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GENERAL MOTORS CORP
Form 10-Q/A
November 09, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549-1004

FORM 10-Q/A

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
--- EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF
---- 1934

For the transition period from to

Commission file number 1-143

GENERAL MOTORS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

STATE OF DELAWARE

(State or other jurisdiction of
Incorporation or Organization)

300 Renaissance Center, Detroit, Michigan

(Address of Principal Executive Offices)

38-0572515

(I.R.S. Employer
Identification No.)

48265-3000

(Zip Code)

Registrant's telephone number, including area code (313) 556-5000

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

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No .

As of July 31, 2005, there were outstanding 565,503,422 shares of the issuer's \$1-2/3 par value common stock.

Website Access to Company's Reports

General Motor's (GM's) internet website address is www.gm.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

EXPLANATORY NOTE

GM is filing this Form 10-Q/A to amend our Form 10-Q for the quarterly period ended June 30, 2005 ("June 30, 2005 Form 10-Q") to restate GM's consolidated statement of income and consolidated balance sheet. The purpose of this amendment is to reflect the effects of an adjustment in the carrying value of GM's investment in the common stock of Fuji Heavy Industries, Ltd. ("FHI") held by the Corporation for the quarterly period ended June 30, 2005 (as discussed in Note 1 to the consolidated financial statements). As a result, GM is also revising the discussion under the heading "Item 4: Controls and Procedures."

This matter did not change the amounts disclosed on the consolidated statements of cash flows from operating activities or the net increase (decrease) in cash and cash equivalents in the above referenced financial statements. Except with respect to this matter, this Form 10-Q/A does not reflect any events that have occurred after the June 30, 2005 Form 10-Q was filed.

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PART I

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|--|--|--|
| | ----- | | ----- | |
| | (As restated see Note 1) 2005 ---- | (As restated see Note 1) 2004 ---- | (As restated see Note 1) 2005 ---- | (As restated see Note 1) 2004 ---- |
| | (dollars in millions except per share amounts) | | | |
| Total net sales and revenues | \$48,469 | \$49,254 | \$94,242 | \$97,084 |
| Cost of sales and other expenses | 40,902 | 39,778 | 80,215 | 78,551 |
| Selling, general, and administrative expenses | 5,432 | 5,171 | 10,321 | 10,180 |
| Interest expense | 3,712 | 2,839 | 7,391 | 5,623 |
| Total costs and expenses | 50,046 | 47,788 | 97,927 | 94,354 |
| Income (loss) before income taxes, equity income and minority interests | (1,577) | 1,466 | (3,685) | 2,730 |
| Income tax expense (benefit) | (330) | 302 | (1,265) | 610 |
| Equity income (loss) and minority interests | 173 | 213 | 242 | 465 |
| Net income (loss) | \$ (1,074) | \$ 1,377 | \$ (2,178) | \$ 2,585 |
| | ===== | ===== | ===== | ===== |
| Basic earnings (loss) per share attributable to common stock (Note 9) | \$ (1.90) | \$ 2.44 | \$ (3.85) | \$ 4.58 |
| | ===== | ===== | ===== | ===== |
| Earnings (loss) per share attributable to common stock assuming dilution (Note 9) | \$ (1.90) | \$ 2.42 | \$ (3.85) | \$ 4.54 |
| | ===== | ===== | ===== | ===== |

Reference should be made to the notes to consolidated financial statements.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|--|--|--|
| | (As restated see Note 1) 2005 ---- | (As restated see Note 1) 2004 ---- | (As restated see Note 1) 2005 ---- | (As restated see Note 1) 2004 ---- |
| | (dollars in millions) | | | |
| AUTOMOTIVE AND OTHER OPERATIONS | | | | |
| Total net sales and revenues | \$40,178 | \$41,202 | \$77,481 | \$81,339 |
| Cost of sales and other expenses | 38,861 | 37,259 | 75,767 | 73,690 |
| Selling, general, and administrative expenses | 3,320 | 3,144 | 6,157 | 6,167 |
| Total costs and expenses | 42,181 | 40,403 | 81,924 | 79,857 |
| Interest expense | 671 | 596 | 1,356 | 1,158 |
| Net expense from transactions with Financing and Insurance Operations | 100 | 59 | 187 | 127 |
| Income (loss) before income taxes, equity income, and minority interests | (2,774) | 144 | (5,986) | 197 |
| Income tax (benefit) | (719) | (188) | (2,026) | (325) |
| Equity income (loss) and minority interests | 173 | 213 | 245 | 467 |
| Net income (loss) - Automotive and Other Operations | \$(1,882) | \$545 | \$(3,715) | \$989 |
| | ===== | ==== | ===== | ==== |
| FINANCING AND INSURANCE OPERATIONS | | | | |
| Total revenues | \$8,291 | \$8,052 | \$16,761 | \$15,745 |
| Interest expense | 3,041 | 2,243 | 6,035 | 4,465 |
| Depreciation and amortization expense | 1,404 | 1,333 | 2,802 | 2,663 |
| Operating and other expenses | 1,952 | 2,190 | 4,095 | 4,109 |
| Provisions for financing and insurance losses | 797 | 1,023 | 1,715 | 2,102 |
| Total costs and expenses | 7,194 | 6,789 | 14,647 | 13,339 |

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| | | | | |
|---|-------|-------|---------|---------|
| Net income from transactions with Automotive and Other Operations | (100) | (59) | (187) | (127) |
| | ----- | ----- | ----- | ----- |
| Income before income taxes, equity income, and minority interests | 1,197 | 1,322 | 2,301 | 2,533 |
| Income tax expense | 389 | 490 | 761 | 935 |
| Equity income (loss) and minority interests | - | - | (3) | (2) |
| | ----- | ----- | ----- | ----- |
| Net income - Financing and Insurance Operations | \$808 | \$832 | \$1,537 | \$1,596 |
| | === | === | ===== | ===== |

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive and Other Operations; and (2) Financing and Insurance Operations.

Reference should be made to the notes to consolidated financial statements.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | (As restated, see Note 1) June 30, 2005 (Unaudited) | (As restated, see Note 1) Dec. 31, 2004 (Unaudited) | (As restated, see Note 1) June 30, 2004 (Unaudited) |
|--|---|---|---|
| | ----- | ----- | ----- |
| ASSETS | (dollars in millions) | | |
| Cash and cash equivalents | \$32,261 | \$35,993 | \$29,901 |
| Marketable securities | 23,013 | 21,737 | 20,816 |
| | ----- | ----- | ----- |
| Total cash and marketable securities | 55,274 | 57,730 | 50,717 |
| Finance receivables - net | 178,137 | 199,600 | 192,023 |
| Loans held for sale | 26,903 | 19,934 | 17,393 |
| Accounts and notes receivable (less allowances) | 18,465 | 21,236 | 16,989 |
| Inventories (less allowances) (Note 3) | 13,350 | 12,247 | 12,274 |
| Deferred income taxes | 27,640 | 26,241 | 27,379 |
| Net equipment on operating leases (less | | | |

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| | | | |
|----------------------------------|-----------|-----------|-----------|
| accumulated depreciation) | 36,076 | 34,214 | 32,321 |
| Equity in net assets of | | | |
| nonconsolidated affiliates | 4,156 | 6,776 | 6,381 |
| Property - net | 40,325 | 39,020 | 37,578 |
| Intangible assets - net (Note 4) | 4,947 | 4,925 | 4,696 |
| Other assets | 60,512 | 57,680 | 57,709 |
| | ----- | ----- | ----- |
| Total assets | \$465,785 | \$479,603 | \$455,460 |
| | ===== | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | |
|--|-----------|-----------|-----------|
| Accounts payable (principally trade) | \$28,694 | \$28,830 | \$26,377 |
| Notes and loans payable | 283,621 | 300,279 | 277,027 |
| Postretirement benefits other than pensions | 30,525 | 28,111 | 31,691 |
| Pensions | 9,722 | 9,455 | 7,559 |
| Deferred income taxes | 6,632 | 7,078 | 8,101 |
| Accrued expenses and other liabilities | 81,425 | 77,727 | 76,641 |
| | ----- | ----- | ----- |
| Total liabilities | 440,619 | 451,480 | 427,396 |
| Minority interests | 902 | 397 | 328 |
| Stockholders' equity | | | |
| \$1-2/3 par value common stock (outstanding, 565,503,422; 565,132,021; and 564,721,304 shares) | 943 | 942 | 941 |
| Capital surplus (principally additional paid-in capital) | 15,255 | 15,241 | 15,181 |
| Retained earnings | 11,680 | 14,428 | 14,772 |
| | ----- | ----- | ----- |
| Subtotal | 27,878 | 30,611 | 30,894 |
| Accumulated foreign currency translation adjustments | (1,645) | (1,194) | (1,685) |
| Net unrealized gains on derivatives | 331 | 589 | 369 |
| Net unrealized gains on securities | 687 | 751 | 557 |
| Minimum pension liability adjustment | (2,987) | (3,031) | (2,399) |
| | ----- | ----- | ----- |
| Accumulated other comprehensive loss | (3,614) | (2,885) | (3,158) |
| | ----- | ----- | ----- |
| Total stockholders' equity | 24,264 | 27,726 | 27,736 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$465,785 | \$479,603 | \$455,460 |
| | ===== | ===== | ===== |

Reference should be made to the notes to consolidated financial statements.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION TO THE CONSOLIDATED BALANCE SHEETS

| | (As restated, see Note 1) | (As restated, see Note 1) | |
|--|------------------------------|------------------------------|------------------|
| | June 30, 2005 | Dec. 31, 2004 | June 30, 2004 |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| | ----- | ----- | ----- |
| ASSETS | | | |
| (dollars in millions) | | | |
| Automotive and Other Operations | | | |
| Cash and cash equivalents | \$12,445 | \$13,148 | \$13,182 |
| Marketable securities | 3,629 | 6,655 | 8,319 |
| | ----- | ----- | ----- |
| Total cash and marketable securities | 16,074 | 19,803 | 21,501 |
| Accounts and notes receivable (less allowances) | 8,087 | 6,713 | 6,396 |
| Inventories (less allowances) (Note 3) | 12,818 | 11,717 | 11,576 |
| Net equipment on operating leases (less accumulated depreciation) | 6,723 | 6,488 | 6,914 |
| Deferred income taxes and other current assets | 10,570 | 10,794 | 10,876 |
| | ----- | ----- | ----- |
| Total current assets | 54,272 | 55,515 | 57,263 |
| Equity in net assets of nonconsolidated affiliates | | | |
| Property - net | 4,156 | 6,776 | 6,381 |
| Intangible assets - net (Note 4) | 38,480 | 37,170 | 35,684 |
| Deferred income taxes | 1,658 | 1,599 | 1,412 |
| Other assets | 18,976 | 17,399 | 18,316 |
| | 41,415 | 40,844 | 41,657 |
| | ----- | ----- | ----- |
| Total Automotive and Other Operations assets | 158,957 | 159,303 | 160,713 |
| Financing and Insurance Operations | | | |
| Cash and cash equivalents | 19,816 | 22,845 | 16,719 |
| Investments in securities | 19,384 | 15,082 | 12,497 |
| Finance receivables - net | 178,137 | 199,600 | 192,023 |
| Loans held for sale | 26,903 | 19,934 | 17,393 |
| Net equipment on operating leases (less accumulated depreciation) | 29,353 | 27,726 | 25,407 |
| Other assets | 33,235 | 35,113 | 30,708 |
| Net receivable from Automotive and Other Operations | 2,846 | 2,426 | 2,004 |
| | ----- | ----- | ----- |
| Total Financing and Insurance Operations assets | 309,674 | 322,726 | 296,751 |
| | ----- | ----- | ----- |
| Total assets | \$468,631 | \$482,029 | \$457,464 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Automotive and Other Operations | | | |
| Accounts payable (principally trade) | \$25,361 | \$24,257 | \$23,084 |
| Loans payable | 1,563 | 2,062 | 2,625 |
| Accrued expenses | 44,390 | 46,147 | 46,726 |
| Net payable to Financing and Insurance Operations | 2,846 | 2,426 | 2,004 |
| | ----- | ----- | ----- |
| Total current liabilities | 74,160 | 74,892 | 74,439 |
| Long-term debt | 31,043 | 30,460 | 29,814 |
| Postretirement benefits other than pensions | 25,815 | 23,406 | 27,721 |
| Pensions | 9,629 | 9,371 | 7,489 |
| Other liabilities and deferred income taxes | 15,921 | 15,657 | 15,467 |
| | ----- | ----- | ----- |
| Total Automotive and Other Operations | | | |

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| | | | |
|--|-----------|-----------|-----------|
| liabilities | 156,568 | 153,786 | 154,930 |
| Financing and Insurance Operations | | | |
| Accounts payable | 3,333 | 4,573 | 3,293 |
| Debt | 251,015 | 267,757 | 244,588 |
| Other liabilities and deferred income taxes | 32,549 | 27,790 | 26,589 |
| | ----- | ----- | ----- |
| Total Financing and Insurance Operations liabilities | 286,897 | 300,120 | 274,470 |
| | ----- | ----- | ----- |
| Total liabilities | 443,490 | 453,906 | 429,400 |
| Minority interests | 902 | 397 | 328 |
| Total stockholders' equity | 24,264 | 27,726 | 27,736 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$468,631 | \$482,029 | \$457,464 |
| | ===== | ===== | ===== |

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive and Other Operations; and (2) Financing and Insurance Operations.

Reference should be made to the notes to consolidated financial statements.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, | |
|--|---------------------------|------------------------------|
| | ----- | |
| | | (As restated, see Note 1) |
| | 2005 | 2004 |
| | ---- | ---- |
| | (dollars in millions) | |
| Net cash provided by operating activities (Note 1) | \$2,489 | \$559 |
| Cash flows from investing activities | | |
| Expenditures for property | (2,944) | (3,201) |
| Investments in marketable securities - acquisitions | (10,830) | (6,466) |
| Investments in marketable securities - liquidations | 10,269 | 7,064 |
| Net originations and purchases of mortgage servicing rights | (784) | (816) |
| Increase in finance receivables | (5,970) | (17,556) |
| Proceeds from sales of finance receivables | 17,692 | 9,012 |
| Operating leases - acquisitions | (8,378) | (7,118) |

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| | | |
|--|----------|----------|
| Operating leases - liquidations | 3,258 | 3,992 |
| Investments in companies, net of cash acquired | 1,355 | (32) |
| Other | (2,411) | 982 |
| | ----- | ----- |
| Net cash provided by (used in) investing activities (Note 1) | 1,257 | (14,139) |
| Cash flows from financing activities | | |
| Net (decrease) increase in loans payable | (8,411) | 2,137 |
| Long-term debt - borrowings | 30,440 | 37,784 |
| Long-term debt - repayments | (32,144) | (30,986) |
| Cash dividends paid to stockholders | (570) | (564) |
| Other | 3,619 | 2,804 |
| | ----- | ----- |
| Net cash (used in) provided by financing activities | (7,066) | 11,175 |
| Effect of exchange rate changes on cash and cash equivalents | | |
| | (412) | (248) |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (3,732) | (2,653) |
| Cash and cash equivalents at beginning of the period | 35,993 | 32,554 |
| | ----- | ----- |
| Cash and cash equivalents at end of the period | \$32,261 | \$29,901 |
| | ===== | ===== |

Reference should be made to the notes to consolidated financial statements.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION TO THE CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Automotive and Financing and
Other Insurance
Six Months Ended June 30,

(As
restated,

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| | 2005 | 2004 | 2005 | 2004 |
|--|-----------------------|----------|----------|----------|
| | ---- | ---- | ---- | ---- |
| | (dollars in millions) | | | |
| Net cash (used in) provided by operating activities (Note 1) | \$ (2,138) | \$ 955 | \$ 4,627 | \$ (396) |
| Cash flows from investing activities | | | | |
| Expenditures for property | (2,813) | (3,038) | (131) | (163) |
| Investments in marketable securities - acquisitions | (271) | (855) | (10,559) | (5,611) |
| Investments in marketable securities - liquidations | 3,137 | 1,603 | 7,132 | 5,461 |
| Net change in mortgage services rights | - | - | (784) | (816) |
| Increase in finance receivables | - | - | (5,970) | (17,556) |
| Proceeds from sales of finance receivables | - | - | 17,692 | 9,012 |
| Operating leases - acquisitions | - | - | (8,378) | (7,118) |
| Operating leases - liquidations | - | - | 3,258 | 3,992 |
| Net investing activity with Financing and Insurance Operations | 1,000 | - | - | - |
| Investments in companies, net of cash acquired | 1,355 | (53) | - | 21 |
| Other | (591) | 110 | (1,820) | 872 |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities (Note 1) | 1,817 | (2,233) | 440 | (11,906) |
| Cash flows from financing activities | | | | |
| Net increase (decrease) in loans payable | 46 | (437) | (8,457) | 2,574 |
| Long-term debt - borrowings | 25 | 756 | 30,415 | 37,028 |
| Long-term debt - repayments | (20) | (55) | (32,124) | (30,931) |
| Net financing activity with Automotive & Other | - | - | (1,000) | - |
| Cash dividends paid to stockholders | (570) | (564) | - | - |
| Other | - | - | 3,619 | 2,804 |
| | --- | --- | ----- | ----- |
| Net cash (used in) provided by financing activities | (519) | (300) | (7,547) | 11,475 |
| Effect of exchange rate changes on cash and cash equivalents | (283) | (176) | (129) | (72) |
| Net transactions with Automotive/Financing Operations | 420 | 512 | (420) | (512) |
| | --- | ----- | ----- | ----- |
| Net decrease in cash and cash equivalents | (703) | (1,242) | (3,029) | (1,411) |
| Cash and cash equivalents at beginning of the period | 13,148 | 14,424 | 22,845 | 18,130 |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of the period | \$12,445 | \$13,182 | \$19,816 | \$16,719 |
| | ===== | ===== | ===== | ===== |

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive and Other Operations; and (2) Financing and Insurance Operations. Classification of cash flows for Financing and Insurance Operations is consistent with presentation in GM's Consolidated Statement of Cash Flows. See Note 1.

Reference should be made to the notes to consolidated financial statements.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Financial Statement Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information. In the opinion of management, all adjustments (consisting of only normal recurring items), which are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year. The consolidated financial statements include the accounts of General Motors Corporation and domestic and foreign subsidiaries that are more than 50% owned, principally General Motors Acceptance Corporation and Subsidiaries (GMAC), (collectively referred to as the "Corporation," "General Motors" or "GM"). In addition, GM consolidates variable interest entities (VIEs) for which it is deemed to be the primary beneficiary. General Motors' share of earnings or losses of affiliates is included in the consolidated operating results using the equity method of accounting when GM is able to exercise significant influence over the operating and financial decisions of the investee. GM encourages reference to the GM and GMAC Annual Reports on Form 10-K for the period ended December 31, 2004 and the GMAC Quarterly Report on Form 10-Q for the period ended June 30, 2005, filed separately with the U.S. Securities and Exchange Commission (SEC).

GM presents its primary financial statements on a fully consolidated basis. Transactions between businesses have been eliminated in the Corporation's consolidated financial statements. These transactions consist principally of borrowings and other financial services provided by Financing and Insurance Operations (FIO) to Automotive and Other Operations (Auto & Other).

To facilitate analysis, GM presents supplemental information to the statements of income, balance sheets, and statements of cash flows for the following businesses: (1) Auto & Other, which consists of the design, manufacturing, and marketing of cars, trucks and related parts and accessories; and (2) FIO, which consists primarily of GMAC. GMAC provides a broad range of financial services, including consumer vehicle financing, full-service leasing and fleet leasing, dealer financing, car and truck extended service contracts, residential and commercial mortgage services, vehicle and homeowners' insurance, and asset-based lending.

Restatement of Second Quarter 2005 Financial Statements for Impairment of Investment in Fuji Heavy Industries, Ltd. ("FHI")

This amendment to GM's Form 10-Q for the period ended June 30, 2005 includes a restatement of the consolidated financial statements for the quarter ended June 30, 2005. The restatement relates to an impairment of GM's holdings of common stock of FHI as follows.

Investments in equity securities as of June 30, 2005, include GM's 20.1% investment in the common stock of FHI, which then had a book value of \$1.5 billion. GM uses the equity method of accounting for its investment in FHI. At the time of GM's initial investment in FHI and through the first quarter of 2005, the book value of the FHI shares has been in excess of the value of the

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underlying shares of common stock of FHI, as determined by trades on the Tokyo Stock Exchange. However, the carrying value amount had been considered recoverable based on GM's periodic estimates of fair value that comprehended FHI's future business plans and financial prospects. In May 2005, management of FHI formulated a new business plan, which indicated FHI's expectation of a decline in revenues, profits and cash flows in the near term from those levels comprehended in previous plans

GM has now determined that, as of the second quarter, the value of the common stock of FHI was other than temporarily impaired and that the carrying value of the common stock of FHI should have been reduced to fair value of approximately \$650 million, based on the closing price of FHI stock on the Tokyo Stock Exchange on June 30, 2005. GM believes that the closing price of FHI on June 30, 2005 represents the best indicator of fair market value and that it would not be appropriate to consider subsequent recovery in the price of FHI stock in determining the second quarter impairment. This correction had no effect on GM's previously reported amounts of cash flows from operating activities or the net increase (decrease) in cash and cash equivalents.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 1. Financial Statement Presentation (continued)

The table below reflects the quarterly and year-to-date effect of the impairment of GM's investment in FHI on net income and earnings per share as originally reported.

| | Three Months Ended June 30, 2005 | Six Months Ended June 30, 2005 |
|--|---|---|
| | ----- | |
| | (dollars in millions) | |
| Net (loss) | | |
| As previously reported | \$ (286) | \$ (1,390) |
| Impairment of FHI | (788) | (788) |
| | ----- | ----- |
| As restated | \$ (1,074) | \$ (2,178) |
| | ===== | ===== |
| Basic (loss) per share attributable to common stock | | |
| As previously reported | \$ (0.51) | \$ (2.46) |
| Impairment of FHI | (1.39) | (1.39) |
| | ----- | ----- |

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| | | |
|--|------------|------------|
| As restated | \$ (1.90) | \$ (3.85) |
| | ===== | ===== |
| (Loss) per share attributable to common stock assuming dilution | | |
| As previously reported | \$ (0.51) | \$ (2.46) |
| Impairment of FHI | (1.39) | (1.39) |
| | ----- | ----- |
| As restated | \$ (1.90) | \$ (3.85) |
| | ===== | ===== |
| Net (loss) - Automotive and Other Operations | | |
| As previously reported | \$ (1,094) | \$ (2,927) |
| Impairment of FHI | (788) | (788) |
| | ----- | ----- |
| As restated | \$ (1,882) | \$ (3,715) |
| | ===== | ===== |

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 1. Financial Statement Presentation (continued)

Restated Selected Balance Sheet Data

| | |
|--|------------------------------|
| | June 30, 2005 (Unaudited) |
| | ----- |
| | (dollars in millions) |
| Equity in net assets of nonconsolidated affiliates | |
| As previously reported | \$4,969 |
| Impairment of FHI | (813) |
| | ----- |
| As restated | \$4,156 |
| | ===== |
| Total assets | |
| As previously reported | 466,598 |

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| | |
|----------------------------|-----------|
| Impairment of FHI | (813) |
| | ----- |
| As restated | \$465,785 |
| | ===== |
| Deferred Income Taxes | |
| As previously reported | \$6,657 |
| Impairment of FHI | (25) |
| | ----- |
| As restated | \$6,632 |
| | ===== |
| Total liabilities | |
| As previously reported | \$440,644 |
| Impairment of FHI | (25) |
| | ----- |
| As restated | \$440,619 |
| | ===== |
| Retained earnings | |
| As previously reported | \$12,468 |
| Impairment of FHI | (788) |
| | ----- |
| As restated | \$11,680 |
| | ===== |
| Total stockholder's equity | |
| As previously reported | \$25,052 |
| Impairment of FHI | (788) |
| | ----- |
| As restated | \$24,264 |
| | ===== |

Restatement of Quarterly 2004 Financial Statements for Out-of-Period Adjustments

GM has made certain adjustments to restate previously reported quarterly financial results for 2004 that do not affect GM's 2004 total annual results, cash flows, or year-end 2004 financial position.

During the fourth quarter of 2004, internal controls that had been put into place in connection with GM's Sarbanes-Oxley Section 404 program at GMAC's residential mortgage businesses identified certain out-of-period adjustments. The majority of these amounts resulted from items detected and recorded in the fourth quarter of 2004 that relate to prior 2004 quarters. As a result, GM has restated its 2004 quarterly and year-to-date financial statements. The most significant of these restatement adjustments relate to: (1) the estimation of fair values of certain interests in securitized assets, (2) the accounting for deferred income taxes related to certain secured financing transactions; and (3) the income statement effects of consolidating certain mortgage transfers previously recognized as sales.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 1. Financial Statement Presentation (continued)

Upon identification of these out-of-period adjustments, GM analyzed their effect, together with the effect of out-of-period adjustments related to Auto & Other that had been previously considered immaterial to GM on a consolidated basis, and concluded that, in the aggregate, they were significant enough to warrant restatement of GM's 2004 quarterly results. The most significant of the Auto & Other out-of-period adjustments relates to GM's accounting for the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was initially reported in the first quarter of 2004 pursuant to FASB Staff Position (FSP) No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-1 permitted companies to recognize the effect of the Act beginning with its enactment date (December 8, 2003), or defer recognition until the issuance of final rules by the FASB. In the second quarter of 2004, FSP 106-2 was issued which superseded FSP 106-1 and clarified how to account for the effect of the Act under circumstances where a company's other postretirement employee benefits (OPEB) plan has a plan year-end that is different from the company's fiscal year-end. This second quarter clarification provided guidance on the accounting for the effect of the Act in a manner different than GM had applied prior to restatement. A summary of the significant effects of the restatement follows:

| | Three Months Ended June 30, 2004 | | Six Months Ended June 30, 2004 | |
|--|--|-------------|-----------------------------------|-------------|
| | ----- | | ----- | |
| | As previously reported* | As restated | As previously reported* | As restated |
| | ----- | ----- | ----- | ----- |
| | (dollars in millions except per share amounts) | | | |
| Total net sales and revenues | \$49,148 | \$49,254 | \$96,833 | \$97,084 |
| Income before income taxes, equity income, and minority interests | \$1,457 | \$1,466 | \$2,758 | \$2,730 |
| Income tax expense | 306 | 302 | 579 | 610 |
| Minority interests | (23) | (23) | (46) | (46) |
| Earnings of nonconsolidated associates | 213 | 236 | 488 | 511 |
| Net income | \$1,341 | \$1,377 | \$2,621 | \$2,585 |
| | ===== | ===== | ===== | ===== |
| Basic earnings per share attributable to common stock | \$2.37 | \$2.44 | \$4.64 | \$4.58 |
| | ===== | ===== | ===== | ===== |
| Average number of shares of common stock outstanding - basic (in millions) | 565 | 565 | 565 | 565 |
| Earnings per share attributable to common stock assuming dilution | \$2.36 | \$2.42 | \$4.61 | \$4.54 |
| | ===== | ===== | ===== | ===== |
| Average number of shares of common stock outstanding - | | | | |

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| diluted (in millions) | 568 | 568 | 569 | 569 |
|--|---------|---------|---------|---------|
| Net income (loss) by reportable operating segment / region | | | | |
| Automotive and Other Operations | | | | |
| GM North America (GMNA) | \$328 | \$355 | \$779 | \$756 |
| GM Europe (GME) | (45) | (45) | (161) | (161) |
| GM Latin America/Africa/Mid-East (GMLAAM) | 10 | 10 | 11 | 11 |
| GM Asia Pacific (GMAP) | 236 | 259 | 511 | 534 |
| Other Operations | (34) | (34) | (151) | (151) |
| | -- | -- | --- | --- |
| Net income - Automotive and Other Operations | 495 | 545 | 989 | 989 |
| Financing and Insurance Operations | | | | |
| Net income - Financing and Insurance Operations | 846 | 832 | 1,632 | 1,596 |
| | ----- | ----- | ----- | ----- |
| Net income | \$1,341 | \$1,377 | \$2,621 | \$2,585 |
| | ===== | ===== | ===== | ===== |

*As reported in Form 10-Q for the quarter ended June 30, 2004.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 1. Financial Statement Presentation (continued)

Statements of Cash Flows

After considering the concerns raised by the staff of the SEC as of December 31, 2004, management concluded that certain amounts in the Consolidated Statements of Cash Flows for the year ended December 31, 2004 should be reclassified to appropriately present net cash used in operating activities and net cash used in investing activities. These amounts for the six months ended June 30, 2004 have been reclassified to be consistent with the six months ended June 30, 2005.

The Corporation's previous policy was to classify all the cash flow effects of providing wholesale loans to its independent dealers by GM's Financing and Insurance Operations as an investing activity in its Consolidated Statements of Cash Flows. This policy, when applied to the financing of inventory sales, had the effect of presenting an investing cash outflow and an operating cash inflow even though there was no cash inflow or outflow on a consolidated basis. The Corporation has changed its policy to eliminate this intersegment activity from its Consolidated Statements of Cash Flows and, as a result of this change, all cash flow effects related to wholesale loans are reflected in the operating activities section of the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2005 and 2004. This reclassification better reflects the financing of the sale of inventory as a non-cash transaction to GM on a consolidated basis and eliminates the effects of intercompany transactions.

The following table shows the effects of this reclassification for the six months ended June 30, 2004, consistent with the 2005 presentation (dollars in millions):

Net cash provided by operating activities

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| | |
|---|-------------|
| as previously reported | \$7,599 |
| Reclassification | (7,040) |
| | ----- |
| Revised net cash provided by operating activities | \$559 |
| | ==== |
| Net cash used in investing activities | |
| as previously reported | \$ (21,179) |
| Reclassification | 7,040 |
| | ----- |
| Revised net cash used in investing activities | \$ (14,139) |
| | ===== |

Presentation of Delphi Receivable

As of June 30, 2005 GM's Consolidated Balance Sheet reflects a change in presentation of a receivable due from Delphi Corporation (Delphi). The receivable represents amounts that Delphi owes to GM for OPEB relating to Delphi employees who were formerly GM employees and subsequently transferred back to GM as job openings at GM became available to them under certain employee "flowback" arrangements included in the 1999 Separation Agreement between GM and Delphi. GM is responsible to pay for the OPEB of the subject employees. In accordance with the terms of the 1999 Separation Agreement, Delphi will compensate GM for the total OPEB attributable to services rendered by the subject employees from their original GM service date through the date the subject employees flowed back to GM from Delphi. In prior periods this amount was netted against the OPEB liability carried on GM's balance sheet. As a result of the change in presentation, GM's June 30, 2005 Consolidated Balance Sheet reflects an \$819 million increase in the amount presented under "Other Assets" and a corresponding liability increase under "Postretirement Benefits Other than Pensions." Cash settlement between GM and Delphi with respect to this receivable is scheduled to occur at the time of the employees' estimated retirement dates. GM has the right to offset the amounts owed by Delphi under this arrangement against amounts GM owes to Delphi for the purchase of Delphi products. At June 30, 2005, GM owed approximately \$1.8 billion to Delphi for such purchases in North America.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 1. Financial Statement Presentation (concluded)

New Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123R), requiring companies to record share-based payment transactions as compensation expense at fair market value. SFAS No. 123R further defines the concept of fair market value as it relates to such arrangements. Based on SEC guidance issued in Staff Accounting Bulletin (SAB) 107 in April

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2005, the provisions of this statement will be effective for General Motors as of January 1, 2006. The Corporation began expensing the fair market value of newly granted stock options and other stock based compensation awards to employees pursuant to SFAS No. 123 in 2003; therefore this statement is not expected to have a material effect on GM's consolidated financial position or results of operations.

In March 2005, the FASB released FASB Staff Position (FSP) FIN 46(R)-5, which addresses whether a corporation should consider whether it holds an implicit interest in a variable interest entity (VIE) or potential VIE when specific conditions exist to determine if the guidance in FASB Interpretation No. 46 (Revised 2003), "Consolidation of Variable Interest Entities" (FIN 46(R)), should be applied. GM had adopted FIN 46(R) as of January 1, 2004. GM adopted FSP FIN 46(R)-5 upon issuance. The Interpretation did not have an effect on GM's consolidated financial position or results of operations.

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations." FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. This interpretation is effective for fiscal years ending after December 15, 2005. Management does not expect this interpretation to have a material impact on GM's consolidated financial position or results of operations.

In April 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," requiring retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, "Accounting Changes," for the reporting of the correction of an error and a change in accounting estimate. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. This statement is not expected to have a material effect on GM's consolidated financial position or results of operations.

NOTE 2. Acquisition and Disposal of Businesses

On February 3, 2005, GM completed the purchase of 16.6 million newly-issued shares of common stock in GM Daewoo Auto & Technology Company (GM Daewoo, formerly referred to as GM-DAT) for approximately \$49 million. This increased GM's ownership in GM Daewoo to 48.2% from 44.6%. No other shareholders in GM Daewoo participated in the issue. On June 28, 2005, GM purchased from Suzuki Motor Corporation (Suzuki) 6.9 million shares of outstanding common stock in GM Daewoo for approximately \$21 million. This increased GM's ownership in GM Daewoo to 50.9%. Accordingly, as of June 30, 2005, GM Daewoo was consolidated by GM. This increased GM's total assets and liabilities by approximately \$4.7 billion and \$4.5 billion, respectively, including one-time increases of \$1.6 billion of cash and marketable securities and \$1.3 billion of long-term debt. GM has not yet completed its allocation of the total purchase price of GM Daewoo to its net assets.

The following unaudited financial information for the three and six months ended June 30, 2005 and 2004 represents amounts attributable to GM Daewoo on a basis consistent with giving effect to the increased ownership and consolidation as of January 1, 2004 (dollars in millions). The pro forma effect on net income is not significant compared to equity income recognized.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 2. Acquisition and Disposal of Businesses (concluded)

| | Pro-forma Three Months Ended June 30, | | Pro-forma Six Months Ended June 30 | |
|---|---|---------|--|---------|
| | 2005 | 2004 | 2005 | 2004 |
| Total net sales and revenues | \$1,497 | \$1,047 | \$2,668 | \$2,039 |
| Income (loss) before income taxes, equity income and minority interests | \$59 | \$34 | \$43 | \$18 |

On February 13, 2005, GM entered into certain agreements with Fiat S.p.A. (Fiat), under which GM and Fiat would terminate and liquidate all joint ventures between them and GM would acquire certain strategic assets from Fiat. Effective May 13, 2005 the liquidation of these joint ventures and GM's acquisition of certain strategic assets from Fiat was completed. As a result, GM regained complete ownership of all of its respective assets originally contributed to each joint venture. GM acquired a 50 percent interest in a new joint venture limited to operating the powertrain manufacturing plant in Bielsko-Biala, Poland, that currently produces the 1.3 liter SDE diesel engine, and GM will co-own with Fiat key powertrain intellectual property, including the SDE and JTD diesel engines and the M20-32 six-speed manual transmission.

On April 4, 2005, GM completed the sale of Electro-Motive Division (EMD) to an investor group led by Greenbriar Equity Group LLC and Berkshire Partners LLC. The sale covered substantially all of the EMD businesses, and both the LaGrange, Illinois and London, Ontario manufacturing facilities. This transaction did not have a material effect on GM's consolidated financial position or results of operations. The final consideration is contingent upon a closing date balance sheet audit.

NOTE 3. Inventories

Inventories included the following (dollars in millions):

| | June 30, 2005 | Dec. 31, 2004 | June 30, 2004 |
|---|------------------|------------------|------------------|
| Automotive and Other Operations | | | |
| Productive material, work in process, and supplies | \$5,364 | \$4,838 | \$5,324 |
| Finished product, service parts, etc. | 8,757 | 8,321 | 7,838 |
| Total inventories at FIFO | 14,121 | 13,159 | 13,162 |
| Less LIFO allowance | (1,303) | (1,442) | (1,586) |
| Total inventories (less allowances) | \$12,818 | \$11,717 | \$11,576 |
| Financing and Insurance Operations | | | |

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| | | | |
|--|----------|----------|----------|
| Off-lease vehicles | 532 | 530 | 698 |
| | ----- | ----- | ----- |
| Total consolidated inventories (less allowances) | \$13,350 | \$12,247 | \$12,274 |
| | ===== | ===== | ===== |

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 4. Goodwill and Acquired Intangible Assets

The components of the Corporation's acquired intangible assets as of June 30, 2005, and 2004 were as follows (dollars in millions):

| June 30, 2005 | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|--|-----------------------|--------------------------|---------------------|
| | ----- | ----- | ----- |
| Automotive and Other Operations | | | |
| ----- | | | |
| Amortizing intangible assets: | | | |
| Patents and intellectual property rights | \$510 | \$93 | \$417 |
| Non-amortizing intangible assets: | | | |
| Goodwill | | | 526 |
| Pension intangible asset | | | 715 |
| | | | ----- |
| Total goodwill and intangible assets | | | \$1,658 |
| | | | ----- |
| Financing and Insurance Operations | | | |
| ----- | | | |
| Amortizing intangible assets: | | | |
| Customer lists and contracts | \$74 | \$45 | 29 |
| Trademarks and other | 40 | 22 | 18 |
| Covenants not to compete | 18 | 18 | - |
| | --- | -- | -- |
| Total | \$132 | \$85 | \$47 |
| | === | == | |
| Non-amortizing intangible assets: | | | |
| Goodwill | | | 3,242 |
| | | | ----- |
| Total goodwill and intangible assets | | | 3,289 |
| | | | ----- |
| Total consolidated goodwill and intangible | | | |

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| | | | | | |
|---|-------|-----------------------------|-----------------------------|---------------------------|-------|
| assets | | | | \$4,947 | ===== |
| June 30, 2004 | | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| ----- | | | | | |
| Automotive and Other Operations | | | | | |
| ----- | | | | | |
| Amortizing intangible assets: | | | | | |
| Patents and intellectual property rights | \$303 | | \$50 | \$253 | |
| Non-amortizing intangible assets: | | | | | |
| Goodwill | | | | 540 | |
| Pension intangible asset | | | | 619 | |
| | | | | ----- | |
| Total goodwill and intangible assets | | | | \$1,412 | ----- |
| | | | | | |
| Financing and Insurance Operations | | | | | |
| ----- | | | | | |
| Amortizing intangible assets: | | | | | |
| Customer lists and contracts | \$65 | | \$35 | 30 | |
| Trademarks and other | 40 | | 18 | 22 | |
| Covenants not to compete | 18 | | 18 | - | |
| | --- | | -- | -- | |
| Total | \$123 | | \$71 | \$52 | |
| | === | | == | | |
| | | | | | |
| Non-amortizing intangible assets: | | | | | |
| Goodwill | | | | 3,232 | |
| | | | | ----- | |
| Total goodwill and intangible assets | | | | 3,284 | ----- |
| | | | | | |
| Total consolidated goodwill and intangible assets | | | | \$4,696 | ===== |

Annual amortization expense relating to the existing intangible assets for each of the next five years is estimated at \$33 million to \$61 million.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 4. Goodwill and Acquired Intangible Assets (concluded)

The changes in the carrying amounts of goodwill for the six months ended June 30, 2005, and 2004, were as follows (dollars in millions):

| | | | | | |
|------|-----|--|--------------------------|------|----------|
| | | | Total Auto & Other | GMAC | Total GM |
| GMNA | GME | | | | |

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| | | | | | |
|--|-------|-------|-------|---------|---------|
| Balance as of December 31, 2004 | \$154 | \$446 | \$600 | \$3,274 | \$3,874 |
| Goodwill acquired during the period | - | - | - | 3 | 3 |
| Effect of foreign currency translation | (7) | (67) | (74) | (35) | (109) |
| Balance as of June 30, 2005 | \$147 | \$379 | \$526 | \$3,242 | \$3,768 |
| | === | === | === | ===== | ===== |
| Balance as of December 31, 2003 | \$154 | \$413 | \$567 | \$3,223 | \$3,790 |
| Goodwill acquired during the period | - | - | - | 5 | 5 |
| Effect of foreign currency translation | (2) | (20) | (22) | 4 | (18) |
| Other | (5) | - | (5) | - | (5) |
| Balance as of June 30, 2004 | \$147 | \$393 | \$540 | \$3,232 | \$3,772 |
| | === | === | === | ===== | ===== |

NOTE 5. Investment in Nonconsolidated Affiliates

Nonconsolidated affiliates of GM identified herein are those entities in which GM owns an equity interest and for which GM uses the equity method of accounting, because GM has the ability to exert significant influence over decisions relating to their operating and financial affairs. GM's significant affiliates, and the percent of GM's current equity ownership, or voting interest, in them include the following: Japan - Fuji Heavy Industries Ltd. (20.1% at June 30, 2005 and 2004), Suzuki Motor Corporation (20.2% at June 30, 2005 and 20.3% at June 30, 2004); China - Shanghai General Motors Co., Ltd (50% at June 30, 2005 and 2004), SAIC GM Wuling Automobile Co., Ltd (34% at June 30, 2005 and 2004); Korea - GM Daewoo (50.9% at June 30, 2005 and 44.6% at June 30, 2004) With the increase in ownership, GM Daewoo was consolidated by GM at June 30, 2005 - see Note 2; Italy - GM-Fiat Powertrain (FGP) (50% at March 31, 2004).

Information regarding GM's share of income for all nonconsolidated affiliates in the following countries is included in the table below (in millions):

GM's share of nonconsolidated affiliates' net income (loss):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------|--------------------------------|-------|------------------------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| Italy | \$11 | \$11 | \$32 | \$29 |
| Japan | \$45 | \$53 | \$95 | \$159 |
| China | \$99 | \$148 | \$132 | \$310 |
| Korea | \$25 | \$15 | \$17 | \$7 |

On February 13, 2005, GM entered into certain agreements with Fiat, under which GM and Fiat have terminated and liquidated all joint ventures between them in existence at that time - see Note 2. Separately, during the second quarter of 2005, GM entered into a new joint venture with Fiat in Poland, GM Fiat Powertrain Polska, with each party owning 50% of the joint venture.

GM determined that, as of the end of the second quarter of 2005, the value of its investment in the common stock of FHI was impaired on an other than temporary basis. The write-down due to this impairment was \$788 million, after tax, included in cost of sales and other expenses. See Note 1.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 6. Product Warranty Liability

Policy, product warranty, and recall campaigns liability included the following (dollars in millions):

| | Six Months Ended June 30, 2005 | Twelve Months Ended Dec. 31, 2004 | Six Months Ended June 30, 2004 |
|--|--------------------------------------|---|--------------------------------------|
| | ----- | ----- | ----- |
| Beginning balance | \$9,315 | \$8,832 | \$8,832 |
| Payments | (2,366) | (4,669) | (2,290) |
| Increase in liability (warranties issued during period) | 2,867 | 5,065 | 2,794 |
| Adjustments to liability (pre-existing warranties) | (264) | (85) | (157) |
| Effect of foreign currency translation and other adjustments | (263) | 172 | (23) |
| | ----- | ----- | ----- |
| Ending balance | \$9,289 | \$9,315 | \$9,156 |
| | ===== | ===== | ===== |

Warranty liability amounts in the table above have been revised to include amounts with respect to certified-used vehicles. December 31 and June 30, 2004 balances have been revised accordingly to provide a comparative basis.

NOTE 7. Commitments and Contingent Matters

Commitments

GM has guarantees related to its performance under operating lease arrangements and the residual value of lease assets totaling \$639 million. Expiration dates vary, and certain leases contain renewal options. The fair value of the underlying assets is expected to fully mitigate GM's obligations under these guarantees. Accordingly, no liabilities were recorded with respect to such guarantees.

Also, GM has entered into agreements with certain suppliers and service providers that guarantee the value of the suppliers' assets and agreements with third parties that guarantee fulfillment of certain suppliers' commitments. The maximum exposure under these commitments amounts to \$154 million.

The Corporation has guaranteed certain amounts related to the securitization of mortgage loans. In addition, GMAC issues financial standby letters of credit as part of their financing and mortgage operations. At June 30, 2005 approximately \$32 million was recorded with respect to these guarantees, the maximum exposure under which is approximately \$7.4 billion.

In addition to guarantees, GM has entered into agreements indemnifying certain parties with respect to environmental conditions pertaining to ongoing or sold GM properties. Due to the nature of the indemnifications, GM's maximum exposure under these agreements cannot be estimated. No amounts have been recorded for such indemnities.

In connection with the Delphi spinoff, completed May 28, 1999, GM has provided limited guarantees with respect to benefits for former GM employees

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relating to pensions, post-retirement healthcare, and life insurance. In addition, GM has provided limited guarantees with respect to benefits for former GM employees relating to pensions, post-retirement healthcare, and life insurance in connection with certain other divestitures. Due to the nature of these indemnities, the maximum exposure under these agreements cannot be estimated. No amounts have been recorded for such indemnities as the Corporation's obligations under them are not probable and estimable. Delphi has given GM an indemnification with respect to all amounts for which GM may be obligated under the guarantee obligation GM has with respect to employees of Delphi.

In addition to the above, in the normal course of business GM periodically enters into agreements that incorporate indemnification provisions. While the maximum amount to which GM may be exposed under such agreements cannot be estimated, it is the opinion of management that these guarantees and indemnifications are not expected to have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Contingent Matters

Litigation is subject to uncertainties and the outcome of individual litigated matters is not predictable with assurance. Various legal actions, governmental investigations, claims, and proceedings are pending against the Corporation, including those arising out of alleged product defects; employment-related matters; governmental regulations relating to safety, emissions, and fuel economy; product warranties; financial services; dealer, supplier, and other contractual relationships; and environmental matters.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

NOTE 7. Commitments and Contingent Matters (concluded)

GM has established reserves for matters in which losses are probable and can be reasonably estimated. Some of the matters may involve compensatory, punitive, or other treble damage claims, or demands for recall campaigns, environmental remediation programs, or sanctions, that if granted, could require the Corporation to pay damages or make other expenditures in amounts that could not be estimated at June 30, 2005. After discussion with counsel, it is the opinion of management that such liability is not expected to have a material adverse effect on the Corporation's consolidated financial condition or results of operations.

NOTE 8. Comprehensive Income (Loss)

GM's total comprehensive income (loss), net of tax, was as follows (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30 | |
|--------------------------------------|--------------------------------|---------|-----------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income (loss) | \$(1,074) | \$1,377 | \$(2,178) | \$2,585 |
| Other comprehensive income (loss) | 2 | 302 | (729) | 448 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|-------|------------|---------|------------|---------|
| Total | \$ (1,072) | \$1,679 | \$ (2,907) | \$3,033 |
| | ===== | ===== | ===== | ===== |

NOTE 9. Earnings Per Share Attributable to Common Stock

The reconciliation of the amounts used in the basic and diluted earnings per share computations was as follows (in millions except per share amounts):

| | \$1-2/3 Par Value Common Stock | | |
|--|--------------------------------|--------|---------------------|
| | Income (Loss) | Shares | Per Share Amount |
| | ----- | ----- | ----- |
| Three Months Ended June 30, 2005 | | | |
| Basic EPS | | | |
| (Losses) attributable to common stock | (1,074) | 565 | \$ (1.90) |
| | | | ===== |
| Effect of Dilutive Securities | | | |
| Assumed exercise of dilutive stock options | - | - | - |
| | ----- | ----- | ----- |
| Diluted EPS | | | |
| Adjusted (losses) attributable to common stock | \$ (1,074) | 565 | \$ (1.90) |
| | ===== | ===== | ===== |
| Three Months Ended June 30, 2004 | | | |
| Basic EPS | | | |
| Earnings attributable to common stock | \$1,377 | 565 | \$2.44 |
| | | | ===== |
| Effect of Dilutive Securities | | | |
| Assumed exercise of dilutive stock options | - | 3 | - |
| | ----- | --- | ----- |
| Diluted EPS | | | |
| Adjusted earnings attributable to common stock | \$1,377 | 568 | \$2.42 |
| | ===== | ===== | ===== |

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 9. Earnings Per Share Attributable to Common Stock (concluded)

| | \$1-2/3 Par Value Common Stock | | |
|---------------------------------------|--------------------------------|--------|---------------------|
| | Income (Loss) | Shares | Per Share Amount |
| | ----- | ----- | ----- |
| Six Months Ended June 30, 2005 | | | |
| Basic EPS | | | |
| (Losses) attributable to common stock | \$ (2,178) | 565 | \$ (3.85) |

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| | | | |
|--|-----------|-----|----------|
| | | | ===== |
| Effect of Dilutive Securities | | | |
| Assumed exercise of dilutive stock options | - | - | - |
| | ----- | --- | ---- |
| Diluted EPS | | | |
| Adjusted (losses) attributable to common stock | \$(2,178) | 565 | \$(3.85) |
| | ===== | === | === |
| Six Months Ended June 30, 2004 | | | |
| Basic EPS | | | |
| Earnings attributable to common stock | \$2,585 | 565 | \$4.58 |
| | | | ===== |
| Effect of Dilutive Securities | | | |
| Assumed exercise of dilutive stock options | - | 4 | - |
| | ----- | --- | ---- |
| Diluted EPS | | | |
| Adjusted earnings attributable to common stock | \$2,585 | 569 | \$4.54 |
| | ===== | === | ===== |

Certain stock options and convertible securities were not included in the computation of diluted earnings per share for the periods presented since the instruments' underlying exercise prices were greater than the average market prices of GM \$1-2/3 par value common stock and inclusion would be antidilutive. Such shares not included in the computation of diluted earnings per share were 112 million as of June 30, 2005 and 223 million as of June 30, 2004. In addition, for periods in which there was a loss attributable to common stocks, options to purchase shares of GM \$1-2/3 par value common stock with underlying exercise prices less than the average market prices were outstanding, but were excluded from the calculations of diluted loss per share, as inclusion of these securities would have reduced the net loss per share.

NOTE 10. Depreciation and Amortization

Depreciation and amortization included in cost of sales and other expenses and selling, general and administrative expenses for Automotive and Other Operations was as follows (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------------|--------------------------------|---------|------------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| | ---- | ---- | ---- | ---- |
| Depreciation | \$1,292 | \$1,441 | \$2,562 | \$2,589 |
| Amortization of special tools | 803 | 774 | 1,619 | 1,500 |
| Amortization of intangible assets | 13 | 9 | 23 | 16 |
| | ----- | ----- | ----- | ----- |
| Total | \$2,108 | \$2,224 | \$4,204 | \$4,105 |
| | ===== | ===== | ===== | ===== |

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 11. Pensions and Other Postretirement Benefits

| | U.S. Plans | | Non-U.S. Plans | | Other Benefits | |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Pension Benefits | | Pension Benefits | | | |
| | Three Months Ended June 30, | Three Months Ended June 30, | Three Months Ended June 30, | Three Months Ended June 30, | Three Months Ended June 30, | Three Months Ended June 30, |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| (dollars in millions) | | | | | | |
| Components of expense | | | | | | |
| Service cost | \$274 | \$275 | \$70 | \$60 | \$188 | \$149 |
| Interest cost | 1,237 | 1,263 | 235 | 216 | 1,079 | 967 |
| Expected return on plan assets | (1,974) | (1,955) | (182) | (163) | (421) | (274) |
| Amortization of prior service cost | 291 | 319 | 26 | 23 | (15) | (20) |
| Recognized net actuarial loss | 479 | 464 | 69 | 47 | 586 | 278 |
| Curtailments, settlements, and other | 21 | - | 25 | 1 | 2 | - |
| Net expense | \$328 | \$366 | \$243 | \$184 | \$1,419 | \$1,100 |
| | === | === | === | === | ===== | ===== |
| | Six Months Ended June 30, | | Six Months Ended June 30, | | Six Months Ended June 30, | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| (dollars in millions) | | | | | | |
| Components of expense | | | | | | |
| Service cost | \$548 | \$548 | \$142 | \$122 | \$376 | \$306 |
| Interest cost | 2,474 | 2,523 | 476 | 439 | 2,160 | 1,984 |
| Expected return on plan assets | (3,948) | (3,908) | (367) | (326) | (842) | (547) |
| Amortization of prior service cost | 582 | 638 | 53 | 47 | (31) | (40) |
| Recognized net actuarial loss | 958 | 928 | 138 | 95 | 1,172 | 652 |
| Curtailments, settlements, and other | 112 | 34 | 84 | 8 | 2 | - |
| Net expense | \$726 | \$763 | \$526 | \$385 | \$2,837 | \$2,355 |
| | === | === | === | === | ===== | ===== |

During the second quarter of 2005, GM withdrew \$1 billion from its Voluntary Employees' Beneficiary Association (VEBA) trust as a reimbursement for its retiree health care payments. On July 1, 2005, GM withdrew an additional \$1 billion from the VEBA, and on a quarter-by-quarter basis is evaluating the need for additional withdrawals as the cost of health care continues to adversely affect GM's liquidity.

NOTE 12. 2005 Initiatives

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Results in the first quarter of 2005 include after-tax charges of \$140 million recorded in GMNA and \$8 million recorded in Other Operations related to voluntary early retirement and other separation programs with respect to certain salaried employees in the U.S.

GMNA results in the first quarter of 2005 include a charge of \$84 million, after tax, for the write-down to fair market value of various plant assets in connection with the first quarter announcement to discontinue production at the Lansing assembly plant during the second quarter of 2005.

GME results in the first and second quarters of 2005 include after-tax separation charges of \$422 million and \$126 million, respectively, related to the restructuring plan announced in the fourth quarter of 2004. This plan targets a reduction in annual structural costs of an estimated \$600 million by 2006. A total reduction of 12,000 employees, including 10,000 in Germany, over the period 2005 through 2007 through separation programs, early retirements, and selected outsourcing initiatives is expected. The charge incurred in the first quarter of 2005 covers approximately 5,650 people, of whom 4,900 are in Germany. The charge in the second quarter of 2005 covers approximately 600 additional people, as well as those charges related to previous separations that are required to be amortized over future periods, and costs related to the dissolution of the FGP joint ventures.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
(Unaudited)

NOTE 13. Segment Reporting

| | GMNA | GME | GMLAAM | GMAP | GMA | Other | Auto & Other | G |
|--|-----------|----------|---------|---------|-----------|-----------|-----------------|-------|
| | ---- | --- | ----- | ---- | --- | ----- | ----- | |
| For the Three Months Ended June 30, 2005 | | | | | | | | |
| Manufactured products sales and revenues: | | | | | | | | |
| External customers | \$28,038 | \$8,025 | \$2,742 | \$1,640 | \$40,445 | \$(267) | \$40,178 | \$8 |
| Intersegment | (913) | 438 | 193 | 282 | - | - | - | |
| Total manufactured products | \$27,125 | \$8,463 | \$2,935 | \$1,922 | \$40,445 | \$(267) | \$40,178 | \$8 |
| Interest income (a) | \$318 | \$112 | \$10 | \$2 | \$442 | \$(252) | \$190 | |
| Interest expense | \$755 | \$132 | \$38 | \$9 | \$934 | \$(263) | \$671 | \$3 |
| Net income (loss) | \$(1,194) | \$(89) | \$33 | \$(612) | \$(1,862) | \$(20) | \$(1,882) | |
| Segment assets | \$124,188 | \$24,087 | \$4,876 | \$9,407 | \$162,558 | \$(3,601) | \$158,957 | \$309 |
| For the Three Months Ended June 30, 2004 | | | | | | | | |

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| | | | | | | | | |
|-----------------------------|------------|----------|---------|----------|------------|------------|------------|-------|
| Manufactured products | | | | | | | | |
| sales and revenues: | | | | | | | | |
| External customers | \$29,988 | \$7,917 | \$1,764 | \$1,456 | \$41,125 | \$77 | \$41,202 | \$7 |
| Intersegment | (559) | 177 | 145 | 237 | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | --- | ----- | --- |
| Total manufactured products | \$29,429 | \$8,094 | \$1,909 | \$1,693 | \$41,125 | \$77 | \$41,202 | \$7 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Interest income (a) | \$212 | \$92 | \$ (3) | \$4 | \$305 | \$ (170) | \$135 | |
| Interest expense | \$655 | \$88 | \$16 | \$5 | \$764 | \$ (168) | \$596 | \$2 |
| Net income (loss) | \$355 | \$ (45) | \$10 | \$259 | \$579 | \$ (34) | \$545 | |
| Segment assets | \$129,862 | \$24,829 | \$3,672 | \$3,925 | \$162,288 | \$ (1,575) | \$160,713 | \$296 |
| For the Six Months Ended | | | | | | | | |
| June 30, 2005 | | | | | | | | |
| Manufactured products | | | | | | | | |
| sales and revenues: | | | | | | | | |
| External customers | \$54,123 | \$15,598 | \$4,876 | \$3,175 | \$77,772 | \$ (291) | \$77,481 | \$16 |
| Intersegment | (1,620) | 822 | 358 | 441 | 1 | (1) | - | - |
| | ----- | ----- | ----- | ----- | ----- | --- | ----- | --- |
| Total manufactured products | \$52,503 | \$16,420 | \$5,234 | \$3,616 | \$77,773 | \$ (292) | \$77,481 | \$16 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Interest income (a) | \$614 | \$203 | \$29 | \$5 | \$851 | \$ (452) | \$399 | |
| Interest expense | \$1,513 | \$243 | \$62 | \$16 | \$1,834 | \$ (478) | \$1,356 | \$6 |
| Net income (loss) | \$ (2,754) | \$ (614) | \$79 | \$ (552) | \$ (3,841) | \$126 | \$ (3,715) | \$1 |
| For the Six Months Ended | | | | | | | | |
| June 30, 2004 | | | | | | | | |
| Manufactured products | | | | | | | | |
| sales and revenues: | | | | | | | | |
| External customers | \$59,631 | \$15,195 | \$3,493 | \$2,884 | \$81,203 | \$136 | \$81,339 | \$15 |
| Intersegment | (1,099) | 442 | 249 | 408 | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | --- | ----- | --- |
| Total manufactured products | \$58,532 | \$15,637 | \$3,742 | \$3,292 | \$81,203 | \$136 | \$81,339 | \$15 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Interest income (a) | \$398 | \$173 | \$8 | \$6 | \$585 | \$ (293) | \$292 | |
| Interest expense | \$1,294 | \$175 | \$10 | \$12 | \$1,491 | \$ (333) | \$1,158 | \$4 |
| Net income (loss) | \$756 | \$ (161) | \$11 | \$534 | \$1,140 | \$ (151) | \$989 | \$1 |

(a) Interest income is included in net sales and revenues from external customers.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - concluded
(Unaudited)

Note 14. Subsequent Event

On August 3, 2005, GMAC announced that it had entered into a definitive binding agreement to sell a 60% equity interest in GMAC Commercial Holding Corp. (GMAC Commercial Mortgage). The transaction will allow GMAC Commercial Mortgage increased access to capital for continued growth of its business and GMAC to retain a significant economic interest. The transaction closing is contingent

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upon GMAC Commercial Mortgage securing an investment grade senior debt rating by Standard & Poor's, Moody's, and Fitch. It is expected that the transaction will be completed during the fourth quarter of 2005, subject to all necessary conditions and approvals.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the December 31, 2004 consolidated financial statements and notes thereto (the 2004 Consolidated Financial Statements), along with the MD&A included in General Motors Corporation's (the Corporation, General Motors, or GM) 2004 Annual Report on Form 10-K, as well as General Motors Acceptance Corporation's (GMAC) Annual Report on Form 10-K for the period ended December 31, 2004 and the Quarterly Report on Form 10-Q for the period ended June 30, 2005, filed separately with the U.S. Securities and Exchange Commission (SEC). All earnings per share amounts included in the MD&A are reported on a fully diluted basis.

GM presents separate supplemental financial information for its reportable operating segments:

- o Automotive and Other Operations (Auto & Other); and
 - o Financing and Insurance Operations (FIO).
- GM's Auto & Other reportable operating segment consists of:
- o GM's four automotive regions: GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM), and GM Asia Pacific (GMAP), which constitute GM Automotive (GMA); and
 - o Other, which includes the elimination of intersegment transactions, certain non-segment specific revenues and expenditures, including legacy costs related to postretirement benefits for certain Delphi and other retirees, and certain corporate activities.

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GM's FIO reportable operating segment consists of GMAC and Other Financing, which includes financing entities that are not consolidated by GMAC.

The disaggregated financial results for GMA have been prepared using a management approach, which is consistent with the basis and manner in which GM management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. In this regard, certain common expenses were allocated among regions less precisely than would be required for stand-alone financial information prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The financial results represent the historical information used by management for internal decision-making purposes; therefore, other data prepared to represent the way in which the business will operate in the future, or data prepared in accordance with GAAP, may be materially different.

Consistent with industry practice, market share information employs estimates of sales in certain countries where public reporting is not legally required or otherwise available on a consistent basis.

The accompanying MD&A gives effect to the restatement of the 2004 Quarterly Consolidated Financial Statements discussed in Note 1 to the Consolidated Financial Statements.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

RESULTS OF OPERATIONS

| Consolidated Results | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | ----- | ----- | ----- | ----- |
| | (dollars in millions) | | | |
| Consolidated: | | | | |
| Total net sales and revenues | \$48,469 | \$49,254 | \$94,242 | \$97,084 |
| Net income (loss) | \$(1,074) | \$1,377 | \$(2,178) | \$2,585 |
| Net margin | (2.2%) | 2.8% | (2.3%) | 2.7% |
| Automotive and Other Operations: | | | | |
| Total net sales and revenues | \$40,178 | \$41,202 | \$77,481 | \$81,339 |
| Net income (loss) | \$(1,882) | \$545 | \$(3,715) | \$989 |
| Financing and Insurance Operations: | | | | |
| Total revenues | \$8,291 | \$8,052 | \$16,761 | \$15,745 |
| Net income | \$808 | \$832 | \$1,537 | \$1,596 |

The decrease in second quarter 2005 total net sales and revenues, compared with second quarter 2004, was due to decreased GMA revenue of \$680 million, primarily driven by lower production volume and unfavorable product mix at GMNA, partly offset by revenue increases in all other automotive regions. FIO revenue increased \$239 million.

Consolidated net income decreased \$2.5 billion to a net loss of \$1.1 billion in the second quarter of 2005, compared to income of \$1.4 billion in the second

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quarter of 2004. The net loss at Auto & Other of \$1.9 billion is primarily attributable to GMNA, which had a net loss of \$1.2 billion, and GME and GMAP, which had respective net losses of \$89 million and \$612 million, partially offset by net income at GMLAAM. GMAC earned \$816 million in the second quarter of 2005, down \$30 million from the 2004 level, reflecting lower financing income partially offset by higher income from mortgage and insurance operations.

For the six months ended June 30, 2005, GM incurred a net loss of \$2.2 billion, compared with net income of \$2.6 billion in 2004. A significant loss at GMNA, primarily due to lower production volume, weaker product mix, material cost pressure, and higher healthcare costs, is the primary reason for the overall net loss for the first half of the year.

On a consolidated basis, GM recognized a net tax benefit of \$330 million on a loss before taxes, equity income, and minority interests of \$1.6 billion, resulting in an effective tax rate for the second quarter of 2005 of 21%. For 2005, GM expects to recognize substantial permanent tax benefits that do not vary with pre-tax income, such as Medicare Part D benefits in the U.S. For the second quarter of 2005, GM's income tax provision was based on the total of pre-tax income at statutory tax rates plus one-fourth of these expected benefits. Taxes were allocated to GM's automotive regions based on tax rates used by management for evaluating their performance. Tax benefits in excess of those recognized in GMA are allocated to Other Operations. GM's quarterly tax provisions for the remainder of 2005 will be consistent with this approach.

Second quarter 2005 results, compared to second quarter 2004, included:

- o Global automotive market share increased 0.5 percentage point to 15.2%;
- o GMNA incurred a significant loss due to lower volumes, unfavorable mix, material cost pressure, and increased health-care expense;
- o GME achieved improved operating results, which were more than offset by a restructuring charge related to ongoing initiatives;
- o GMLAAM was profitable for the sixth consecutive quarter;
- o GMAP incurred a net loss primarily as a result of a one-time write down of the investment in Fuji Heavy Industries Ltd. (FHI) due to FHI's declining financial performance and the downward adjustments in their business plan in May 2005. In addition to the write down, operating results of GMAP were lower than 2004 because of conditions in China and lower income at GM Holden;
- o GMAC earned significant net income despite a lower net interest margin environment.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

GM Automotive and Other Operations Financial Review

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|--------------------------------|----------|------------------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | ---- | ---- | ---- | ---- |
| | (dollars in millions) | | | |
| Auto & Other: | | | | |
| Total net sales and revenues | \$40,178 | \$41,202 | \$77,481 | \$81,339 |
| Net income (loss) | \$(1,882) | \$545 | \$(3,715) | \$989 |
| GMA net income (loss) by region: | | | | |
| GMNA | \$(1,194) | \$355 | \$(2,754) | \$756 |
| GME | (89) | (45) | (614) | (161) |

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| | | | | |
|-----------------------------------|------------|---------|------------|----------|
| GMLAAM | 33 | 10 | 79 | 11 |
| GMAP | (612) | 259 | (552) | 534 |
| | ----- | --- | ----- | ----- |
| Net income (loss) | \$ (1,862) | \$579 | \$ (3,841) | \$1,140 |
| Net margin | (4.6%) | 1.4% | (4.9%) | 1.4% |
| GM global automotive market share | 15.2% | 14.7% | 14.3% | 14.1% |
| Other: | | | | |
| Net income (loss) | \$ (20) | \$ (34) | \$126 | \$ (151) |

GM Auto & Other net sales and revenues declined \$1.0 billion, or 2.5%, in the second quarter of 2005, compared to the year-earlier quarter. The decrease was more than accounted for by a 7.8% decline in GMNA's total revenues, while all other regions increased revenues over the second quarter of 2004. GM's global market share was 15.2% and 14.7% for the second quarters of 2005 and 2004, respectively. GMNA's market share increased 1.1 percentage points, to 27.3% for the quarter, compared to 2004. Market share gains were achieved in GMLAAM and GMAP, while GME's share remained unchanged despite an increase in sales volume. See discussion below under each region.

GMA incurred a net loss of \$1.9 billion in the second quarter 2005, compared to net income of \$579 million in 2004, primarily due to a substantial loss at GMNA, a restructuring charge at GME, and the write down of GM's investment in FHI.

For the six months ended June 30, 2005, GMA total net sales and revenues decreased \$3.4 billion over the year-earlier period, with a decrease in GMNA of \$6.0 billion more than offsetting increases in all other automotive regions. Over the same period, GMA incurred a net loss of \$3.8 billion, compared to net income of \$1.1 billion in 2004, primarily resulting from a loss of \$2.8 billion at GMNA in 2005, restructuring charges at GME, and the write down of GM's investment in FHI.

Other Operations incurred losses of \$20 million and \$34 million in the second quarters of 2005 and 2004, respectively, and earned net income of \$126 million for the first six months of 2005, compared to a net loss of \$151 million for the year-earlier period. The improved performance in 2005 was primarily due to tax benefits allocated to Other Operations, partly offset by interest expense and legacy costs.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

GM Automotive and Other Operations Financial Review (continued)

GM Automotive Regional Results

| GM North America | Three Months Ended | | Six Months Ended | |
|------------------|-----------------------|------|------------------|------|
| | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| | ---- | ---- | ---- | ---- |
| | | | | |
| | (dollars in millions) | | | |

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GMNA:

| | | | | |
|-------------------|-----------|-------|-----------|-------|
| Net income (loss) | \$(1,194) | \$355 | \$(2,754) | \$756 |
| Net margin | (4.4%) | 1.2% | (5.2%) | 1.3% |

| | | | | |
|-------------------|-----------------------|-------|-------|-------|
| Production volume | (volume in thousands) | | | |
| Cars | 458 | 543 | 928 | 1,068 |
| Trucks | 789 | 846 | 1,502 | 1,666 |
| | ----- | ----- | ----- | ----- |
| Total GMNA | 1,247 | 1,389 | 2,430 | 2,734 |

| | | | | |
|--------------------------------|-------|-------|--------|--------|
| Vehicle unit sales | | | | |
| Industry - North America | 5,631 | 5,393 | 10,318 | 10,068 |
| GM as a percentage of industry | 27.3% | 26.2% | 26.4% | 26.3% |
| Industry - U.S. | 4,801 | 4,598 | 8,801 | 8,592 |
| GM as a percentage of industry | 27.9% | 26.7% | 26.7% | 26.7% |
| GM cars | 23.5% | 23.5% | 23.4% | 24.6% |
| GM trucks | 31.3% | 29.4% | 29.4% | 28.4% |

North American industry vehicle unit sales increased to 5.6 million in the second quarter of 2005 compared to 5.4 million in 2004, and GMNA's market share increased 1.1 percentage points to 27.3% from 26.2% in the second quarter of 2004. Over this period U.S. industry sales increased 4.4% to 4.8 million units. GM's U.S. market share increased by 1.2 percentage points, to 27.9%, compared to the second quarter of 2004. U.S. car market share remained unchanged at 23.5%, while U.S. truck market share increased to 31.3%, up 1.9 percentage points. Increased volume of new models and successful marketing programs, in particular employee pricing offers, were primary drivers of the increased retail sales in the 2005 period.

In the second quarter of 2005, GMNA recorded a net loss of \$1.2 billion, a deterioration of \$1.5 billion from 2004 net income of \$355 million. The decrease was primarily due to lower production volume, higher health-care expense, unfavorable product mix, and unfavorable material costs. Production volume was lower in 2005 by 142 thousand units, at 1.247 million for the quarter, compared to 1.389 million in the second quarter of 2004. Dealer inventories in the U.S. declined by 349 thousand units as a result of decreased production and strong retail sales in the quarter, to 1.018 million at June 30, 2005, from 1.367 million units at June 30, 2004. Product mix was unfavorable primarily due to a decrease in sales of large utility vehicles, resulting from the need to reduce dealer inventory levels in light of the upcoming launch of the GMT 900 full-size sport utility vehicle later this year. In addition, GMNA produced more fleet vehicles (28.4% of production in the second quarter of 2005, compared to 25.1% in the second quarter of 2004) that are less profitable than retail units. Country of sale mix, with higher sales in Canada and Mexico, and model mix were unfavorable, as well. In the second quarter of 2005, GMNA completed its annual study of warranty reserves. This resulted in a favorable pretax adjustment of \$237 million, compared to \$138 million in the second quarter of 2004 (\$147 million and \$86 million after tax, respectively).

North American industry vehicle unit sales increased 2.5% to 10.3 million in the first six months of 2005 from 10.1 million in the first six months of 2004, while GMNA's market share increased by 0.1 percentage point to 26.4% in 2005 year-to-date, compared to 26.3% in 2004.

For the first six months of 2005, industry vehicle unit sales in the United States increased 2.4% to 8.8 million units from 8.6 million units in the year-earlier period. GM's 2005 year-to-date U.S. market share remained unchanged, at 26.7%. U.S. car market share declined by 1.2 percentage points to 23.4%, while U.S. truck market share increased to 29.4%, up 1.0 percentage point from 2004.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

GM Automotive and Other Operations Financial Review (continued)

For the first six months of 2005 GMNA incurred a net loss of \$2.8 billion, compared to net income of \$756 million in 2004, primarily due to lower production volume, higher health-care expense, and unfavorable product mix. In addition, results in the first half of 2005 included an after-tax charge of \$140 million related to voluntary early retirement and other separation programs with respect to certain salaried employees in the U.S. The first half of 2005 also included a charge of \$84 million, after tax, for the write-down to fair market value of various plant assets in connection with the cessation of production at the Lansing assembly plant during the second quarter of 2005.

Vehicle revenue per unit was \$18,811 for the second quarter of 2005, slightly higher compared to \$18,801 for the second quarter of 2004.

GM North America Recovery Plan

GM has announced plans to improve results at GMNA. The key elements of these plans and actions to date are as follows:

- Execution of new products:
 - o Increasing capital spending by approximately \$1 billion in 2005, concentrated on new products;
 - o Advancing the timing of several high volume, high profit programs, including large pick-ups and mid- and large-utilities;
 - o Achieving strong sales of recently launched products, such as the Cobalt and H3, and
 - o Launching additional products in the near term, including the Chevrolet HHR, Pontiac Solstice, and Cadillac DTS.
- Retool sales and marketing strategy:
 - o Clarifying, focusing, and differentiating the role of each North American brand;
 - o Increasing advertising to support new products;
 - o Implementing pricing and/or content changes on approximately half of 2006 model year products, emphasizing total value to customers, and decreasing reliance on sales incentives;
 - o Focusing on improving GM's sales performance in major metropolitan markets; and
 - o Improving the retail distribution network.
- Reduce cost and improve quality:
 - o Continuing the improvements in quality and productivity that have been recognized in recent surveys by J.D. Power and the Harbour Report;
 - o Continuing to implement capacity reductions; and
 - o Continuing efforts to reduce material costs through global sourcing efforts.
- Address health care cost burden:
 - o GM is engaged in discussions with the UAW and other unions, focused on a cooperative approach to significantly reduce GM's health care cost disadvantage.

Delphi Matters

Delphi Corporation, a major supplier to GM's automotive operations and a former subsidiary of GM, has presented GM with information regarding its intention to address its existing legacy liabilities and the high cost structure of its U.S. operations. Delphi has stated that it has also outlined this information to its largest union, the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), and separately to

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its other U.S. unions. Delphi has stated that it is seeking a comprehensive restructuring of its U.S. operations in which it obtains participation by its unions and financial support from GM. Delphi has also stated that, if it is not successful in achieving such a restructuring by October 17, 2005, it would consider other strategic alternatives, including a judicial reorganization under federal bankruptcy laws. GM is considering Delphi's request in order to determine what participation by GM, if any, would be in the best interests of GM and its stockholders. Delphi has notified GM that, assuming GM participates in Delphi's restructuring in a manner satisfactory to Delphi, it is Delphi's view there is not a likelihood that GM would become obligated to provide any benefits pursuant to the benefit guarantee agreement GM entered into with certain of its unions in 1999 (see Note 7 to the Consolidated Financial Statements), but has indicated that without GM's financial participation in Delphi's restructuring proposal, it expects that its view as to that matter would change.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

GM Automotive and Other Operations Financial Review (continued)

| GM Europe | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|--------------------------------|--------------|------------------------------|--------------|
| | 2005 ---- | 2004 ---- | 2005 ---- | 2004 ---- |
| | (dollars in millions) | | | |
| GME net loss | \$ (89) | \$ (45) | \$ (614) | \$ (161) |
| GME net margin | (1.1%) | (0.6%) | (3.7%) | (1.0%) |
| | (volume in thousands) | | | |
| Production volume | 501 | 503 | 1,003 | 976 |
| Vehicle unit sales | | | | |
| Industry | 5,673 | 5,576 | 10,945 | 10,929 |
| GM as a percentage of industry | 9.7% | 9.7% | 9.7% | 9.5% |
| GM market share - Germany | 11.1% | 10.8% | 11.0% | 10.7% |
| GM market share - United Kingdom | 15.5% | 13.9% | 15.2% | 14.0% |

Industry vehicle unit sales increased in Europe during the second quarter of 2005 by 1.7% to 5.7 million, from 5.6 million in the second quarter of 2004, with strong year-over-year growth in most of the region, partly offset by declines in the U.K., Italy, and Central Europe. In line with higher industry volumes, GME's vehicle unit sales increased by 10 thousand units over the second quarter of 2004, to 549 thousand units. GME's market share remained unchanged at 9.7%. In GM's two largest markets in Europe, GM gained market share: share was 11.1% in Germany, a 0.3 percentage point increase versus the second quarter of 2004, and 15.5% in the United Kingdom, an increase of 1.6 percentage points versus the same period in 2004. Market share was mixed in the rest of the region, with improvements in Italy and Eastern Europe, and declines in France, Spain, and other markets.

Net loss for GME totaled \$89 million and \$45 million in the second quarters of 2005 and 2004, respectively. The second quarter 2005 loss includes an after-tax restructuring charge of \$126 million, related to the initiative announced in the fourth quarter of 2004 and costs of dissolving GM's powertrain and purchasing joint ventures with Fiat S.p.A (Fiat). This charge and continued unfavorable price pressure more than offset improvements in structural costs

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(including the initial effects of the restructuring initiative), favorable material costs, and the effects of positive product mix.

For the first six months of 2005, industry unit sales were essentially unchanged from the 2004 period in Europe, at 10.9 million units. GM's market share in the region increased 0.2 percentage point in the first half of 2005, to 9.7%. GM's share improved in both the U.K., up 1.2 percentage points to 15.2%, and in Germany, up 0.3 percentage point to 11.0%, compared to the first six months of 2004.

For the six months ended June 30, 2005, GME's net loss was \$614 million, compared to \$161 million for the same period in 2004. The increased loss was more than accounted for by after-tax restructuring charges totaling \$548 million (including \$422 million in the first quarter). These charges and unfavorable price more than offset favorable mix and material and structural cost improvements.

The restructuring plan noted above targets a reduction in annual structural costs of an estimated \$600 million by 2006. A total reduction of 12,000 employees, including 10,000 in Germany, over the period 2005 through 2007 through separation programs, early retirements, and selected outsourcing initiatives is expected. The charge incurred in the second quarter of 2005 covers approximately 600 people, as well as those charges related to previous separations that are required to be amortized over future periods. The charge incurred in the first quarter of 2005 covered approximately 5,650 people, of whom 4,900 are in Germany. The Corporation's plan is on track and anticipates further separations and associated charges in the remainder of 2005 and into 2006 and 2007. The amount of such future separation charges will be recognized in the respective periods, and will depend both on the type of separations and associated workforce demographics.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

GM Automotive and Other Operations Financial Review (continued)

| GM Latin America/Africa/Mid-East | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|--------------------------------|-------|------------------------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| | ----- | ----- | ----- | ----- |
| | (dollars in millions) | | | |
| GMLAAM net income | \$33 | \$10 | \$79 | \$11 |
| GMLAAM net margin | 1.1% | 0.5% | 1.5% | 0.3% |
| | (volume in thousands) | | | |
| Production volume | 196 | 172 | 381 | 331 |
| Vehicle unit sales | | | | |
| Industry | 1,237 | 1,020 | 2,381 | 2,004 |
| GM as a percentage of industry | 18.3% | 17.1% | 17.2% | 16.6% |
| GM market share - Brazil | 21.9% | 23.5% | 20.6% | 23.5% |

Industry vehicle unit sales in the LAAM region increased over 21% in the second quarter of 2005, to 1.237 million units, compared to the second quarter of 2004. Overall, GMLAAM's market share for the region increased 1.2 percentage points, to 18.3% in the second quarter of 2005. This increase was primarily the

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result of a 3.4 percentage point increase in South Africa market share, and increases in Argentina and the Middle East, partly offset by a decrease of 1.6 percentage points in Brazil. GM's market share in Brazil was adversely affected by the lack of a 1.0 liter flex-fuel vehicle in the low market segment. This will be addressed in the third quarter of 2005 with the launch of the Chevrolet Celta with flex-fuel.

GMLAAM earned net income of \$33 million in the quarter, up from net income of \$10 million in the second quarter of 2004. The increase in net income was primarily the result of higher production volume, partly offset by negative foreign exchange, especially in Brazil. The second quarter of 2005 is the sixth consecutive quarter of profitability for GMLAAM.

In the first half of 2005, industry vehicle unit sales grew to 2.381 million units, up 18.8% over the first half of 2004. GM's market share in the region increased to 17.2%, from 16.6% in 2004, despite a decrease in share in Brazil, down 2.9 percentage points to 20.6%.

For the first half of 2005, GMLAAM earned \$79 million, compared to \$11 million a year earlier, primarily due to higher income in South Africa, Venezuela, and Colombia, partially offset by unfavorable results in Brazil.

| GM Asia Pacific | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|--------------------------------|-------|------------------------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| | ---- | ---- | ---- | ---- |
| | (dollars in millions) | | | |
| GMAP net income | \$(612) | \$259 | \$(552) | \$534 |
| GMAP net margin | (31.8)% | 15.3% | (15.3)% | 16.2% |
| | (volume in thousands) | | | |
| Production volume | 400 | 337 | 735 | 633 |
| Vehicle unit sales | | | | |
| Industry | 4,500 | 4,048 | 9,142 | 8,620 |
| GM as a percentage of industry | 6.3% | 5.6% | 5.6% | 5.2% |
| GM market share - Australia | 18.0% | 19.3% | 18.2% | 19.7% |
| GM market share - China | 11.4% | 9.8% | 10.9% | 9.8% |

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

GM Automotive and Other Operations Financial Review (concluded)

GM Asia Pacific (concluded)

Industry vehicle unit sales in the Asia Pacific region increased 11.2% in the second quarter of 2005 compared to the second quarter of 2004, to 4.5 million units, with slightly over half the unit increase in China, and growth throughout the region. GMAP increased its vehicle unit sales (including GM Daewoo Auto & Technology Company [GM Daewoo] and China affiliates) in the region by 55 thousand units, or 24.7% in the period, to 281 thousand units from 226 thousand in 2004, driven primarily by higher sales in China. GMAP's second quarter 2005 market share increased to 6.3%, from 5.6% in the second quarter of 2004. GMAP increased its market share in China to 11.4% in the second quarter of 2005, up from 9.8% in the second quarter of 2004. Market share in Australia decreased in the period to 18.0%, compared to 19.3% in the second quarter of 2004, primarily

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due to lower sales of full-sized cars.

In the first six months of 2005, industry vehicle unit sales in the region increased 522 thousand units, or 6.1%, to 9.1 million, over the year earlier period, while GMAP's sales increased 63 thousand units, or 13.9%, to 513 thousand. The bulk of GMAP's growth, 49 thousand units, was in China, where market share grew 1.1 percentage points to 10.9% for the first half of 2005. Overall in the region, GMAP's market share increased 0.4 percentage point, to 5.6%, in the period, compared to 2004.

Net loss from GMAP was \$612 million in the second quarter 2005 and net income of \$259 million in the second quarter of 2004. For the six-month period ending June 30, 2005, GMAP's net loss was \$552 million and for the same period in 2004 GMAP had net income of \$534 million. The net loss was primarily attributable to the write-down of FHI of \$788 million, after-tax, a result of FHI's declining financial performance and the downward adjustments in their business plan in May 2005. In addition, GMAP also experienced lower equity earnings from Shanghai GM, largely due to unfavorable product mix and unfavorable price. In addition, GM Holden's 2005 results have been lower than in 2004 due to reduced sales of locally produced vehicles and the unfavorable effect of the failure of ION, a local supplier.

On June 28, 2005 GM increased its ownership in GM Daewoo to 50.9% from 48.2%. Accordingly, as of June 30, 2005, GM Daewoo was consolidated by GM. See Note 2 to the Consolidated Financial Statements.

| Other Operations | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| | ---- | ---- | ---- | ---- |
| | (dollars in millions) | | | |
| Other: | | | | |
| Total net sales, revenues, and eliminations | \$(267) | \$77 | \$(292) | \$136 |
| Net income (loss) | \$(20) | \$(34) | \$126 | \$(151) |

Other Operations incurred net losses of \$20 million and \$34 million in the second quarters of 2005 and 2004, respectively. Results for 2005 include tax benefits of \$158 million recognized in Other Operations. As discussed above, these benefits relate to various items that generally do not vary with changes in pre-tax income. These benefits were partially offset by legacy costs, interest expense, and exchange. Other Operations' results include after-tax legacy costs of \$129 million and \$102 million for the second quarters of 2005 and 2004, respectively, related to employee benefit costs of divested businesses, primarily Delphi, for which GM has retained responsibility.

For the first half of 2005, Other Operations earned net income of \$126 million, compared to a net loss of \$151 million in the 2004 period. The improvement is attributable to tax benefits, as discussed above, of \$547 million allocated to Other Operations in 2005, partially reduced by increases in legacy costs, interest expense, and exchange. Legacy costs of \$241 million and \$204 million were included in Other Operations' results for 2005 and 2004, respectively. Other Operations' results for the first half of 2005 also include \$8 million, after tax, related to the early retirement and other separation programs, in the first quarter, described above for certain salaried employees in the U.S.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

Health-Care Costs

GM is currently exposed to significant and growing liabilities for other postretirement employee benefits (OPEB), including retiree health care and life insurance, for both its hourly and salaried workforces. GM discontinued offering OPEB to salaried workers hired after 1992. Such employees now comprise approximately 30% of GM's U.S. active salaried workforce. GM's OPEB liabilities have grown to \$77.5 billion as of December 31, 2004 with increases in recent years primarily resulting from increases in health-care inflation. GM's OPEB liabilities affect GM's short-term and long-term financial condition in several ways. GM's OPEB liabilities affect GM's OPEB expense, which affects GM's net income. GM's pre-tax OPEB expense is expected to grow to an estimated \$5.7 billion in 2005, up \$1.1 billion from 2004, primarily as a result of rising retiree health-care costs and falling discount rates. GM's total pre-tax health-care expense for 2005 is estimated to be \$7.4 billion. This cost increase has challenged GM's ability to reduce its structural costs.

In recent years, GM has paid its OPEB expenditures from operating cash flow, which reduces GM's liquidity and cash flow from operations. GM's OPEB spending is expected to be \$4.2 billion in 2005, up \$0.4 billion from 2004. GM's total cash spending for healthcare in 2005 is estimated to be \$5.8 billion, also up approximately \$0.4 billion from 2004 spending levels. However, GM has Voluntary Employees' Beneficiary Association (VEBA) and 401(h) trusts totaling \$20.4 billion as of June 30, 2005 that could be used to reimburse GM for its OPEB expenditures under certain circumstances. During the second quarter of 2005, GM withdrew \$1 billion from its VEBA trust as a reimbursement for its retiree health care payments. On July 1, 2005, GM withdrew an additional \$1 billion from the VEBA, and on a quarter-by-quarter basis is evaluating the need for additional withdrawals as the cost of health care continues to adversely affect GM's liquidity. GM's OPEB liabilities also negatively affect GM's credit ratings, which are discussed at "Status of Debt Ratings" below.

Because of the importance of OPEB liabilities to GM's financial condition, GM management is pursuing an aggressive strategy on several fronts to mitigate the continued growth of these liabilities. These efforts include public policy initiatives, improvements to the health-care delivery system, enhanced consumer awareness of the effect of health-care choices and on-going discussions with our labor unions about the level of OPEB benefits provided to hourly employees.

GMAC Financial Review

GMAC's net income was \$816 million and \$846 million in the second quarters of 2005 and 2004, respectively. Net income for the first six months of 2005 and 2004 was \$1.5 billion and \$1.6 billion, respectively.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------|--------------------------------|-------|------------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| | ---- | ---- | ---- | ---- |
| | (dollars in millions) | | | |
| Financing operations | \$378 | \$452 | \$626 | \$894 |
| Mortgage operations | 338 | 319 | 723 | 550 |
| Insurance operations | 100 | 75 | 195 | 166 |
| | --- | --- | ----- | ----- |
| Net income | \$816 | \$846 | \$1,544 | \$1,610 |
| | === | === | ===== | ===== |

Net income from financing operations totaled \$378 million in the second quarter of 2005, as compared with \$452 million earned in the same period of the prior year. For the first six months of 2005 and 2004, financing operations' net

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income was \$626 million and \$894 million, respectively. The decrease for the 2005 periods reflects the unfavorable effect of lower net interest margins as a result of increased borrowing costs. The decline in net interest margins was somewhat mitigated by the effect of improved used vehicle prices on lease terminations and lower credit loss provisions in 2005, compared to 2004.

Mortgage operations earned \$338 million in the second quarter of 2005, up from \$319 million in the second quarter of 2004. For the first six months of 2005, mortgage operations' net income was \$723 million, compared to \$550 million in 2004. These results represent increases of 6% and 31% over the same periods of 2004, despite lower overall U.S. mortgage industry volume in 2005 as compared to 2004. On a combined basis, loan production for GMAC's residential based mortgage companies for the second quarter of 2005 remained consistent with that experienced for the second quarter of 2004, despite a decline of approximately 11% in total U.S. residential mortgage industry volume during the same time period. In addition, the favorable effects of valuation gains on the investment portfolio and favorable mortgage servicing results mitigated the impact

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

GMAC Financial Review (concluded)

of lower gains on sales of loans and lower net interest margins due to increased borrowing costs. GMAC's commercial mortgage operations' earnings were down \$5 million from the second quarter of 2004, primarily due to lower gains on sales of loans as a result of certain valuation adjustments, which occurred during the quarter. However, as a result of increased volume and higher gains on sales in the first quarter of 2005, net income for the first six months of 2005 increased by \$25 million to \$101 million as compared to the first six months of 2004.

Net income from insurance operations totaled \$100 million and \$75 million for the second quarter of 2005 and 2004, respectively, and \$195 million and \$166 million for the first six months of 2005 and 2004, respectively. The increases in 2005 are primarily the result of favorable underwriting results due to increases in insurance premiums and service revenue earned and written from contract growth across the majority of product lines. In addition, incurred losses attributable to severe weather in the United States were lower in the second quarter of 2005 than in the second quarter of 2004.

2005 Priorities / Targets

With respect to GM's and GMNA's earnings for the remainder of 2005, GM has determined not to provide a forecast at this time due to the uncertainty affecting key elements of its outlook, such as a resolution of the current health-care cost issues facing GM. GME, GMLAAM, GMAP and GMAC are expected to meet or exceed their net income targets of \$(500) million, \$100 million, \$600 million, and \$2,500 million or more, respectively, for 2005.

LIQUIDITY AND CAPITAL RESOURCES

Statements of Cash Flows Reclassifications

After considering the concerns raised by the staff of the SEC as of December 31, 2004, management concluded that certain amounts in the Consolidated Statements of Cash Flows for the year ended December 31, 2004 should be reclassified to appropriately present net cash provided by operating activities and net cash used in investing activities. These amounts have been reclassified consistently as of June 30, 2004.

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The Corporation's previous policy was to classify all the cash flow effects of providing wholesale loans to its independent dealers by GM's Financing and Insurance Operations as an investing activity in its Consolidated Statements of Cash Flows. This policy, when applied to the financing of inventory sales, had the effect of presenting an investing cash outflow and an operating cash inflow even though there was no cash inflow or outflow on a consolidated basis. The Corporation has changed its policy to eliminate this intersegment activity from its Consolidated Statements of Cash Flows and, as a result of this change, all cash flow effects related to wholesale loans are reflected in the operating activities section of the Consolidated Statement of Cash Flows for the six months ended June 30, 2004. This reclassification better reflects the financing of the sale of inventory as a non-cash transaction to GM on a consolidated basis and eliminates the effects of intercompany transactions. See Note 1 to the Consolidated Financial Statements for the effect of this reclassification.

Status of Debt Ratings

In the second quarter of 2005, GM and GMAC experienced adequate access to secured funding sources and limited access to the unsecured capital markets. Nonetheless, GM and GMAC were able to meet their respective capital requirements due to their diversified funding strategies and liquidity positions. On April 5, 2005, Moody's downgraded GM's long-term credit rating from Baa2 with a negative outlook to Baa3 with a negative outlook and, at the same time, downgraded GMAC's long-term credit rating from Baa1 with a negative outlook to Baa2 with a negative outlook. Moody's lowered GM's commercial paper rating to Prime-3 with a negative outlook from Prime-2 with a negative outlook and, at the same time, affirmed GMAC's commercial paper rating of Prime-2 with a negative outlook. On July 7, 2005, Moody's placed the ratings of GM and GMAC on review for possible downgrade. On May 5, 2005, Standard & Poor's downgraded GM's and GMAC's long-term credit rating from BBB- with a negative outlook to BB with a negative outlook and, at the same time, downgraded GM's and GMAC's commercial paper rating from A-3 with a negative outlook to B-1 with a negative outlook. On May 24, 2005, Fitch downgraded GM's and GMAC's long-term credit rating from BBB- with a negative outlook to BB+ with a negative outlook and, at the same time, downgraded GM's and GMAC's commercial paper rating from F3 with a negative outlook to B with a negative outlook. On May 26, 2005, DBRS downgraded GM's long-term rating from BBB with a negative outlook to BBB (low) with a negative outlook and, at the same time, downgraded GMAC's long-term credit

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES (continued)

Status of Debt Ratings (continued)

rating of BBB (high) negative to BBB with a negative outlook. DBRS downgraded GM's commercial paper rating from R-2 (high) with a negative outlook to R-2 (low) with a negative outlook and, at the same time, lowered the outlook on GMAC's commercial paper rating of R-1 (low) with a negative outlook to R-2 (mid) with a negative outlook. On August 2, 2005, DBRS downgraded GM's long-term rating from BBB (low) with a negative outlook to BB (high) with a negative outlook and, at the same time, downgraded GMAC's long-term credit rating of BBB with a negative outlook to BBB (low) with a negative outlook. DBRS downgraded GM's commercial paper rating from R-2 (low) with a negative outlook to R-3 (high) with a negative outlook and, at the same time, lowered the rating on GMAC's commercial paper from R-2 (mid) with a negative outlook to R-2 (low) with a negative outlook. Refer to the table below for a summary of GM's and GMAC's credit ratings subsequent to these rating actions.

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Standard & Poor's, Fitch, and DBRS rate GM's credit at non-investment grade, with both Standard and Poor's and Fitch also rating GMAC's credit non-investment grade. While this has resulted in increased borrowing costs and limited access to unsecured debt markets, including capital markets for retail debt, these outcomes have been mitigated by actions taken by GM and GMAC over the past few years to focus on an increased use of liquidity sources other than institutional unsecured markets that are not directly affected by ratings on unsecured debt, including secured funding sources beyond traditional asset classes and geographical markets, automotive whole loan sales, and use of bank and conduit facilities. Further reductions of GM's and/or GMAC's credit ratings could increase the possibility of additional terms and conditions contained in any new or replacement financing arrangements. The reduction of GM's and GMAC's credit ratings to non-investment grade is not expected to have a material effect on GM's and GMAC's access to adequate capital to meet the Corporation's funding needs in the short and medium term.

Notwithstanding the foregoing, management believes that the current ratings situation and outlook increase the level of risk for achieving the Corporation's funding strategy and GMAC's ability to sustain current level of asset originations over the long term. In addition, the ratings situation and outlook increase the importance of successfully executing the Corporation's plans for improvement of operating results. Management continuously assesses these matters and is seeking to mitigate the increased risk by exploring whether actions could be taken that would provide a basis for rating agencies to evaluate GMAC's financial performance in order to provide GMAC with ratings independent of those assigned to GM. Currently, only Moody's and DBRS assign a different credit rating to GMAC than they do to GM. There can be no assurance that any such actions would be taken or that such actions, if taken, would be successful in achieving a "split" rating from other rating agencies.

| Rating Agency | GM | GMAC | GM | GMAC | GM | GMAC |
|---------------|-------------|-----------|------------------|-----------|----------|----------|
| | Senior Debt | | Commercial Paper | | Outlook | |
| DBRS | BB (high) | BBB (low) | R-3 (high) | R-2 (low) | Negative | Negative |
| Fitch | BB+ | BB+ | B | B | Negative | Negative |
| Moody's | Baa3 | Baa2 | Prime-3 | Prime-2 | Negative | Negative |
| S&P | BB | BB | B-1 | B-1 | Negative | Negative |

As an additional source of funds, GM currently has unrestricted access to a \$5.6 billion line of credit with a syndicate of banks that is committed through June 2008. GM also has an additional \$0.9 billion in undrawn committed facilities with various maturities and undrawn uncommitted lines of credit of \$1.2 billion. Similarly, GMAC currently has a \$3.0 billion syndicated line of credit committed through June 2006, \$4.4 billion committed through June 2008, and committed and uncommitted lines of credit of \$3.5 billion and \$13.4 billion, respectively. In addition, New Center Asset Trust (NCAT) has an \$18.5 billion committed liquidity facility. NCAT is a special purpose entity administered by GMAC for the purpose of funding assets as part of GMAC's securitization funding programs. This entity funds the purchase of assets through the issuance of asset-backed commercial paper and represents an important source of liquidity to GMAC. At June 30, 2005, NCAT had commercial paper outstanding of \$8.0 billion, which is not consolidated in the Corporation's Consolidated Balance Sheet. In addition, GMAC enters into secured funding facilities whereby, in certain facilities, third parties (including third-party asset-backed commercial paper conduits) have committed to purchase a minimum amount of receivables through a designated period of time. The unused portion of the committed and uncommitted facilities totaled \$24.7 billion at June 30, 2005. As part of its cash management strategy, from time to time GMAC repurchases previously issued debt, but does so in a manner that does not compromise overall liquidity.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES (continued)

Status of Debt Ratings (concluded)

In addition, Residential Capital Corporation (ResCap), which was formed as the holding company of GMAC's residential mortgage business, and in the second quarter of 2005 successfully achieved an investment grade rating (independent from GMAC), has a \$1.75 billion syndicated term loan and \$0.9 billion syndicated line of credit committed through July 2008 and a \$0.9 billion syndicated line of credit committed through July 2006. In addition, Mortgage Interest Networking Trust (MINT) has a \$3.0 billion committed liquidity facility. MINT is a special purpose entity administered by ResCap for the purpose of funding assets as part of ResCap's mortgage warehouse funding program. This entity funds the purchase of assets through the issuance of asset-backed commercial paper and represents an important source of liquidity to ResCap. At June 30, 2005, MINT had commercial paper outstanding of \$2.6 billion, which is reflected as secured debt in the Corporation's Consolidated Balance Sheet.

Line of Credit Between GM and GMAC

GM and GMAC have historically entered into various financing arrangements. Currently such arrangements include a \$4 billion revolving line of credit from GMAC to GM entered into in September 2003 that expires in September 2006. Separately, GM extended a \$6 billion revolving line of credit to GMAC in October 2002 that expires in December 2005. These credit lines are used for general operating and seasonal working capital purposes and reduce external liquidity requirements, given the differences in the timing of GM and GMAC's peak funding requirements. The maximum amount drawn under these facilities during the quarter ended June 30, 2005 was \$1.4 billion by GM and \$1.0 billion by GMAC. Similar amounts drawn by GM and GMAC during the second quarter of 2004 were \$1.5 billion and \$1.0 billion, respectively. Interest is payable on amounts advanced under the arrangements based on market interest rates, adjusted to reflect the credit rating of GM or GMAC in its capacity as borrower. On August 2, 2005 GM borrowed \$1.4 billion from GMAC under its revolving credit line in order to meet cash flow needs arising during the annual two-week shut-down of its vehicle assembly operations. GM plans to repay the \$1.4 billion during the third quarter of 2005, using cash flow from operations. On September 22, 2004 GM repaid \$3.5 billion to GMAC that it borrowed under the same credit line during the third quarter of 2004.

Automotive and Other Operations

At June 30, 2005, cash, marketable securities, and \$4.2 billion (\$3.5 billion at December 31, 2004 and June 30, 2004) of readily-available assets of the VEBA trust totaled \$20.2 billion, compared with \$23.3 billion at December 31, 2004 and \$25.0 billion at June 30, 2004. The decrease of approximately 13% from December 31, 2004 was primarily the result of the net loss of Auto & Other for the first six months of 2005, and payments totaling approximately \$2.5 billion related to the GME restructuring initiative and to the agreement reached in February 2005 between GM and Fiat to terminate the Master Agreement (including the Put Option) between them, settle various disputes related thereto, and other matters. The amount of GM's consolidated cash and marketable securities is subject to intra-month and seasonal fluctuations and includes balances held by various GM business units and subsidiaries worldwide that are needed to fund their operations. In the first six months of 2005, GMAC paid GM \$1.0 billion in

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dividends. Additionally, on August 1, 2005, GMAC paid a \$500 million cash dividend to GM, bringing total year to date dividends to \$1.5 billion. As of June 30, 2005, \$1.6 billion of cash and marketable securities was included in GM's balances as a result of the consolidation of GM Daewoo. The increase to \$4.2 billion in readily-available assets in the VEBA results from higher withdrawal capacity from the hourly VEBA trust due to increased other postretirement employee benefit payments, and the addition of withdrawal capacity from the salaried VEBA that was funded in 2004. Total assets in the VEBA and 401(h) trusts used to pre-fund part of GM's other postretirement benefits liability approximated \$20.4 billion at June 30, 2005, \$20.0 billion at December 31, 2004, and \$15.9 billion at June 30, 2004.

As noted above, during the second quarter of 2005, GM withdrew \$1 billion from its VEBA trust as reimbursement for its retiree health care payments. On July 1, 2005, GM withdrew an additional \$1 billion from the VEBA, and on a quarter-by-quarter basis is evaluating the need for additional withdrawals as the cost of health care continues to adversely affect GM's liquidity.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES (continued)

Automotive and Other Operations (concluded)

Long-term debt was \$31.0 billion at June 30, 2005, compared with \$30.5 billion at December 31, 2004 and \$29.8 billion at June 30, 2004. As of June 30, 2005, \$1.3 billion of long-term debt was included in GM's balance as a result of the consolidation of GM Daewoo. The ratio of long-term debt to the total of long-term debt and GM's net assets of Automotive and Other Operations was 90.7% at June 30, 2005, 84.7% at December 31, 2004, and 83.8% at June 30, 2004. The ratio of long-term debt and short-term loans payable to the total of this debt and GM's net assets of Automotive and Other Operations was 91.1% at June 30, 2005, 85.5% at December 31, 2004, and 84.9% at June 30, 2004.

Net liquidity, calculated as cash, marketable securities, and \$4.2 billion (\$3.5 billion at December 31, 2004 and June 30, 2004) of readily-available assets of the VEBA trust less the total of loans payable and long-term debt, was a negative \$12.4 billion at June 30, 2005, compared with a negative \$9.2 billion at December 31, 2004, and a negative \$7.4 billion at June 30, 2004.

During the past several years General Electric Capital Corporation (GECC) provided a trade payables program for suppliers to original equipment manufacturers (OEMs) in a broad range of industries, including the automotive industry. The program was available to suppliers of GM. In late 2004, GECC decided that for strategic reasons it would discontinue offering that financing program to suppliers of any OEMs, including suppliers in the automotive industry. Under the program, OEMs became directly responsible to make payments to GECC after GECC had paid the receivables that were originally due to the suppliers from the OEMs. The former GECC program no longer services GM suppliers. In the second quarter of 2005, GM and GMAC began offering a new supplier finance program to a limited number of its suppliers. At June 30, 2005, GM owed approximately \$0.4 billion to GMAC under the new program, which amount is included in the balances of net payable to FIO and net receivable from Auto & Other in GM's Supplemental Information to the Consolidated Balance Sheets, and is eliminated in GM's Consolidated Balance Sheets.

Financing and Insurance Operations

At June 30, 2005, GMAC's consolidated assets totaled \$310.0 billion, compared

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with \$324.1 billion at December 31, 2004 and \$297.0 billion at June 30, 2004. The decrease from December 31, 2004 was attributable to a decrease in net finance receivables and loans, from \$200.2 billion at December 31, 2004 to \$178.3 billion at June 30, 2005, driven by decreases in retail and wholesale automotive receivables, partly offset by an increase in loans held for sale. The increase in GMAC's consolidated assets at June 30, 2005 compared with June 30, 2004 was due to higher balances of cash, investment securities, loans held for sale, and investment in operating leases, partly offset by decreases in retail and wholesale automotive receivables.

Consistent with the changes in asset levels, GMAC's total debt decreased to \$250.9 billion at June 30, 2005, compared with \$267.7 billion at December 31, 2004. Debt was lower by \$6.4 billion at June 30, 2004, at \$244.5 billion. GMAC's ratio of total debt to total stockholder's equity at June 30, 2005 was 11.1:1, compared with 12.0:1 at December 31, 2004, and 11.1:1 at June 30, 2004. GMAC's liquidity, as well as its ability to profit from ongoing activity, is in large part dependent upon its timely access to capital and the costs associated with raising funds in different segments of the unsecured and secured capital markets. Part of GMAC's strategy in managing liquidity risk has been to develop diversified funding sources across a global investor base and to extend debt maturities over a longer period of time, thereby maintaining sufficient cash balances. As an important part of its overall funding and liquidity strategy, GMAC maintains substantial bank lines of credit. These bank lines of credit, which totaled \$45.8 billion at June 30, 2005, provide "back-up" liquidity and represent additional funding sources, if required. In addition, GMAC enters into secured funding facilities whereby, in certain facilities, third parties (including third-party asset-backed commercial paper conduits) have committed to purchase a minimum amount of receivables through a designated period of time. The unused portion of the committed and uncommitted facilities totaled \$24.7 billion at June 30, 2005. GMAC has also been able to diversify its unsecured funding through the formation of Residential Capital Corporation (ResCap). ResCap was formed as the holding company of GMAC's residential mortgage business and in the second quarter of 2005 successfully achieved an investment grade

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES (concluded)

Financing and Insurance Operations (concluded)

rating (independent from GMAC) and issued \$4.0 billion of unsecured debt through a private placement offering. Following the bond offering, in July 2005, ResCap closed a \$3.5 billion syndication of its bank facilities, which are intended to be used primarily for general corporate and working capital purposes, as well as to repay GMAC affiliate borrowings, thus providing additional liquidity to GMAC. Additionally, GMAC has increased the use of secured funding sources beyond traditional asset classes and geographic markets and has also increased the use of automotive whole loan sales. The increased use of whole loan sales is part of the migration to an "originate and sell" model for the U.S. automotive finance business. Through July 2005, GMAC has executed \$9 billion in whole loan sales.

In August 2005 GMAC announced that it had entered into a definitive agreement to sell a 60% equity interest in GMAC Commercial Mortgage, while maintaining the remaining 40% equity interest. Under the terms of the transaction, GMAC Commercial Mortgage will repay all intercompany loans to GMAC upon the closing, which is expected to occur in the fourth quarter of 2005, thereby providing GMAC

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significant incremental liquidity.

Off-Balance Sheet Arrangements

GM and GMAC use off-balance sheet arrangements where economics and sound business principles warrant their use. GM's principal use of off-balance sheet arrangements occurs in connection with the securitization and sale of financial assets generated or acquired in the ordinary course of business by GMAC and its subsidiaries and, to a lesser extent, by GM. The assets securitized and sold by GMAC and its subsidiaries consist principally of mortgages, and wholesale and retail loans secured by vehicles sold through GM's dealer network. The assets sold by GM consist principally of trade receivables.

In addition, GM leases real estate and equipment from various off-balance sheet entities that have been established to facilitate the financing of those assets for GM by nationally prominent lessors that GM believes are creditworthy. These assets consist principally of office buildings, warehouses, and machinery and equipment. The use of such entities allows the parties providing the financing to isolate particular assets in a single entity and thereby syndicate the financing to multiple third parties. This is a conventional financing technique used to lower the cost of borrowing and, thus, the lease cost to a lessee such as GM.

There is a well-established market in which institutions participate in the financing of such property through their purchase of ownership interests in these entities and each is owned by institutions that are independent of, and not affiliated with, GM. GM believes that no officers, directors or employees of GM, GMAC, or their affiliates hold any direct or indirect equity interests in such entities.

Assets in off-balance sheet entities were as follows (dollars in millions):

| | June 30, 2005 | Dec. 31, 2004 | June 30, 2004 |
|--------------------------------------|------------------|------------------|------------------|
| Automotive and Other Operations | ----- | ----- | ----- |
| Assets leased under operating leases | \$2,455 | \$2,553 | \$2,293 |
| Trade receivables sold (1) | 1,090 | 1,210 | 910 |
| Total | \$3,545 ===== | \$3,763 ===== | \$3,203 ===== |

Financing and Insurance Operations Receivables sold or securitized:

| | | | |
|---------------------------------|--------------------|--------------------|--------------------|
| - Mortgage loans | \$90,309 | \$79,389 | \$82,852 |
| - Retail finance receivables | 7,675 | 5,615 | 7,112 |
| - Wholesale finance receivables | 21,396 | 21,291 | 17,231 |
| Total | \$119,380 ===== | \$106,295 ===== | \$107,195 ===== |

- (1) In addition, trade receivables sold to GMAC were \$590 million, \$549 million and \$456 million for the periods ended June 30, 2005, December 31, 2004, and June 30, 2004, respectively.

BOOK VALUE PER SHARE

Book value per share was determined based on the liquidation rights of the common stockholders. Book value per share of GM \$1-2/3 par value common stock was \$42.91 at June 30, 2005, \$49.06 at December 31, 2004, and \$49.11 at June 30, 2004.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

DIVIDENDS

Dividends may be paid on GM's \$1-2/3 par value common stock only when, as, and if declared by the GM Board in its sole discretion. The amount available for the payment of dividends on common stock will be reduced on occasion by dividends paid and will be adjusted on occasion for changes to the amount of surplus attributed to the stock resulting from the repurchase or issuance of shares of stock.

GM's policy is to distribute dividends on its \$1-2/3 par value common stock based on the outlook and indicated capital needs of the business. On May 9, 2005, the GM Board declared a quarterly cash dividend of \$0.50 per share on GM \$1-2/3 par value common stock, paid June 10, 2005, to holders of record on May 19, 2005.

EMPLOYMENT AND PAYROLLS

Worldwide employment for GM and its wholly-owned subsidiaries at June 30, (in thousands)

| | 2005 | 2004 |
|-----------------|------|------|
| | ---- | ---- |
| GMNA | 177 | 186 |
| GME | 58 | 62 |
| GMLAAM | 32 | 27 |
| GMAP | 14 | 14 |
| GMAC | 34 | 33 |
| Other | 4 | 5 |
| | --- | --- |
| Total employees | 319 | 327 |
| | === | === |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------------|--------------------------------|-------|------------------------------|--------|
| | 2005 | 2004 | 2005 | 2004 |
| | ---- | ---- | ---- | ---- |
| Worldwide payrolls - (in billions) | \$5.2 | \$5.5 | \$10.5 | \$11.0 |
| | === | === | ==== | ==== |

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements of GM are prepared in conformity with GAAP, which requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. GM's accounting policies and critical accounting estimates are consistent with those described in Note 1 to the 2004 Consolidated Financial Statements. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustments to these balances in future periods. The Corporation has discussed the development, selection and disclosures of its critical accounting estimates with the Audit Committee of GM's Board of Directors, and the Audit Committee has reviewed the Corporation's disclosures relating to these estimates.

Pension and Other Postretirement Employee Benefits (OPEB)

Pension and OPEB costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health-care cost trend rates, benefits earned, interest cost, expected return on

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plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect GM's pension and other postretirement obligations and future expense.

GM has established for its U.S. pension plans a discount rate of 5.75% for year-end 2004, which represents a 25 basis point reduction from the 6.00% discount rate used at year-end 2003. GM's U.S. pre-tax pension expense is forecasted to decrease from approximately \$1.5 billion in 2004, excluding curtailments and settlements, to approximately \$1.2 billion in 2005 due to the approximately 14% 2004 actual return on assets, partially offset by a lower 2004 year-end discount rate.

The following information illustrates the sensitivity to a change in certain assumptions for U.S. pension plans (as of December 31, 2004 the projected benefit obligation (PBO) for U.S. pension plans was \$89 billion and the minimum pension liability charged to equity with respect to U.S. pension plans was \$108 million net of tax):

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

CRITICAL ACCOUNTING ESTIMATES (concluded)

| Change in Assumption | Effect on 2005 Pre-Tax Pension Expense | Effect on December 31, 2004 PBO |
|--|---|---------------------------------------|
| | | |
| 25 basis point decrease in discount rate | +\$160 million | +\$2.3 billion |
| 25 basis point increase in discount rate | -\$160 million | -\$2.2 billion |
| 25 basis point decrease in expected return on assets | +\$220 million | - |
| 25 basis point increase in expected return on assets | -\$220 million | - |

GM's U.S. pension plans generally provide covered U.S. hourly employees with pension benefits of negotiated, flat dollar amounts for each year of credited service earned by an individual employee. Formulas providing for such stated amounts are contained in the prevailing labor contract. Consistent with GAAP, the 2005 pre-tax pension expense and December 31, 2004 PBO do not comprehend any future benefit increases beyond the amounts stated in the currently prevailing contract that expires in September 2007. The current cycle for negotiating new labor contracts is every four years. There is no past practice of maintaining a consistent level of benefit increases or decreases from one contract to the next. However, the following data illustrates the sensitivity of pension expense and PBO to hypothetical assumed changes in future basic benefits. An annual 1% increase in the basic benefit for U.S. hourly employees would result in a \$112 million increase in 2005 pre-tax pension expense and a \$523 million increase in the December 31, 2004 PBO. An annual 1% decrease in the same benefit would result in a \$104 million decrease in 2005 pre-tax pension expense and a \$487 million decrease in the December 31, 2004 PBO.

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These changes in assumptions would have no effect on GM's funding requirements. In addition, at December 31, 2004, a 25 basis point decrease in the discount rate would decrease stockholders' equity by \$19.0 million, net of tax; a 25 basis point increase in the discount rate would increase stockholders' equity by \$19.0 million, net of tax. The impact of greater than a 25 basis point decrease/increase in discount rate would not be proportional to the first 25 basis point decrease/increase in the discount rate.

GM has established for its U.S. OPEB plans a discount rate of 5.75% for year-end 2004, which represents a 50 basis point reduction from the 6.25% discount rate used at year-end 2003.

The following table illustrates the sensitivity to a change in the discount rate assumption related to GM's U.S. OPEB plans (the U.S. accumulated postretirement benefit obligation [APBO] was a significant portion of GM's worldwide APBO of \$77.5 billion as of December 31, 2004):

| Change in Assumption | Effect on 2005 Pre-Tax OPEB Expense | Effect on December 31, 2004 APBO |
|---|---|--|
| 25 basis point decrease in discount rate | +\$200 million | +\$2.1 billion |
| 25 basis point increase in discount rate | -\$200 million | -\$2.1 billion |

GM assumes a 10.5% initial health-care cost trend rate and a 5.0% ultimate health-care cost trend rate as of December 31, 2004. A one percentage point increase in the initial through ultimate assumed health-care trend rates would have increased the APBO by \$8.4 billion at December 31, 2004, and the aggregate service and interest cost components of non-pension postretirement benefit expense for 2004 by \$543 million. A one-percentage point decrease would have decreased the APBO by \$7.0 billion and the aggregate service and interest cost components of non-pension postretirement benefit expense for 2004 by \$384 million.

The above sensitivities reflect the effect of changing one assumption at a time. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS No. 123R), requiring companies to record share-based payment transactions as compensation expense at fair market value. SFAS No. 123R further defines the concept of fair market value as it relates to such arrangements. Based on SEC guidance issued in Staff Accounting Bulletin (SAB) 107 in April 2005, the provisions of this statement will be effective for General Motors as of January 1, 2006. The Corporation began expensing the fair market value of newly granted stock options and other stock based compensation awards to employees pursuant to SFAS No. 123 in 2003; therefore this statement is not expected to have a material effect on GM's consolidated financial position or results of operations.

In March 2005, the FASB released FASB Staff Position (FSP) FIN 46(R)-5, which

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addresses whether a corporation should consider whether it holds an implicit interest in a variable interest entity (VIE) or potential VIE when specific conditions exist to determine if the guidance in FASB Interpretation No. 46 (Revised 2003), "Consolidation of Variable Interest Entities" (FIN 46(R)), should be applied. GM had adopted FIN 46(R) as of January 1, 2004. GM adopted FSP FIN 46(R)-5 upon issuance. The Interpretation did not have an effect on GM's consolidated financial position or results of operations.

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations." FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. This interpretation is effective for fiscal years ending after December 15, 2005. Management does not expect this interpretation to have a material impact on GM's consolidated financial position or results of operations.

In April 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," requiring retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, "Accounting Changes," for the reporting of the correction of an error and a change in accounting estimate. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. This statement is not expected to have a material effect on GM's consolidated financial position or results of operations.

FORWARD-LOOKING STATEMENTS

In this report, in reports subsequently filed or furnished by GM with the SEC on Form 8-K, and in related comments by management of GM our use of the words "expect," "anticipate," "estimate," "forecast," "objective," "plan," "goal," "project," "priorities/targets," and similar expressions is intended to identify forward-looking statements. While these statements represent our current judgment on what the future may hold, and we believe these judgments are reasonable, actual results may differ materially due to numerous important factors that are described below and other factors that may be described in subsequent reports that GM may file or furnish with the SEC on Form 8-K:

- Changes in economic conditions, currency exchange rates or political stability;
- Shortages of and price increase for fuel, labor strikes or work stoppages, health-care costs, market acceptance of the Corporation's new products, pace of product introductions;
- Significant changes in the competitive environment;
- Changes in the laws, regulations, and tax rates; and
- The ability of the Corporation to achieve reductions in cost and employment levels, to realize production efficiencies, and to implement capital expenditures, all at the levels and times planned by management.

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GENERAL MOTORS CORPORATION AND SUBSIDIARIES

ITEM 4. Controls and Procedures

The Corporation maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods.

GM's management, with the participation of its chief executive officer and its chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as of June 30, 2005. Based on that evaluation, GM's chief executive officer and chief financial officer have concluded that, as of that date, GM's disclosure controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15, were not effective at the reasonable assurance level because of the identification of a material weakness in our internal control over financial reporting, which we view as an integral part of our disclosure controls and procedures. This material weakness relates to the ineffective operation of the procedures to determine whether an impairment is necessary with respect to the Corporation's foreign investments accounted for on the equity method which resulted in the failure to timely reduce the carrying value of GM's investment in the common stock of Fuji Heavy Industries (FHI) to fair value. The basis for the determination of this material weakness is discussed below.

As of June 30, 2005, GM owned 20.1% of the common stock of FHI. This investment had a book value of \$1.5 billion, accounted for using the equity method. At the time of GM's initial investment in FHI and through the first quarter of 2005, the book value of the FHI shares has been in excess of the value of the underlying shares of common stock of FHI, as determined by trades on the Tokyo Stock Exchange. However, the carrying value amount had been considered recoverable based on GM's periodic estimates of fair value that comprehended FHI's future business plans and financial prospects.

In May 2005, management of FHI formulated a new business plan, which indicated FHI's expectation of a decline in revenues, profits and cash flows in the near term from those levels comprehended in previous plans. GM has now determined that, as of the end of the second quarter, the value of its investment in the common stock of FHI was other than temporarily impaired and that the carrying value of its investment in the common stock of FHI should have been reduced by \$813 million to its fair value or approximately \$650 million, as determined by the closing price of FHI stock on June 30, 2005.

Because of this determination, the Corporation has restated its consolidated statements of income and consolidated balance sheets for the quarter ended June 30, 2005 to reflect this reduction in carrying value of its investment in the common stock of FHI. The correction in the carrying value of the common stock of FHI did not change the amounts of cash flows from operating activities or the net increase (decrease) in cash and cash equivalents in the consolidated financial statements included in GM's Form 10-Q for the six months ended June 30, 2005.

In the fourth quarter of 2005, GM's management implemented additional review procedures designed to identify occurrences that may require a reassessment and possible impairment of the carrying value of its foreign investments accounted for on the equity method and is confident that, as of the date of this filing, it is in the process of fully remediating its related controls and procedures. These remedial actions, performed in conjunction with GM's quarterly closing and financial reporting process, include a thorough review by corporate and regional executives of transactions or events that could affect the classification or carrying value of such investments.

Other than indicated above, there was no change in GM's internal control over financial reporting during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, GM's internal control over financial reporting. However, subsequent to June 30, 2005, GM took the remedial actions described above.

* * * * *

GENERAL MOTORS CORPORATION AND SUBSIDIARIES

ITEM 6. Exhibits

| Exhibit Number ----- | Exhibit Name ----- | Page Number ----- |
|----------------------------|---|-------------------------|
| 31.1 | Section 302 Certification of the Chief Executive Officer | 44 |
| 31.2 | Section 302 Certification of the Chief Financial Officer | 45 |
| 32.1 | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 46 |
| 32.2 | Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 47 |

* * * * *

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

GENERAL MOTORS CORPORATION

(Registrant)

Date: November 9, 2005

By: /s/PETER R. BIBLE

(Peter R. Bible,
Chief Accounting Officer)

