspect of U.S. federal tax law other than income taxation.

Prospective purchasers and holders of our common shares are advised to consult their own tax advisors about the U.S., federal, state, local or other tax consequences to them of the purchase, beneficial ownership and disposition of our common shares.

For purposes of this discussion, you are a U.S. Holder if you are a beneficial owner of our common shares who is: an individual citizen or resident of the United States for U.S. federal income tax purposes;

a corporation created or organized under the laws of the United States or a state thereof;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust subject to primary supervision of a U.S. court and the control of one or more U.S. persons or with a valid election in place to be treated as a domestic trust.

Taxation of Dividends

Subject to the PFIC rules discussed below, the gross amount of cash dividends paid by us in respect of our common shares (including amounts withheld in respect of Dutch taxes) will be included in the gross income of a U.S. Holder as ordinary income on the day on which the dividends are actually or constructively received by the U.S. Holder, and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. Dividends received from us by a non-corporate U.S. Holder during taxable years beginning before January 1, 2009 generally will be taxed at a maximum rate of 15% provided that such U.S. Holder has held the shares for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date and that certain other conditions are met. For these purposes, a dividend will include any distribution paid by us with respect to our common shares but only to the extent such distribution is not in excess of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the euro payments made, determined at the spot euro/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into

Table of Contents

U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to applicable limitations under the Code and the Treasury regulations and subject to the discussion below, any Dutch withholding tax imposed on dividends in respect of our common shares will be treated as a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, at a U.S. Holder's election, may be deducted in computing taxable income). Under the Code, foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities. The rules regarding U.S. foreign tax credits are very complex, and include limitations that apply to individuals receiving dividends eligible for the 15% maximum tax rate on dividends described above. U.S. Holders should consult their own tax advisors concerning the implications of U.S. foreign tax credit rules in light of their particular circumstances.

We generally will fund dividend distributions on our common shares with dividends received from our non-Dutch subsidiaries. Assuming that the necessary conditions and requirements are met under Dutch law, we may be entitled to a reduction in the amount in respect of Dutch withholding taxes payable to the Dutch tax authorities, which reduction would equal 3% of the amount of Dutch withholding tax withheld by us in respect of dividends distributed by us to our shareholders. Such a reduction will likely constitute a subsidy in respect of the Dutch withholding tax payable on our dividends and, thus, a U.S. Holder would not be entitled to a foreign tax credit with respect to the amount of the reduction so allowed to us.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, upon a sale or other taxable disposition of our common shares, a U.S. Holder will recognize gain or loss equal to the difference between the U.S. dollar value of the amount realized in the sale or other taxable disposition and the tax basis (determined in U.S. dollars) of the common shares. Such gain or loss will be capital gain or loss and will be a long-term capital gain or loss if the shares were held for more than one year. Non-corporate U.S. Holders (including individuals) can qualify for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deduction of capital losses is subject to limitations under the Code. Gain realized by a U.S. Holder on a sale or other disposition of our common shares generally will be treated as U.S.-source income for U.S. foreign tax credit limitation purposes.

We believe that our common shares should not be treated as stock of a Personal Foreign Investment Company, or PFIC, for United States federal income tax purposes, but this conclusion is a legal and factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless a U.S. holder elects to be taxed annually on a mark-to-market basis with respect to the shares or ADSs, gain realized on the sale or other disposition of your common shares would in general not be treated as capital gain. Instead, if you are a U.S. Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the common shares and would not be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your common shares will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your common shares. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

Backup Withholding Tax

Information reporting requirements will apply to U.S. Holders other than certain exempt recipients (such as corporations) with respect to distributions made on our common shares and paid in the U.S. and proceeds

Table of Contents

received on disposition of such shares that is effected at a U.S. office of a broker or under certain conditions effected at an office outside the U.S. Furthermore, a 28% backup withholding tax may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or is notified by the IRS of failure to report interest and dividends required to be shown on its U.S. federal income tax returns or otherwise fails to comply with applicable certification requirements. The amount of backup withholding imposed on a payment to a U.S. Holder may be refunded by the IRS or allowed as a credit against the U.S. federal income tax of the U.S. Holder provided that the required information is properly furnished to the IRS.

Netherlands Taxation

This taxation summary solely addresses the material Dutch tax consequences of the acquisition and the ownership and disposition of our shares. It is a general summary that only applies to a Non-Resident holder of shares (as defined below) and it does not discuss every aspect of taxation that may be relevant to a particular holder of shares under special circumstances or who is subject to special treatment under applicable law. This summary also assumes that we are organized, and its business will be conducted, in the manner outlined in this report. Changes in the organizational structure or the manner in which we conduct our business may invalidate this summary.

Unless stated otherwise, this summary is based on the tax laws of The Netherlands as they are in force and in effect on the date of this report. These laws could change and a change could be effective retroactively. This summary will not be updated to reflect changes in laws, and if such changes occur, the information in this summary could become invalid.

Any potential investor should consult his own tax advisor for more information about the tax consequences of acquiring, owning and disposing of shares in particular circumstances.

We have not addressed every potential tax consequence of an investment in shares under the laws of The Netherlands.

Netherlands Taxation of Non-Resident Holders of Shares

General

The summary of Netherlands taxes set out in this section Netherlands Taxation of Non-Resident Holders of Shares only applies to a holder of shares who is a Non-Resident holder of shares.

A holder of shares is a Non-Resident holder of shares if:

he is neither resident, nor deemed to be resident, in the Netherlands for purposes of Dutch income tax and corporation tax, as the case may be, and, in the case of an individual, has not elected to be treated as a resident of the Netherlands for Dutch income tax purposes;

in the case of an individual, his shares and income or capital gains derived therefrom have no connection with his past, present or future employment, if any; and

his shares do not form part, and are not deemed to form part, of a substantial interest (*aanmerkelijk belang*) in us within the meaning of Chapter 4 of the Dutch Income Tax Act 2001, unless such interest forms part of the assets of an enterprise.

If a person holds an interest in us, such interest forms part or is deemed to form part of a substantial interest in us if any one or more of the following circumstances is present:

such person alone or, in case such person is an individual, together with his partner, if any, has, directly or indirectly, the ownership of, our shares representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of our shares), or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent at any time 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of our shares) or the

Table of Contents

ownership of profit participating certificates that relate to 5% or more of our annual profit or to 5% or more of liquidation proceeds;

such person's partner or any of the relatives by blood or by marriage in the direct line (including foster children) of this person or of his partner has a substantial interest in us;

such person's shares, profit participating certificates or rights to acquire our shares or profit participating certificates have been acquired by such person or are deemed to have been acquired by such person under a non-recognition provision.

For purposes of the above, a person who is entitled to the benefits from shares or profit participating certificates (for instance a holder of a right of usufruct) is deemed to be a holder of shares or profit participating certificates, as the case may be, and his entitlement to benefits is considered a share or a profit participating certificate, as the case may be.

Taxes on Income and Capital Gains

A Non-Resident holder of shares will not be subject to any Dutch taxes on income or capital gains in respect of our dividends distributed (other than the dividend withholding tax described below) or in respect of any gain realized on the disposal of shares, unless:

he derives profit from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of an enterprise, other than as an entrepreneur or a shareholder, in the case of an individual, or other than as a holder of securities, in other cases, which enterprise is either managed in The Netherlands or, in whole or in part, carried on through a permanent establishment of a permanent representative in The Netherlands and his shares are attributable to that enterprise; or

he (in the case of an individual) derives benefits from shares that are taxable as benefits from miscellaneous activities in The Netherlands.

The concept dividends distributed by CNH as used in this section includes, but is not limited to, the following: distributions in cash or in kind, deemed and constructive distributions (including, as a rule, consideration for the repurchase of our shares (other than a repurchase as a temporary investment) in excess of the average capital recognized as paid-in for Dutch dividend withholding tax purposes), and repayments of capital not recognized as paid-in for Dutch dividend withholding tax purposes;

liquidation proceeds and proceeds of redemption of our shares in excess of the average capital recognized as paid-in for Dutch dividend withholding tax purposes;

the par value of shares we issued to a holder of shares or an increase of the par value of shares, as the case may be, to the extent that it does not appear that a contribution, recognized for Dutch dividend withholding tax purposes, has been made or will be made; and

partial repayment of capital, recognized as paid-in for Dutch dividend withholding tax purposes, if and to the extent that there are net profits, unless (a) the general meeting of our shareholders has resolved in advance to make such repayment and (b) the par value of the shares concerned has been reduced by an equal amount by way of an amendment to our articles of association.

A Non-Resident holder of shares may derive benefits from our shares that are taxable as benefits from miscellaneous activities in The Netherlands in the following circumstances if:

his investment activities go beyond the activities of an active portfolio investor, for instance in case of the use of insider knowledge or comparable forms of special knowledge; or

he makes our shares available or is deemed to make our shares available, legally or in fact, directly or indirectly, to a connected party as described in articles 3.91 and 3.92 of the Dutch Income Tax Act 2001 under

circumstances described there.

Table of Contents*Dividend Withholding Tax*

Dividends we distributed to a Non-Resident holder of shares are subject to a withholding tax imposed by The Netherlands at a statutory rate of 25%. See *Taxes on Income and Capital Gains* for a description of the concept dividends distributed by CNH.

If a double tax treaty is in effect between The Netherlands and the country of residence of a Non-Resident holder of shares, such holder may be eligible for a full or partial relief from the Dutch dividend withholding tax provided that such relief is timely and duly claimed. In addition, a qualifying parent company within the meaning of the EU Parent Subsidiary Directive (Directive 90/435/ECC, as amended) is, subject to certain conditions, entitled to an exemption from dividend withholding tax. A relief from Dutch dividend withholding tax will, for Dutch domestic tax purposes, only be available to the beneficial owner of dividends we distributed. Certain specific anti-dividend-stripping rules apply. The Dutch tax authorities have taken the position that the beneficial ownership test can also be applied to deny relief from Dutch dividend withholding tax under double tax treaties, the Tax Arrangement for The Netherlands and the EU Parent Subsidiary Directive.

Under the convention of December 18, 1992, between the Kingdom of The Netherlands and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the U.S./NL Income Tax Treaty), as amended by the agreement dated March 8, 2004, the Dutch dividend withholding tax rate on dividends we paid on shares held by a Non-Resident holder of shares who is resident in the United States and who is entitled to the benefits of the U.S./NL Income Tax Treaty will generally be reduced to 15%, and further to 5% if such Non-Resident holder of shares is a company which holds directly at least 10% of the voting power in us. The U.S./NL Income Tax Treaty provides for a complete exemption for dividends received by exempt pension trusts and exempt organizations, as defined therein. Except in the case of exempt organizations, the reduced dividend withholding tax rate under the U.S./NL Income Tax Treaty may be available at source, upon payment of a dividend in respect of such shares, provided that the holder thereof or, if applicable, the paying agent, has supplied us with the appropriate Dutch tax forms in accordance with the Dutch implementation regulations under the U.S./NL Income Tax Treaty. If such forms are not duly and timely supplied, we will be required to withhold the dividend withholding tax at the Dutch statutory rate of 25%. In such case, a Non-Resident holder of shares who is resident in the United States and who is entitled to the benefits of the U.S./NL Income Tax Treaty may obtain a refund of the difference between the amount withheld and the amount that The Netherlands was entitled to levy in accordance with the U.S./NL Income Tax Treaty by filing the appropriate forms with the Dutch tax authorities within the term set therefore.

Reduction

If we have received a profit distribution from a foreign entity, or a repatriation of foreign branch profit, that is exempt from Dutch corporate income tax and that has been subject to a foreign withholding tax of at least 5%, we may be entitled to a reduction of the amount of Dutch dividend withholding tax withheld that must be paid over to the Dutch tax authorities in respect of dividends we distributed.

Non-Resident holders of shares are urged to consult their tax advisors regarding the general creditability or deductibility of Dutch dividend withholding tax and, in particular, the impact on such investors of our potential ability to receive a reduction as meant in the previous paragraph.

Gift and Inheritance Taxes

A person who acquires shares as a gift (in form or in substance), or who acquires or is deemed to acquire shares on the death of an individual, will not be subject to Dutch gift tax or to Dutch inheritance tax, as the case may be, unless: the donor or the deceased was resident or deemed to be resident in The Netherlands for purposes of gift or inheritance tax (as the case may be); or

Table of Contents

the shares are or were attributable to an enterprise or part of an enterprise that the donor or the deceased carried on through a permanent establishment or a permanent representative in The Netherlands at the time of the gift or of the death of the deceased; or

the donor made a gift of shares, then becomes a resident or deemed resident of The Netherlands, and dies as a resident or deemed resident of The Netherlands within 180 days after the date of the gift.

If the donor or the deceased is an individual who holds Dutch nationality, he will be deemed to be resident in The Netherlands for purposes of Dutch gift and inheritance taxes if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. If the donor is an individual who does not hold Dutch nationality, or an entity, he or it will be deemed to be resident in The Netherlands for purposes of Dutch gift tax if he or it has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

Furthermore, in exceptional circumstances, the donor or the deceased will be deemed to be resident in The Netherlands for purposes of Dutch gift and inheritance taxes if the beneficiary of the gift or all beneficiaries under the estate jointly, as the case may be, make an election to the effect.

Capital Tax

We were subject to Netherlands capital tax at a rate of 0.55% on any contribution received in respect of shares prior to January 1, 2006. As of January 1, 2006 the capital tax has been abolished.

Other Taxes and Duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in The Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of our shares.

F. Dividends and Paying Agents.

Not applicable.

G. Statement of Experts.

Not applicable.

H. Documents on Display.

We file reports, including annual reports on Form 20-F, furnish periodic reports on Form 6-K and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. These may be read without charge and copied, upon payment of prescribed rates, at the public reference facility maintained by the SEC at Room 1580, 100F street, N.E., Washington, D.C. 20459. To obtain information on the operation of the public reference facility, the telephone number is 1-800-SEC-0330. Any SEC filings may also be accessed by visiting the SEC's website at www.sec.gov

I. Subsidiary Information.

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. We monitor our exposure to these risks, and manage the underlying economic exposures using financial instruments such as forward contracts, currency options, interest rate swaps, interest rate caps and forward starting swaps. We do not hold or issue derivative or other financial instruments for speculative or trading purposes.

Table of Contents*Transaction Risk and Foreign Currency Risk Management*

We have significant international manufacturing operations. We manufacture products and purchase raw materials from many locations around the world. Our cost base is diversified over a number of European, Asia-Pacific, and Latin American currencies, as well as the U.S. dollar. Foreign exchange risk exists to the extent that we have payment obligations or receipts denominated in or based on currencies other than the functional currency of the various manufacturing operations.

The diversified cost base counterbalances some of the cash flow and earnings impact of non-U.S. dollar revenues and minimizes the effect of foreign exchange rate movements on consolidated earnings. Due to periodic mismatches in cash inflows and outflows, currencies such as the euro, British pound, Canadian dollar, Australian dollar, Brazilian real and Japanese yen may have a possible impact on earnings. The primary currencies for cash outflows were the British pound, Japanese yen and euro. The primary currencies for cash inflows were the Canadian dollar and Australian dollar. To manage these exposures, we identify naturally offsetting positions and purchase hedging instruments to protect the remaining net anticipated exposures. In addition, we hedge the anticipated repayment of inter-company loans to foreign subsidiaries denominated in foreign currencies. See Note 16: Financial Instruments of our consolidated financial statements for a description of our foreign exchange rate risk management.

We regularly monitor our currency exchange rate exposure, execute policy-defined hedging strategies and review the ongoing effectiveness of such strategies. Our strategy is to use a mixture of foreign exchange forward contracts and options contracts depending on our view of market conditions and nature of the underlying cash flow exposure.

For the purposes of assessing specific risks, we perform a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of (a) all foreign exchange forward and option contracts designated as cash flow hedges; (b) all foreign exposures for the U.S. dollar denominated financial assets and liabilities for our Latin American subsidiaries; and (c) other long-term foreign currency denominated receivables and payables. The sensitivity analysis excludes (a) all other foreign exchange forward contracts designated as fair value hedges and their related foreign currency denominated receivables, payables, and debt; (b) other foreign currency denominated receivables and payables of short-term maturities; (c) anticipated foreign currency cash flows related to the underlying business operations; and (d) related to certain supplier agreements, payment obligations or receipts based on currencies other than the functional currency of our manufacturing operations. The sensitivity analysis computes the impact on the fair value on the above exposures due to a hypothetical 10% change in the foreign currency exchange rates, assuming no change in interest rates. The net potential loss would be approximately \$137 million and \$139 million at December 31, 2005 and 2004, respectively.

Our management believes that the above movements in foreign exchange rates would have an offsetting impact on the underlying business transactions that the financial instruments are used to hedge. The sensitivity model assumes an adverse shift in all foreign currency exchange spot and forward rates. As consistently and simultaneously unfavorable movements in all relevant exchange rates are unlikely, this assumption may overstate the impact of exchange rate fluctuations on such financial instruments. The fair market valuation and sensitivity analysis of option contracts are provided by a third party based on our request to compute the fair value change of a 10% movement in the foreign exchange rate in which the contracts are based. We do not have a model to value such contracts as their use is limited and the value is not significant to our financial position. While there were \$100 million in option contracts outstanding at December 31, 2004, there were no outstanding option contracts at December 31, 2005.

Effects of Currency Translation

Due to our significant international operations, we recognize that we may be subject to foreign exchange translation risk. This risk may arise when translating net income of our foreign operations into U.S. dollars. Depending on movements in foreign exchange rates, this may have an adverse impact on our consolidated financial statements. Earnings exposures to the major currencies include the euro, British pound, Canadian

Table of Contents

dollar and Australian dollar. Exposures to other currencies include the Brazilian real, Argentine peso, Mexican peso, Danish krone, Norwegian krone, Swedish krona, Polish zloty, Indian rupee, and Chinese renminbi. In reviewing historical trends in currency exchange rates, adverse changes of 20% have been experienced in the past and could be experienced in the future. Certain currencies, such as the Mexican peso, Brazilian real and Argentine peso have experienced short-term movements ranging from 30% to 90% due to the devaluation of its respective currency.

As the expected future net income from our operations are dependent on multiple factors and foreign currency rates in these countries would not be expected to move in an equal and simultaneous fashion, we have not performed a sensitivity analysis related to this potential exposure. This potential exposure has resulted in a loss of \$8 million and \$18 million in 2005 and 2004, respectively. We do not hedge the potential impact of foreign currency translation risk on net income from our foreign operations in our normal course of business operations as net income of our operations are not typically remitted to the United States on an ongoing basis.

We also have investments in Europe, Canada, Latin America and Asia, which are subject to foreign currency risk. These currency fluctuations for those countries not under inflation accounting result in non-cash gains and losses that do not impact net income, but instead are recorded as Accumulated other comprehensive income (loss) in our consolidated balance sheet. At December 31, 2005, we performed a sensitivity analysis on our investment in significant foreign operations that have foreign currency exchange risk. We calculated that the fair value impact would be \$260 million and \$253 million at December 31, 2005 and 2004, respectively, as a result of a hypothetical 10% change in foreign currency exchange rates, assuming no change in interest rates. We do not hedge our net investment in non-U.S. entities because those investments are viewed as long-term in nature. We have limited investments in subsidiaries in highly inflationary economies. The change in fair value of these investments can have an impact on our consolidated statements of operations.

Interest Rate Risk Management

We are exposed to market risk from changes in interest rates. We monitor our exposure to this risk and manage the underlying exposure both through the matching of financial assets and liabilities and through the use of financial instruments, including swaps, caps, forward starting swaps, and forward rate agreements for the net exposure. These instruments aim to stabilize funding costs by managing the exposure created by the differing maturities and interest rate structures of our financial assets and liabilities. We do not hold or issue derivative or other financial instruments for speculative or trading purposes.

We use a model to monitor interest rate risk and to achieve a predetermined level of matching between the interest rate structure of our financial assets and liabilities. Fixed-rate financial instruments, including receivables, debt, ABS certificates and other investments, are segregated from floating-rate instruments in evaluating the potential impact of changes in applicable interest rates. The potential change in fair market value of financial instruments including derivative instruments held at December 31, 2005 and 2004, resulting from a hypothetical, instantaneous 10% change in the interest rate applicable to such financial instruments would be approximately \$9 million and \$29 million, respectively, based on the discounted values of their related cash flows.

The above sensitivity analyses are based on the assumption of a 10% movement of the interest rates used to discount each homogeneous category of financial assets and liabilities. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and the applicable interest rate index. As a result, our inherent rate risk sensitivity model may overstate the impact of interest rate fluctuations for such financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

See Note 16: Financial Instruments of our consolidated financial statements for a description of the methods and assumptions used to determine the fair values of financial instruments.

Table of Contents

Commodity Price Risk Management

Commodity prices affect our Equipment Operations sales and Financial Services originations. Commodity risk is managed through geographic and enterprise diversification. It is not possible to determine the impact of commodity prices on earnings, cash flows or fair values of the Financial Services portfolio.

Changes in Market Risk Exposure as Compared to 2004

Our exposures and strategy for managing our exposures to interest rate, foreign currency and commodity price risk have not changed significantly from 2004.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

On March 27, 2003, our shareholders approved amendments to our Articles of Association at an Extraordinary Meeting of Shareholders. The amendments increased our authorized share capital to 1,350,000,000, consisting of 400,000,000 common shares and 200,000,000 Series A Preferred Stock with each having a par value of 2.25 per share.

As of December 31, 2005, a total of 8 million shares of Series A Preferred Stock were held by Fiat Netherlands. Pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon completion of the conversion, Fiat's ownership of CNH rose to approximately 90%. Due to the conversion, there are no shares of Series A Preferred Stock outstanding as of the date of this report.

Item 15. Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2005 pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There have been no changes in internal controls or in other factors that could significantly affect internal controls during the year ended December 31, 2005, including any corrective actions with regard to significant deficiencies and material weaknesses.

We are currently continuing our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. We must comply with these requirements in our annual report for the year ending December 31, 2006.

Item 16A. Audit Committee Financial Expert

The Board of Directors of CNH has determined that Katherine M. Hudson and Michael E. Murphy are audit committee financial experts. Both Ms. Hudson and Mr. Murphy are independent directors. As discussed

Table of Contents

under Item 6. Directors, Senior Management and Employees A. Directors and Senior Management, we have announced proposed changes to the composition of the Board of Directors, which will become effective at the Annual General Meeting of Shareholders to be held on April 7, 2006. Ms. Hudson and Mr. Murphy have expressed their intention not to stand for re-election. In that event, the Board of Directors expects to make a determination whether any member of the Board constitutes an audit committee financial expert following the implementation of the proposed changes to the Board.

Item 16B. Code of Ethics

We have adopted a code of ethics which is applicable to CNH's principal executive officer, principal financial officer and the principal accounting officer and controller. This code of ethics is posted on our website, www.CNH.com, and may be found as follows: from our main page, first click on Corporate Governance and then on Code of Conduct .

Item 16C. Principal Accountant Fees and Services

Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmotsu and their respective affiliates (collectively, the Deloitte Entities) were appointed to serve as our independent registered public accounting firm for the year ended December 31, 2005. We incurred the following fees from the Deloitte Entities for professional services for the years ended December 31, 2005 and 2004:

	2005	2004
Audit Fees	\$ 4,304,000	\$ 4,226,100
Audit-Related Fees	886,600	869,900
Tax Fees	1,386,800	1,100,400
All Other Fees		80,500
Total	\$ 6,577,400	\$ 6,276,900

Audit Services are the aggregate fees billed by the Deloitte Entities for the audit of our consolidated and annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements. Audit-Related Fees are fees charged by the Deloitte Entities for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. This category comprises fees for the audit of employee benefit plans and pension plans, agreed-upon procedure engagements and other attestation services subject to regulatory requirements and certifications of accounting-related internal controls. Tax Fees are fees for professional services rendered by the Deloitte Entities for expatriate employee tax services, tax compliance, tax advice on actual or contemplated transactions and tax consulting associated with international transfer prices. Fees disclosed under the category All Other Fees are mainly related to software support services.

Audit Committee's pre-approval policies and procedures

Our Audit Committee nominates and engages our independent registered public accounting firm to audit our financial statements. Our Audit Committee has a policy requiring management to obtain the Committee's approval before engaging our independent registered public accounting firm to provide any other audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our independent registered public accounting firm, the Audit Committee pre-approves annually a catalog of specific audit and non-audit services in the categories Audit Services, Audit-Related Services, Tax Services, and Other Services that may be performed by our independent registered public accounting firm.

Table of Contents

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

We currently have no announced share buyback plans.

PART III

Item 17. Financial Statements

We have responded to Item 18 in lieu of responding to this item.

Item 18. Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CNH GLOBAL N.V. AND SUBSIDIARIES

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated statements of operations for the years ended December 31, 2005, 2004, and 2003</u>	F-3
<u>Consolidated balance sheets as of December 31, 2005 and 2004</u>	F-4
<u>Consolidated statements of cash flows for the years ended December 31, 2005, 2004 and 2003</u>	F-5
<u>Consolidated statements of changes in shareholders' equity for the years ended December 31, 2005, 2004 and 2002</u>	F-6
<u>Notes to consolidated financial statements</u>	F-7

Item 19. Exhibits

A list of exhibits included as part of this annual report on Form 20-F is set forth in the Index to Exhibits that immediately precedes such exhibits.

Table of Contents

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
CNH GLOBAL N.V. AND SUBSIDIARIES**

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated statements of operations for the years ended December 31, 2005, 2004, and 2003</u>	F-3
<u>Consolidated balance sheets as of December 31, 2005 and 2004</u>	F-4
<u>Consolidated statements of cash flows for the years ended December 31, 2005, 2004 and 2003</u>	F-5
<u>Consolidated statements of changes in shareholders' equity for the years ended December 31, 2005, 2004 and 2003</u>	F-6
<u>Notes to consolidated financial statements</u>	F-7

F-1

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CNH Global N.V.:

We have audited the accompanying consolidated balance sheets of CNH Global N.V. (a Netherlands corporation) and its subsidiaries (collectively, the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CNH Global N.V. and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and cash flows of Equipment Operations and Financial Services and are not a required part of the basic consolidated financial statements. The supplemental information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

/s/ Deloitte & Touche LLP
Milwaukee, Wisconsin
March 29, 2006

Table of Contents

CNH GLOBAL N.V.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2005, 2004, and 2003
(and Supplemental Information)

	Supplemental Information								
	Consolidated			Equipment Operations			Financial Services		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
	(in millions, except per share data)								
Revenues:									
Net sales	\$ 11,806	\$ 11,545	\$ 10,069	\$ 11,806	\$ 11,545	\$ 10,069	\$	\$	\$
Finance and interest income	769	634	597	129	82	83	801	672	621
	12,575	12,179	10,666	11,935	11,627	10,152	801	672	621
Costs and Expenses:									
Cost of goods sold	9,934	9,782	8,590	9,934	9,782	8,590			
Selling, general and administrative	1,184	1,110	1,042	971	929	839	213	181	203
Research, development and engineering	296	267	259	296	267	259			
Restructuring	73	104	271	71	102	268	2	2	3
Interest expense - Fiat affiliates	99	88	113	72	63	85	27	25	28
Interest expense - other	452	404	368	269	255	236	240	183	182
Interest compensation to Financial Services				159	113	79			
Other, net	280	265	241	188	186	149	36	52	71
	12,318	12,020	10,884	11,960	11,697	10,505	518	443	487
Income (loss) before taxes, minority interest and equity in income									
(loss) of unconsolidated subsidiaries and affiliates	257	159	(218)	(25)	(70)	(353)	283	229	134
Income tax provision (benefit)	116	39	(49)	24	(39)	(97)	92	78	47
Minority interest	26	23	7	27	23	7			
Equity in income (loss) of unconsolidated subsidiaries and affiliates:									
Financial Services	9	8	6	200	159	93	9	8	6
Equipment Operations	39	20	13	39	20	13			
Net income (loss)	\$ 163	\$ 125	\$ (157)	\$ 163	\$ 125	\$ (157)	\$ 200	\$ 159	\$ 93

Per Share Data:

Basic earnings (loss) per share	\$ 0.77	\$ 0.94	\$ (1.19)
---------------------------------	---------	---------	-----------

Diluted earnings (loss) per share	\$ 0.70	\$ 0.54	\$ (1.19)
-----------------------------------	---------	---------	-----------

The Consolidated data in this statement include CNH Global N.V. and its consolidated subsidiaries and conform to the requirements of SFAS No. 94. The supplemental Equipment Operations (with Financial Services on the equity basis) data in this statement include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services data in this statement 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. The accompanying notes to consolidated financial statements are an integral part of these consolidated statements of operations.

F-3

Table of Contents

CNH GLOBAL N.V.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2005 and 2004
(and Supplemental Information)

	Supplemental Information					
	Consolidated		Equipment Operations		Financial Services	
	2005	2004	2005	2004	2005	2004
(in millions, except share data)						
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 1,245	\$ 931	\$ 858	\$ 637	\$ 387	\$ 294
Deposits in Fiat affiliates cash management pools	580	1,151	578	1,136	2	15
Accounts and notes receivable, net	3,192	3,171	1,146	1,493	2,118	1,772
Intersegment notes receivable			1,067	414		24
Inventories, net	2,466	2,515	2,466	2,515		
Deferred income taxes	534	374	436	301	98	73
Prepayments and other	99	93	95	91	4	2
Total current assets	8,116	8,235	6,646	6,587	2,609	2,180
Long-term receivables	2,649	2,724	97	103	2,552	2,621
Intersegment long-term notes receivable				700		
Property, plant and equipment, net	1,311	1,478	1,303	1,470	8	8
Other Assets:						
Investments in unconsolidated subsidiaries and affiliates	449	457	353	373	96	84
Investment in Financial Services			1,587	1,419		
Equipment on operating leases, net	180	215			180	215
Goodwill	2,388	2,402	2,243	2,258	145	144
Intangible assets, net	775	834	775	834		
Other	1,450	1,735	955	1,250	495	526
Total other assets	5,242	5,643	5,913	6,134	916	969
Total	\$ 17,318	\$ 18,080	\$ 13,959	\$ 14,994	\$ 6,085	\$ 5,778
LIABILITIES AND SHAREHOLDERS EQUITY						
Current Liabilities:						
Current maturities of long-term debt	Fiat	\$ 413	\$ 90	\$ 279	\$ 19	\$ 134
affiliates				\$ 19	\$ 134	\$ 71
Current maturities of long-term debt	other	646	796	106	238	540
Short-term debt	Fiat affiliates	565	672	479	331	86
					86	341

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Short-term debt other	957	1,385	347	733	610	652
Intersegment short-term debt and current maturities of intersegment long-term debt				24	1,067	414
Accounts payable	1,609	1,657	1,641	1,679	32	66
Restructuring liability	47	47	45	46	2	1
Other accrued liabilities	1,795	1,718	1,600	1,521	203	204
Total current liabilities	6,032	6,365	4,497	4,591	2,674	2,307
Long-term debt Fiat affiliates	133	1,021	95	873	38	148
Long-term debt other	3,573	2,999	1,916	1,954	1,657	1,045
Intersegment long-term debt						700
Other Liabilities:						
Pension, postretirement and postemployment benefits	2,132	2,224	2,116	2,204	16	20
Other	305	336	192	238	113	138
Total other liabilities	2,437	2,560	2,308	2,442	129	158
Commitments and contingencies (Note 15)						
Minority interest	91	106	91	105		1
Shareholders equity:						
Preference shares, 2.25 par value; authorized 200,000,000 shares in 2005 and 2004; issued 8,000,000 shares in 2005 and 2004	19	19	19	19		
Preference shares, \$1.00 par value; authorized and issued 74,800,000 shares in 2005					35	
Common shares, 2.25 par value; authorized 400,000,000 shares in 2005 and 2004, issued 135,020,437 shares in 2005 and 133,937,488 shares in 2004	315	312	315	312	192	170
Paid-in capital	6,348	6,328	6,348	6,328	1,193	1,186
Treasury stock, 154,813 shares in 2005 and 2004, at cost	(8)	(8)	(8)	(8)		
Retained earnings (deficit)	(996)	(1,125)	(996)	(1,125)	83	(12)
Accumulated other comprehensive income (loss)	(626)	(496)	(626)	(496)	84	75
Unearned compensation on restricted shares and options		(1)		(1)		
Total shareholders equity	5,052	5,029	5,052	5,029	1,587	1,419
Total	\$ 17,318	\$ 18,080	\$ 13,959	\$ 14,994	\$ 6,085	\$ 5,778

The Consolidated data in this statement include CNH Global N.V. and its consolidated subsidiaries and conform to the requirements of SFAS No. 94. The supplemental Equipment Operations (with Financial Services on the equity basis) data in this statement include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services data in this statement 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. The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

F-4

Table of Contents

CNH GLOBAL N.V.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005, 2004 and 2003
(and Supplemental Information)

	Supplemental Information								
	Consolidated			Equipment Operations			Financial Services		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
	(in millions)								
Operating activities:									
Net income (loss)	\$ 163	\$ 125	\$ (157)	\$ 163	\$ 125	\$ (157)	\$ 200	\$ 159	\$ 93
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:									
Depreciation and amortization	309	325	346	263	261	246	46	64	100
Deferred income tax expense (benefit)	132	4	(72)	169	64	(125)	(37)	(60)	53
(Gain) loss on disposal of fixed assets	(1)	(21)	(1)	(1)	(21)	(1)			
Undistributed (earnings) losses of unconsolidated subsidiaries	(7)	2	10	(138)	(43)	(61)	(9)	(5)	
Changes in operating assets and liabilities:									
(Increase) decrease in intersegment activities				56	(97)	138	(56)	97	(138)
(Increase) decrease in wholesale and other notes receivable	(197)	911	593	271	712	(26)	(468)	199	619
(Increase) decrease in inventories	(102)	85	(139)	(102)	85	(139)			
(Increase) decrease in prepayments and other current assets	(10)	(10)	36	(8)	(12)	34	(2)	2	2
(Increase) decrease in other assets	(42)	(369)	(14)	(145)	(122)	(17)	103	(247)	3
Increase (decrease) in accounts payable	103	(59)	(4)	95	(58)	(5)	8	(1)	1

Increase (decrease) in other accrued liabilities	89	26	(173)	118	(10)	(213)	(29)	36	40
Increase (decrease) in other liabilities	71	(24)	204	63	(7)	209	8	(17)	(5)
Other, net	41	(25)	167	45	2	183	(4)	(27)	(16)
Net cash (used) provided by operating activities	549	970	796	849	879	66	(240)	200	752
Investing activities:									
Acquisitions and investments, net of cash acquired	(19)	(38)	(40)	(29)	(113)	(83)	(3)	(10)	(11)
Additions to retail receivables	(5,351)	(5,183)	(4,463)				(5,351)	(5,183)	(4,463)
Proceeds from new retail securitizations	2,799	2,218	2,857				2,799	2,218	2,857
Collections of retail receivables	2,674	2,281	1,263				2,674	2,281	1,263
Collections of retained interests in securitized retail receivables	49	115	151				49	115	151
Proceeds from sale of businesses and assets	124	255	212	19	93	54	105	162	158
Expenditures for property, plant and equipment	(155)	(180)	(194)	(152)	(179)	(192)	(3)	(1)	(2)
Expenditures for equipment on operating leases	(111)	(81)	(51)				(111)	(81)	(51)
(Deposits in) withdrawals from Fiat affiliates cash management pools	506	217	(715)	493	221	(915)	13	(4)	200
Net cash (used) provided by investing activities	516	(396)	(980)	331	22	(1,136)	172	(503)	102
Financing activities:									
Intersegment activity				23	(72)	484	(23)	72	(484)
Proceeds from issuance of long-term debt Fiat affiliates	62	5	147	62	5	147			
Proceeds from issuance of long-term debt other	839	1,452	1,282	56	497	1,053	783	955	229
	(627)	(634)	(16)	(580)	(490)		(47)	(144)	(16)

Payment of long-term debt Fiat affiliates									
Payment of long-term debt other	(566)	(923)	(800)	(215)	(130)	(535)	(351)	(793)	(265)
Net increase (decrease) in short-term revolving credit facilities	(447)	(143)	(23)	(264)	(530)	306	(183)	387	(329)
Issuance of common shares									54
Dividends paid	(34)	(33)	(33)	(34)	(33)	(33)	(60)	(109)	(22)
Other, net		(1)	(19)		(1)	(19)	13	85	
Net cash (used) provided by financing activities	(773)	(277)	538	(952)	(754)	1,403	132	453	(833)
Effect of foreign exchange rate changes on cash and cash equivalents	22	15	34	(7)	4	20	29	11	14
Increase (decrease) in cash and cash equivalents	314	312	388	221	151	353	93	161	35
Cash and cash equivalents, beginning of year	931	619	231	637	486	133	294	133	98
Cash and cash equivalents, end of year	\$ 1,245	\$ 931	\$ 619	\$ 858	\$ 637	\$ 486	\$ 387	\$ 294	\$ 133

The Consolidated data in this statement include CNH Global N.V. and its consolidated subsidiaries and conform to the requirements of SFAS No. 94. The supplemental Equipment Operations (with Financial Services on the equity basis) data in this statement include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services data in this statement 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.

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements of cash flows.

Table of Contents

CNH GLOBAL N.V.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2005, 2004 and 2003

	Preferred Shares	Common Shares	Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total	Comprehensive Income (Loss)
(in millions)									
Balance, January 1, 2003	\$	\$ 305	\$ 4,327	\$ (7)	\$ (1,027)	\$ (835)	\$ (2)	\$ 2,761	
Comprehensive income:									
Net loss					(157)			(157)	\$ (157)
Translation adjustment						263		263	263
Pension liability adjustment (net of tax of \$1 million)							(1)	(1)	(1)
Unrealized gain on available for sale securities (net of tax of \$13 million)						20		20	20
Derivative financial instruments:									
Losses deferred (net of tax of \$7 million)							(4)	(4)	(4)
Losses reclassified to earnings						18		18	18
Total									\$ 139
Issuance of common shares		4	16					20	
Conversion of debt to equity	19		1,967					1,986	
Dividends declared					(33)			(33)	
Recognition of compensation on restricted stock and stock options							1	1	

Balance, December 31, 2003	19	309	6,310	(7)	(1,217)	(539)	(1)	4,874	
Comprehensive income:									
Net income					125			125	\$ 125
Translation adjustment						86		86	86
Pension liability adjustment (net of tax of \$58 million)						(64)		(64)	(64)
Unrealized gain on available for sale securities (net of tax of \$2 million)						(2)		(2)	(2)
Derivative financial instruments:									
Gains deferred (net of tax of \$16 million)						18		18	18
Losses reclassified to earnings						5		5	5
Total									\$ 168
Purchase of treasury shares				(1)				(1)	
Issuance of common shares	3	18						21	
Dividends declared					(33)			(33)	
Balance, December 31, 2004	19	312	6,328	(8)	(1,125)	(496)	(1)	5,029	
Comprehensive income:									
Net income					163			163	\$ 163
Translation adjustment						(68)		(68)	(68)
Pension liability adjustment (net of tax of (\$27) million)						16		16	16
Unrealized gain on available for sale securities						(9)		(9)	(9)

(net of tax of \$8 million)									
Derivative financial instruments:									
Losses deferred (net of tax of \$25 million)					(87)		(87)		(87)
Gains reclassified to earnings					18		18		18
Total								\$	33
Issuance of common shares		3	17					20	
Accrual of common stock due under the Long-Term Incentive Plan			3					3	
Dividends declared					(34)			(34)	
Recognition of compensation on restricted stock and stock options							1	1	
Balance, December 31, 2005	\$ 19	\$ 315	\$ 6,348	\$ (8)	\$ (996)	\$ (626)	\$	\$ 5,052	

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements of changes in shareholders' equity.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 1: Nature of Operations**

CNH Global N.V. (CNH), is incorporated in The Netherlands under Dutch law. CNH's Equipment Operations manufacture, market and distribute a full line of agricultural and construction equipment on a worldwide basis. CNH's Financial Services operations offer a broad array of financial services products, including retail financing for the purchase or lease of new and used CNH and other manufacturers' products and other retail financing programs. To facilitate the sale of its products, CNH offers wholesale financing to dealers.

CNH is controlled by Fiat Netherlands Holding N.V. (Fiat Netherlands), a wholly owned subsidiary of Fiat S.p.A. (Fiat), a company organized under the laws of Italy, which owned approximately 83% of the outstanding common shares of CNH at December 31, 2005. Additionally, as of December 31, 2005, Fiat Netherlands owned a total of 8 million shares of Series A Preference Shares (Series A Preferred Stock). Pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon completion of the conversion, Fiat's ownership of CNH's common stock rose to approximately 90%.

Note 2: Summary of Significant Accounting Policies***Principles of Consolidation and Basis of Presentation***

CNH has prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). CNH has prepared its consolidated financial statements in U.S. dollars and, unless otherwise indicated, all financial data set forth in these financial statements is expressed in U.S. dollars. The financial statements include the accounts of CNH's majority-owned subsidiaries and reflect the interests of the minority owners of the subsidiaries that are not fully owned for the periods presented, as applicable. The operations and key financial measures and financial analysis differ significantly for manufacturing and distribution businesses and financial services businesses; therefore, management believes that certain supplemental disclosures are important in understanding the consolidated operations and financial results of CNH. In addition, CNH's principal competitors present supplemental data on a similar basis. Therefore, users of CNH's financial statements can use the supplemental data to make meaningful comparisons of CNH and its principal competitors. The financial statements reflect the consolidated results of CNH and also include, on a separate and supplemental basis, the consolidation of CNH's equipment operations and financial services operations as follows:

Equipment Operations The financial information captioned Equipment Operations reflects the consolidation of all majority-owned subsidiaries except for CNH's Financial Services business. CNH's Financial Services business has been included using the equity method of accounting whereby the net income and net assets of CNH's Financial Services business are reflected, respectively, in Equity in income (loss) of unconsolidated subsidiaries and affiliates Financial Services in the accompanying consolidated statements of operations, and in Investment in Financial Services in the accompanying consolidated balance sheets.

Financial Services The financial information captioned Financial Services reflects the consolidation or combination of CNH's Financial Services business including allocation of assets and liabilities to the business.

All significant intercompany transactions, including activity within and between Equipment Operations and Financial Services, have been eliminated in deriving the consolidated financial statements and data. Intersegment notes receivable, intersegment long-term notes receivable, intersegment short-term debt and intersegment long-term debt represent intersegment financing between Equipment Operations and Financial Services.

Table of Contents

CNH GLOBAL N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments in unconsolidated subsidiaries and affiliates that are at least 20% owned, or where CNH exercises significant influence, are accounted for using the equity method. Under this method, the investment is initially recorded at cost and is increased or decreased by CNH's proportionate share of the entity's respective profits or losses. Dividends received from these entities reduce the carrying value of the investments.

The Company sells receivables, using consolidated special purpose entities, to limited purpose business trusts, and other privately structured facilities, which then issue asset-backed securities to private or public investors. Due to the nature of the assets held by the trusts and the limited nature of each trust's activities they are each classified as a qualifying special purpose entity (QSPE) under Statement of Financial Accounting Standards (SFAS) No. 140,

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 140). In accordance with SFAS No. 140, assets and liabilities of the QSPEs are not consolidated in the Company's consolidated balance sheets. For additional information on the Company's receivable securitization programs, see Note 4: Accounts and Notes Receivable.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition

Equipment Operations record sales of equipment and replacement parts when title and all risks of ownership have transferred to the independent dealer or other customer. In the United States and the majority of international locations, title to equipment and replacement parts transfers to the dealer generally upon shipment. In various international locations, certain equipment and replacement parts are shipped to dealers on a consignment basis under which title and risk of ownership are not transferred to the dealer. Under these circumstances, sales are not recorded until a retail customer has purchased the goods. Dealers may not return equipment while the applicable dealer contract remains in place. Replacement parts may be returned on a limited basis. In the U.S. and Canada, if a dealer contract is terminated for any reason, CNH is obligated to repurchase new equipment from the dealer. CNH has credit limits and other safeguards in place to monitor the financial stability of its dealers. In cases where dealers are unable to pay for equipment or parts, CNH attempts to have these goods returned or negotiate a settlement of the outstanding receivables.

For all sales, no significant uncertainty exists surrounding the purchaser's obligation to pay for the equipment and replacement parts and CNH records appropriate allowance for credit losses as necessary. Receivables are due upon the earlier of payment terms discussed below or sale to the retail customer. Fixed payment schedules exist for all sales to dealers, but payment terms vary by geographic market and product line. In connection with these payment terms, CNH offers wholesale financing to many of its dealers including interest-free financing for specified periods of time which also vary by geographic market and product line. Interest is charged to dealers after the completion of the interest free period. In 2005 and 2004, interest free periods averaged 4.0 months and 3.5 months, respectively, on approximately 66% and 67%, respectively, of sales for the agricultural equipment business. In 2005 and 2004, interest free periods averaged 3.5 months, on approximately 66% and 67%, respectively, of sales for the construction equipment business. Sales to dealers that do not qualify for an interest free period are subject to payment terms of 30 days or less.

Financial Services records finance and interest income on retail and other notes receivables and finance leases using the effective interest method.

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Sales Allowances

CNH grants certain sales incentives to stimulate sales of its products to retail customers. The expense for such incentive programs is reserved for and recorded as a deduction in arriving at the net sales amount at the time of the sale of the product to the dealer. The amounts of incentives to be paid are estimated based upon historical data, future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things.

Modification Programs and Warranty Costs

The costs of major programs to modify products in the customer's possession are accrued when these costs can be identified and quantified. Normal warranty costs are recorded at the time of sale.

Advertising

CNH expenses advertising costs as incurred. Advertising expense totaled \$47 million, \$39 million and \$54 million for the years ended December 31, 2005, 2004, and 2003, respectively.

Research and Development

Research and development costs are expensed as incurred.

Restructuring

CNH recognizes costs associated with an exit or disposal activity at their fair value in the period in which the liability is incurred, except in certain situations where employees are required to render service until they are terminated in order to receive termination benefits. If an employee is required to render service until termination to receive benefits and they are to be retained for a period in excess of the lesser of the legal notification period or, in the absence of a legal notification period, 60 days, the costs are recognized ratably over the future service period.

Foreign Currency Translation

CNH's non-U.S. subsidiaries and affiliates maintain their books and accounting records using local currency as the functional currency, except for those operating in hyperinflationary economies. Assets and liabilities of non-U.S. subsidiaries are translated into U.S. dollars at period-end exchange rates, and net exchange gains or losses resulting from such translation are included in Accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. Income and expense accounts of non-U.S. subsidiaries are translated at the average exchange rates for the period, and gains and losses from foreign currency transactions are included in net income (loss) in the period during which they arise. The U.S. dollar is used as the functional currency for subsidiaries and affiliates operating in highly inflationary economies for which both translation adjustments and gains and losses on foreign currency transactions are included in the determination of net income (loss) in the period during which they arise. Net foreign exchange gains and losses are reflected in Other, net in the accompanying consolidated statements of operations.

Cash and Cash Equivalents

Cash equivalents are comprised of all highly liquid investments with an original maturity of three months or less. The carrying value of cash equivalents approximates fair value because of the short maturity of these investments.

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deposits in Fiat Affiliates Cash Management Pools (Deposits with Fiat)

Deposits with Fiat are repayable to CNH upon one business day's notice. CNH accesses funds deposited in these accounts on a daily basis and has the contractual right to withdraw these funds on demand or terminate these cash management arrangements upon a seven-day prior notice. The carrying value of Deposits with Fiat approximates fair value based on the short maturity of these investments. For additional information on Deposits with Fiat, see Note 22: Related Party Information.

Receivables and Receivable Sales

Receivables are recorded at face value, net of allowances for credit losses and deferred fees and costs.

CNH sells retail and wholesale receivables in securitizations and retains interest-only strips, subordinated tranches of notes, servicing rights, and cash reserve accounts, all of which are retained interests in the securitized receivables. Gain or loss on sale of the receivables depends in part on the carrying amount of the financial assets allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. The Company computes fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions—credit losses, prepayment speeds, and discount rates commensurate with the risks involved.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. The cost of finished goods and work-in-progress includes the cost of raw materials, other direct costs and production overheads. Net realizable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling. Provisions are made for obsolete and slow-moving inventories.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Expenditures for improvements that increase asset values and extend useful lives are capitalized. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets as follows:

Category	Lives
Buildings and improvements	10 40 years
Plant and machinery	5 16 years
Other equipment	3 10 years

CNH capitalizes interest costs as part of the cost of constructing certain facilities and equipment. CNH capitalizes interest costs only during the period of time required to complete and prepare the facility or equipment for its intended use. The amount of interest capitalized in 2005, 2004 and 2003 is not significant in relation to the consolidated financial results.

CNH evaluates the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. CNH assesses the recoverability of assets to be held and used by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets, based on a discounted cash flow analysis.

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equipment on Operating Leases

Financial Services purchases from dealers, equipment that is leased to retail customers under operating leases. Income from operating leases is recognized over the term of the lease. Financial Services' investment in operating leases is based on the purchase price paid for the equipment. The investment is depreciated on a straight-line basis over the term of the lease to the estimated residual value at lease termination, which is calculated at the inception of the lease date. Realization of the residual values is dependent on Financial Services' future ability to re-market the equipment under the then prevailing market conditions. CNH continually evaluates whether events and circumstances have occurred which affect the estimated residual values of equipment on operating leases. Although realization is not assured, management believes that the estimated residual values are realizable. Expenditures for maintenance and repairs are the responsibility of the lessee.

Goodwill and Intangibles

Goodwill represents the excess of the purchase price paid plus the liabilities assumed over the fair value of the tangible and identifiable intangible assets purchased. Goodwill relating to acquisitions of unconsolidated subsidiaries and affiliates is included in Investments in unconsolidated subsidiaries and affiliates in the accompanying consolidated balance sheets. Goodwill and intangible assets deemed to have an indefinite useful life are reviewed for impairment at least annually. The Company performs its annual impairment review during the fourth quarter of each year. Impairment testing for goodwill is done at a reporting unit level.

CNH has identified three reporting units: Agricultural Equipment, Construction Equipment and Financial Services. The fair values of the reporting units were determined based on the discounted cash flow model (primarily for the Agricultural Equipment and Construction Equipment reporting units) and/or the guideline company method which values companies by comparing them to similar companies whose equity securities are publicly traded or were involved in recent purchase and sale transactions (primarily for the Financial Services' reporting unit). The valuation models utilize assumptions and projections that have a significant impact on the valuations. These assumptions involve significant judgment regarding projected future revenues, projected future margins, weighted average cost of capital or discount rate and control premium.

Intangibles consist primarily of acquired dealer networks, trademarks, product drawings and patents. Non-indefinite lived intangible assets are being amortized on a straight-line basis over 5 to 30 years.

Reference is made to Note 3: Acquisitions of Businesses and Investments, and Note 9: Goodwill and Intangibles for further information regarding goodwill and intangibles.

Income Taxes

CNH follows an asset and liability approach for financial accounting and reporting of income taxes. CNH recognizes a current tax liability or asset for the estimated taxes payable or refundable on tax returns for the current year. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Deferred tax assets are reduced, if necessary, by the amount of any tax benefits for which, based on available evidence, it is more likely than not that they will not be realized.

Retirement Programs

CNH operates numerous defined benefit and defined contribution pension plans, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and CNH. The cost of providing defined benefit pension and other postretirement benefits is based

Table of Contents

CNH GLOBAL N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

upon actuarial valuations. The liability for termination indemnities is accrued in accordance with labor legislation in each country where such benefits are required. CNH contributions to defined contribution plans are charged to income during the period of the employee's service.

CNH uses a measurement date of December 31 for its qualified and non-qualified pension plans and postretirement benefit plans.

Derivatives

CNH records derivative financial instruments in the consolidated balance sheets as either an asset or a liability measured at fair value. The fair value of CNH's foreign exchange derivatives is based on quoted market exchange rates, adjusted for the respective interest rate differentials (premiums or discounts). The fair value of CNH's interest rate derivatives is based on discounting expected cash flows, using market interest rates, over the remaining term of the instrument. Changes in the fair value of derivative financial instruments are recognized currently in earnings unless specific hedge accounting criteria are met. For derivative financial instruments designated to hedge exposure to changes in the fair value of a recognized asset or liability, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the related hedged item. For derivative financial instruments designated to hedge exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative financial instrument's gain or loss is initially reported as a component of accumulated other comprehensive income and is subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

Reference is made to Note 16: Financial Instruments, for further information regarding CNH's use of derivative financial instruments.

Stock-Based Compensation Plans

The Company has stock-based employee compensation plans which are described more fully in Note 18: Option and Incentive Plans. In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (an amendment of FASB Statement No. 123) (SFAS No. 148). SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Beginning January 1, 2003, CNH adopted the Prospective Method of accounting for stock options under SFAS No. 148. The Prospective Method requires the recognition of expense for options granted, modified or settled since January 1, 2003. CNH has retained the intrinsic value method of accounting for stock-based compensation in accordance with APB No. 25 for options issued prior to January 1, 2003.

Additionally, compensation expense is reflected in net income (loss) for stock options granted prior to 2003 with an exercise price less than the quoted market price of CNH common shares on the date of grant.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to all stock-based employee compensation for the years ended December 31, 2005, 2004 and 2003.

	2005	2004	2003
Net income (loss), as reported	\$ 163	\$ 125	\$ (157)
Add: Stock-based employee compensation expense included in reported net income (loss), net of tax	1		1
Deduct: Total stock-based employee compensation expense determined under fair value based methods, net of tax	(4)	(4)	(5)
Pro forma net income (loss)	\$ 160	\$ 121	\$ (161)
Earnings (loss) per share:			
As reported:			
Basic	\$ 0.77	\$ 0.94	\$ (1.19)
Diluted	\$ 0.70	\$ 0.54	\$ (1.19)
Pro Forma:			
Basic	\$ 0.76	\$ 0.91	\$ (1.22)
Diluted	\$ 0.68	\$ 0.52	\$ (1.22)

Earnings Per Share

On October 13, 2004, the FASB Emerging Issues Task Force (EITF) ratified the consensus reached on Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share (EITF No. 04-8) which changed the timing of when CNH must reflect the impact of contingently issuable shares from the potential conversion of the Series A Preferred Stock in diluted weighted average shares outstanding. Beginning in the fourth quarter of 2004, under the provisions of EITF No. 04-8, CNH was required to retroactively reflect the contingent issuance of 100 million common shares in its computation of diluted weighted average shares outstanding, when inclusion is not anti-dilutive, for all periods presented.

EITF Issue No. 03-6, Participating Securities and the Two Class Method under FASB Statement No. 128 (EITF No. 03-6) requires the two-class method of computing earnings per share when participating securities, such as CNH's Series A Preferred Stock, are outstanding. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings.

Reclassifications

Certain reclassifications of prior year amounts have been made in order to conform with the current year presentation.

New Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 (SFAS No. 156). SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006; however, early adoption is permitted as of the beginning of an entity's fiscal year. CNH has not yet determined the impact SFAS No. 156 may have on its financial position or results of operations upon adoption.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), and SFAS No. 140, and resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets. SFAS No. 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions on a qualifying special-purpose entity's ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. SFAS No. 155 also requires presentation within the financial statements that identifies those hybrid financial instruments for which the fair value election has been applied and information on the income statement impact of the changes in fair value of those instruments. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006, although early adoption is permitted as of the beginning of an entity's fiscal year. CNH has not yet determined the impact SFAS No. 155 may have on its financial position or results of operations upon adoption.

In June 2005, the FASB issued SFAS No. 154 (SFAS No. 154), Accounting Changes and Error Corrections. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective applications to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, SFAS No. 154 requires that a change in depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This new accounting standard is effective January 1, 2006. The adoption of SFAS No. 154 is not expected to have a material impact on the Company's financial statements.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs (SFAS No. 151). SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. SFAS No. 151 requires abnormal amounts of facility expense, freight, handling costs and spoilage be recognized as current-period charges. Adoption of this statement is not expected to have a material impact on the Company's financial position and results of operation.

In December 2004, the FASB issued SFAS No. 123 Revised, Share Based Payment (SFAS No. 123 Revised) which is effective July 1, 2005. SFAS No. 123 Revised requires the use of a fair value based method of accounting for stock-based employee compensation. The statement will be applied using a Modified Prospective Method, under which compensation cost is recognized beginning on the effective date and continuing until participants are fully vested. In April 2005, the SEC announced the adoption of a new rule that amends the compliance dates for SFAS No. 123 Revised. The SEC's new rule allows companies to implement SFAS No. 123 Revised at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. The impact of adopting this statement will not have a material impact on the Company's financial statements.

Note 3: Acquisitions of Businesses and Investments***Kobelco***

The CNH alliance, which initially allowed CNH to increase its interest in Kobelco Construction Machinery Co. Ltd. (Kobelco Japan) from 20% to 35% by the third quarter of 2004, was modified during 2004 to extend the option period into the second quarter of 2005. During 2005, this option expired without being exercised.

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4: Accounts and Notes Receivable***On-Book Receivables***

Wholesale notes and accounts arise primarily from the sale of goods to dealers and distributors and to a lesser extent, the financing of dealer operations. Under the standard terms of the wholesale receivable agreements, these receivables typically have interest-free periods of up to twelve months and stated original maturities of up to twenty-four months, with repayment accelerated upon the sale of the underlying equipment by the dealer. After the expiration of any interest-free period, interest is charged to dealers on outstanding balances until CNH receives payment. The interest-free periods are determined based on the type of equipment sold and the time of year of the sale. Interest rates are set based on market factors and based on the prime rate or LIBOR. CNH evaluates and assesses dealers on an ongoing basis as to their credit worthiness.

CNH provides and administers financing for retail purchases of new and used equipment sold through its dealer network. CNH purchases retail installment sales and loan and finance lease contracts from its dealers. The terms of retail and other notes and finance leases generally range from two to six years, and interest rates on retail and other notes and finance leases vary depending on prevailing market interest rates and certain incentive programs offered by CNH.

A summary of receivables as of December 31, 2005 and 2004 is as follows:

	2005	2004
	(in millions)	
Wholesale notes and accounts	\$ 1,667	\$ 1,920
Retail and other notes and finance leases	3,596	3,441
Other notes	825	745
Gross receivables	6,088	6,106
Less:		
Allowance for credit losses	(247)	(211)
Current portion	(3,192)	(3,171)
Total long-term receivables, net	\$ 2,649	\$ 2,724

Maturities of long-term receivables as of December 31, 2005 are as follows:

	Amount	
	(in millions)	
2007	\$	1,064
2008		761
2009		488
2010		286
2011 and thereafter		50
Total long-term receivables, net	\$	2,649

It has been CNH's experience that substantial portions of retail receivables are repaid or sold before their contractual maturity dates. As a result, the above table should not be regarded as a forecast of future cash collections. Wholesale, retail and finance lease receivables have significant concentrations of credit risk in the agricultural and construction business sectors, the majority of which are in North America. CNH typically retains, as collateral, a security interest in the equipment associated with wholesale and retail notes receivable.

F-15

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Allowance for credit losses activity for the years ended December 31 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	(in millions)		
Balance, beginning of year	\$ 211	\$ 190	\$ 229
Provision for credit losses	104	76	98
Receivables written off	(63)	(69)	(172)
Other, net	(5)	14	35
Balance, end of year	\$ 247	\$ 211	\$ 190

Off-Book Securitizations*Wholesale Receivables Securitizations*

CNH sells eligible receivables on a revolving basis to privately and publicly structured securitization facilities. The receivables are initially sold to wholly owned bankruptcy-remote special purpose entities (SPE), where required by bankruptcy laws, which are consolidated by CNH, but legally isolate the receivables from the creditors of CNH. In turn, these subsidiaries establish separate trusts to which the receivables are transferred in exchange for proceeds from debt issued by the trusts. Each trust qualifies as a QSPE under SFAS No. 140, and accordingly are not consolidated by 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.

The facilities consist of a master trust facility in the U.S., Canada and Australia. The U.S. master trust facility consists of the following: \$521 million term senior and subordinated asset-backed notes with a three year maturity issued in June 2003, \$750 million term senior and subordinated asset-backed notes issued with a three year maturity issued in June 2005 and a 364-day, \$700 million conduit facility that is renewable annually (September 2006) at the sole discretion of the purchasers. The Canadian master trust facility consists of the following: C\$162 million term senior and subordinated asset-backed notes with a two year maturity issued in July 2004, C\$189 million term senior and subordinated asset-backed notes with a three year maturity issued in July 2004 and a 364-day C\$250 million conduit facility that is renewable annually (August 2006) at the sole discretion of the purchaser. The Australian facility consists of a 364-day, A\$165 million conduit facility that is renewable annually (May 2006) at the sole discretion of the purchaser.

At December 31, 2005, \$2 billion, C\$445 million, (\$382 million) and A\$108 million, (\$79 million) were outstanding under these facilities, consisting of \$2.4 billion, C\$569 million, (\$489 million) and A\$149 million, (\$109 million) of wholesale receivables sold less CNH's retained undivided interest of \$452 million, C\$124 million, (\$106 million) and A\$41 million, (\$30 million). At December 31, 2004, \$1.5 billion was outstanding under the U.S. facility, consisting of \$1.9 billion of wholesale receivables sold less CNH's retained undivided interest of \$330 million. Under the Canadian facility at December 31, 2004, C\$405 million, (\$348 million) was outstanding, consisting of C\$507 million, (\$436 million) of wholesale receivables sold less CNH's retained undivided interest of C\$102 million, (\$88 million). Under the Australian facility at December 31, 2004, A\$90 million, (\$66 million) were outstanding, consisting of A\$128 million, (\$94 million) of wholesale receivables sold, less CNH's retained undivided interest of A\$38 million, (\$28 million). The retained undivided interests provide recourse to investors in the event of default and are recorded at cost, which approximates fair value due to the short-term nature of the receivables, in

Accounts and notes receivable, net in the accompanying consolidated balance sheets.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In addition, CNH retains other interests in the sold receivables including interest-only strips and spread accounts. The cash flows between CNH and the facilities for the years ended December 31, 2005 and 2004 included:

	2005	2004
	(in millions)	
Proceeds from new securitizations	\$ 630	\$ 874
Repurchase of receivables	183	605
Proceeds from collections reinvested in the facility	6,824	6,618

In June 2005, CNH entered into a wholesale securitization program in Europe with three additional sellers, thereby increasing the amount of receivables available for sale to \$742 million. The outstanding balance as of December 31, 2005 was \$709 million and a Financial Services subsidiary subscribed to \$251 million of notes representing retained undivided interests. At December 31, 2004, the amount outstanding under the original program was \$466 million, and the Financial Services subsidiary had a retained undivided interest of \$228 million.

In addition to the securitizations described above, certain foreign subsidiaries of CNH securitized or discounted receivables without recourse. As of December 31, 2005, there were no outstanding discounted receivables without recourse. As of December 31, 2004, \$108 million of wholesale receivables were outstanding. 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.

At December 31, 2005 and 2004, certain subsidiaries of CNH sold, with recourse, wholesale receivables totaling \$862 million and \$916 million, respectively. The receivables sold are reflected in Wholesale notes and accounts above and the proceeds received are recorded in Short-term debt other in the accompanying consolidated balance sheets as the transactions do not meet the criteria for derecognition in a transfer of financial assets.

Retail Receivables Securitizations

CNH funds a significant portion of its retail receivable originations by means of retail receivable securitizations. Within CNH's asset securitization program, qualifying retail finance receivables are sold to limited purpose, bankruptcy-remote consolidated subsidiaries of CNH, where required by bankruptcy laws. In turn, these subsidiaries establish separate trusts to which the receivables are transferred in exchange for proceeds from asset-backed securities issued by the trusts. Due to the nature of the assets held by the trusts and the limited nature of each trust's activities, they are each classified as a QSPE under SFAS No. 140. 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 CNH. No recourse provisions exist that allow holders of the QSPEs' asset-backed securities to put those securities back to CNH. CNH does not guarantee any securities issued by the QSPEs.

CNH securitized retail notes with a net principal value of \$2.9 billion, \$2.3 billion and \$3.0 billion in 2005, 2004 and 2003, respectively. CNH recognized gains on the sales of these receivables of \$83 million, \$70 million and \$101 million in 2005, 2004 and 2003, respectively.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In conjunction with these sales, CNH retains certain interests in the sold receivables including ABS certificates issued, interest-only strips, spread accounts and the rights to service the sold receivables. The investors and the securitization trusts have no recourse beyond CNH's retained interest assets for failure of debtors to pay when due. CNH's retained interests are subordinate to investor's interests, and are subject to credit, prepayment and interest rate risks on the transferred financial assets.

Spread accounts are created through the reduction of proceeds received by CNH from sales to provide security to investors in the event that cash collections from the receivables are not sufficient to remit principal and interest payments on the securities. In 2005 and 2004, the creation of new spread accounts reduced proceeds from the sales of retail receivables by \$58 million and \$48 million, respectively. Total spread account balances were \$258 million and \$294 million at December 31, 2005 and 2004, respectively.

Retained Interests

The components of CNH's retained interests as of December 31, 2005 and 2004 are as follows:

	2005	2004
	(in millions)	
Receivables:		
Collateralized wholesale receivables	\$ 588	\$ 448
Interest only strips	83	103
Spread and other	353	389
Total amount included in Accounts and notes receivable	1,024	940
Other assets:		
ABS certificates	180	241
Other investments in ABS trusts	251	228
Total amount included in Other assets	431	469
Total retained interests	\$ 1,455	\$ 1,409

CNH is required to remit the cash collected on the serviced portfolio to the trusts within two business days. At December 31, 2005 and 2004, \$24 million and \$27 million, respectively, of unremitted cash payable was included in Accounts payable in the accompanying consolidated balance sheets.

Key assumptions utilized in measuring the initial fair value of retained interests for securitizations completed during 2005 and 2004 were as follows:

	Range		Weighted Average	
	2005	2004	2005	2004
Constant prepayment rate	17.00	20.00%	17.00	20.00%
Expected credit loss rate	0.57	0.68%	0.37	0.83%
Discount rate	8.50	13.00%	10.62%	9.52%
Remaining maturity in months	20	24	22	22

CNH monitors the fair value of its retained interests outstanding each period by discounting expected future cash flows based on similar assumptions. The fair value is compared to the carrying value of the retained interests and any excess of carrying value over fair value results in an impairment of the retained interests with a corresponding offset to earnings. Based on this analysis, CNH reduced the value of its interest-only strips by \$9 million, \$7 million and \$12 million in 2005, 2004 and 2003, respectively.

F-18

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impact on Fair Value

The significant assumptions used in estimating the fair values of retained interests from sold receivables, which remain outstanding, and the sensitivity of the current fair value to a 10% and 20% adverse change at December 31, 2005 and 2004 are as follows (in millions unless stated otherwise):

	2005			2004		
	December 31, Assumption	10% Change	20% Change	December 31, Assumption	10% Change	20% Change
	Weighted Average			Weighted Average		
Constant prepayment rate	15.82%	\$ 1.0	\$ 1.2	16.56%	\$ 1.9	\$ 3.5
Expected credit loss rate	0.70%	\$ 2.6	\$ 5.1	0.69%	\$ 2.4	\$ 4.9
Discount rate	10.68%	\$ 6.9	\$ 13.0	9.37%	\$ 4.0	\$ 6.9
Remaining maturity in months	17			17		

The changes shown above are hypothetical. They are computed based on variations of individual assumptions without considering the interrelationship between these assumptions. As a change in one assumption may affect the other assumptions, the magnitude of the impact on fair value of actual changes may be greater or less than those illustrated above. Weighted-average remaining maturity represents the weighted-average number of months that the current collateral balance is expected to remain outstanding.

Actual and expected credit losses are summarized as follows:

	Receivables Securitized in			
	2002	2003	2004	2005
As of December 31, 2005	0.65%	0.68%	0.54%	0.56%
As of December 31, 2004	0.58%	0.89%	0.57%	
As of December 31, 2003	0.66%	0.65%		

Credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets securitized.

CNH's cash flows related to securitization activities for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	(in millions)		
Proceeds from new retail securitizations	\$ 2,799	\$ 2,218	\$ 2,857
Servicing fees received	40	37	51
Cash received on retained interests	93	85	70
Cash paid upon cleanup call	104	77	213

Other Receivables Securitizations

In addition to the wholesale and retail securitizations described above, a master note trust was formed in September 2004 to facilitate the financing of U.S. credit card receivables. Credit card receivables are transferred, without recourse, to a bankruptcy remote SPE through which the receivables are then transferred to a trust. The maximum amount of funding eligible through the facility is \$250 million and it is accounted for as a secured financing. At December 31, 2005 and 2004, total receivables pledged under this program were \$160 million and \$159 million, respectively. The facility is renewable in June 2007.

In November 2004, a trust was formed for the securitization of retail receivables in Australia. The Company transfers the receivables to a bankruptcy remote trust, which will have a limited life and terminate

F-19

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

upon final distribution of amounts owed to investors or upon exercise of a clean-up call option by CNH. At December 31, 2004, A\$416 million (\$305 million) of receivables were transferred to the trusts, which was accounted for as a secured financing. No such trusts were formed in 2005.

In December 2005, Financial Services entered into a transaction to securitize certain of its retained interests which resulted from its U.S. retail asset backed securitization programs. The retained interests were sold without recourse to a newly formed bankruptcy remote SPE which, in turn, pledged the retained interests as collateral for a revolving loan from a third-party multi-seller asset backed commercial paper (ABCP) conduit facility. The maximum amount of funding eligible through the facility is \$300 million and it is accounted for as a secured financing. At December 31, 2005, total retained interests pledged under this program were \$324 million. The facility is renewable in December 2008.

Managed Portfolio Financial Services

Historical loss and delinquency amounts for Financial Services Managed Portfolio for 2005 and 2004 are as follows:

	Principal Amount of Receivables At December 31,	Principal More Than 30 Days Delinquent At December 31,	Net Credit Losses for the Year Ending
(in millions)			
2005			
Type of receivable:			
Wholesale notes and accounts	\$ 4,036	\$ 87	\$ 2
Retail and other notes and finance leases	9,734	239	35
Total managed	\$ 13,770	\$ 326	\$ 37
Comprised of:			
Receivables held in portfolio	\$ 4,438		
Receivables serviced for Equipment Operations	224		
Receivables serviced for Joint Venture	1,448		
Securitized	7,660		
Total managed	\$ 13,770		
2004			
Type of receivable:			
Wholesale notes and accounts	\$ 3,540	\$ 105	\$ 7
Retail and other notes and finance leases	9,719	250	43
Total managed	\$ 13,259	\$ 355	\$ 50

Comprised of:		
Receivables held in portfolio	\$	4,153
Receivables serviced for Equipment Operations		545
Receivables serviced for Joint Venture		1,654
Securitized		6,907
Total managed	\$	13,259

Non-Cash Retail Receivables Operating and Investing Activities

Non-cash operating and investing activities include retail receivables of \$138 million, \$133 million and \$260 million that were exchanged for retained interests in securitized retail receivables in 2005, 2004 and 2003, respectively.

F-20

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5: Inventories**

Inventories as of December 31, 2005 and 2004 consist of the following:

	2005	2004
	(in millions)	
Raw materials	\$ 494	\$ 501
Work-in-process	195	212
Finished goods	1,777	1,802
Total inventories	\$ 2,466	\$ 2,515

Note 6: Property, Plant and Equipment

A summary of property, plant and equipment as of December 31, 2005 and 2004 is as follows:

	2005	2004
	(in millions)	
Land, buildings and improvements	\$ 812	\$ 873
Plant and machinery	1,951	2,083
Other equipment	448	465
Construction in progress	72	80
	3,283	3,501
Accumulated depreciation	(1,972)	(2,023)
Net property, plant and equipment	\$ 1,311	\$ 1,478

Depreciation expense totaled \$221 million, \$222 million and \$213 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Note 7: Investments in Unconsolidated Subsidiaries and Affiliates

A summary of investments in unconsolidated subsidiaries and affiliates as of December 31, 2005 and 2004 is as follows:

Method of Accounting	2005	2004
	(in millions)	
Equity method	\$ 441	\$ 450
Cost method	8	7
Total	\$ 449	\$ 457

At December 31, 2005 and 2004, investments accounted for using the equity method primarily include interests CNH has in various ventures in the United States, Europe, Turkey, Mexico, Japan, India and Pakistan.

Combined financial information of equity method unconsolidated subsidiaries and affiliates is as follows:

Operations	For the years ended December 31,		
	2005	2004	2003
		(in millions)	
Sales	\$ 3,325	\$ 3,341	\$ 2,301
Net Income	\$ 188	\$ 110	\$ 67

F-21

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of December 31,	
Financial Position	2005	2004
	(in millions)	
Total Assets	\$ 4,220	\$ 4,705

CNH and BNP Paribas Lease Group (BPLG) are partners in the CNH Capital Europe SAS joint venture. Either CNH or BPLG may terminate the CNH Capital Europe SAS joint venture at any time, but the effective termination of the agreement cannot be prior to June 2008. The Company does not believe BPLG will terminate the joint venture. However, CNH believes the required six month advance notice would provide sufficient time to secure alternative financing for retail financing in the European countries where the joint venture operates.

Note 8: Equipment on Operating Leases

A summary of Financial Services equipment on operating leases as of December 31, 2005 and 2004 is as follows:

	2005	2004
	(in millions)	
Equipment on operating leases	\$ 249	\$ 341
Accumulated depreciation	(69)	(126)
Net equipment on operating leases	\$ 180	\$ 215

Depreciation expense totaled \$42 million, \$60 million and \$96 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Lease payments owed to CNH for equipment under non-cancelable operating leases as of December 31, 2005, are as follows:

	Amount
	(in millions)
2006	\$ 45
2007	27
2008	14
2009	6
2010 and thereafter	1
Total	\$ 93

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9: Goodwill and Intangibles**

Changes in the carrying amount of goodwill, by segment, for the years ended December 31, 2005 and 2004 are as follows:

	Agricultural Equipment	Construction Equipment	Financial Services	Total
	(in millions)			
Balance at January 1, 2004	\$ 1,775	\$ 634	\$ 145	\$ 2,554
Purchase accounting adjustment	(107)	(58)		(165)
Impact of foreign exchange	9	5	(1)	13
Balance at December 31, 2004	1,677	581	144	2,402
Purchase accounting adjustment	(8)	(6)		(14)
Impact of foreign exchange	(1)		1	
Balance at December 31, 2005	\$ 1,668	\$ 575	\$ 145	\$ 2,388

During 2005 and 2004, various tax valuation allowances and adjustments established in purchase accounting related to the acquisition of Case Corporation, (Case ; now a part of CNH America LLC) were reversed resulting in a reduction of goodwill.

In the fourth quarter of 2005, CNH reorganized its Equipment Operations into four distinct global brand structures, CaseIH and New Holland agricultural equipment brands and Case and New Holland Construction construction equipment brands. CNH has reviewed the impact of these changes on its reporting units and concluded that, although certain structural changes were made to reflect this reorganization during the fourth quarter of 2005, CNH did not meet the criteria to change its reporting units for 2005 as operating results under the new structure were not available for review by CNH's chief operating decision makers(CODM). Beginning in 2006, CNH will allocate goodwill to the four brands and perform impairment testing at the brand reporting unit level.

As of December 31, 2005 and 2004, the Company's intangible assets and related accumulated amortization consisted of the following:

	Weighted Avg. Life	2005			2004		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
		(in millions)					
Intangible assets subject to Amortization:							
Engineering Drawings	20	\$ 335	\$ 103	\$ 232	\$ 335	\$ 86	\$ 249
Dealer Networks	25	216	53	163	216	44	172
Software	5	50	37	13	53	27	26
Other	10 30	116	48	68	123	46	77
		717	241	476	727	203	524

Intangible assets not subject to amortization:							
Trademarks	273		273	273		273	
Pension	26		26	37		37	
	\$ 1,016	\$	241	\$ 775	\$ 1,037	\$	203 \$ 834

F-23

Table of Contents

CNH GLOBAL N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CNH recorded amortization expense of \$46 million, \$43 million and \$37 million during 2005, 2004 and 2003, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding 5 years is approximately \$46 million. As acquisitions and dispositions occur in the future and as purchase price allocations are finalized, these amounts may vary.

Note 10: Debt and Credit Lines

Credit lines

CNH has various lines of credit and liquidity facilities that include borrowings under both committed credit facilities and uncommitted lines of credit and similar agreements.

CNH has historically obtained, a significant portion of its external financing from Fiat or under facilities guaranteed by Fiat, on terms that CNH believes are at least as favorable as those available from unaffiliated third parties. The debt owed by CNH to Fiat is unsecured. In 2005, 2004 and 2003, CNH paid a guarantee fee of between 0.03125% per annum and 0.0625% per annum on the average amount outstanding under facilities guaranteed by Fiat. Fiat agreed to maintain its existing treasury and debt financing arrangements with CNH for as long as it maintains control of CNH and, in any event, at least until December 31, 2004. After that time, Fiat committed that it will not terminate CNH's access to these financing arrangements without affording CNH 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.

As of December 31, 2005, CNH had approximately \$3.5 billion of its \$6.6 billion total lines of credit available, including the asset-backed liquidity facilities described below.

F-24

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes CNH's credit facilities at December 31, 2005:

	Maturity	Amount	Borrower	Drawn		Total	Available	Guarantor
				Equipment	Financial			
(in millions)								
Committed lines:								
CNH portion of Fiat revolving syndicated backup credit facility	Jul 08	\$ 354	EO	\$	\$	\$	\$ 354	Fiat
Credit facilities with third parties	Jun 07	150	FS		150	150		Fiat
Buyer's credit Proex	2006-2010	129	EO	129		129		Fiat
CNH Capital								
Australia/Canada facility with UBS	2006	61	FS		61	61		Fiat
BNDES Subsidized Financing Brazil								
2006	2006	470	FS		470	470		Fiat**
2007	2007	337	FS		337	337		Fiat**
2008 and Beyond	2008+	483	FS		473	473	10	Fiat**
Revolving credit facility with Fiat affiliate	Jan 2007	1,000	Both	205	77	282	718	Fiat
Various committed lines Brazil	Jan 06-Sept 07	165	EO	165		165		
Various committed lines Australia	Jan 06-Jul 06	58	FS		51	51	7	
Total committed lines		3,207		499	1,619	2,118	1,089	
Uncommitted Lines								
Portion of Fiat revolving syndicated backup credit facility shared with Fiat subs.								
	Jul 08	826	EO				826	
Factoring lines	Jan 06	185	EO	185		185		
Factoring lines	Jan 06	50	FS				50	
Other	Jan 06	8	EO				8	
Asset-backed Programs								
United States	Jan 06	1,200	FS		157	157	1,043	
United States (Credit Cards)	Jun 07	250	FS		129	129	121	
Canada	Aug 06	257	FS		26	26	231	
Australia	Apr 06	293	FS		206	206	87	
ABS Retained Assets financing	Dec 08	300	FS		247	247	53	

Total uncommitted lines and ABCP	3,369	185	765	950	2,419
Total credit facilities	\$ 6,576	\$ 684	\$ 2,384	\$ 3,068	\$ 3,508
Drawn short-term debt		\$ 495	\$ 579	\$ 1,074	
Drawn long-term debt		\$ 189	\$ 1,805	\$ 1,994	
Total credit facilities with Fiat affiliates or guaranteed by Fiat affiliates	\$ 3,254	\$ 334	\$ 1,014	\$ 1,348	\$ 1,906

* EO = Equipment Operations; FS = Financial Services

** BNDES Subsidized Financing in Brazil is guaranteed by Fiat for up to \$726 million (1.7 billion Brazilian real equivalent).

F-25

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Short-term debt including use of credit lines

A summary of short-term debt, as of December 31, 2005 and 2004 is as follows:

	2005			2004		
	Equipment Operations	Financial Services	Consolidated	Equipment Operations	Financial Services	Consolidated
	(in millions)					
Drawings under ABCP liquidity facilities	\$	\$ 390	\$ 390	\$	\$ 448	\$ 448
Drawings under other credit lines third parties	290	112	402	725	113	838
Drawings under credit lines Fiat affiliates	205	77	282	248	193	441
Drawn under credit lines & ABCP	495	579	1,074	973	754	1,727
Other short-term debt third parties	57	108	165	8	91	99
Other short-term debt Fiat affiliates	274	9	283	83	148	231
Intersegment short-term debt		1,067		24	414	
Total short-term debt	\$ 826	\$ 1,763	\$ 1,522	\$ 1,088	\$ 1,407	\$ 2,057

Amounts drawn under credit lines for both Equipment Operations and Financial Services include borrowings under both committed credit facilities and uncommitted lines of credit and similar arrangements.

The weighted-average interest rates on consolidated short-term debt at December 31, 2005 and 2004 were 8.13% and 5.03%, respectively. The average rate is calculated using the actual rates at December 31, 2005 and 2004 weighted by the amount of the outstanding borrowings of each debt instrument.

Borrowings under non-affiliated third party revolving credit facilities bear interest at: (1) EURIBOR, plus an applicable margin; (2) LIBOR, plus an applicable margin; (3) banker's bills of acceptance rates, plus an applicable margin; or (4) other relevant domestic benchmark rates plus an applicable margin.

The applicable margin on third party debt depends upon:

the initial maturity of the facility/credit line;

the rating of short-term or long-term unsecured debt at the time the facility/credit line was negotiated; in cases where Fiat provides a guarantee, the margin reflects Fiat's credit standing at the time the facility or credit line was arranged;

the extent of over-collateralization, in the case of receivables warehouse facilities; and

the level of availability of credit lines for CNH in different jurisdictions.

The applicable margin for related party debt is based on Fiat intercompany borrowing and lending rates applied to all of its affiliates. These rates are determined by Fiat based on its cost of funding for debt of different maturities.

CNH believes that rates applied by Fiat to CNH's related party debt are at least as favorable as alternative sources of funds CNH may obtain from third parties. The range of margins applied by Fiat to CNH's related party debt outstanding as of December 31, 2005 was between 0.15% and 2.25%.

Borrowings against ABCP liquidity facilities bear interest at prevailing asset-backed commercial paper rates. Borrowings are obtained in U.S. dollars and certain other foreign currencies.

F-26

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Certain of CNH's revolving credit facilities contain contingent requirements regarding the maintenance of financial conditions and impose certain restrictions related to new liens on assets and changes in ownership of certain subsidiaries. At December 31, 2005, CNH was in compliance with all debt covenants. The non-affiliated third party committed credit facilities generally provide for facility fees on the total commitment, whether used or unused, and provide for annual agency fees to the administrative agents for the facilities.

A summary of long-term debt as of December 31, 2005 and 2004, including long-term drawings under credit lines, is as follows:

	2005		2004			
	Equipment Operations	Financial Services	Consolidated	Equipment Operations	Financial Services	Consolidated
	(in millions)					
Public Notes:						
Payable in 2005, interest rate of 7.25%	\$	\$	\$	\$ 218	\$	\$ 218
Payable in 2007, interest rate of 6.75%		125	125		127	127
Payable in 2009, interest rate of 6.00%	482		482	474		474
Payable in 2011, average interest rate of 9.25%	1,051		1,051	1,052		1,052
Payable in 2016, interest rate of 7.25%	247		247	254		254
Third Party Loans:						
Payable in 2006-2007, interest rate of 4.60% (floating rate)	153		153	169		169
Notes with Fiat affiliates:						
Payable in 2006, interest rate of 6.60% (floating rate)	150		150	700		700
Payable in 2006, interest rate of 3.36% (floating rate)	94		94	109		109
Other affiliated notes, weighted average interest rate of 5.75%				21		21
Other affiliate notes, weighted-average interest rate of 4.80% and 4.86% respectively		173	173		219	219
Long-term drawings under credit lines	189	1,805	1,994	62	1,098	1,160
Other debt	30	266	296	25	378	403
Intersegment debt with Equipment Operations					700	
Total long-term debt	2,396	2,369	4,765	3,084	2,522	4,906
Less-current maturities	(385)	(674)	(1,059)	(257)	(629)	(886)

Total long-term debt excluding current maturities	\$ 2,011	\$ 1,695	\$ 3,706	\$ 2,827	\$ 1,893	\$ 4,020
--	----------	----------	----------	----------	----------	----------

F-27

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the minimum annual repayments of long-term debt, less current maturities of long-term debt, as of December 31, 2005, is as follows:

	Equipment Operations	Financial Services	Consolidated
	(in millions)		
2007	\$ 145	\$ 872	\$ 1,017
2008	28	584	612
2009	522	168	690
2010	12	59	71
2011 and thereafter	1,304	12	1,316
Total	\$ 2,011	\$ 1,695	\$ 3,706

On August 1, 2003 and September 16, 2003, a total of \$1.05 billion of Case New Holland, Inc. (Case New Holland) 9 1/4% Senior Notes due 2011 (the 9 1/4% Senior Notes) were issued at a nominal net premium. On May 18, 2004, \$500 million of Case New Holland 6% Senior Notes due 2009 (the 6% Senior Notes) were issued. The 6% Senior Notes, issued at a discount, resulted in net proceeds of approximately \$474 million. Both the 9 1/4 % Senior Notes and the 6% Senior Notes are fully and unconditionally guaranteed by CNH and certain of its direct and indirect subsidiaries and contain certain covenants that limit CNH s ability to, among other things, incur additional debt; pay dividends on CNH s capital stock or repurchase CNH s capital stock; make certain investments; enter into certain types of transactions with affiliates; limit dividend or other payments by CNH s restricted subsidiaries; use assets as security in other transactions; enter into sale and leaseback transactions; and sell assets or merge with, or into, other companies. In addition, certain of the related agreements governing CNH subsidiaries indebtedness contain covenants limiting their incurrence of secured debt or structurally senior debt.

During the second quarter of 2005, Case New Holland completed an exchange of its registered 9 1/4% Senior Notes and its registered 6% Senior Notes for its outstanding unregistered 9 1/4 % Senior Notes and its unregistered 6% Senior Notes.

Other long-term debt in 2005 and 2004 for Financial Services includes amounts funded under a retail ABS term transaction for which assets have been retained on-book. See Note 4: Accounts and Notes Receivable for further details.

Interest expense approximates interest paid for all periods presented.

Non-Cash Financing Activity

During 2003, approximately \$95 million of Equipment Operation s short-term debt with Fiat was refinanced with long-term debt with Fiat in a non-cash transaction.

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11: Income Taxes

The sources of income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries and affiliates for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	(in millions)		
The Netherlands source	\$ 4	\$ (25)	\$ (80)
Foreign sources	253	184	(138)
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries and affiliates	\$ 257	\$ 159	\$ (218)

The provision (benefit) for income taxes for the years ended December 31, 2005, 2004 and 2003 consisted of the following:

	2005	2004	2003
	(in millions)		
Current income taxes	\$ (16)	\$ 35	\$ 23
Deferred income taxes	132	4	(72)
Total tax provision (benefit)	\$ 116	\$ 39	\$ (49)

A reconciliation of CNH's statutory and effective income tax provision (benefit) for the years ended December 31, 2005, 2004 and 2003 is as follows:

	2005	2004	2003
Tax provision (benefit) at the Netherlands statutory	32%	35%	(35)%
Foreign income taxed at different rates	13	13	2
Change in tax status of certain entities		6	
Current year losses not benefitted	41	47	18
Change in valuation allowance	(9)	(18)	(17)
Dividend withholding taxes and credits	1	1	1
Reversal of tax contingency reserves	(21)	(11)	
Stock deduction from legal entity rationalization		(41)	
Other	(12)	(7)	9
Total tax provision (benefit)	45%	25%	(22)%

In 2005, CNH reached an agreement with a government agency regarding tax positions taken during 2000, which resulted in a reduction of tax expense and previously provided tax liabilities. Also during 2005, additional tax expense

was recognized in certain entities as valuation allowances were established against previously recognized tax assets based on an evaluation of recent results of operations and anticipated future operations at these entities. In 2004 the impact of tax losses in certain jurisdictions where no immediate tax benefit was recognized was offset by the positive impact of a stock deduction resulting from a legal entity rationalization transaction.

F-29

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of net deferred tax assets as of December 31, 2005 and 2004 are as follows:

	2005	2004
	(in millions)	
Deferred tax assets:		
Marketing and sales incentive programs	\$ 173	\$ 136
Allowance for credit losses	80	41
Pension, postretirement and postemployment benefits	575	670
Inventories	56	32
Warranty and modification programs	75	94
Restructuring	29	10
Other reserves	319	458
Tax loss carryforwards	1,143	1,496
Less: Valuation allowance	(929)	(1,025)
Total deferred tax assets	1,521	1,912
Deferred tax liabilities:		
Property, plant and equipment, net	118	67
Intangibles assets	266	261
Inventories	75	75
Other	125	349
Total deferred tax liabilities	584	752
Net deferred tax assets	\$ 937	\$ 1,160

The net deferred tax assets are reflected in the accompanying consolidated balance sheets as of December 31, 2005 and 2004 as follows:

	2005	2004
	(in millions)	
Current deferred tax asset	\$ 534	\$ 374
Long-term deferred tax asset (included in Other assets)	518	858
Current deferred tax liability (included in Other accrued liabilities)	(61)	(5)
Long-term deferred tax liability (included in Other liabilities)	(54)	(67)
Net deferred tax asset	\$ 937	\$ 1,160

CNH has operating tax loss carryforwards in a number of foreign tax jurisdictions. The years in which they expire are as follows: \$7 million in 2006; \$19 million in 2007; \$13 million in 2008; \$70 million in 2009; \$10 million in 2010; and \$647 million with expiration dates from 2014 through 2024. CNH also has operating tax loss carryforwards of \$2.9 billion with indefinite lives.

A determination that it is more likely than not that some or all of the deferred tax assets currently recorded will not be realized will adversely impact CNH's results of operations and financial position as the required additional valuation allowance would be an additional charge recorded to tax expense in the period that such determination was made.

Any reduction in valuation allowances recorded against deferred tax assets of Case Corporation and its subsidiaries as of the acquisition date, have in the past (see Note 9: Goodwill and Intangibles) and will, in the future, be treated as a reduction of the goodwill recorded in conjunction with the acquisition and will not impact future periods' tax expense. As of December 31, 2005, the valuation allowance that is potentially subject to being allocated to goodwill as part of the Case Corporation acquisition totaled \$379 million.

Table of Contents

CNH GLOBAL N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2005, the undistributed earnings of foreign subsidiaries totaled approximately \$1.6 billion. In most cases, such earnings will continue to be reinvested. Provision has generally not been made for additional taxes on the undistributed earnings of foreign subsidiaries. These earnings could become subject to additional tax if they are remitted as dividends or if CNH were to dispose of its investment in the subsidiaries. It has not been practical to estimate the amount of additional taxes that might be payable on the foreign earnings, and CNH believes that additional tax credits and tax planning strategies would largely eliminate any tax on such earnings.

CNH paid cash taxes of \$45 million and \$59 million in 2005 and 2004 and received cash tax refunds of \$83 million in 2003.

Note 12: Restructuring

During 2005, 2004 and 2003, \$73 million, \$104 million and \$274 million, respectively, was recorded in restructuring. These costs primarily relate to severance and other employee-related costs, writedown of assets, loss on the sale of assets and businesses, costs related to closing, selling, and downsizing existing facilities and our recently announced brand initiatives. During 2003, CNH reversed \$3 million of the restructuring accrual principally as a result of determining that costs to exit certain facilities were lower than anticipated.

Reductions in headcount were achieved by eliminating administrative and back office functions and related personnel and manufacturing personnel in facilities that were either closed or downsized. These costs include severance and contractual benefits in accordance with collective bargaining agreements, other agreements and CNH policy, outplacement services, medical and supplemental vacation and retirement payments.

Costs related to closing, selling, and downsizing existing facilities were due to excess capacity and duplicate facilities and primarily relate to the following actions:

rationalization of the construction equipment manufacturing facility in Berlin, Germany

rationalization of the combine manufacturing plant in East Moline, United States

rationalization of the crawler excavator product line and transfer of production of the loader/backhoe product line produced at the Crepy, France facility;

rationalization of the manufacturing facility in Neustadt, Germany, and

other actions which take into consideration duplicate capacity and other synergies including purchasing and supply chain management, research and development and selling, general and administrative functions related to CNH's operations.

As management approves and commits to a restructuring action, CNH determines the assets that will be disposed of in the restructuring actions and records an impairment loss equal to the lower of their carrying amount or fair market value less the cost to sell. The fair market value of the assets is determined as the amount at which the asset could be bought or sold in a current transaction between willing parties. Impairment charges of \$1 million, \$12 million and \$38 million were included in 2005, 2004 and 2003, respectively.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth restructuring activity for the years ended December 31, 2005, 2004 and 2003:

	Severance and Other Employee Costs	Facility Related Costs	Asset Impairments	Other Restructuring	Total
	(in millions)				
Balance at January 1, 2003	\$ 30	\$ 6	\$ 3	\$ 11	\$ 50
Additions	220	6	38	10	274
Reserves utilized: cash	(57)	(10)		(10)	(77)
Reserves utilized: non-cash	(148)		(24)		(172)
Changes in estimates	(3)				(3)
Balance at December 31, 2003	42	2	17	11	72
Additions	55	30	12	7	104
Reserves utilized: cash	(60)	(31)		(9)	(100)
Reserves utilized: non-cash			(29)		(29)
Balance at December 31, 2004	37	1		9	47
Additions	61	5	1	6	73
Reserves utilized: cash	(51)	(6)		(15)	(72)
Reserves utilized: non-cash			(1)		(1)
Balance at December 31, 2005	\$ 47	\$	\$	\$	\$ 47

In 2005, CNH recorded \$30 million of restructuring expense relating to the closure of the Berlin, Germany construction equipment manufacturing facility. This charge primarily relates to costs to be incurred for severance under on-going benefit arrangements. Subsequent to December 31, 2005, CNH will incur additional charges for the closure of the facility in Berlin related to lease termination, additional severance and other closure costs. These actions are currently expected to be completed prior to December 31, 2006.

The specific restructuring measures and associated estimated costs were based on management's best business judgment under prevailing circumstances. Management believes that the restructuring reserve balance at December 31, 2005, is adequate to carry out the restructuring activities already charged to expense, primarily the severance of employees at the Berlin, Germany facility to be closed and payments to already severed employees. CNH anticipates that the majority of all actions currently accrued for will be completed by December 31, 2006. With the exception of the Berlin, Germany facility closure, costs relating to the majority of restructuring activities have already been expensed. If future events warrant changes to the reserve, such adjustments will be reflected in the applicable consolidated statements of operations as Restructuring.

Note 13: Employee Benefit Plans and Postretirement Benefits

CNH has various defined benefit plans that cover certain employees. Benefits are generally based on years of service and, for most salaried employees, on final average compensation. Benefits for salaried employees were frozen for pay and service as of December 31, 2000. Salaried employees receive a 3% increase for every year of employment

after December 31, 2000 for a maximum of three years.

CNH's funding policies are to contribute to the plans amounts necessary to, at a minimum, satisfy the funding requirements as prescribed by the laws and regulations of each country. Plan assets consist principally of listed equity and fixed income securities.

CNH has postretirement health and life insurance plans that cover the majority of its U.S. and Canadian employees. For New Holland U.S. salaried and hourly employees, and for Case U.S. non-represented hourly

F-32

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and Case U.S. and Canadian salaried employees, the plans cover employees retiring on or after attaining age 55 who have had at least 10 years of service with the Company. For Case U.S. and Canadian hourly employees represented by a labor union, the plans generally cover employees who retire pursuant to their respective hourly plans and collective bargaining agreements. These benefits may be subject to deductibles, copayment provisions and other limitations, and CNH has reserved the right to change these benefits, subject to the provisions of any collective bargaining agreement. CNH U.S. and Canadian employees hired after January 1, 2001 and January 1, 2002, respectively, are not eligible for postretirement health and life insurance benefits under the CNH plans. Beginning in 2005, a defined dollar benefit was applied 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.

In May 2004, the FASB issued FSP No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP No. 106-2). In accordance with the provisions of FSP No. 106-2 and the Medicare Act, the Company re-measured its related plans in 2004. This resulted in a reduction in the accumulated postretirement benefit obligation for the subsidy related to benefits attributed to past service of approximately \$70 million. The Company has elected to reflect the impact of the Medicare Act prospectively from the date of the change. The subsidy resulted in a reduction in 2005 and 2004 net periodic postretirement benefit costs of approximately \$10 million. The Company has not incurred a reduction in current gross benefit payments and expects to receive subsidy payments beginning in 2006.

In connection with CNH's acquisition of Orenstein & Koppel Aktiengesellschaft (O&K) in December 1998, CNH recorded an unfunded pension obligation of approximately \$140 million related to pension rights of non-active employees of O&K. An irrevocable, revolving bank guarantee was obtained to back the seller's guarantee of the future pension payment reimbursement. In December 2004, CNH received cash from the seller that approximated the benefit obligation. CNH assumed responsibilities for the benefit obligation subsequent to December 2004.

Former parent companies of New Holland and Case retained certain accumulated pension benefit obligations and related assets and certain accumulated postretirement health and life insurance benefit obligations. Accordingly, as these remain the obligations of the former parent companies, the financial statements of CNH do not reflect any related assets or liabilities. See Note 15: Commitments and Contingencies, Other Litigation for a discussion of litigation related to these obligations retained by former parent companies.

The following assumptions were utilized in determining the funded status of CNH's defined benefit pension plans for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Weighted-average discount rates for obligations	5.50%	4.57%	5.75%	5.07%	6.25%	5.31%
Weighted-average discount rates for expense	5.75%	5.07%	6.25%	5.31%	6.75%	5.58%
Rate of increase in future compensation	N/A	2.73%	N/A	3.45%	N/A	3.43%
Weighted-average, long-term rates of return on plan assets	8.25%	7.16%	8.75%	7.16%	8.75%	7.33%

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following assumptions were utilized in determining the accumulated postretirement benefit obligation of CNH's postretirement health and life insurance plans for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	U.S. Plans	Canadian Plan	U.S. Plans	Canadian Plan	U.S. Plans	Canadian Plan
Weighted-average discount rates for obligations	5.50%	5.00%	5.75%	5.75%	6.25%	6.00%
Weighted-average discount rates for expense (A)	5.75%	5.75%	6.25%	6.00%	6.75%	6.75%
Rate of increase in future compensation	4.00%	3.50%	4.00%	3.50%	4.00%	3.50%
Weighted-average, assumed initial healthcare cost trend rate	10.00%	9.00%	10.00%	9.00%	10.00%	9.00%
Weighted-average, assumed ultimate healthcare cost trend rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Year anticipated attaining ultimate healthcare cost trend rate	2011	2014	2010	2013	2009	2012

(A) - For postretirement benefit plans impacted by amendments during the first half of 2005, a 5% discount rate was utilized for the plan re-measurement.

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The discount rate assumptions used to determine the U.S. obligations at December 31, 2005 were based on the Towers Perrin Cash Flow Matching System (TPCFMS), which was designed by Towers Perrin to provide a means for plan sponsors to value the liabilities of their plans. TPCFMS develops and provides support for a customized discount rate based on each plan's expected annual size and timing of benefit payments in future years or estimated duration. TPCFMS incorporates a hypothetical yield curve based on a portfolio with yields within the 10th to 90th percentiles from about 500 Aa-graded, non-callable bonds. Prior to using the TPCFMS rates, the discount rate assumptions for benefit expenses in 2005, 2004 and 2003 and the obligations at December 31, 2004 were based on the Moody's Aa bond yield. For non-U.S. plans, benchmark yield data of high-quality fixed income investments for which the timing and amounts of payments match the timing and amounts of projected benefit payments is used to derive discount rate assumptions.

The expected long-term rate of return on plan assets reflects management's expectations on long-term average rates of return on funds invested to provide for benefits included in the projected benefit obligations. Beginning with the year end December 31, 2005 valuations, the expected return is based on the outlook for inflation, fixed income returns and equity returns, while also considering asset allocation and investment strategy, premiums for active management to the extent asset classes are actively managed and plan expenses. Historical return patterns and correlations, consensus return forecasts and other relevant financial factors are analyzed to check for reasonability and appropriateness. Prior to this time, assumptions were based on surveys of large asset portfolio managers and peer group companies based on a combination of past experience in the markets as well as future return expectations over the next ten years.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. Rates are determined based on Company-specific experience, consultation with actuaries and outside consultants, and various trend factors including general and health care sector-specific inflation projections from the United States Department of Health and Human Services Health Care Financing Administration. The initial trend is a short-term assumption based on recent experience and prevailing market conditions. The ultimate trend is a long-term assumption of health

care cost inflation based on general inflation, incremental

F-34

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

medical inflation, technology, new medicine, government cost shifting, utilization changes, aging population and a changing mix of medical services.

The asset allocation for the U.S. and the U.K. and the weighted average asset allocation for other qualified pension plans and the related target allocations for 2006 are as follows:

Asset category:	U.S. Plans			U.K. Plans			Other Plans		
	Target Allocation 2006	Percentage of Plan Assets as of		Target Allocation 2006	Percentage of Plan Assets as of		Target Allocation 2006	Percentage of Plan Assets as of	
		December 31, 2005	2004		December 31, 2005	2004		December 31, 2005	2004
Equity securities	53%	53%	54%	60%	61%	59%	54%	56%	65%
Debt securities	47%	47%	46%	40%	39%	41%	35%	18%	12%
Cash/ Other	%	%	%	%	%	%	11%	26%	23%

The investment strategy followed by CNH varies by country depending on the circumstances of the underlying plan. Typically less mature plan benefit obligations are funded by using more equity securities as they are expected to achieve long-term growth while exceeding inflation. More mature plan benefit obligations are funded using more fixed income securities as they are expected to produce current income with limited volatility. Risk management practices include the use of multiple asset classes and investment managers within each asset class for diversification purposes. Specific guidelines for each asset class and investment manager are implemented and monitored.

CNH currently estimates that discretionary contributions to its U.S. defined benefit pension plan trust will be approximately \$120 in 2006. Estimated contributions to the U.S. postretirement benefit plans will be approximately \$70 million in 2006.

The following summarizes cash flows related to total benefits expected to be paid from the plans or from Company assets, as well as expected Medicare Part D subsidy receipts:

	Pension Benefits		Other Postretirement Benefits		Medicare Part D Reimbursement
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans
(in millions)					
Employer Contributions:					
2006 (expected)	\$ 120	\$ 68	\$ 70	\$ 4	\$ N/A
Expected benefit payments and reimbursements:					
2006	\$ 72	\$ 85	\$ 88	\$ 2	\$ 1
2007	73	91	84	3	2
2008	73	96	84	3	1

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

2009		74	99	89	3	2
2010		74	101	89	3	2
2011	2015	380	505	481	14	14
Total		\$ 746	\$ 977	\$ 915	\$ 28	\$ 22

F-35

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes data from CNH's defined benefit pension plans and postretirement health and life insurance plans for the years ended December 31, 2005 and 2004:

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
(in millions)				
Change in benefit obligations:				
Actuarial present value of benefit obligation at beginning of measurement period	\$ 2,816	\$ 2,426	\$ 1,616	\$ 1,494
Service cost	37	26	15	15
Interest cost	146	142	75	83
Plan participants' contributions	1	5	8	7
Actuarial loss	233	276	220	197
Currency translation adjustments	(209)	127	2	3
Gross benefits paid	(175)	(156)	(80)	(75)
Plan amendments	17	(30)	(186)	(34)
Medicare Part D				(74)
Actuarial present value of benefit obligation at end of measurement period	2,866	2,816	1,670	1,616
Change in plan assets:				
Plan assets at fair value at beginning of measurement period	1,685	1,393		
Actual return on plan assets	230	164		
Currency translation adjustments	(51)	71		
Employer contributions	182	208	72	68
Plan participants' contributions	1	5	8	7
Gross benefits paid	(175)	(156)	(80)	(75)
Plan assets at fair value at end of measurement period	1,872	1,685		
Funded status:	(994)	(1,131)	(1,670)	(1,616)
Unrecognized prior service cost	3	15	(198)	(55)
Unrecognized net loss resulting from plan experience and changes in actuarial assumptions	849	892	925	783
Remaining unrecognized net asset at initial application			14	26
Net amount recognized at end of year	\$ (142)	\$ (224)	\$ (929)	\$ (862)

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
(in millions)				
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	\$ 380	\$ 218	\$	\$
Investments in unconsolidated subsidiaries and affiliates	(8)	(8)		
Accrued benefit liability	(1,239)	(1,213)	(929)	(862)
Intangible asset	26	37		
Deferred tax assets	253	280		
Accumulated other comprehensive loss	446	462		
Net amount recognized at end of year	\$ (142)	\$ (224)	\$ (929)	\$ (862)

The following summarizes the consolidated statements of operations impact of CNH's defined benefit pension plans and postretirement health and life insurance plans for the years ended December 31, 2005, 2004 and 2003:

	Pension Benefits			Other Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
(in millions)						
Components of net periodic benefit cost:						
Service cost	\$ 37	\$ 26	\$ 27	\$ 15	\$ 15	\$ 17
Interest cost	146	142	123	75	83	71
Expected return on assets	(128)	(121)	(95)			
Amortization of:						
Transition asset				7	9	9
Prior service cost	2	3	3	(36)	(23)	(17)
Actuarial loss	78	47	49	77	50	35
Net periodic benefit cost	135	97	107	138	134	115
Curtailment loss			58			93
Total expense	\$ 135	\$ 97	\$ 165	\$ 138	\$ 134	\$ 208

The aggregate projected benefit obligation, aggregate accumulated benefit obligation and aggregate fair value of plan assets for pension plans with benefit obligations in excess of plan assets were \$2.9 billion, \$2.7 billion and \$1.9 billion, respectively, as of December 31, 2005 and \$2.8 billion, \$2.7 billion and \$1.8 billion, respectively, as of December 31, 2004.

CNH has experienced a continuing high level of other postretirement employee benefit costs, principally related to health care, during 2005. Consequently, CNH will maintain the 2005 initial annual estimated rate of increase in the per capita cost of healthcare at 10% for 2006 despite earlier expectations that this rate would decrease. The initial annual estimated rate of increase in per capita cost of healthcare will decrease by 1% in each subsequent year until reaching 5% in 2011. Increasing the assumed healthcare cost trend rate by one percentage point would increase the total accumulated postretirement benefit obligation at December 31, 2005, by approximately \$196 million, and would increase the aggregate of the service cost and interest cost components of the net 2005 postretirement benefit cost by approximately \$32 million. Decreasing the assumed healthcare cost trend rate by one percentage point would decrease the total accumulated postretirement benefit obligation at December 31, 2005, by approximately \$153 million, and would decrease the aggregate of

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the service cost and interest cost components of the net 2005 postretirement benefit cost by approximately \$26 million.

Other Programs

As required by Italian labor legislation, an accrual for an employee severance indemnity has been provided for a portion of CNH's Italian employees' annual salaries, indexed for inflation. The obligation for this liability is computed based on the actuarial present value of the benefits to which the employee is entitled after considering the expected date of separation or retirement. During 2005, CNH began reflecting this liability, along with its other defined benefit plans in the tables above.

Defined Contribution Plans

CNH provides defined contribution plans for their U.S. salaried employees, their U.S. non-represented hourly employees and for their represented hourly employees covered by collective bargaining agreements. During each of the years ended December 31, 2005, 2004 and 2003, CNH recorded expense of approximately \$17 million for its defined contribution plans.

Note 14: Other Accrued Liabilities

A summary of other accrued liabilities as of December 31, 2005 and 2004 is as follows:

	2005	2004
	(in millions)	
Marketing and sales incentive programs	\$ 533	\$ 407
Warranty and modification programs	192	198
Accrued payroll and incentives	204	181
Value-added taxes and other taxes payable	107	165
Other accrued expenses	759	767
 Total other accrued liabilities	 \$ 1,795	 \$ 1,718

Note 15: Commitments and Contingencies

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

Environmental

The companies operations and products are subject to extensive environmental laws and regulations in the countries in which they operate. CNH has an ongoing Pollution Prevention Program to reduce industrial waste, air emissions and water usage. In addition regional programs are 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.

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

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. The company expects that it may make significant capital and research expenditures to comply with these standards now and in the future. These costs are likely to increase as emissions limits become more stringent. At this time, the company is 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 current and anticipated emission limits could result in adverse effects on future financial results.

Capital expenditures for environmental control and compliance in 2005 were approximately \$3.0 million. The Clean Air Act Amendments of 1990 and European Commission directives directly affect the operations of all manufacturing facilities in the United States and Europe, respectively, currently and in the future. The manufacturing processes affected include painting and coating 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, it is anticipated that these costs are likely to increase as environmental requirements become more stringent. The Company believes that these capital costs, exclusive of product-related costs, will not have a material adverse effect on its 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, the Company has received inquiries for information or notices of its potential liability regarding 47 non-owned sites at which hazardous substances allegedly generated by the Company were released or disposed (Waste Sites). Of the Waste Sites, 20 are on the National Priority List promulgated pursuant to CERCLA. For 40 of the Waste Sites, the monetary amount or extent of our liability has either been resolved; the company has not been named as a potentially responsible party (PRP); or a liability is likely de minimis. In September 2004, the United States Environmental Protection Agency (U.S. EPA) proposed the Parkview Well Site in Grand Island, Nebraska for listing on the National Priorities List (NPL). Within its proposal U.S. EPA discussed two alleged alternatives, one of which identified historical on-site activities that occurred during prior ownership at CNH America LLC s (CNH America) Grand Island manufacturing plant property as a possible contributing source of area groundwater contamination. CNH America filed comments on the proposed listing which reflected its opinion that the data does not support U.S. EPA s alleged scenario. In December 2004, a toxic tort suit was filed by area residents against CNH, certain of CNH s subsidiaries including CNH America, and prior owners of the property. While the Company is unable to predict the outcome of this proceeding, it believes that it has strong legal and factual defenses, and will vigorously defend this lawsuit. 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, potential liability for remediation costs associated with the 47 Waste Sites could change. Moreover, because liability under CERCLA and similar laws can be joint and several, the Company could be required to pay amounts in excess of its pro rata share of remediation costs. However, when appropriate, the Company s understanding of the financial strength of other PRPs has been considered in the determination of its potential liability. The Company believes that the costs associated with the Waste Sites will not have a material adverse effect on its business, financial position or results of operations.

Environmental investigatory or remedial activities are being conducted at certain properties that are currently or were formerly owned and/or operated or which are being decommissioned. The Company believes that the outcome of these activities will not have a material adverse effect on its business, financial position or results of operations.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. The Company plans to continue funding these costs of environmental compliance from operating cash flows.

Based upon information currently available, management estimates potential environmental liabilities including remediation, decommissioning, restoration, monitoring, and other closure costs associated with current or formerly owned or operated facilities, the Waste Sites, and other claims to be in the range of \$33 million to \$77 million. As of December 31, 2005, environmental reserves of approximately \$49 million had been established to address these specific estimated potential liabilities. Such reserves are undiscounted. After considering these reserves, management is of the opinion that the outcome of these matters will not have a material adverse effect on CNH's financial position 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, a class action lawsuit was filed in the Federal District Court for the Eastern District of Michigan against El Paso Tennessee Pipeline Co. (formerly Tenneco, Inc.) (El Paso) and CNH America, (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 Case in July 1994. The changes resulted from an agreement between an El Paso subsidiary and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the UAW) in 1993 to cap the amount of retiree health costs (the Cap). The UAW retirees were to bear the costs above the Cap. CNH America and El Paso are parties to a 1994 agreement under which El Paso agreed to be responsible for the health costs of pre-July 1994 retirees. El Paso also agreed to indemnify CNH America against claims related to this responsibility. The lawsuit arose after El Paso notified the retirees that the retirees will be required to pay the portion of the cost of those benefits above the Cap. The plaintiffs also filed a motion for preliminary injunction, asking the court to prevent El Paso and/or CNH America from requesting the retirees to pay the health costs over the Cap. On March 9, 2004, the court granted plaintiffs' motion for preliminary injunction and ordered CNH America to pay the costs of health benefits above the Cap for the plaintiff class from March 2004. In September 2004, the district court certified the class, but limited the class to retirees that had retired before the 1993 Cap Letter. With El Paso, CNH America appealed the district court's orders to the Sixth Circuit Court of Appeals. The district court had also ruled in CNH America's favor on its summary judgment motion and ordered that El Paso indemnify CNH by making the monthly payments of approximately \$1.8 million to cover the amounts above the Cap. El Paso filed its appeal of the summary judgment award with the Sixth Circuit which appeal was consolidated with the appeal of the preliminary injunction. On January 17, 2006, the Sixth Circuit Court of Appeals affirmed all the decisions of the district court including the order requiring El Paso to indemnify CNH America. El Paso has requested that the en banc Sixth Circuit Court of Appeals reconsider the panel decision concerning the vesting issue and indemnification issue. (CNH America has requested en banc review of the alter ego issue.) En banc review is discretionary with the court and is generally

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

only granted if it finds the issues extraordinary or if the decision conflicts with prior Sixth Circuit decisions. The court has asked plaintiffs to respond to EL Paso and CNH America's request for en banc review. The court has not requested that CNH respond to El Paso's request for en banc review. The court has not requested that CNH respond to El Paso's request for en banc review of the indemnification ruling. This is consistent with the court's rules that en banc review should not be given for matters of interpretation of state law. (The indemnification issue is a matter of state law interpretation.) While CNH is unable to predict the outcome, CNH believes the issue of indemnification rights it has against EL Paso should be final and the Sixth Circuit should not grant en banc review if it follows its own rules. CNH will continue to vigorously pursue its claims and defend against this lawsuit.

On October 21, 2005, CNH America and CNH Capital America LLC (CNH Capital), along with another creditor, filed a Chapter 7 bankruptcy petition (In re: Waltherman Implement, Inc., Involuntary Chapter 7 Bankruptcy No. 05-07284, in the United States Bankruptcy Court for the Northern District of Iowa) against Waltherman Implement, Inc., a former Case IH dealership in Dike, Iowa (Waltherman implement). The Company took this action after discovering irregularities in the books and records of Waltherman Implement and the sale of collateral by Waltherman Implement without paying the related borrowings with CNH Capital. Waltherman Implement has filed an answer to the bankruptcy petition in opposition to the bankruptcy filing. A hearing date has not been established for the Bankruptcy Court to determine the status of the bankruptcy petition. The Company has also sued Leon Waltherman pursuant to his guarantee of Waltherman Implement's obligation to CNH Capital. The outstanding loan amounts with Waltherman Implement is approximately \$20 million. The Company also owns or services a retail loan portfolio (approximately \$45 million as of December 31, 2005) resulting from sales by Waltherman Implement. Although much of the retail portfolio is properly collateralized, CNH has discovered that a portion of the collateral has been double financed or was not ultimately delivered to the customers specified in the retail contracts. CNH believes it has established adequate reserves for the Waltherman Implement situation although CNH can not predict the outcome of the bankruptcy petition, the litigation pending or necessary to collect loans made by CNH and any possible legal claims that any customers may try to allege against CNH. CNH has entered into an arrangement with the trustee of the Waltherman Implement bankruptcy estate to sell in the normal course of business the equipment owned by the estate. CNH has in turn contracted with a Case IH dealer to operate at the Dike, Iowa location.

Three of the Company's subsidiaries, New Holland Limited, New Holland Holding Limited and CNH (UK) Limited (together CNH UK), are claimants in group litigation against the Inland Revenue of the United Kingdom (Revenue) arising out of unfairness in the advance corporation tax (ACT) regime operated by the Revenue between 1974 and 1999. CNH UK's claim for return of surplus amounts to approximately £10.6 million (\$18.2 million). In December 2002 the issues relevant to CNH UK came before Mr. Justice Park in the High Court of Justice in England in a test case brought by Pirelli. He found against the Revenue and decided that Pirelli was entitled to compensation for wrongly paying ACT. The Revenue appealed, and the Court of Appeal (three Judges) agreed unanimously with the decision of Justice Park in the High Court and ruled again in favor of Pirelli. Again the Revenue appealed, and the final hearing on the issues took place in the House of Lords before five Judges during the fourth quarter of 2005. In February 2006, the House of Lords ruled that it had been wrong for Pirelli (and other claimants such as CNH UK) to pay ACT, but in calculating the compensation payable to the UK claimants, treaty credits that had been paid to the claimant's parent companies on receipt of the dividends in question must be netted against any claim for an ACT refund. In the lower courts the Judges had ruled against netting off. During the pendency of the appeal to the House of Lords, the Revenue had been persuaded to pay compensation to claimants (including CNH UK) on a conditional basis. CNH UK had received approximately £10.2 million (\$17.6 million) for compensation for loss of use of money. This was in addition to surplus ACT of approximately £9.1 million (\$15.6 million) that had previously been repaid to CNH UK, again on a conditional basis. The condition of receipt by CNH UK was that, if the final liability of the Revenue, if any, is determined by the House of Lords

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to be less than the sums already paid to CNH UK, then a sum equivalent to the overpayment should be repaid (plus interest at 1% over base rate from the date of payment/receipt). The House of Lords did not make a determination of the amounts, if any, that must be repaid to the Revenue by each individual claimant but have referred the case back to the High Court. A hearing was to commence on March 27, 2006, but it has been postponed. The hearing is expected to consider the issue of the correct method to apply in determining how treaty credits are to be taken into account as required by the House of Lords judgment. Depending upon the final resolution of the Pirelli test case, CNH UK may be required to return to Revenue all or some portion of the approximately £10.2 million (\$17.6 million) and the £9.1 million (\$15.6 million) that had been previously received. Neither repayment would impact the results of operations of CNH; however, the £9.1 million (\$15.6 million) of surplus ACT would be re-established as a tax asset on the balance sheet. This asset would be available to use against taxation liability on future profits of the UK companies. In the event that the Company determined that future UK profits would not be generated in order to use the asset, then a valuation reserve would be recorded against the asset and would impact results of operations of the Company accordingly. CNH UK intends to continue to vigorously pursue its remedies with regard to this litigation.

In February 2006, Fiat received a subpoena from the Securities and Exchange Commission (SEC) Division of Enforcement with respect to a formal investigation entitled *In the Matter of Certain Participants in the Oil for Food Program*. This subpoena requests documents relating to certain Fiat-related entities, including certain CNH subsidiaries with respect to matters relating to the United Nations Oil-for-Food Program with Iraq. A substantial number of companies, including certain CNH entities, were mentioned in the Report of the Independent Inquiry Committee into the United Nations Oil-for-Food Programme issued in October 2005. This report alleged that these companies engaged in transactions under this program that involved inappropriate payments. CNH cannot predict what actions, if any, will result from the SEC investigation or the impact thereof, if any, on the Company.

Commitments

Minimum rental commitments at December 31, 2005, under non-cancelable operating leases with lease terms in excess of one year are as follows:

	Amount
	(in millions)
2006	\$ 35
2007	25
2008	25
2009	16
2010	13
2011 and beyond	48
Total minimum rental commitments	\$ 162

Total rental expense for all operating leases was \$40 million, \$49 million and \$33 million as of ended December 31, 2005, 2004 and 2003, respectively.

Financial Services private label credit cards had various commitments to extend credit, net of balances outstanding of approximately \$3.2 billion as of December 31, 2005.

Guarantees

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

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

related to litigation. As of December 31, 2005, total commitments of this type total approximately \$164 million.

CNH is a member of a joint venture which has a note agreement with an outstanding balance of \$65 million at December 31, 2005. CNH is required to fund \$33 million of the principal as follows: \$10 million, \$10 million, and \$13 million in 2006, 2007, and 2008 respectively.

Warranty and Modification Programs

As described in Note 2: Summary of Significant Accounting Policies, CNH pays for normal warranty costs and the costs of major programs to modify products in the customers' possession within certain pre-established time periods. A summary of recorded activity for the years ended December 31, 2005 and 2004 for this commitment is as follows:

	2005	2004
	(in millions)	
Balance, beginning of year	\$ 198	\$ 183
Current year provision	300	287
Claims paid and other adjustments	(306)	(272)
Balance, end of year	\$ 192	\$ 198

Note 16: Financial Instruments**A. Fair Market Value of Financial Instruments**

The fair market value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. The estimated fair market values of financial instruments in the financial statements as of December 31, 2005 and 2004 are as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Accounts and notes receivable, net and long term receivables	\$ 5,841	\$ 5,858	\$ 5,895	\$ 5,906
Long-term debt	\$ 4,765	\$ 4,883	\$ 4,906	\$ 5,047
Derivative contracts, net asset (liability)	\$ (70)	\$ (70)	\$ 8	\$ 8

Accounts and notes receivable, net and long term receivables

The fair value of accounts and notes receivable was based on discounting the estimated future payments at prevailing market rates. The fair value, which approximates carrying value, of the retained interests included in accounts and notes receivables was based on the present value of future expected cash flows using assumptions for credit losses, prepayment spreads and discount rates commensurate with the risk involved. The carrying amount of floating-rate accounts and notes receivable was assumed to approximate their fair value.

Long-term debt

The fair value of fixed-rate, public long-term debt was based on both quoted prices and the market value of debt with similar maturities and interest rates; the fair value of other fixed-rate borrowings was based on

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

discounting using the treasury yield curve; the carrying amount of floating-rate long-term debt was assumed to approximate their fair value.

Derivative contracts, net

As derivatives are recorded at fair market value on the consolidated balance sheet, the carrying amounts and fair market values are equivalent for CNH's foreign exchange forward contracts, currency options, interest rate swaps and interest rate caps.

B. Derivatives

CNH utilizes derivative instruments to mitigate its exposure to interest rate and foreign currency exposures. Derivatives used as hedges are effective at reducing the risk associated with the exposure being hedged and are designated as a hedge at the inception of the derivative contract. CNH does not hold or issue such instruments for trading purposes. The credit and market risk for interest rate hedges are reduced through diversification among counterparties with high credit ratings. These counterparties include certain Fiat subsidiaries. The total notional amount of foreign exchange hedges and interest rate derivative hedges with certain Fiat subsidiaries as counterparties was approximately \$2 billion as of December 31, 2005.

Foreign Exchange Contracts

CNH has entered into foreign exchange forward contracts, swaps, and options in order to manage and preserve the economic value of cash flows in non-functional currencies. CNH conducts its business on a multinational basis in a wide variety of foreign currencies and hedges foreign currency exposures arising from various receivables, liabilities and expected inventory purchases. Derivative instruments that are utilized to hedge the foreign currency risk associated with anticipated inventory purchases in foreign currencies are designated as cash flow hedges. Gains and losses on these instruments, to the extent that they have been effective, are deferred in other comprehensive income and recognized in earnings when the related inventory is sold. Ineffectiveness related to these hedge relationships is recognized currently in the consolidated statements of operations as Other, net and was not significant. The maturity of these instruments does not exceed 17 months and the net of tax losses deferred in other comprehensive income to be recognized in earnings over the next two years beginning January 1, 2006 are \$51 million. The effective portion of changes in the fair value of the derivatives are recorded in other comprehensive income and are recognized in the consolidated statements of operations when the hedge item affects earnings.

CNH has also designated certain forwards and swaps as fair value hedges of certain short-term receivables and liabilities denominated in foreign currencies. The effective portion of the fair value gains or losses on these instruments are reflected in earnings and are offset by fair value adjustments in the underlying foreign currency exposures. Ineffectiveness related to these hedge relationships was not material.

Options and forwards not designated as hedging instruments are also used to hedge the impact of variability in exchange rates on foreign operational cash flow exposures. The changes in the fair values of these instruments are recognized directly in earnings, and are expected to generally offset the foreign exchange gains or losses on the exposures being managed, although the gain or loss on the exposure being hedged may be recorded in a different period than the gains or losses on the derivative instruments.

Interest Rate Derivatives

CNH has entered into interest rate swaps agreements in order to manage interest rate exposures arising in the normal course of business for Financial Services. Interest rate swaps that have been designated in cash flow hedging relationships are being used by CNH to mitigate the risk of rising interest rates related to the

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

anticipated issuance of short-term LIBOR based debt in future periods. Gains and losses on these instruments, to the extent that the hedge relationship has been effective, are deferred in other comprehensive income and recognized in interest expense over the period in which CNH recognizes interest expense on the related debt. Ineffectiveness recognized related to these hedge relationships was not significant and is recorded in Other, net in the accompanying consolidated statements of operations. The maximum length of time over which CNH is hedging its interest rate exposure through the use of derivative instruments designated in cash flow hedge relationships is 56 months, and CNH does not expect other comprehensive income to be recognized in earnings over the 12 months ending December 31, 2005, to be material.

Interest rate swaps that have been designated in fair value hedge relationships have been used by CNH to mitigate the risk of reductions in the fair value of existing fixed rate long-term bonds and medium-term notes due to increases in LIBOR based interest rates. This strategy is used mainly for the interest rate exposures for Equipment Operations. Gains and losses on these instruments are reflected in interest expense in the period in which they occur and an offsetting gain or loss is also reflected in interest expense based on changes in the fair value of the debt instrument being hedged due to changes in LIBOR based interest rates. There was no ineffectiveness as a result of fair value hedge relationships in 2005 or 2004.

CNH enters into forward starting interest rate swaps and forward rate agreements as hedges of the proceeds received upon the sale of receivables in ABS transactions as described in Note 4: Accounts and Notes Receivable. These instruments protect the Company from rising interest rates, which impact the rates paid on the securities issued to investors in connection with these transactions. The changes in the fair value of these instruments are highly correlated to changes in the anticipated cash flows from the proceeds to be received. Gains and losses are deferred in other comprehensive income and recognized in Finance and interest income in the accompanying consolidated statements of operations at the time of the ABS issuance. Ineffectiveness of these hedge relationships was not significant in 2005 or 2004.

CNH also utilizes both back-to-back interest rate swaps and back-to-back interest rate caps that are not designated in hedge relationships. Unrealized and realized gains and losses resulting from fair value changes in these instruments are recognized directly in earnings. These instruments are used to mitigate interest rate risk related to the Company's ABCP facilities and various limited purpose business trusts associated with the Company's retail note asset-backed securitization programs in North America. These facilities and trusts require CNH to enter into interest rate swaps and caps. To ensure that these transactions do not result in the Company being exposed to this risk, CNH enters into an offsetting interest rate swap or cap with substantially similar terms. Net gains and losses on these instruments were insignificant for 2005 and 2004.

Note 17: Shareholders' Equity

The Articles of Association of CNH provide for authorized share capital to 1.35 billion, divided into 400 million common shares and 200 million Series A preference shares with each having a per share par value of 2.25. The shareholders have authorized the board of directors to resolve on any future issuance of authorized shares for a period ending February 2007.

On April 7 and 8, 2003, CNH Global issued a total of 8 million shares of Series A Preferred Stock in exchange for the retirement of \$2 billion in Equipment Operations indebtedness owed to Fiat Group companies. Each outstanding share of Series A Preferred Stock, which was, as of December 31, 2005, held by Fiat Netherlands, was entitled to one vote on all matters submitted to CNH's shareholders.

Beginning in 2006, based on 2005 results, outstanding shares of Series A Preferred Stock were eligible for a dividend at the then prevailing common dividend yield. The prevailing common dividend yield was calculated based upon the average dividend yield of the common shares for the 30 trading days ending on the trading day prior to the date the shareholders approve the dividend on the common shares. The average

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

dividend yield of the common shares means the amount of dividend per share of the common shares declared by the shareholders divided by the average of the closing price per share of the common shares on the New York Stock Exchange for each trading day during the period of 30 consecutive trading days ending on the trading day prior to the date the shareholders approve the common share dividend. 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 (approximately \$30 million annually). The defined financial performance measures are (1) Adjusted EBITDA, as defined divided by Net Interest, as defined resulting in an amount that is greater than 4.0 and (2) Total Debt divided by Adjusted EBITDA, as defined resulting in an amount that is less than 2.5. For the year ended December 31, 2005 Adjusted EBITDA, divided by Net Interest, was 2.4 and Total Debt divided by Adjusted EBITDA, was 3.6, thus CNH did not meet the defined financial performance measures and the additional Series A Preferred Stock dividend yield was not due. The dividends on the Series A Preferred Stock were not cumulative. Dividends on the Series A Preferred Stock were expected to be payable annually in arrears; however, the board of directors may have deferred the payment of dividends on the Series A Preferred Stock for a period not to exceed five consecutive years. The Series A Preferred Stock automatically converted 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.

The Series A Preferred Stock had a liquidation preference of \$250 per share. In the event of dissolution or liquidation, whatever remains of the Company's equity, after all its debts have been discharged, would have been first 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 would have been distributed to the holders of common shares in proportion to the aggregate nominal amount of their common shares.

For the period of 30 consecutive trading days ending on March 22, 2006, such average was \$24.01. Accordingly, pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon completion of the conversion, Fiat's ownership of CNH rose to approximately 90%. Upon issuance, the new 100 million common shares became eligible for the Company's proposed \$0.25 per share dividend, subject to approval at the Annual General Meeting of shareholders, which will be held on April 7, 2006 at the Company's registered office in Amsterdam, the Netherlands. If approved, the dividend will be payable on May 5, 2006 to all shareholders of record at the close of business on April 28, 2006. There will be no preferred dividend, as none of our preference shares will be outstanding.

The Company provides matching contributions to the CNH Salaried Plan and the CNH Hourly Plan in the form of CNH common shares rather than cash.

As of December 31, 2005, CNH has 135,020,437 common shares issued, of which 134,865,624 shares were outstanding while 154,813 shares were held by CNH as treasury shares. As of this same date, CNH has 8 million shares of Series A Preferred Stock issued and outstanding.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the years ended December 31, 2005, 2004 and 2003, changes in CNH common shares, and CNH Series A Preference Shares issued were as follows:

	Common Shares			Series A Preference Shares		
	2005	2004	2003	2005	2004	2003
	(in thousands)					
Issued as of beginning of year	133,937	132,914	131,238	8,000	8,000	
Issuances of CNH Common Shares:						
Contributions to CNH benefit plans	904	918	1,463			
Restricted shares issued under the equity incentive plan			207			
Stock option exercises	179	105	6			
Issuance of CNH Series A Preferred Stock						8,000
Issued as of end of year	135,020	133,937	132,914	8,000	8,000	8,000

Dividends of \$0.25 per common share, totaling \$34 million, were declared and paid during 2005. Dividends of \$0.25 per common share, totaling \$33 million, were declared and paid during 2004 and 2003, respectively.

Note 18: Option and Incentive Plans***CNH Directors Plan***

The CNH Global N.V. Outside Directors Compensation Plan (CNH Directors Plan), as 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; (2) an annual grant of 4,000 options to purchase common shares of CNH that vest on the third anniversary of the grant date (Annual Automatic Stock Option); (3) an opportunity to receive all or a portion of their Annual Fees in cash; (4) an opportunity to convert all or a portion of their Annual Fees into stock options; 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. 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 are equal to or greater than the fair market value of CNH common shares on the respective grant dates. On April 26, 2004, the CNH shareholders resolved to amend the annual compensation of the outside director serving as the Chairman of the Board to \$150,000. On May 3, 2005, the CNH shareholders resolved to amend the CNH Directors Plan to provide for an annual retainer of \$65,000. Each of CNH's outside directors is paid a fee of \$1,250 plus expenses for each Board of Director and committee meeting attended. At December 31, 2005, there were one million common shares reserved for issuance under this plan, and, as of December 31, 2005, there are 786,945 common shares remaining available for issuance. Outside directors do not receive benefits upon termination of their services as directors.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table reflects option activity under the CNH Directors Plan for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	Shares	Exercise Price*	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	142,005	\$ 22.41	142,500	\$ 22.76	82,464	\$ 33.10
Granted	31,037	17.90	39,065	19.12	60,036	10.28
Forfeited	(4,000)	17.28	(18,877)	35.18		
Exercised			(20,683)	11.23		
Outstanding at end of year	169,042	21.71	142,005	22.41	142,500	22.76
Exercisable at end of year	141,872	\$ 22.50	112,714	23.45	95,009	25.68

* Weighted-average

The following table summarizes outstanding stock options under the CNH Directors Plan at December 31, 2005:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Shares Outstanding	Contractual Life*	Exercise Price*	Shares Exercisable	Exercise Price*
\$ 9.15 - \$15.70	64,348	7.3	\$ 11.54	60,628	\$ 11.68
\$15.71 - \$26.20	71,055	8.4	\$ 20.80	47,605	\$ 21.76
\$26.21 - \$40.00	18,654	5.5	\$ 30.31	18,654	\$ 30.31
\$40.01 - \$56.00	4,460	4.9	\$ 49.31	4,460	\$ 49.31
\$56.01 - \$77.05	10,525	4.3	\$ 53.03	10,525	\$ 63.03

* 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 the CNH EIP 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, CNH granted stock options with an exercise price less than the quoted market price of CNH's common shares at the date of grant. The 2001 exercise price was based upon the average official price of CNH's common shares on the New York Stock Exchange during the thirty-day period preceding the date of grant. As of December 31, 2005, there were 3,042,012 common shares available for issuance under the CNH EIP.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table reflects option activity under the CNH EIP for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	Shares	Exercise Price*	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	2,464,575	\$ 33.68	2,719,842	\$ 32.92	3,219,995	\$ 34.35
Granted	10,000	18.06	20,000	18.21	3,000	19.25
Exercised	(178,700)	16.18	(62,690)	16.18		
Forfeited	(254,805)	49.83	(212,577)	51.80	(503,153)	41.97
Outstanding at end of year	2,041,070	34.62	2,464,575	33.68	2,719,842	32.94
Exercisable at end of year	1,747,634	36.76	1,655,585	39.38	1,216,093	42.43

* Weighted-average

The following table summarizes outstanding stock options under the CNH EIP at December 31, 2005:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Shares Outstanding	Contractual Life*	Exercise Price*	Shares Exercisable	Exercise Price*
\$15.20 - \$26.20	886,260	6.6	\$ 16.21	623,969	\$ 16.19
\$26.21 - \$40.00	625,000	5.6	31.70	625,000	31.70
\$40.01 - \$77.05	529,810	4.1	68.85	498,665	68.85

* Weighted-average

Under the CNH EIP, shares may also be granted as restricted shares. CNH establishes the period of restriction for each award and holds 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. Effective for the 2002 plan year only, a special incentive plan (the 2002 Special Incentive Program) was approved which provided 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. In 2004, for individuals electing to not take the restricted stock earned under the 2002 Special Incentive Program, CNH issued an equivalent number of common shares to individuals who remained employed by CNH as of the vesting date for the restricted shares. For this group, in March 2004, we issued 33,019 unrestricted shares under the CNH EIP. In 2003, CNH issued 207,215 restricted shares under the program, which vested in 2004. No restricted shares were awarded during 2005. At December 31, 2005, restricted common shares outstanding under the CNH EIP totaled 2,568 shares.

In 2004, a new performance vesting long-term incentive (LTI) award was granted under the CNH EIP for selected key employees and executive officers. The LTI awards are subject to the achievement of certain performance criteria over a 3-year period. At the end of the three-year performance cycle, any earned awards will be satisfied equally with cash and CNH common shares as determined at the beginning of the performance cycle, for minimum, target and maximum award levels.

F-49

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2005, outstanding amounts under the 2005 and 2004 LTI awards were as follows:

	2005 Award	2004 Award
Total potential shares subject to award	206,118	171,966
Total potential cash portion of award	\$ 3,836,479	\$ 3,164,306
Of which, amounts relate to executive officers of CNH:		
Shares	31,119	24,634
Cash	\$ 563,137	\$ 458,000

As a transition to the LTI, for the first award under the performance cycle of 2004-2006, participants were granted an opportunity to receive an accelerated payment of 50% of the targeted award after the first two years of the performance cycle. The criteria has been met for the accelerated payment. On March 16, 2006, CNH issued 64,938 shares as part of the accelerated payment. CNH may make additional LTI awards for three-year performance cycles, beginning with a 2006-2008 performance cycle.

CNH maintains a management bonus program that links a portion of the compensation paid to senior executives to achievement of financial performance criteria specified by the Corporate Governance and Compensation Committee of the CNH Board of Directors.

Fiat Stock Option Program

Certain employees of CNH are eligible to participate in stock option plans of Fiat (Fiat Plans) whereby participants are granted options to purchase ordinary shares of Fiat (Fiat Shares). A summary of options under the Fiat Plans as of December 31, 2005 follows:

Date of Grant	Date of Grant Share Price	Exercise Price			Options				
		Original	Current	Granted	Transfers	Forfeiture	Exercise	Outstanding	Exercisable
3/30/1999	29.38	28.45	26.12	53,300	2,200	(24,900)		30,600	30,600
2/18/2000	33.00	30.63	28.12	102,500	(3,000)	(24,500)		75,000	75,000
2/27/2001	26.77	27.07	24.85	50,000	(50,000)				
10/31/2001	18.06	18.00	16.52	249,000	10,000	(95,000)		164,000	164,000
9/12/2002	11.88	11.16	10.39	513,000	(43,000)	(150,000)		320,000	240,000

The original exercise prices were determined by an average of the price of Fiat Shares on the Italian Stock Exchange prior to grant. Following Fiat capital increases in January 2002 and July 2003, the exercise prices were adjusted by applying the factors calculated by the Italian Stock Exchange, in the amount of 0.98543607 and 0.93167321, respectively. The Fiat capital increase of September 2005 did not give rise to exercise price adjustments. The options vest ratably over a four year period. No options to purchase Fiat Shares were issued to employees of CNH subsequent to 2002. All options under the Fiat Plans expire eight years after the grant date. The fair value of these options did not result in a material amount of compensation expense.

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS No. 123 Disclosure

The Black-Scholes pricing model was used to calculate the fair value of stock options. Based on this model, the weighted-average fair values of stock options awarded for the years ended December 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
CNH Directors Plan	\$ 10.13	\$ 9.94	\$ 5.87
CNH EIP	\$ 10.18	\$ 10.61	\$ 11.04

The weighted-average assumptions used under the Black-Scholes pricing model were as follows:

	2005		2004		2003	
	Directors Plan	EIP	Directors Plan	EIP	Directors Plan	EIP
Risk-free interest rate	3.9%	3.7%	3.4%	3.5%	2.7%	3.0%
Dividend yield	1.3%	1.3%	1.3%	1.3%	2.1%	2.1%
Stock price volatility	72.0%	71.5%	75.0%	75.3%	79.8%	79.8%
Option life (years)	5.0	5.0	5.0	5.0	5.0	5.0

Pro Forma net income (loss) and earnings (loss) per share assuming the fair value of accounting for stock-based compensation as prescribed under SFAS No. 123 is provided in Note 2: Summary of Significant Accounting Policies.
Note 19: Earnings (Loss) per Share

Beginning in 2005, CNH calculates basic earnings per share based on the requirements of EITF No. 03-06 which requires the two-class method of computing earnings per share when participating securities, such as CNH's Series A Preferred Stock, are outstanding. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings. The application of EITF No. 03-06 did not impact 2004 or earlier basic earnings per share as the Series A Preferred Stock was not considered participating during these periods. The application of EITF No. 03-06 has had an impact on the calculation of basic earnings per share in 2005.

Undistributed earnings, which represents net income, less dividends paid to common shareholders, are allocated to the Series A Preferred Shares based on the dividend yield of the common shares, which is impacted by the price of the Company's common shares. For purposes of the basic earnings per share calculation, CNH uses the average closing price of the Company's common shares over the last thirty trading days of the period (Average Stock Price). As of December 31, 2005, the Average Stock Price was \$17.47 per share. Had the Average Stock Price of the common shares been different, the calculation of the earnings allocated to Series A Preferred Stock may have changed. Additionally, the determination is impacted by the payment of dividends to common shareholders as the dividend paid is added to net income in the computation of basic earnings per share.

F-51

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computations for the years ended December 31, 2005, 2004 and 2003:

	2005	2004(A)	2003(A)
	(In millions, except per share data)		
Basic:			
Net income (loss)	\$ 163	\$ 125	\$ (157)
Dividend to common shares (\$0.25 per share)	(34)		
Undistributed earnings	129	125	(157)
Earnings allocated to Series A Preferred Stock	(59)		
Earnings available to common shareholders	70	125	(157)
Dividend to common shares	34		
Net income (loss) available to common shareholders	\$ 104	\$ 125	\$ (157)
Weighted average common shares outstanding basic	134	133	132
Basic earnings (loss) per share	\$ 0.77	\$ 0.94	\$ (1.19)
Diluted:			
Net income (loss)	\$ 163	\$ 125	\$ (157)
Weighted average common shares outstanding basic	134	133	132
Effect of dilutive securities (when dilutive):			
Series A Preferred Stock	100	100	
Stock Compensation Plans(B)			
Weighted average common shares outstanding diluted	234	233	132
Diluted earnings (loss) per share	\$ 0.70	\$ 0.54	\$ (1.19)

(A) -EITF 03-6 did not impact basic earnings per share in 2004 or 2003 as the Series A Preferred Stock was not considered participating during 2004 or 2003.

(B) Stock options to purchase approximately 1.2 million, 1.2 million and 2.9 million shares during 2005, 2004 and 2003, respectively, were outstanding but not included in the calculation of diluted earnings (loss) per share as the impact of these options would have been anti-dilutive.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 20: Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) as of December 31, 2005 and 2004 are as follows:

	2005	2004
	(in millions)	
Cumulative translation adjustment	\$ (138)	\$ (70)
Minimum pension liability adjustment, net of taxes (\$253 and \$280, respectively)	(446)	(462)
Deferred gains (losses) on derivative financial instruments, net of taxes (\$16 and \$(9), respectively)	(51)	18
Unrealized gain on available for sale securities, net of taxes (\$3 and \$11, respectively)	9	18
Total	\$ (626)	\$ (496)

Note 21: Segment and Geographical Information***Segment Information***

CNH has three reportable segments: Agricultural Equipment, Construction Equipment and Financial Services. CNH's reportable segments are strategic business units that offer different products and services. Each segment is managed separately.

Agricultural Equipment

The agricultural equipment segment manufactures and distributes a full line of farm machinery and implements, including two-wheel and four-wheel drive tractors, combines, cotton pickers, grape and sugar cane harvesters, hay and forage equipment, planting and seeding equipment, soil preparation and cultivation implements and material handling equipment.

Construction Equipment

The construction equipment segment manufactures and distributes a full line of construction equipment including excavators, crawler dozers, graders, wheel loaders, loader/backhoes, skid steer loaders and trenchers.

Financial Services

The financial services segment is engaged in broad-based financial services for the global marketplace through various wholly owned subsidiaries and joint ventures in North America, Latin America, Europe, Australia and Asia Pacific. CNH provides and administers retail financing to end-use customers for the purchase or lease of new and used CNH and other agricultural and construction equipment sold by CNH dealers and distributors. CNH also facilitates the sale of insurance products and other financing programs to retail customers. In addition, CNH provides wholesale financing to CNH dealers and rental equipment operators, as well as financing options to dealers to finance working capital, real estate and other fixed assets and maintenance equipment in connection with their operations.

During late 2005, CNH reorganized its Equipment Operations into four distinct global brand structures, CaseIH and New Holland agricultural equipment brands and Case and New Holland Construction construction equipment brands. CNH has reviewed the impact of these changes on its reportable segments and concluded that, although certain structural changes were made to reflect this reorganization during the

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

fourth quarter of 2005, CNH did not meet the criteria in SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information to change its reportable segments for 2005 as operating results under the new structure were not available for review by CNH's CODM. Once the global brand structures are implemented and information is available to our CODMs, our Agricultural Equipment brands as well as our Construction Equipment brands will individually continue to have similar operating characteristics such as the nature of the products and production processes, type of customer and methods of distribution. As such, we will continue to aggregate our Agricultural Equipment and Construction Equipment brands for segment reporting purposes.

As of December 31, 2005, Fiat owned approximately 83% of CNH's outstanding common shares and all of our Series A Preferred Stock. As a result, CNH evaluates segment performance and reports to Fiat based on criteria established by Fiat.

In accordance with European regulation 1606/2002 dated July 19, 2002, Fiat was required to begin preparing its financial statements in accordance with International Financial Reporting Standards and International Accounting Standards (collectively IFRS).

During 2005, to effect this change, CNH changed its method of accounting for reporting to Fiat to comply with IFRS and concurrently adjusted their internal management financial statements to comply with IFRS as of January 1, 2004, the effective date for the adoption of IFRS by Fiat.

Following this change, CNH evaluates segment performance and reports to Fiat based on trading profit in accordance with IFRS. Fiat defines trading profit as income before restructuring, net financial expenses, income taxes, minority interests and equity in income (loss) of unconsolidated subsidiaries and affiliates. Transactions between segments are accounted for at market value.

A reconciliation from consolidated trading profit reported to Fiat under IFRS to income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries and affiliates under U.S. GAAP for the years ended December 31, 2005 and 2004 is provided below. As the effective date for Fiat adopting IFRS is January 1, 2004, no information under IFRS is available for 2003.

	Years Ended December 31,	
	2005	2004
	(in millions)	
Trading profit reported to Fiat under IFRS	\$ 869	\$ 581
Adjustments to convert from trading profit to U.S. GAAP income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries:		
Accounting for benefit plans	(258)	(128)
Accounting for intangible assets, primarily development costs	11	20
Restructuring	(73)	(104)
Net financial expense	(283)	(360)
Purchase accounting adjustment (see Note 9: Goodwill and Intangibles)		165
Accounting for receivable securitizations and other	(9)	(15)
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries under U.S. GAAP	\$ 257	\$ 159

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes trading profit by segment under IFRS:

	Years Ended December 31,	
	2005	2004
	(in millions)	
Agricultural equipment	\$ 352	\$ 352
Construction equipment	224	164
Financial services	293	235
Eliminations and other		(170)(A)
Trading profit under IFRS	\$ 869	\$ 581

(A) Principally a purchase accounting adjustment (see Note 9: Goodwill and Intangibles)

A summary of additional reportable segment information, compiled under IFRS, as of and for the years ended December 31, 2005 and 2004 is as follows:

	2005	2004
	(in millions)	
Revenues:		
Agricultural equipment	\$ 7,843	\$ 8,000
Construction equipment	3,963	3,545
Financial services	1,094	905
Eliminations	(194)	(31)
Net revenues under IFRS	12,706	12,419
Difference, principally finance and interest income on receivables held by QSPEs (on-book under IFRS)	(131)	(240)
Revenues under U.S. GAAP	\$ 12,575	\$ 12,179
Depreciation and amortization:		
Agricultural equipment	\$ 234	\$ 233
Construction equipment	82	78
Financial services	46	64
Depreciation and amortization under IFRS	362	375
Difference, principally amortization of development costs capitalized under IFRS	(53)	(50)
Depreciation and amortization under U.S. GAAP	\$ 309	\$ 325

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2005	2004
	(in millions)	
Segment assets:		
Agricultural equipment*	\$ 6,041	\$ 6,112
Construction equipment*	2,553	2,561
Financial services	13,522	12,246
Assets not allocated to segments, principally goodwill, intangibles and taxes	7,986	8,185
Eliminations	(6,190)	(5,396)
Segment assets under IFRS	23,912	23,708
Difference, principally receivables held by QSPEs (on-book under IFRS)	(6,594)	(5,628)
Total assets under U.S. GAAP	\$ 17,318	\$ 18,080

* Includes receivables legally transferred to Financial Services

	2005	2004
	(in millions)	
Expenditures for additions to long-lived assets*:		
Agricultural equipment	\$ 144	\$ 129
Construction equipment	38	35
Financial services	114	82
Unallocated	21	26
Expenditures for additions to long-lived assets under IFRS	317	272
Difference, principally development costs capitalized under IFRS	(51)	(11)
	\$ 266	\$ 261

* Includes equipment on operating leases and property, plant and equipment

	2005	2004
	(in millions)	
Investments in unconsolidated subsidiaries and affiliates:		
Agricultural equipment	\$ 175	\$ 187
Construction equipment	181	188
Financial services	96	84

Investments in unconsolidated subsidiaries and affiliates under IFRS	452	459
Difference, principally historical goodwill	(3)	(2)
Investments in unconsolidated subsidiaries and affiliates under U.S. GAAP	\$ 449	\$ 457

F-56

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Geographical Information

The following highlights the results of CNH's operations by geographic area, by origin:

	United States	Canada	United Kingdom	Italy	Belgium	Other	Total
(in millions)							
At December 31, 2005, and for the year then ended:							
Total revenues	\$ 5,435	\$ 915	\$ 1,292	\$ 2,422	\$ 1,125	\$ 1,386	\$ 12,575
Long-lived assets*	\$ 667	\$ 79	\$ 121	\$ 173	\$ 116	\$ 335	\$ 1,491
At December 31, 2004, and for the year then ended:							
Total revenues	\$ 4,921	\$ 776	\$ 1,564	\$ 2,239	\$ 1,035	\$ 1,644	\$ 12,179
Long-lived assets*	\$ 679	\$ 88	\$ 146	\$ 276	\$ 143	\$ 361	\$ 1,693
At December 31, 2003, and for the year then ended:							
Total revenues	\$ 4,036	\$ 701	\$ 1,594	\$ 2,116	\$ 942	\$ 1,277	\$ 10,666
Long-lived assets*	\$ 880	\$ 94	\$ 139	\$ 268	\$ 151	\$ 349	\$ 1,881

* Includes equipment on operating leases and property, plant and equipment.

CNH is organized under the laws of the Kingdom of The Netherlands. Geographical information for CNH pertaining to The Netherlands is not significant or not applicable.

Note 22: Related Party Information

As of December 31, 2005 CNH had a total of 8 million shares of Series A Preferred Stock issued and outstanding which were held by Fiat Netherlands.

Beginning in 2006, outstanding shares of Series A Preferred Stock were eligible for a dividend at the then prevailing common dividend yield, based on 2005 results. The prevailing common dividend yield was calculated based upon the average dividend yield of the common shares for the 30 trading days ending on the trading day prior to the date the shareholders approve the dividend on the common shares. The average dividend yield of the common shares means the amount of dividend per share of the common shares declared by the shareholders divided by the average of the closing price per share of the common shares on the New York Stock Exchange for each trading day, during the period of 30 consecutive trading days ending on the trading day prior to the date the shareholders approve the common share dividend. However, should CNH achieve certain defined financial performance measures which were not achieved for 2005, the annual dividend will be fixed at the prevailing common dividend yield plus an additional 150 basis points (or approximately \$30 million annually). Dividends on the Series A Preferred Stock were not cumulative. Dividends were expected to be payable annually in arrears; however, the board of directors may defer the payment of dividends on the Series A Preferred Stock for a period not to exceed five consecutive years. The Series A Preferred Stock had 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 automatically converts 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.

F-57

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the period of 30 consecutive trading days ending on March 22, 2006, such average was \$24.01. Accordingly, pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon completion of the conversion, Fiat's ownership of CNH rose to approximately 90%.

In July 2005, CNH's \$2 billion syndicated facility with Fiat was terminated when various Fiat affiliates, including CNH, entered into a \$1 billion (U.S. \$1.18 billion) bank credit facility with a group of banks maturing in July 2008. The borrowers have allocated \$300 million (U.S. \$354 million) of this borrowing capacity to CNH with additional amounts potentially available depending on the usage by other borrowers.

CNH has historically relied on Fiat to provide either guarantees or funding in connection with some of CNH's external debt financing needs. At December 31, 2005, outstanding debt with Fiat and its affiliates was approximately 18% of CNH total debt, compared with 26% at December 31, 2004. Fiat guarantees \$1.3 billion of CNH debt with third parties or approximately 19% of CNH's outstanding debt. CNH pays Fiat a guarantee fee based on the average amount outstanding under facilities guaranteed by Fiat. For 2005, 2004, and 2003, CNH paid a guarantee fee of between 0.03125% per annum and 0.0625% per annum. Fiat agreed to maintain its existing treasury and debt financing arrangements with CNH for as long as it maintains control of CNH and, in any event, at least until December 31, 2004. After that time, Fiat committed that it will not terminate CNH's access to these financing arrangements without affording CNH 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. See Note 10: Debt and Credit Lines for further information regarding financing with Fiat.

Like other companies that are part of multinational groups, CNH participates in a group-wide cash management system with the Fiat Group. Under this system, which is operated by Fiat in a number of jurisdictions, the cash balances of Fiat Group members, including CNH, are aggregated at the end of each business day in central pooling accounts, the Fiat affiliates cash management pools. As well as being invested by Fiat in highly rated, highly liquid money market instruments or bank deposits, our positive cash deposits, if any, at the end of any given business day may be applied by Fiat to offset negative balances of other Fiat Group members and vice versa. Deposits with Fiat earn interest at rates that range from LIBOR plus 10 to 30 basis points. Interest earned on CNH deposits with Fiat included in Finance and interest income were approximately \$7 million, \$11 million and \$18 million in the years ended December 31, 2003, 2004 and 2005, respectively. As a result of CNH's participation in the Fiat affiliates cash management pools, CNH is exposed to Fiat Group credit risk to the extent that Fiat is unable to return our funds. In the event of a bankruptcy or insolvency of Fiat (or any other Fiat Group member in the jurisdictions with set off agreements) or in the event of a bankruptcy or insolvency of the Fiat entity in whose name the deposit is pooled, CNH may be unable to secure the return of such funds to the extent they belong to CNH, and CNH may be viewed as a creditor of such Fiat entity with respect to such deposits. Because of the affiliated nature of CNH's relationship with the Fiat Group, it is possible that CNH's claims as a creditor could be subordinate to the rights of third party creditors in certain situations.

For material related party transactions involving the purchase of goods and services, CNH generally solicits and evaluates bid proposals prior to entering into any such transactions, and in such instances, the Audit Committee generally conducts a review to determine that such transactions are what the committee believes to be on arm's-length terms.

CNH purchases some of its engines and other components from the Fiat Group, and companies of the Fiat Group provide CNH administrative services such as accounting and internal audit, cash management, maintenance of plant and equipment, research and development, information systems and training. CNH sells certain products to subsidiaries and affiliates of Fiat. In addition, CNH enters into hedging arrangements with counterparties that are members of the Fiat Group. The principal purchases of goods from Fiat and its

Table of Contents

CNH GLOBAL N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

affiliates include diesel engines from Iveco N.V., robotic equipment and paint systems from Comau Pico Holdings Corporation, dump trucks from Astra V.I. S.p.A., and castings from Teksid. CNH also purchases tractors from its Mexican joint venture for resale in the United States.

Fiat has executed, on behalf of CNH, certain foreign exchange and interest rate-related contracts. As of December 31, 2005, CNH and its subsidiaries were parties to derivative or other financial instruments having an aggregate contract value of \$2 billion as of December 31, 2005 and 2004, to which affiliates of Fiat were counterparties.

Fiat provides accounting services to CNH in Europe and Brazil through an affiliate that uses shared service centers to provide such services at competitive costs to various Fiat companies and third party customers. Fiat provides internal audit services at the direction of CNH's internal audit department in certain locations where it is more cost effective to use existing Fiat resources. Through the end of 2005, routine maintenance of CNH plants and facilities in Europe was provided by a Fiat affiliate that also provides similar services to third parties. CNH purchases network and hardware support from and outsources a portion of its information services to a joint venture that Fiat had formed with IBM. On June 30, 2005, Fiat announced that it had entered into a nine year strategic agreement with IBM under which IBM will assume full ownership of this joint venture as well as the management of a significant part of the information technology needs of members of the Fiat Group, including CNH. Fiat also provides training services through an affiliate. CNH uses a broker that is an affiliate of Fiat to purchase a portion of its insurance coverage. CNH purchases research and development from an Italian joint venture set up by Fiat and owned by various Fiat subsidiaries. This joint venture benefits from Italian government incentives granted to promote work in the less developed areas of Italy.

In certain tax jurisdictions, CNH has entered into tax sharing agreements with Fiat and certain of its affiliates. CNH management believes the terms of these agreements are customary for agreements of this type and are at least as advantageous as filing tax returns on a stand-alone basis.

If the goods or services or financing arrangements described above were not available from Fiat, we would have to obtain them from other sources. CNH can offer no assurance that such alternative sources would provide goods and services on terms as favorable as those offered by Fiat.

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 \$659,000, \$972,000 and \$745,000 in 2005, 2004 and 2003, respectively.

CNH participates in the stock option program of Fiat as described in Note 18: Option and Incentive Plans.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes CNH's sales, purchase, and finance income with Fiat and affiliates of Fiat, CNH dealer development companies and joint ventures that are not already separately reflected in the consolidated statements of operations for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
	(in millions)		
Sales of equipment	\$ 6	\$ 9	\$ 6
Sales to affiliated companies and joint ventures	115	115	179
Total sales to affiliates	121	\$ 124	\$ 185
Purchase of materials, production parts, merchandise and services	\$ 525	\$ 565	\$ 584
Finance and interest income	\$ 41	\$ 28	\$ 25

Note 23: Supplemental Condensed Consolidating Financial Information

CNH and certain wholly-owned subsidiaries of CNH (the Guarantor Entities) guarantee the 4% Senior Notes and the 6% Senior Notes. The guarantees are unconditional, irrevocable, joint and several guarantees of the 9¹/₄ % Senior Notes and the 6% Senior Notes issued by Case New Holland. As the guarantees are unconditional, irrevocable and joint and several and as the Guarantor Entities are all wholly-owned by CNH, the Company has included the following condensed consolidating financial information as of December 31, 2005 and 2004 and for the three years ended December 31, 2005. The condensed consolidating financial information reflects investments in consolidated subsidiaries on the equity method of accounting. The goodwill and intangible assets are allocated to reporting units under SFAS No. 142 and are primarily reported by the Guarantor Entities, except for the portion related to Financial Services which is reported by All Other Subsidiaries. It is not practicable to allocate goodwill and intangibles to the individual Guarantor Entities and All Other Subsidiaries.

In an effort to reduce the complexity of the Company's legal structure following the merger of Case and New Holland, CNH has actively eliminated legal entities wherever possible. These transactions between entities under common control are accounted for at historical cost in a manner similar to a pooling of interests in accordance with existing accounting guidance. As a consequence, material future transactions related to CNH's legal entity rationalization activities may result in a retroactive restatement of the information contained in this note as these transactions are completed.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following condensed financial statements present CNH, Case New Holland, the Guarantor Entities, and all other subsidiaries as of and for the years ended December 31, 2005, 2004 and 2003.

**Condensed Statements of Operations
For the Year Ended December 31, 2005**

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Revenues:						
Net sales	\$	\$	\$ 9,085	\$ 5,766	\$ (3,045)	\$ 11,806
Finance and interest income	35	110	87	823	(286)	769
	35	110	9,172	6,589	(3,331)	12,575
Cost and Expenses:						
Cost of goods sold			7,893	5,086	(3,045)	9,934
Selling, general and administrative	2		589	593		1,184
Research, development and engineering			211	85		296
Restructuring			18	55		73
Interest expense	55	139	122	418	(183)	551
Interest compensation to Financial Services			159		(159)	
Other, net	15		118	91	56	280
	72	139	9,110	6,328	(3,331)	12,318
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	(37)	(29)	62	261		257
Income tax provision (benefit)	(1)	(12)	92	37		116
Minority interest				26		26
Equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	199	127	177	(112)	(343)	48

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Net income (loss)	\$ 163	\$ 110	\$ 147	\$ 86	\$ (343)	\$ 163
-------------------	--------	--------	--------	-------	----------	--------

F-61

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Balance Sheets
As of December 31, 2005

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Assets:						
Cash and cash equivalents	\$	\$ 653	\$ 90	\$ 502	\$	\$ 1,245
Deposits in Fiat affiliates cash management pools	66		145	369		580
Accounts, notes receivable and other, net	82	19	735	5,741	(736)	5,841
Intercompany notes receivable	594	1,732	1,084	328	(3,738)	
Inventories			1,336	1,130		2,466
Property, plant and equipment, net			826	485		1,311
Equipment on operating leases, net				180		180
Investments in unconsolidated affiliates	314		12	123		449
Investments in consolidated subsidiaries accounted for under the equity method	5,471	2,828	1,512	(57)	(9,754)	
Goodwill and intangible assets, net	1		2,926	236		3,163
Other assets	15	17	1,341	800	(90)	2,083
Total Assets	\$ 6,543	\$ 5,249	\$ 10,007	\$ 9,837	\$ (14,318)	\$ 17,318
Liabilities and Equity:						
Short-term debt	\$ 245	\$	\$ 686	\$ 591	\$	\$ 1,522
Intercompany short-term debt	971		894	1,119	(2,984)	
Accounts payable	116	6	986	1,205	(704)	1,609
Long-term debt	150	1,534	557	2,524		4,765
Intercompany long-term debt			525	229	(754)	
Accrued and other liabilities	9		3,127	1,357	(123)	4,370
	1,491	1,540	6,775	7,025	(4,565)	12,266

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Equity	5,052	3,709	3,232	2,812	(9,753)	5,052
Total Liabilities and Equity	\$ 6,543	\$ 5,249	\$ 10,007	\$ 9,837	\$ (14,318)	\$ 17,318

F-62

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Cash Flow
For the Year Ended December 31, 2005

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Operating Activities:						
Net income (loss)	\$ 163	\$ 110	\$ 147	\$ 86	\$ (343)	\$ 163
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization			170	139		309
Intercompany activity		4	23	(27)		
Changes in operating assets and liabilities	3	(13)	(73)	(5)		(88)
Other, net	(136)	(133)	205	131	98	165
Net cash provided (used) by operating activities	30	(32)	472	324	(245)	549
Investing activities:						
Expenditures for property, plant and equipment			(87)	(68)		(155)
Expenditures for equipment on operating leases				(111)		(111)
Net (additions) collections from retail receivables and related securitizations				171		171
Other, net (primarily acquisitions and divestitures)	(104)		90	119		105
(Deposits in) withdrawals from Fiat affiliates cash management pools	(6)		597	(85)		506
Net cash provided (used) by investing activities	(110)		600	26		516

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Financing Activities:

Intercompany activity	671	228	(827)	(72)		
Net increase (decrease) in indebtedness	(557)	6	421	(609)		(739)
Dividends paid	(34)					(34)
Other, net			(630)	385	245	
Net cash provided (used) by financing activities	80	234	(1,036)	(296)	245	(773)
Other, net			(7)	29		22
Increase (decrease) in cash and cash equivalents		202	29	83		314
Cash and cash equivalents, beginning of year		451	61	419		931
Cash and cash equivalents, end of year	\$	\$ 653	\$ 90	\$ 502	\$	\$ 1,245

F-63

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Operations
For the Year Ended December 31, 2004

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Revenues:						
Net sales	\$	\$	\$ 8,430	\$ 5,779	\$ (2,664)	\$ 11,545
Finance and interest income	37	72	60	694	(229)	634
	37	72	8,490	6,473	(2,893)	12,179
Cost and Expenses:						
Cost of goods sold			7,373	5,079	(2,670)	9,782
Selling, general and administrative	5		532	573		1,110
Research, development and engineering			188	79		267
Restructuring			53	51		104
Interest expense	43	122	116	346	(135)	492
Interest compensation to Financial Services			113		(113)	
Other, net	21		199	17	28	265
	69	122	8,574	6,145	(2,890)	12,020
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	(32)	(50)	(84)	328	(3)	159
Income tax provision (benefit)	1	(19)	(88)	145		39
Minority interest				23		23
Equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	158	167	128	(77)	(348)	28
Net income (loss)	\$ 125	\$ 136	\$ 132	\$ 83	\$ (351)	\$ 125

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Balance Sheets
As of December 31, 2004

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Assets:						
Cash and cash equivalents	\$	\$ 451	\$ 61	\$ 419	\$	\$ 931
Deposits in Fiat affiliates cash management pools	60		750	341		1,151
Accounts, notes receivable and other, net	86	19	816	5,537	(563)	5,895
Intercompany notes receivable	674	1,960	543	296	(3,473)	
Inventories			1,236	1,279		2,515
Property, plant and equipment, net			904	574		1,478
Equipment on operating leases, net				215		215
Investments in unconsolidated affiliates	214		102	141		457
Investments in consolidated subsidiaries accounted for under the equity method	5,463	2,942	1,347	278	(10,030)	
Goodwill and intangible assets, net	1		2,993	242		3,236
Other assets	2	16	1,543	1,011	(370)	2,202
Total Assets	\$ 6,500	\$ 5,388	\$ 10,295	\$ 10,333	\$ (14,436)	\$ 18,080
Liabilities and Equity:						
Short-term debt	\$ 252	\$	\$ 91	\$ 1,714	\$	\$ 2,057
Intercompany short-term debt	79		1,109	454	(1,642)	
Accounts payable	128	2	1,003	1,310	(786)	1,657
Long-term debt	700	1,528	723	1,955		4,906
Intercompany long-term debt	301		596	934	(1,831)	
Accrued and other liabilities	11	15	3,092	1,460	(147)	4,431

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

	1,471	1,545	6,614	7,827	(4,406)	13,051
Equity	5,029	3,843	3,681	2,506	(10,030)	5,029
Total Liabilities and Equity	\$ 6,500	\$ 5,388	\$ 10,295	\$ 10,333	\$ (14,436)	\$ 18,080

F-65

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Cash Flow
For the Year Ended December 31, 2004

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Operating Activities:						
Net income (loss)	\$ 125	\$ 136	\$ 132	\$ 83	\$ (351)	\$ 125
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization			168	157		325
Intercompany activity	52	(15)	526	(563)		
Changes in operating assets and liabilities	(54)	(10)	240	384		560
Other, net	(72)	(97)	(72)	71	130	(40)
Net cash provided (used) by operating activities	51	14	994	132	(221)	970
Investing activities:						
Expenditures for property, plant and equipment			(103)	(77)		(180)
Expenditures for equipment on operating leases				(81)		(81)
Net (additions) collections from retail receivables and related securitizations				(569)		(569)
Other, net (primarily acquisitions and divestitures)	(583)	(1,526)	(37)	(85)	2,448	217
(Deposits in) withdrawals from Fiat affiliates cash management pools	(27)		259	(15)		217
Net cash provided (used) by investing activities	(610)	(1,526)	119	(827)	2,448	(396)

Financing Activities:

Intercompany activity	656	236	(529)	(363)		
Net increase (decrease) in indebtedness	(64)	476	(1,097)	442		(243)
Dividends paid	(33)					(33)
Other, net		938	449	839	(2,227)	(1)
Net cash provided (used) by financing activities	559	1,650	(1,177)	918	(2,227)	(277)
Other, net			40	(25)		15
Increase (decrease) in cash and cash equivalents		138	(24)	198		312
Cash and cash equivalents, beginning of year		313	85	221		619
Cash and cash equivalents, end of year	\$	\$ 451	\$ 61	\$ 419	\$	\$ 931

F-66

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Operations
For the Year Ended December 31, 2003

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Revenues:						
Net sales	\$	\$	\$ 7,806	\$ 5,025	\$ (2,762)	\$ 10,069
Finance and interest income	61	19	52	651	(186)	597
	61	19	7,858	5,676	(2,948)	10,666
Cost and Expenses:						
Cost of goods sold			6,915	4,446	(2,771)	8,590
Selling, general and administrative	9	2	496	535		1,042
Research, development and engineering			180	79		259
Restructuring			187	84		271
Interest expense	66	38	134	366	(123)	481
Interest compensation to Financial Services			79		(79)	
Other, net	10	(1)	128	79	25	241
	85	39	8,119	5,589	(2,948)	10,884
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	(24)	(20)	(261)	87		(218)
Income tax provision (benefit)	4	(8)	(119)	74		(49)
Minority interest				7		7
Equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	(129)	(109)	11	66	180	19
Net income (loss)	\$ (157)	\$ (121)	\$ (131)	\$ 72	\$ 180	\$ (157)

Table of Contents

CNH GLOBAL N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Cash Flow
For the Year Ended December 31, 2003

	CNH Global N.V.	Case New Holland Inc.	Guarantor Subsidiaries	All Other Subsidiaries	Eliminations	Consolidated
(in millions)						
Operating Activities:						
Net income (loss)	\$ (157)	\$ (121)	\$ (131)	\$ 72	\$ 180	\$ (157)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization			171	175		346
Intercompany activity	95	(2)	(498)	405		
Changes in operating assets and liabilities	32	27	(319)	763		503
Other, net	91	109	334	(250)	(180)	104
Net cash provided (used) by operating activities	61	13	(443)	1,165		796
Investing activities:						
Expenditures for property, plant and equipment			(111)	(83)		(194)
Expenditures for equipment on operating leases				(51)		(51)
Net (additions) collections from retail receivables and related securitizations				(192)		(192)
Other, net (primarily acquisitions and divestitures)	(1,977)	(1,115)	(1)	150	3,115	172
(Deposits in) withdrawals from Fiat affiliates cash management pools	(33)		(856)	174		(715)
Net cash provided (used) by investing activities	(2,010)	(1,115)	(968)	(2)	3,115	(980)

Financing Activities:

Intercompany activity	1,766	(1,618)	630	(778)		
Net increase (decrease) in indebtedness	216	1,052	(287)	(391)		590
Dividends paid	(33)					(33)
Other, net		1,981	1,115		(3,115)	(19)
Net cash provided (used) by financing activities	1,949	1,415	1,458	(1,169)	(3,115)	538
Other, net			4	30		34
Increase (decrease) in cash and cash equivalents		313	51	24		388
Cash and cash equivalents, beginning of year			34	197		231
Cash and cash equivalents, end of year	\$	\$ 313	\$ 85	\$ 221	\$	\$ 619

F-68

Table of Contents

CNH GLOBAL N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 24: Subsequent Events

The Board of Directors of CNH recommended a dividend of \$0.25 per common share on February 27, 2006. The dividend will be payable on May 5, 2006 to shareholders of record at the close of business on April 28, 2006. Declaration of the dividend is subject to approval of the shareholders at the Annual General Meeting which will be held on April 7, 2006.

Additionally, following the recommendation of a dividend on the common shares and in compliance with the terms of the Series A Preferred Stock, The CNH Board of Directors recommended a dividend on the Series A Preferred Stock. Pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon issuance, the new 100 million common shares became eligible for the proposed \$0.25 per share dividend, described above. There will be no preferred dividend, as none of CNH's preference shares will be outstanding.

On March 3, 2006, Case New Holland completed a private offering of \$500 million of debt securities at an annual fixed rate of 7.125%. The new senior notes, which are fully and unconditionally guaranteed by CNH and certain of our direct and indirect subsidiaries, are due 2014. Case New Holland intends to use the proceeds from the offering to refinance debt.

Table of Contents

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

CNH GLOBAL N.V.
(Registrant)

/s/ Michel Lecomte

Michel Lecomte
Chief Financial Officer

Dated: March 30, 2006

Table of Contents**INDEX TO EXHIBITS**

Exhibit	Description
1.1	Amended Articles of Association of CNH Global N.V. (Previously filed as Exhibit 2 to Form 6-K of CNH Global N.V. on July 23, 2004 and incorporated herein by reference).
1.2	Regulations of the Board of Directors of CNH Global N.V. dated December 8, 1999 (Previously filed as Exhibit 1.2 to the annual report on Form 20-F of the registrant for the year ended December 31, 1999 (File No. 001-14528) and incorporated herein by reference).
1.3	Resolution of the Board of Directors of CNH Global N.V. dated March 31, 2003 (Previously filed as Exhibit 2 to Form 6-K of CNH Global N.V. on April 4, 2003 and incorporated herein by reference).
2.1	Registration Rights Agreement entered into among CNH Global N.V., Fiat S.p.A. and Sicind S.p.A. dated April 8, 2003 (Previously filed as Exhibit 2.1 to the annual report on Form 20-F of the registrant for the year ended December 31, 2002 and incorporated herein by reference).
2.2	Indenture, dated as of August 1, 2003, by and among Case New Holland Inc., as issuer, the Guarantors named therein and JP Morgan Chase, as trustee (Previously filed as Exhibit 10.5.1 to the annual report on Form 20-F of the registrant for the year ended December 31, 2003 and incorporated herein by reference).
2.3	First Supplemental Indenture, dated as of September 16, 2003, by and among Case New Holland Inc., as issuer, the Guarantors named therein and JP Morgan Chase, as trustee (Previously filed as Exhibit 10.5.2 to the annual report on Form 20-F of the registrant for the year ended December 31, 2003 and incorporated herein by reference).
2.4	Indenture, dated as of May 18, 2004 between Case New Holland Inc., a subsidiary of CNH Global N.V., as issuer, the Guarantors named therein and J.P. Morgan Chase Bank, as trustee, regarding 6% Senior Notes due 2009, Series A and 6% Senior Notes due 2009, Series B (Previously filed as Exhibit 3 to Form 6-K of CNH Global N.V. on July 23, 2004 and incorporated herein by reference).
2.5	Indenture, dated March 3, 2006, between Case New Holland, Inc., as issuer, the Guarantors named therein and J.P. Morgan Chase Bank N.A., as trustee, regarding 7.125% Senior Notes due 2014. There have not been filed as exhibits to this Form 20-F certain long-term debt instruments, none of which relates to indebtedness that exceeds 10% of the consolidated assets of CNH Global N.V. CNH Global N.V. agrees to furnish the Securities and Exchange Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of CNH Global N.V. and its consolidated subsidiaries.
4.1	Outside Directors Compensation Plan of CNH Global N.V. as amended and restated May 8, 2003 (Previously filed as Exhibit 4.1 to the annual report on Form 20-F of the registrant for the year ended December 31, 2003 and incorporated herein by reference).
4.1.1	Amendment to Outside Directors Compensation Plan of CNH Global N.V., dated April 27, 2004 (Previously filed as Exhibit 4.1.1 to the annual report on Form 20-F of the registrant for the year ended December 31, 2004 and incorporated herein by reference).
4.1.2	Amendment to Outside Directors Compensation Plan of CNH Global N.V., dated May 3, 2005.
4.2	Equity Incentive Plan of CNH Global N.V. as amended and restated on July 23, 2001 (Previously filed as Exhibit 10.1 to the Registration Statement on Form F-3 of CNH Global N.V. (File No. 333-84954) and incorporated herein by reference).
4.2.1	CNH Global N.V. Long-term Incentive Program under the Equity Incentive Plan. (Previously filed as Exhibit 4.2.1 to the annual report on Form 20-F of the registrant for the year ended December 31, 2004 and incorporated herein by reference).

Table of Contents

Exhibit	Description
4.2.2	2005 Form of Performance Unit Award Agreement.
4.2.3	2005 Variable Pay Plan (Management Bonus Program).
4.3	Form of Top Hat Plan Letter. (Previously filed as Exhibit 4.3 to the annual report on Form 20-F of the registrant for the year ended December 31, 2004 and incorporated herein by reference)
4.4	Case New Holland Inc. Deferred Compensation Plan. (Previously filed as Exhibit 4.4 to the annual report on Form 20-F of the registrant for the year ended December 31, 2004 and incorporated herein by reference).
4.5	Amended and Restated Transfer and Administration Agreement dated December 15, 2000 between CNH Capital Receivables Inc. as Transferor, Case Credit Corporation, in its individual capacity and as Servicer, Certain APA Banks named therein, Certain Funding Agents named therein and The Chase Manhattan Bank as Administrative Agent (Previously filed as Exhibit 10(e)(1) to the Annual Report on Form 10-K of Case Credit Corporation (File No. 33-80775-01) for the year ended December 31, 2000 and incorporated herein by reference).
4.6	First Amendment, dated as of January 15, 2002, to the Amended and Restated Transfer and Administration Agreement (Previously filed as Exhibit 10.2.2 to the annual report on Form 20-F of the registrant for the year ended December 31, 2003 and incorporated herein by reference).
4.7	Second Amendment, dated as of January 14, 2003, to the Amended and Restated Transfer and Administration Agreement (Previously filed as Exhibit 10.2.3 to the annual report on Form 20-F of the registrant for the year ended December 31, 2003 and incorporated herein by reference).
4.8	Third Amendment, dated as of January 13, 2004, to the Amended and Restated Transfer and Administration Agreement (Previously filed as Exhibit 10.2.4 to the annual report on Form 20-F of the registrant for the year ended December 31, 2003 and incorporated herein by reference).
4.9	Fourth Amendment, dated as of April 19, 2004, to the Amended and Restated Transfer and Administration Agreement (Previously filed as Exhibit 10.2.5 to the annual report on Form 20-F of the registrant for the year ended December 31, 2004 and incorporated herein by reference).
4.10	Fifth Amendment, dated as of January 11, 2005, to the Amended and Restated Transfer and Administration Agreement (Previously filed as Exhibit 10.2.6 to the annual report on Form 20-F of the registrant for the year ended December 31, 2004 and incorporated herein by reference).
8.1	List of subsidiaries of registrant.
12.1	Certification Pursuant to the Securities Exchange Act Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification Pursuant to the Securities Exchange Act Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13	Certification required by Rule 13(a)-14(b) or Rule 15(d)-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
15	Consent of Deloitte & Touche LLP