General Motors Corporation 2007 Annual Report

GM next


100 YEARS of leadership.

100 YEARS of innovation.

100 YEARS of putting people on wheels.

And we’re just getting started.

We’re making the best cars and trucks we ever have. And we’re selling them in more parts of the world than ever before. We’re very proud of our past, but even more excited about our future. We’re focused on what’s next: building the best General Motors yet.

Bob Lutz
Vice Chairman,
Global Product Development

Fritz Henderson
President &
Chief Operating Officer

Rick Wagoner
Chairman &
Chief Executive Officer

GM's senior leadership in the Cadillac Display at the 2008 North American International Auto Show in Detroit, Michigan.

DEAR STOCKHOLDERS:

A century is a long time to be in business. For General Motors, it's been a century of leadership and achievements, of challenges and opportunities. A centennial is a great time to reflect on and celebrate the past. But for us, it's more than that…it's an opportunity to look forward to our next 100 years.

GM's centennial comes at an exciting time for the auto industry, as we move aggressively to realize the potential of two huge trends that are transforming the global auto industry and society itself. The first trend is the rapidly growing role, and importance, of emerging markets. 2007 was the auto industry's sixth consecutive year of record global sales: about 71 million units. That's up about 24 percent in just six years – all of it attributable to emerging markets. Going forward, we expect the growth and importance of emerging markets to accelerate.

This extraordinary growth is helping to define the second trend transforming our industry and world today, and that is the need to develop robust alternatives to our traditional almost-complete reliance on oil to power our vehicles. It's clear that biofuels and advanced propulsion technologies will be required to address key societal issues of energy supply, energy security and CO_2 emissions.

Together, these two enormous trends provide an extraordinary opportunity for GM to redefine ourself and to lead the reinvention of the global auto industry. We are committed to take full advantage of these two extraordinary trends to drive GM's transformation from a 100-year-old company, to a company that is ready to lead for 100 years to come.

But first things first. To achieve the future that we envision for GM, we first must complete the transformation of GM that we've been aggressively driving for several years.

2007 YEAR IN REVIEW

2007 was another year of important progress for GM, as we implemented further significant structural cost reductions in North America, grew aggressively in emerging markets, negotiated an historic labor contract with our United Auto Workers union partners in the U.S., further developed a broad range of advanced propulsion technologies and, most importantly, introduced a series of breakthrough cars and trucks around the world.

We're pleased with the improvement trend in our automotive results. But we know we have more work to do to achieve the profitability and positive cash flow that we need, and that our stockholders expect and deserve.

GM's core automotive business generated record revenue of $178 billion in 2007, a $7 billion improvement over 2006. In total, GM generated $181 billion in revenue in 2007, compared with $206 billion in 2006. The decrease is primarily due to the deconsolidation of GMAC, following our sale of 51 percent of GMAC in November 2006.

Adjusted automotive earnings before tax, excluding special items, were $553 million in 2007, an improvement of nearly $900 million versus 2006, despite a slowing U.S. economy, weak market conditions in the U.S. and record high commodity costs – trends that will continue to impact our results in 2008.

GM's total adjusted net loss in 2007, excluding special items, was $23 million, reflecting a $1.1 billion loss attributed to our 49 percent stake in GMAC. While GMAC's traditional auto financing business performed

FINANCIAL HIGHLIGHTS

(Dollars in millions, except per share amounts) Years Ended December 31,	**2007**	2006	2005
Net sales and revenue			
Automotive sales	**$178,199**	$171,179	$158,623
Financial services and insurance revenue	**$ 2,923**	$ 34,422	$ 34,427
Total net sales and revenue	**$181,122**	$205,601	$193,050
Worldwide production volume (units in thousands)	**9,286**	9,181	9,051
Adjusted net income (loss)[1]			
Income (loss)	**$ (23)**	$ 2,176	$ (3,205)
Diluted earnings (loss) per share	**$ (0.04)**	$ 3.84	$ (5.67)
Adjusted net profit margin	**–%**	1.1%	(1.7)%
Loss before cumulative effect of a change in accounting principle	**$ (38,732)**	$ (1,978)	$ (10,308)
Cumulative effect of a change in accounting principle	**–**	–	$ (109)
Net loss	**$ (38,732)**	$ (1,978)	$ (10,417)
Net profit margin before cumulative effect of a change in accounting principle	**(21.4)%**	(1.0)%	(5.3)%
Diluted earnings (loss) per share			
Before cumulative effect of a change in accounting principle	**$ (68.45)**	$ (3.50)	$ (18.23)
Net income	**$ (68.45)**	$ (3.50)	$ (18.42)
Book value per share of common stock	**$ (65.54)**	$ (9.99)	$ 25.52
Number of common shares outstanding as of December 31 (in millions)	**566**	566	566

(1) A reconciliation of adjusted amounts in these Financial Highlights and in the Chairman's Letter to Stockholders to amounts determined in accordance with accounting principles generally accepted in the United States may be found at *www.gm.com/company/investor_information/*, Earnings Releases, Financial Highlights.

well, those results were more than offset by massive losses in GMAC's mortgage businesses.

Including special items, GM reported a loss of $38.7 billion, or $68.45 per diluted share in 2007. This loss is almost entirely attributable to the non-cash $38.3 billion special charge in the third quarter related to a non-cash valuation allowance against deferred tax assets. The valuation allowance has no impact on cash, and does not reflect a change in the company's view of its long-term financial outlook.

While these results are disappointing, in many respects the bigger story for GM in 2007 is what went on behind the numbers – under the hood, if you will. Look under the hood, and we see that 2007 was a "tipping point" for GM in terms of structuring the company and building the product and technology momentum necessary to position us for sustained profitability and growth in the rapidly changing global auto industry.

MASSIVE TURNAROUND

In 2007, we continued to aggressively implement the turnaround plan for North America that we initiated in 2005, starting with the successful launch of several great new cars and trucks. We began 2007 by winning both the North American Car and Truck of the Year awards, with the Saturn Aura and Chevy Silverado, respectively. In 2008, we won the North American Car of the Year award for the second year in a row, this time with the all-new Chevy Malibu sedan.

In between, the Cadillac CTS was named *Motor Trend*'s 2008 Car of the Year, the Buick Enclave luxury crossover was picked as Urban Wheel's Truck of the Year, and the Chevy Corvette, Chevy Malibu and Cadillac CTS were picked as *Automobile* magazine "All Stars," and as three of *Car and Driver*'s "10 Best Cars."

In 2007, we continued to implement major improvements to our U.S. sales and marketing strategy. Over the past two years, we've re-focused our marketing efforts to emphasize the strength and value of our products and brands, cut incentives, reduced low-profit daily rental sales, introduced the industry's best powertrain warranty coverage and worked to consolidate our Buick-Pontiac-GMC distribution channel. These actions have enabled us to stabilize our U.S. retail market share, improve average transaction prices and residual values, and reduce dealer inventories, despite challenging market conditions.

On the cost-side of our turnaround plan, we realized the full benefit of our massive cost-reduction efforts in 2005 and 2006, with GM North America now running at an annual structural-cost base that is $9 billion less than in 2005. We also continued to make progress in our long-term effort to improve quality. As one example, in the latest J.D. Power vehicle dependability survey, Buick finished tied for first place among all manufacturers, and Cadillac came in third. We've also witnessed, since 2005, an 89 percent reduction in vehicle recall campaigns involving safety and non-compliance.

And, very importantly, we also negotiated a new labor agreement with our primary union, the United Auto Workers, in 2007. In addition to effectively addressing our healthcare cost burden, as discussed below, this agreement will enable us to significantly improve our competitive position in the U.S. I want to acknowledge the UAW leadership and membership for their willingness to work creatively with us to address some very tough issues, and their important role in reaching last year's agreement.

ADDRESSING THE LEGACY COST BURDEN

We've also made tremendous progress on what has been probably our single-most challenging issue in recent years: GM's healthcare and legacy cost burden. Our progress has been the result of a series of actions and agreements over the last several years affecting both salaried and hourly workers. In total, they represent a major milestone in reestablishing GM's ability to be fully cost competitive in the U.S.

Consider that from 1993 through 2007, GM has spent a total of $103 billion in the U.S. to fund legacy pensions and retiree healthcare – an average of about $7 billion a year – a dramatic competitive and cash-flow disadvantage. Based on our recent actions and agreements, our U.S. hourly and salaried pension plans were over-funded by more than 20 percent at year-end 2007, and we do not expect to be required to make any cash contributions to these plans for the foreseeable future. In addition, U.S. salaried retiree healthcare has been capped beginning this year, and UAW retiree healthcare is scheduled to be paid exclusively from a new independent trust that we will establish on the later of January 1, 2010, or receipt of the necessary approvals.

The result of these and other actions in this area: we expect our cash spending on U.S. pensions and retiree healthcare to decline from the annual average of $7 billion over the last 15 years, to about $1 billion per year starting in 2010. That savings of approximately $6 billion a year offers us a tremendous opportunity to improve GM's earnings and balance sheet, and to invest in new products and advanced propulsion technology.

GLOBAL GROWTH

As noted earlier, a major trend affecting the global auto industry today is the rapidly growing role and importance of emerging markets. GM is very well positioned to take advantage of this growth. Overall, we sold more than 9 million cars and trucks in 2007 for the third year in a row, and only the fourth time in GM history. Of those sales, a record 59 percent were outside the U.S., a percentage that will continue to grow as we drive to increase sales in expanding markets like China, Brazil, Russia and India.

The strategy of taking advantage of global growth opportunities is one that takes GM back to its roots. Way back in the mid-1920s, GM was already exporting vehicles to much of the world. In 1923, GM opened its first assembly plant outside North America, in Copenhagen, Denmark. Within a few years, GM had purchased Britain's Vauxhall, Germany's Adam Opel and Australia's Holden, and was manufacturing in more than a dozen countries.

Today, the growth opportunities around the world are even better. But our business approach to grow in them has changed in the face of intense global competition. Now, we're working to effectively leverage our global scale, scope and resources, and share our best practices and ideas. GM now operates as an integrated global auto company, with one global product development organization, one global purchasing process, one global manufacturing system and so on. The difference is profound, and is literally changing the way we think about and operate our business.

And it's yielding impressive results. In 2007, our sales in Europe were up about 9 percent to a record 2.2 million units, despite weak market conditions in Germany. Strong demand for GM cars and trucks in the United Kingdom, Ukraine, Italy, Greece and Russia – where sales doubled to almost 260,000 units – made GM the fastest growing major automobile manufacturer in Europe in 2007.

In our Asia Pacific region, we continue to see very strong growth in sales, and solid profitability. GM was once again the number one automaker in the fast-growing China market; in fact, in 2007, we, with our local partners, became the first global automaker to sell more than one million vehicles there. Other highlights include 74 percent sales growth in India, and 30 percent growth in export sales from GM Daewoo in Korea.

In our Latin America, Africa and Middle East region, sales were up 19 percent to a record 1.2 million units in 2007. All-time sales records were set in the important Brazilian market, as well as in Argentina, Chile, Colombia, Egypt and Venezuela.

ADVANCED PROPULSION TECHNOLOGY

The second major trend affecting the global auto industry today is the rapid development of advanced propulsion technology, based on the very important fact that oil alone will not be able to supply the world's automotive energy requirements in the years to come.

In 2007, we made tremendous progress in pursuit of GM's advanced propulsion technology strategy, which, in short, is to offer a broad range of clean and efficient vehicles, powered by different sources of energy, to respond optimally to local consumer needs around the world (please see pages 24-35). Some evidence of this progress:

- GM will offer 17 models in the U.S. market this year that get 30 miles-per-gallon highway – more than any other automaker.
- By the end of 2008, GM will offer 25 ethanol-enabled FlexFuel cars and trucks around the world, and produce more than one million new FlexFuel vehicles, in addition to the four million we've already produced.
- Between 2007 and 2010, we'll introduce 16 new hybrid vehicles – an average of one every three months. This includes the new Chevrolet Tahoe and GMC Yukon two-mode hybrids, which get 50 percent better city fuel economy than their gasoline counterparts, which already get the best fuel economy in their class.

- We've begun delivering 100 Chevy Equinox Fuel Cell SUVs to customers in the U.S. and Europe, to create the world's largest hydrogen fuel-cell test fleet.

And then there's our revolutionary new E-Flex propulsion system, which drives the Chevy Volt, Opel/Saturn Flextreme, and Cadillac Provoq concept vehicles. It's fair to say that no concept car in my GM career has created more excitement than the Chevy Volt. We're running all-out to get this technology to market as soon as possible.

Overall, our goal is nothing less than leadership in energy and environmental technology, as we move into an extended period of stronger global energy demand, and heightened environmental awareness. This is a great example of where GM's scale and scope will be a significant competitive advantage for us, as we roll out these technologies across a broad range of vehicle makes and models around the globe.

STRONG LIQUIDITY POSITION

Despite the reported net loss for 2007, we made additional progress on strengthening GM's liquidity. Over the past two years, we have improved GM's available liquidity by $7 billion, to more than $27 billion at year-end 2007. Asset sales have played a key role in this. So far, we have received about $9 billion from the sale of 51 percent of our equity in GMAC in late 2006, and $5.4 billion from the sale of our Allison Transmission division last year.

But we have more work to do in generating cash flow from our operating businesses. GM ended 2007 with negative adjusted automotive operating cash flow of $2.4 billion, a $2 billion improvement compared to 2006. That's good progress, but moving the business to positive operating cash flow as soon as possible remains one of our top priorities.

GMAC/DELPHI

Our sale of 51 percent of GM's equity in GMAC to Cerberus in late 2006 was successful in de-linking the GM and GMAC credit ratings and, very importantly, preserving what has been a very productive relationship between GM's auto and auto finance businesses. We expect GM's relationship with GMAC to remain close and mutually beneficial for many years to come.

2007, however, was a challenging year for GMAC, which reported a net loss of $2.3 billion, compared with net income of $2.1 billion in 2006. Positive results in GMAC's global automotive and insurance businesses were more than offset by the $4.3 billion loss in its mortgage businesses. As a result of our 49 percent equity interest and preferred dividends received for the full year 2007, GM reported a $1.1 billion net loss attributable to GMAC.

While market conditions remain uncertain, GMAC took aggressive actions in 2007 across all its businesses in an effort to mitigate future risk, rationalize its cost structure and position itself for growth. Looking forward, GMAC continues to target a return to profitability, while maintaining or improving its global leadership position in its core businesses.

In 2007, we also reached important agreements with Delphi Corporation, the United Auto Workers and other interested parties on Delphi's Chapter 11 restructuring. We continue to work with Delphi and its stakeholders on Delphi's successful exit from bankruptcy, while insuring that GM significantly reduces its $1.5 billion annual cost penalty on purchases of parts from Delphi. We remain committed to achieving a solution that works for Delphi and us.

To learn more about GMnext and our centennial celebration, visit our website, www.gmnext.com. The website is a place where you can share your own thoughts and ideas about our company and our industry – past, present and future – and get useful and interesting information about GM as we head into our second century.

WHAT'S NEXT?

Overall, in 2007, we made further major progress in advancing GM's turnaround – but we need to do more. So, what's next?

In 2008, we forecast continued solid growth in global vehicle sales, driven by the emerging markets of Asia, South America, and Central and Eastern Europe. In contrast, in the U.S., we anticipate continued headwinds in 2008, including a broad-based housing correction, higher gas prices and lower consumer confidence, leading to a relatively weak

FROM TURNAROUND TO TRANSFORMATION... TO WINNING

Thanks to lots of hard work by many people, we've completed most of the tasks we laid out in 2005 to build a competitive cost structure, a strong liquidity position and, most important, the reputation of our products and brands. Now we're turning our focus to what's next: Winning more and more consumers in the global marketplace, based on the design, quality, technology and value of our cars and trucks.

Accomplished since the announcement of GM's turnaround plan in 2005:

- North America structural cost reduced by $9 billion
- Landmark GM-UAW contracts to address retiree health-care costs
- 34,000-plus workers participated in successful U.S. workforce attrition program in 2006
- 51% stake in GMAC sold; total of $13 billion in proceeds over 3 years
- Allison, Isuzu shares, other assets sold generating $8.9 billion in proceeds
- Liquidity increased from $20 billion to $27 billion
- 3 North American International Auto Show Car or Truck of the Year awards
- Launched industry-best powertrain coverage of five years, 100,000 miles in the U.S. and Canada
- Average U.S. transaction prices up $3,000
- Multi-Brand Strategy in Europe successfully executed
- GM sales in the world's emerging markets grew 42%; GM is number one in China, the world's fastest growing automotive market by volume

overall economic environment and auto industry sales. We are committed to continuing to take the actions to build our future, at the same time as we respond to the difficult U.S. market conditions.

As always, the most important element of our future success will be great cars, trucks and brands, and in 2008 we'll work to build on the product momentum we gained last year by launching many exciting new vehicles throughout the world, including:

- The all-new Chevy Traverse mid-size crossover
- The Cadillac Escalade and Chevy Silverado two-mode hybrids
- The exciting Opel/Vauxhall Insignia across Europe
- The Buick LaCrosse Hybrid in China
- The Holden Sportwagon in Australia and New Zealand
- The Chevrolet Captiva in Brazil
- And much more.

Going forward, we have plans to further reduce our structural costs in North America by about $5 billion by 2011, beyond the $9 billion we have realized so far since 2005. Based on this, we are now targeting to reduce our global automotive structural costs from 34 percent of revenue in 2005 to 25 percent of revenue by 2010 – and then to 23 percent of revenue by 2012, a clear benchmark among major global auto manufacturers.

We will continue to drive for rapid growth in emerging markets, which have grown from 20 percent of industry unit sales in 1997, to 38 percent in 2007. By 2017, we forecast that today's emerging markets will account for more than half of industry unit sales, and our plan is to play a major role in this growth.

We will continue to pursue our advanced propulsion technology strategy with all the urgency we can muster, driven by the need to reduce oil imports, oil consumption and CO_2 emissions around the world.

We will continue to drive the benefits of running the business in a globally integrated manner, which continues to be perhaps the most profound change taking place inside the company today.

And we'll pursue these strategies with a strong and committed GM team. In March, I was pleased to announce several important moves to further strengthen our top leadership structure. We reestablished GM's traditional President and Chief Operating Officer position, and promoted Fritz Henderson to this role. Fritz has had a broad range of experiences in leading three of our regions and in a number of other GM businesses over the years, and he's made a tremendous contribution in each role.

I look forward to working closely with Fritz; Bob Lutz, who so capably leads our global product development team; Ray Young, just promoted to the Chief Financial Officer position; Tom Stephens, who was promoted to Executive Vice President and is leading our advanced propulsion technology initiatives; and the entire GM leadership team around the world.

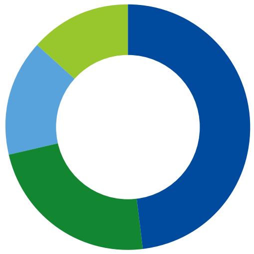
Equally important, I look forward to continuing to work with our extremely talented and committed team of GM employees around the globe. To win in today's hyper-competitive global auto business, we need a strong team at every level and in every position. At GM, we have that team in place, from boardroom to factory floor…and I feel privileged to work with a group of automotive professionals whom I consider to be the best team in the business.

GMnext

GM today stands at the juncture between our first and second centuries, between a tremendous heritage and a bright and exciting future. We've come a long way since the challenge of 2005, and still we have a lot of work ahead of us…but I believe that 2007 will stand as a tipping point in the history of GM, as we position the company for sustained competitiveness, profitability and growth.

Everyone at our company is working hard to make GM the industry leader with great cars and trucks, great brands and great business results. It's a position that GM has attained many times in our history, and one we desire to achieve again. We have the right strategy, the right products and technology and, most important, the right people to do it again, and we're committed to making it happen. We appreciate your continued support as we work to make this vision a reality.

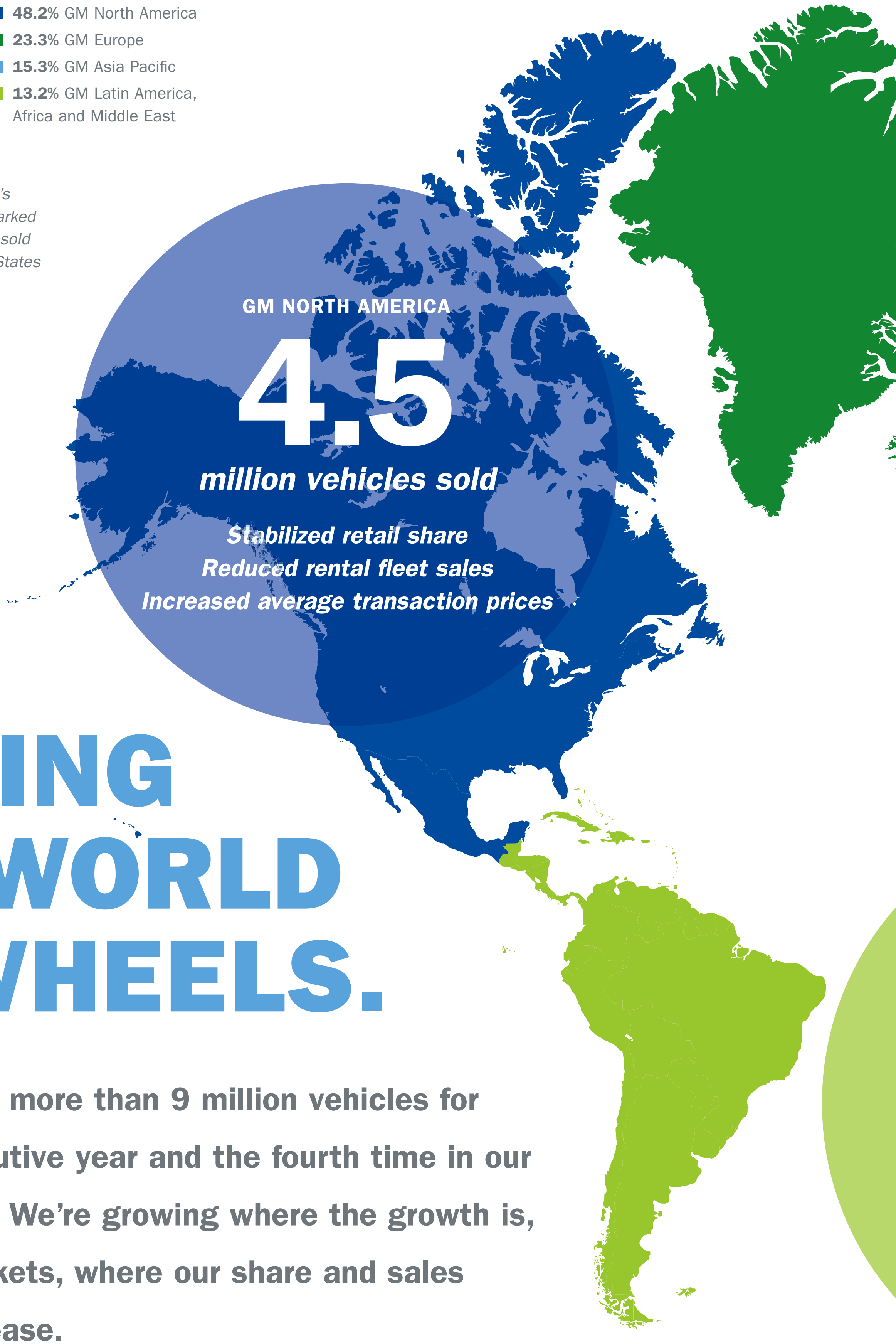
Rick Wagoner
Chairman & Chief Executive Officer
Detroit, Michigan



Global vehicle sales by volume

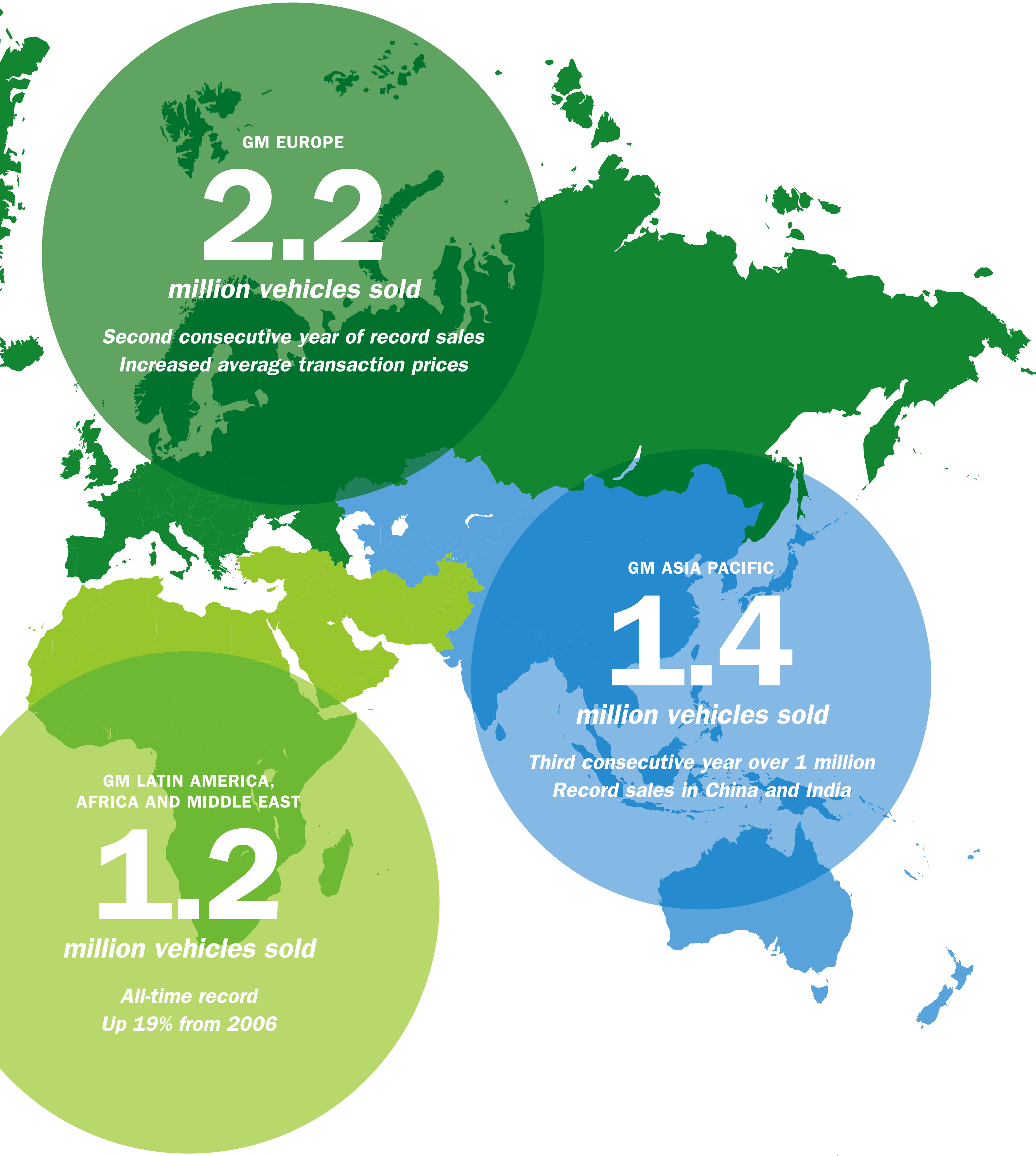
- **48.2%** GM North America
- **23.3%** GM Europe
- **15.3%** GM Asia Pacific
- **13.2%** GM Latin America, Africa and Middle East

Although North America is still GM's number-one sales region, 2007 marked the third consecutive year that we sold more vehicles outside the United States than inside its borders.



PUTTING THE WORLD ON WHEELS.

In 2007, we sold more than 9 million vehicles for the third consecutive year and the fourth time in our 100-year history. We're growing where the growth is, in emerging markets, where our share and sales continue to increase.


GM EUROPE
2.2
million vehicles sold
Second consecutive year of record sales
Increased average transaction prices
GM ASIA PACIFIC
1.4
million vehicles sold
Third consecutive year over 1 million
Record sales in China and India
GM LATIN AMERICA,
AFRICA AND MIDDLE EAST
1.2
million vehicles sold
All-time record
Up 19% from 2006

Da!

Alexey Tenkov
Logistics and Distribution Manager
Moscow, Russia

A great start in the Russian market. A successful multi-brand strategy put a record number of Russian drivers behind the wheel of a GM car or truck in 2007. By offering a broad lineup that includes Chevrolets, Opels, Saabs, HUMMERs and Cadillacs, we sold 259,000 vehicles last year. We've grown from almost nowhere to number one in the market among non-Russian automakers, and we're working hard to further improve our position. A new GM plant in St. Petersburg is scheduled to begin production of the Opel Antara and Chevrolet Captiva midsize SUVs in 2008.

突破一百万

One million strong. GM is China's first global automaker to surpass the 1 million mark in single-year vehicle unit sales. Thanks to great products, great people and great partners, GM sold 1,031,974 vehicles in China in 2007. A strong new-product offering, led by the Cadillac SLS luxury business sedan, the Buick Park Avenue premium sedan, Chevrolet Captiva SUV, the all-new Chevrolet Epica intermediate sedan and the Wuling Hong Tu minivan, helped make GM the leading global automaker in China for the third consecutive year.

Cadillac SLS

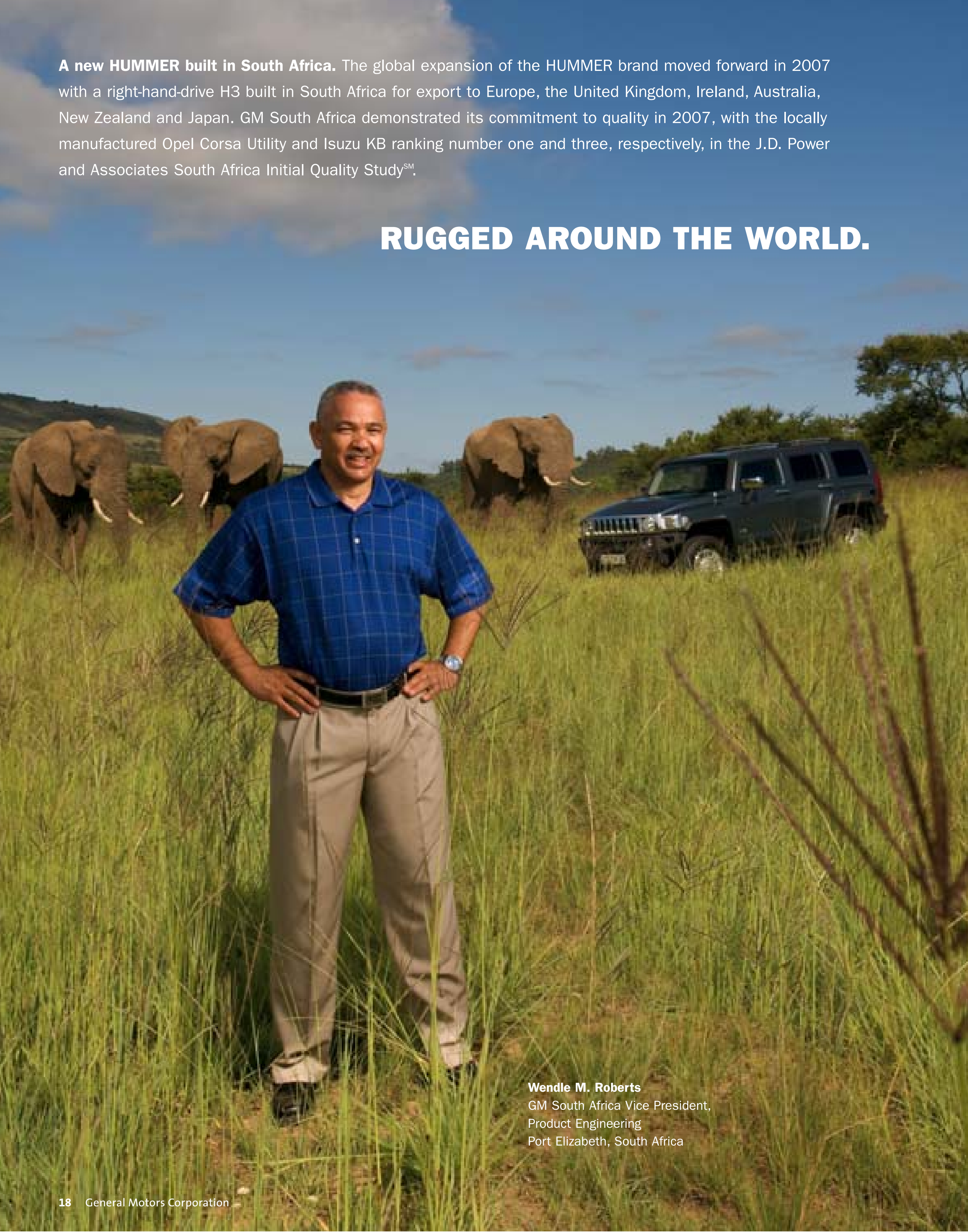
Chevrolet Spark

भारत में एक चिंगारी

A spark in India. The redesigned Chevrolet Spark minicar gave GM a strong new entry into India's small-car-dominated market in 2007. With its clean lines, roomy interior, outstanding fuel economy and enhanced safety features, the Spark helped us grow share and achieve record sales in one of the world's fastest-growing markets. We're working to build on our momentum with an extended dealer network, more service centers and Spark's three-year, 100,000-km standard warranty, an industry first in India's minicar segment.

A new HUMMER built in South Africa. The global expansion of the HUMMER brand moved forward in 2007 with a right-hand-drive H3 built in South Africa for export to Europe, the United Kingdom, Ireland, Australia, New Zealand and Japan. GM South Africa demonstrated its commitment to quality in 2007, with the locally manufactured Opel Corsa Utility and Isuzu KB ranking number one and three, respectively, in the J.D. Power and Associates South Africa Initial Quality Study℠.

RUGGED AROUND THE WORLD.



Wendle M. Roberts
GM South Africa Vice President,
Product Engineering
Port Elizabeth, South Africa

Upshifting in Europe with record 2007 sales. Led by gains in its Opel/Vauxhall, Chevrolet (Europe's fastest-growing brand by volume in 2007) and Cadillac brands, GM Europe sold almost 2.2 million vehicles and delivered year-over-year unit volume growth of 9 percent in 2007. A bright spot among many: The new, award-winning Opel Corsa was a big success with its sporty design, low-emission, high-mileage drivetrain and innovations like an integrated bicycle carrier that disappears into the rear bumper.

European success story.

Cadillac CTS: *Motor Trend*'s 2008 Car of the Year. The hot-selling 2008 Cadillac CTS burned rubber out of dealers' lots after becoming available in the fall of 2007. Meanwhile, the accolades and awards continued to roll in, capped by *Motor Trend*'s 2008 Car of the Year crowning CTS as the best of the best.

CTS and Enclave: twin wins in 2007.

Buick Enclave: Selling beautifully. Buick sold nearly 30,000 Enclaves in the first seven months of production in 2007, and it's easy to see why. Since its launch in April, this category-redefining Buick was the fastest-selling crossover in the industry, contributing to 333 percent year-over-year growth for GM mid-utility crossover vehicles.

Excitement and style for our biggest global brand. In one of the most anticipated new-car launches in years, the all-new Chevrolet Malibu served notice to the perennial midsize sedan leaders in the United States. Consumer demand has been very strong for the Malibu, which was named the 2008 North American Car of the Year. The recently restyled Aveo5 hatchback further defines the new face of Chevy. From Detroit to Shanghai, São Paulo to Russelsheim, GM's lead brand just keeps getting better and growing around the globe.

The future of Chevy.

Chevrolet Malibu

Cheryl Catton
Director,
Chevrolet Car Marketing
Detroit, Michigan

Chevrolet Aveo

DRIVING THE FUTURE.

We're on a five-lane highway to develop more environmentally friendly and energy-efficient cars and trucks. From gas friendly to gas free, from biofuels to electric, GM is determined to lead like no one else can.

FUEL EFFICIENCY

E85 ETHANOL

HYBRID

ELECTRIC

FUEL CELL


1/

Making a powerful difference.

No debate: FlexFuel works. Brazil is close to energy independence, with every one of the country's 34,000 fuel stations offering a choice of gasoline (22 percent ethanol) and E100 (100 percent ethanol) fuels. More than 95 percent of GM Brazil's new vehicle sales now feature GM's advanced E100 FlexFuel technology.

With more than 4 million FlexFuel vehicles on the road worldwide, GM is a global leader in the technology. In Sweden, E85-capable Saab BioPower 9-5s represented 70 percent of new 9-5 sales in 2007. And in the United States, GM has helped bring 300 E85 (85 percent ethanol, 15 percent gasoline) fueling stations online in 15 states over the past two years.

Saab 9-3

E85: A GREAT ANSWER, RIGHT NOW.

The most viable short-term solution to petroleum dependence. It's affordable and it's available right now. It's E85 ethanol, a mixture of 85 percent ethanol and 15 percent gasoline. GM FlexFuel technology runs on either E85 ethanol or gasoline, and we've made a commitment to make half the vehicles we produce in the United States flex-fuel capable by 2012. Ethanol represents an excellent short-term solution: If every flex-fuel vehicle projected to be made by U.S. automakers in 2012 were to run on E85 ethanol, it would displace 29 billion gallons of gasoline annually in the United States, an 18 percent reduction based on projected usage.

We're moving ethanol forward. In January 2008, GM announced a partnership with U.S.-based Coskata to advance ethanol production technology. The aim? To rapidly commercialize that company's breakthrough process that can produce ethanol from almost any non-food, carbon-based stock – garbage, food waste, even old tires – for less than half of today's cost to produce gasoline.

Mary Beth Stanek
Director, Environment and
Energy Policy and Commercialization
Detroit, Michigan

GO BIG: TWO-MODE HYBRID.

Two-mode hybrids drive better fuel efficiency for bigger vehicles. GM-Allison launched two-mode hybrid technology in 2003 to move the biggest, highest-fuel-consuming vehicles: city buses. After putting more than 1,000 hybrid buses in over 70 cities (and counting) and saving about 1.75 million gallons of fuel annually, GM introduced the system in the Chevrolet Tahoe and GMC Yukon fullsize SUVs. Unlike conventional hybrid systems, our two-mode transmission maximizes fuel efficiency in the city *and* on the highway. In fact, the hybrid Yukon and Tahoe have the same fuel economy in the city – 21mpg – as our largest competitor's best-selling sedan's 4-cylinder model.

The GM two-mode hybrid system won the *Popular Mechanics* Breakthrough of the Year award, *Popular Science*'s Best of What's New and *Automobile Magazine*'s Technology of the Year, while the Tahoe hybrid won Green Car of the Year at the Los Angeles Auto Show. Next up: a two-mode all-wheel-drive version of the Cadillac Escalade fullsize SUV, 2- and 4-wheel-drive versions of the Chevrolet Silverado and GMC Sierra Crew Cab pickups, and a front-wheel-drive version of the Saturn Vue Green Line SUV.

Prof. Dr. Uwe Dieter Grebe
Executive Director,
GM Powertrain
Global Advanced Engineering
Pontiac, Michigan

Gasoline works. Harder.

The next big thing in gas-friendly technology. In 2007, GM led all automakers in the United States again with the most vehicles that achieve more than 30 miles per gallon on the highway. The next big breakthrough: homogenous compression charge ignition, or HCCI. Currently in development, HCCI could cut fuel consumption by up to 15 percent when combined with other GM fuel-saving technologies like direct injection, variable valve timing and others. HCCI increases efficiency by burning fuel at a lower temperature and reducing the heat energy lost during combustion, which also reduces CO_2 emissions.

Left: Traditional combustion event – fuel enters via the intake port and a spark plug ignites the air and fuel mixture. Right: HCCI combustion event – fuel enters via an injector in the combustion chamber. The air and fuel mixture ignites through heat caused by compression.

GM DIESEL: CLEAN, EFFICIENT, POWERFUL.

Building on world-class diesel expertise. GM sells more than 1 million diesel vehicles worldwide each year, from the 1.3 liter 4-cylinder diesel engine in Europe, to the segment-leading 6.6 liter V-8 Duramax diesel in North America. In 2009, GM will introduce a new 2.9 liter V-6 Turbo Diesel in Europe, in the Cadillac CTS. And in North America, we will introduce a new 4.5 liter V-8 Duramax Turbo Diesel for light-duty pickups in 2010.

Biodiesel, made from renewable resources, is another component of GM's broad strategy to reduce emissions and reliance on petroleum. B5 (5 percent biodiesel) is approved for use in GM's 2008 model-year Duramax engine in the United States and in all GM diesel engines in Europe. GM is also offering a special equipment option on the Duramax with B20 (20 percent mix of biodiesel blends) capability.

Fuel cell technology shifts into the next gear with Project Driveway. This is no concept car. It's a Chevrolet Equinox. It runs quick and quiet on hydrogen fuel, with zero harmful emissions. Starting in late 2007 and running through 2010, we're loaning out more than 100 vehicles for an average of three months in the world's first large-scale market test, Project Driveway. People in Los Angeles,

PUTTING THE FUTURE IN DRIVE(WAYS).

New York City and Washington, D.C., as well as in select Asian and European markets, will drive them, fuel them and wash them like any other SUV. But it's not just any SUV. It's an exciting glimpse at what could be the future of transportation. And for GM, it's real-world data and feedback that we'd never get at the proving grounds alone – information that will accelerate our drive to reinvent the automobile.

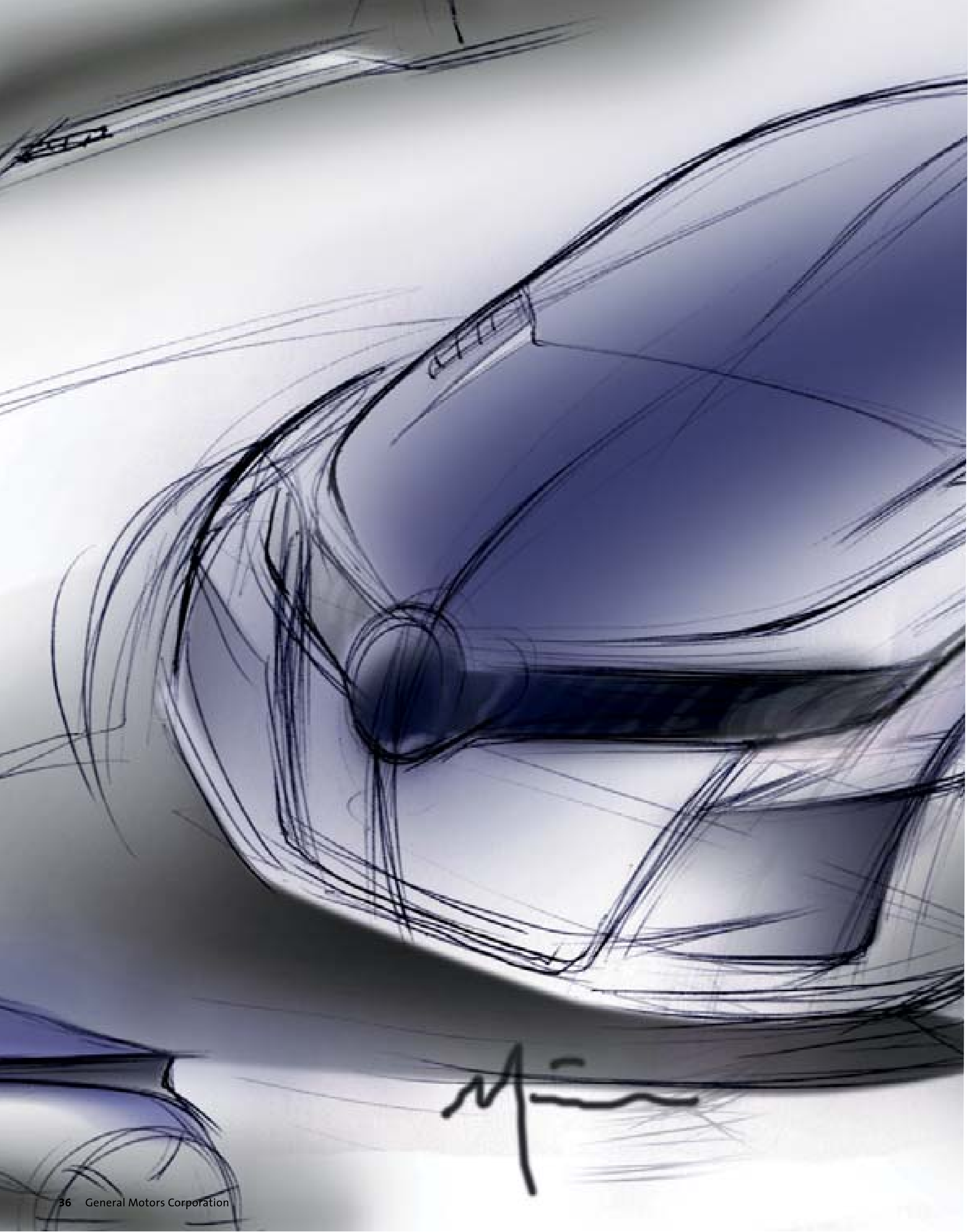
Ben and Jackie Lee
Project Driveway participants
Burbank, California

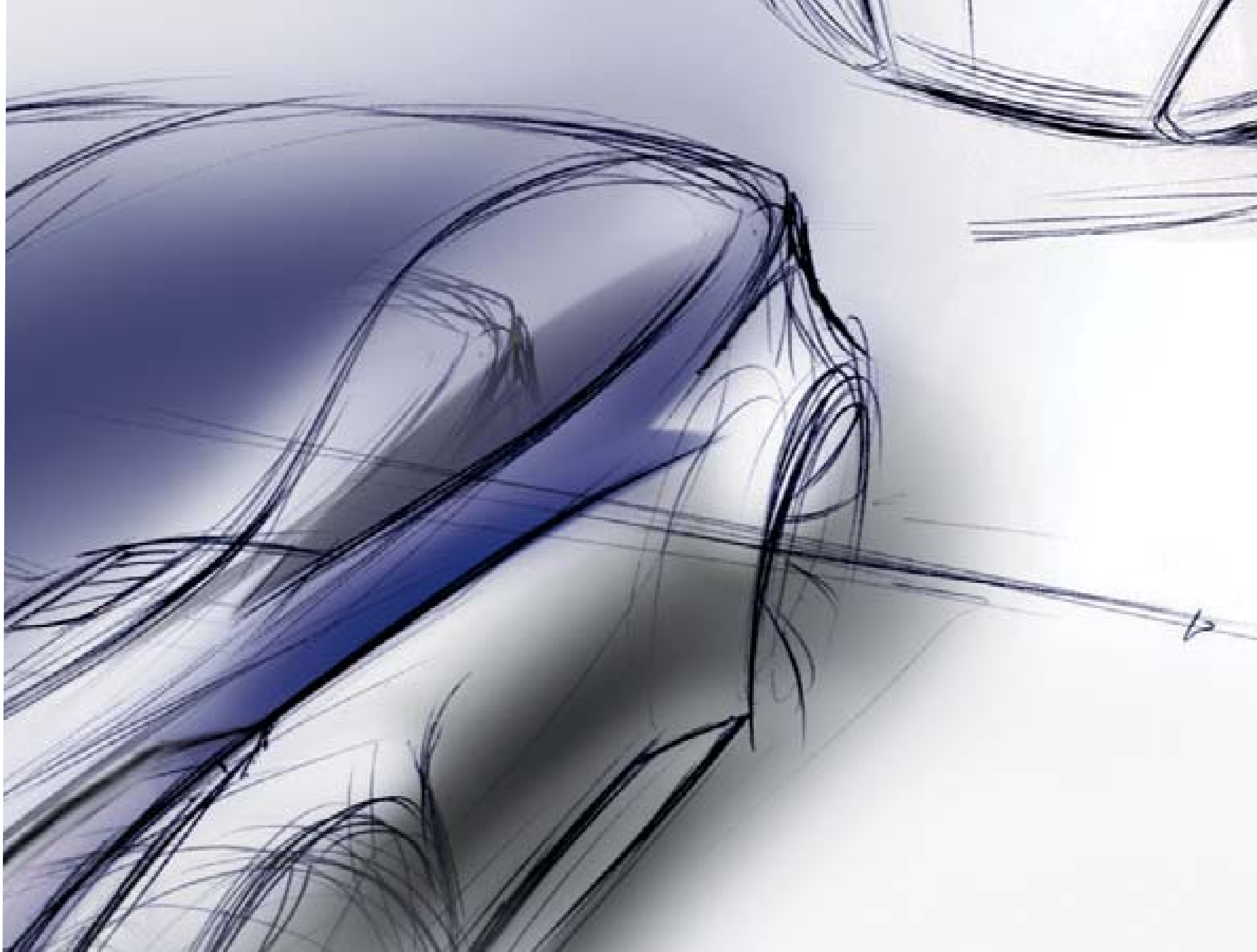
Charging ahead.

Plug-in excitement zaps the world's imagination.

With the Chevrolet Volt, GM introduced a revolutionary new concept in automotive transportation. Plug it in overnight in an ordinary electrical outlet. Then drive it up to 40 miles without burning any gasoline. A small onboard "range extender" engine, used only to recharge the battery, not propel the vehicle, increases the vehicle's range by hundreds of miles. It's called E-Flex because the range extender can be a gasoline-, ethanol- or biodiesel-powered internal combustion engine or a hydrogen fuel cell. We moved this new technology forward in 2007 – we signed contracts with two advanced battery technology companies to develop the lithium-ion battery for the system, and we opened our new E-Flex Systems Design Studio to develop GM's next generation of electric vehicles. We're doing our best to turn the Volt concept into reality by late 2010.

Denise Gray
Director, Energy Storage Systems
Warren, Michigan





WHAT'S NEXT?

That's the question that continually drives us forward. It's a catalyst to help us design the next generation of transportation: safer and more environmentally friendly, affordable and fun. By constantly asking "What's Next?", we're looking to lead in ways that benefit not only our company, but also the countless communities in which we do business around the world.

A big idea in a very small package. The Chevy Beat, Groove and Trax are three global minicar concepts that have gotten a lot of attention since we introduced them in 2007. We knew these little cars with big style and 50-mile-per-gallon fuel efficiency were special, so we decided to ask consumers from all over the world to vote on which one they liked best. And vote they did. After tabulating almost 2 million votes cast online, the Beat was declared the winner. We announced plans to build a minicar based on the Beat concept by mid-2009, initially for the Asian market.

Chevrolet Groove

MEET THE TRIPLETS.

Sang Yeon Cho
Design Manager,
Mini Exterior Team
Incheon, South Korea

Chevrolet Trax

Chevrolet Beat

Lois McEntyre
Director, Supplier Performance
Management
OnStar
Detroit, Michigan

Imagine.

A car or truck that e-mails you the results of its monthly diagnostics check. That can guide you, turn by turn, to your destination virtually anywhere. That, in the event of a crash, can automatically call for help and relay detailed crash data to first responders to help them bring the right equipment.* That alerts the authorities of your vehicle's location, if it's reported stolen.

It's OnStar, and it's happening right now at GM.

OnStar: nonstop innovation. We could have stopped with a good thing, but we didn't. We kept innovating. As part of a growing list of features, most 2008 OnStar-equipped GM vehicles now can send crash data such as force of a collision, direction of force and whether a rollover occurs, which can give emergency personnel valuable information that can save lives.

The latest innovation is Stolen Vehicle Slowdown, which enables OnStar to gradually and safely slow down a stolen vehicle to avoid a dangerous high-speed chase – available on 1.7 million 2009 model-year GM cars and trucks.

*Available on most 2008 GM vehicles.

Corporate responsibility at General Motors. We're proud of the difference we've made since we started out in 1908 – a century of safe, dependable vehicles, and millions of people employed over the years to design, engineer, build and sell them. A century of impact, with billions spent with minority suppliers, billions in charitable donations and millions of metric tons of CO_2 taken out of facility emissions. A century of firsts, from the introduction of tail lights to pump technology that enabled the first heart transplant.

A powerful century, but that's all in the past. For us, the excitement is in focusing our technical talent on helping solve many of the big challenges facing our world right now:

- Pursuing a broad range of solutions for earth-friendly propulsion, from gas friendly to gas free, from biofuels to electric.
- Shrinking our environmental footprint by achieving landfill-free status in half our plants worldwide by 2010.
- Contributing to local economies worldwide by sharing our success; looking for job creation opportunities in the new technologies we're developing.
- Supporting worthy causes globally with monetary gifts, matching programs and volunteerism.

Find out more about what GM is doing to make a better world for the next generation. Visit *www.gm.com/corporate/responsibility* or e-mail us at *www.gmpress@epiinc.com* to request a copy of the new 2006/2007 GM Corporate Responsibility Overview.

NEXT GENERATION.

AT A GLANCE

At GM, we have a bone-deep commitment to product excellence: beautiful, compelling design, great quality, the latest technology. GM is undergoing radical change, from top to bottom, and we all share a *common goal* – provide the best cars and trucks to customers in every market around the globe.








CHEVROLET Cadillac SAAB HUMMER OPEL VAUXHALL

GMC BUICK PONTIAC SATURN HOLDEN GM DAEWOO








Selected Financial Data

(Dollars in millions except per share amounts)	**2007**	2006	2005	2004	2003 [a]
	Years Ended December 31,				
Total net sales and revenues [d]	**$181,122**	$205,601	$193,050	$192,917	$184,152
Income (loss) from continuing operations	**$ (43,297)**	$ (2,423)	$ (10,621)	$ 2,415	$ 2,450
Income (loss) from discontinued operations [a, b]	**256**	445	313	286	(104)
Gain from sale of discontinued operations [a, b]	**4,309**	–	–	–	1,179
Cumulative effect of a change in accounting principle [c]	**–**	–	(109)	–	–
Net income (loss)	**$ (38,732)**	$ (1,978)	$ (10,417)	$ 2,701	$ 3,525
$1 2/3 par value common stock:					
Basic earnings (loss) per share from continuing operations before cumulative effect of accounting change	**$ (76.52)**	$ (4.29)	$ (18.78)	$ 4.27	$ 4.37
Basic earnings per share from discontinued operations [a, b]	**8.07**	0.79	0.55	0.51	2.34
Basic loss per share from cumulative effect of a change in accounting principle [c]	**–**	–	(0.19)	–	–
Basic earnings (loss) per share	**$ (68.45)**	$ (3.50)	$ (18.42)	$ 4.78	$ 6.71
Diluted earnings (loss) per share from continuing operations before cumulative effect of accounting change	**$ (76.52)**	$ (4.29)	$ (18.78)	$ 4.26	$ 4.30
Diluted earnings (loss) per share from discontinued operations [a, b]	**8.07**	0.79	0.55	0.50	2.31
Diluted loss per share from cumulative effect of accounting change [c]	**–**	–	(0.19)	–	–
Diluted earnings (loss) per share	**$ (68.45)**	$ (3.50)	$ (18.42)	$ 4.76	$ 6.61
Class H common stock:					
Basic loss per share from discontinued operations [a]	**$ –**	$ –	$ –	$ –	$ (0.22)
Diluted loss per share from discontinued operations [a]	**$ –**	$ –	$ –	$ –	$ (0.22)
Cash dividends declared per share	**$ 1.00**	$ 1.00	$ 2.00	$ 2.00	$ 2.00
Total assets [d]	**$148,883**	$186,304	$474,268	$480,772	$448,925
Notes and loans payable [d]	**$ 44,339**	$ 48,171	$287,715	$301,965	$273,250
Stockholders' equity (deficit) [e, f, g]	**$ (37,094)**	$ (5,652)	$ 14,442	$ 27,669	$ 24,665

Certain prior period amounts have been reclassified in the consolidated statements of operations to conform to the current year presentation.

(a) *Effective December 22, 2003, we split off Hughes Electronics Corporation (Hughes) by distributing Hughes common stock to the holders of Class H common stock in exchange for all outstanding shares of Class H common stock. Simultaneously, we sold our 19.8% retained economic interest in Hughes to News Corporation in exchange for cash and News Corporation Preferred American Depository Shares. All shares of Class H common stock were then cancelled. We recorded a net gain of $1.2 billion from the sale in 2003, and net losses from discontinued operations of Hughes were $219 million in 2003.*

(b) *In August 2007, we completed the sale of the commercial and military operations of our Allison business. The results of operations, cash flows and the 2007 gain on sale of Allison have been reported as discontinued operations for all periods presented.*

(c) *As of December 31, 2005, we recorded an asset retirement obligation of $181 million in accordance with the requirements of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 47, "Accounting for Conditional Asset Retirement Obligations." The cumulative effect on net loss, net of related income tax effects, of recording the asset retirement obligations was $109 million or $0.19 per share on a diluted basis.*

(d) *In November 2006, we sold a 51% controlling ownership interest in General Motors Acceptance Corporation (GMAC), resulting in a significant decrease in total consolidated net sales and revenues, assets and notes and loans payable.*

(e) *As of December 31, 2006, we recognized the funded status of our benefit plans on our consolidated balance sheet with an offsetting adjustment to Accumulated other comprehensive income (loss) in stockholders' equity (deficit) of $16.9 billion in accordance with the adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158).*

(f) *As of January 1, 2007, we recorded a decrease to Retained earnings of $425 million and an increase of $1.2 billion to Accumulated other comprehensive income in connection with the early adoption of the measurement provisions of SFAS No. 158.*

(g) *As of January 1, 2007, we recorded an increase to Retained earnings of $137 million with a corresponding decrease to our liability for uncertain tax positions in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."*

Overview

We are engaged primarily in the worldwide development, production and marketing of automobiles. We develop, manufacture and market vehicles worldwide through four automotive regions: GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM) and GM Asia Pacific (GMAP) (collectively, the Automotive business). Also, our finance and insurance operations are primarily conducted through GMAC, the successor to General Motors Acceptance Corporation, a wholly owned subsidiary until November 2006 when we sold a 51% controlling ownership interest in GMAC to a consortium of investors (the GMAC Transaction). Since the GMAC Transaction, we have accounted for our 49% ownership interest in GMAC using the equity method. GMAC provides a broad range of financial services, including consumer vehicle financing, automotive dealership and other commercial financing, residential mortgage services, automobile service contracts, personal automobile insurance coverage and selected commercial insurance coverage.

AUTOMOTIVE INDUSTRY

In 2007, the global automotive industry continued to show strong sales and revenue growth. Global industry vehicle sales to retail and fleet customers were 70.6 million units in 2007, representing a 4.8% increase over 2006. We expect industry sales to be approximately 73 million units in 2008. Over the past five years, the global automotive industry has experienced consistent year-to-year increases, growing 19.4% from 2003 to 2007. Overall revenue growth for the industry has averaged 7.0% per year over the last decade. Much of this growth is attributable to demand in emerging markets, such as China, where industry vehicle unit sales increased 20.4% to 8.6 million units in 2007, from 7.1 million units in 2006.

Our worldwide vehicle sales for 2007 were 9.4 million units compared to 9.1 million units in 2006. Vehicle unit sales increased for GME, GMLAAM and GMAP and declined for GMNA. Our global market share in 2007 was 13.3% compared to 13.5% in 2006. Market share increased in 2007 compared to 2006 from 9.2% to 9.5% for GME, from 17.0% to 17.2% for GMLAAM and from 6.5% to 6.9% for GMAP, and declined over the same period from 23.8% to 23.0% for GMNA.

Competition and factors such as commodity and energy prices and currency exchange imbalances continued to exert pricing pressure in the global automotive market in 2007. We expect global competition to increase over the next few years due primarily to aggressive investment by manufacturers in established markets in the United States and Western Europe and the presence of local manufacturers in key emerging markets such as China and India.

Commodity price increases, particularly for steel, aluminum, copper and precious metals have contributed to substantial cost pressures in the industry for vehicle manufacturers as well as suppliers. In addition, the historically low value of the Japanese Yen against the U.S. Dollar has benefited Japanese manufacturers exporting vehicles or components to the United States. Due in part to these pressures, industry pricing for comparably equipped products has continued to decline in most major markets. In the United States, actual prices for vehicles with similar content have declined at an accelerating pace over the last decade. We expect that this challenging pricing environment will continue for the foreseeable future.

2007 OVERVIEW

As more fully described in this Management's Discussion and Analysis, the following items are noted regarding 2007:

- Consolidated net sales and revenues declined by 11.9%, reflecting the de-consolidation of GMAC following the GMAC Transaction in November 2006;
- Automotive revenues increased 3.9%;
- 2007 net loss of $38.7 billion ($68.45 per diluted share) includes valuation allowances recorded against our net deferred tax assets in the U.S., Canada and Germany of $39 billion;
- Sold our Allison Transmission (Allison) business for $5.4 billion in cash proceeds resulting in a gain of $4.3 billion;
- Results reflect a $1.2 billion loss on our 49% interest in GMAC;
- Signed 2007 National Agreement that we anticipate will support our structural cost reduction plans;
- Achieved structural cost reduction target in North American turnaround plan; and
- Continued progress on finalization of our support for Delphi Corporation (Delphi) in emerging from bankruptcy proceedings.

2008 PRIORITIES

As in 2007, our top priorities continue to be improving our business in North America and Europe and achieving competitiveness in an increasingly global environment, thus positioning us for sustained profitability and growth in the long term, while at the same time maintaining liquidity.

Our growth and profitability priorities for 2008 are straightforward:

- Continue to execute great products;
- Build strong brands and distribution channels;
- Execute additional cost reduction initiatives;
- Grow aggressively in emerging markets;
- Continue development and implementation of our advanced propulsion strategy; and
- Drive the benefits of managing the business globally.

Continue to Execute Great Products

Our first priority for 2008 is continuing to focus on product excellence by fully leveraging our global design, engineering and powertrain expertise to produce vehicles for a wide variety of regions and market segments. In North America, we plan to introduce several new vehicles in 2008 including the Pontiac G8 and Chevrolet Traverse to complement our successful 2007 introductions of the GMC Acadia, Saturn Outlook, Buick Enclave, Cadillac CTS and the Chevrolet Malibu. In emerging markets, we plan to expand and enhance our portfolio of lower cost vehicles, with special attention to fuel economy.

Overview *(concluded)*

Build Strong Brands and Distribution Channels

Our second priority for 2008 is building strong brands and distribution channels. We plan to integrate our product and marketing strategies and believe that if we achieve product excellence, stronger brands will result. In addition, we plan to build brand equity with a special focus on key car segments. Programs in 2008 are intended to enhance the effectiveness of our marketing, particularly using digital marketing. Finally, we propose to leverage competitive advantages like the OnStar telematics systems, which is available in more than 50 GM vehicles throughout the world. We also plan to accelerate our channel strategy of combining certain brands in a single dealership, which we believe will differentiate products and brands more clearly, enhance dealer profitability and provide us with greater flexibility in product portfolio and technology planning.

Execute Additional Cost Reduction Initiatives

Our third priority for 2008 is addressing costs by executing additional cost reduction initiatives. As discussed below under "Key Factors Affecting Future and Current Results," we have taken action in a number of areas to reduce legacy and structural costs. In 2007, we achieved our announced target of reducing certain annual structural costs in GMNA and Corporate and Other primarily related to labor, pension and other post-retirement costs by $9 billion, on average, less than those costs in 2005. We have also reduced structural costs as a percentage of global automotive revenue to below 30% for 2007 from 34% in 2005, and have announced global targets of 25% by 2010 and 23% by 2012. We also plan to reduce structural costs as a percentage of global automotive revenue by pursuing manufacturing capacity utilization of 100% or more in higher cost countries, and will continue to assess what specific actions may be required based on trends in industry volumes and product mix.

In October 2007, we entered into a new collective bargaining agreement with the International Union, United Automobile, Aerospace and Agricultural Workers of America (UAW), including the Settlement Agreement, which we anticipate will significantly support our structural cost reduction plans when it is put into effect after January 1, 2010. Additionally, we plan to execute a collective bargaining agreement with the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW) that will support our cost reduction goals. We have announced a special attrition program available to all of our 74,000 hourly workers represented by the UAW, and we expect that participating employees will begin exiting in April 2008. We remain focused on repositioning our business for long-term competitiveness, including achieving a successful resolution to the issues related to the bankruptcy proceedings of Delphi, a major supplier and former subsidiary. We recognize, however, that near-term continuing weakness in the U.S. automotive market, and its impact on our Canadian operations that are linked to the U.S. market, will provide a significant challenge to improving earnings and cash flow, and could constrain our ability to achieve future revenue goals.

Grow Aggressively in Emerging Markets

Our fourth 2008 priority is to focus on emerging markets and capitalize on the growth in areas such as China, India and the ASEAN region, as well as Russia, Brazil, the Middle East and the Andean region. Vehicle sales and revenues continue to grow globally, with the strongest growth in these emerging markets. In 2007, 38% of all vehicle sales took place in emerging markets; we project that in 2012, 45% of vehicles will be sold in emerging markets. In response, we are planning to expand capacity in these emerging markets, and to pursue additional growth opportunities through our relationships with Shanghai GM, GM Daewoo and other potential strategic partners, such as recently announced joint ventures in Malaysia and Uzbekistan. During 2007, key metrics such as net margin, operating income and market share showed continued growth across key emerging markets. In addition to the product and brand strategies discussed above, we plan to expand our manufacturing capacity in emerging markets in a cost effective way and to pursue new market opportunities. We believe that growth in these emerging markets will help to offset challenging near-term market conditions in mature markets, such as the U.S. and Germany.

Continue to Develop and Implement our Advanced Propulsion Strategy

Our fifth priority for 2008 is to continue to develop and advance our alternative propulsion strategy, focused on fuel and other technologies, making energy diversity and environmental leadership a critical element of our ongoing strategy. In addition to continuing to improve the efficiency of our internal combustion engines, we are focused on the introduction of propulsion technologies which utilize alternative fuels and have intensified our efforts to displace traditional petroleum-based fuels. For example, we have entered into arrangements with battery and biofuel companies to support development of commercially viable applications of these technologies. In September 2007, we launched Project Driveway, making more than 100 Chevrolet Equinox fuel cell electric vehicles available for driving by the public in the vicinity of Los Angeles, New York City and Washington, D.C. During the fourth quarter of 2007 we introduced new hybrid models of the Chevrolet Tahoe and the GMC Yukon. We anticipate that this strategy will require a major commitment of technical and financial resources. Like others in the automotive industry, we recognize that the key challenge to our advanced propulsion strategy will be our ability to price our products to cover cost increases driven by new technology.

Drive the Benefits of Managing the Business Globally

Our final priority for 2008 is to continue to integrate our operations around the world to manage our business on a global basis. We have been focusing on restructuring our operations and have already taken a number of steps to globalize our principal business functions such as product development, manufacturing, powertrain and purchasing to improve our performance in an increasingly competitive environment. As we build functional and technical excellence, we plan to leverage our products, powertrains, supplier base and technical expertise globally so that we can flow our existing resources to support opportunities for highest returns at the lowest cost.

BASIS OF PRESENTATION

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the accompanying consolidated financial statements.

We operate in two businesses, consisting of Automotive (GM Automotive or GMA) and Financing and Insurance Operations (FIO).

Our Auto business consists of our four regional segments; GMNA, GME, GMLAAM and GMAP, which collectively constitute GMA.

Our FIO business consists of the operating results of GMAC for 2005 and the eleven months ended November 30, 2006 on a consolidated basis and includes our 49% share of GMAC's operating results for the month of December 2006 and the full year of 2007 on an equity method basis. FIO also includes Other Financing, which includes financing entities that are not consolidated by GMAC and two special purpose entities holding automotive leases previously owned by GMAC and its affiliates that we retained having a net book value of $3.3 billion, as well as the elimination of intercompany transactions with GM Automotive and Corporate and Other.

In 2007, we changed our measure of segment operating performance from segment net income to segment pre-tax income plus equity income, net of tax and minority interest, net of tax. All prior periods have been adjusted to reflect this change. Income taxes are now evaluated on a consolidated basis only.

The results of operations and cash flows of Allison have been reported as discontinued operations for all periods presented. Historically, Allison was included in GMNA.

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

Consolidated Results of Operations

Years Ended December 31,				2007 vs. 2006 Change		2006 vs. 2005 Change	
(Dollars in millions)	**2007**	2006	2005	Amount	Percentage	Amount	Percentage
Net sales and revenue:							
Automotive sales	**$178,199**	$171,179	$158,623	$ 7,020	4.1%	$12,556	7.9%
Financial services and insurance revenues	**2,923**	34,422	34,427	(31,499)	91.5%	(5)	–
Total net sales and revenues	**181,122**	205,601	193,050	(24,479)	11.9%	12,551	6.5%
Costs and expenses:							
Automotive cost of sales	**166,259**	163,742	158,254	2,517	1.5%	5,488	3.5%
Selling, general and administrative expense	**14,412**	13,650	13,003	762	5.6%	647	5%
Financial services and insurance expense	**2,742**	29,794	30,813	(27,052)	90.8%	(1,019)	3.3%
Other expenses	**2,099**	4,238	7,024	(2,139)	50.5%	(2,786)	39.7%
Operating loss	**(4,390)**	(5,823)	(16,044)	1,433	24.6%	10,221	63.7%
Equity in loss of GMAC LLC	**(1,245)**	(5)	–	(1,240)	n.m.	(5)	–
Automotive interest and other income (expense)	**(618)**	170	(1,185)	(788)	n.m.	1,355	114.3%
Loss from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(6,253)**	(5,658)	(17,229)	(595)	10.5%	11,571	67.2%
Income tax expense (benefit)	**37,162**	(3,046)	(6,046)	40,208	n.m.	3,000	49.6%
Equity income, net of tax	**524**	513	610	11	2.1%	(97)	15.9%
Minority interests, net of tax	**(406)**	(324)	(48)	(82)	25.3%	(276)	n.m.
Loss from continuing operations before cumulative effect of a change in accounting principle	**(43,297)**	(2,423)	(10,621)	(40,874)	n.m.	8,198	77.2%
Income from discontinued operations, net of tax	**256**	445	313	(189)	42.5%	132	42.2%
Gain on sale of discontinued operations, net of tax	**4,309**	–	–	4,309	n.m.	–	–
Loss before cumulative effect of a change in accounting principle	**(38,732)**	(1,978)	(10,308)	(36,754)	n.m.	8,330	80.8%
Cumulative effect of a change in accounting principle	**–**	–	(109)	–	–	109	n.m.
Net loss	**$ (38,732)**	$ (1,978)	$ (10,417)	$(36,754)	n.m.	$ 8,439	81%
Automotive cost of sales rate	**93.3%**	95.7%	99.8%	(2.4)%	n.m.	(4.1)%	n.m.
Net margin from continuing operations before cumulative effect of a change in accounting principle	**(23.9)%**	(1.2)%	(5.5)%	(22.7)%	n.m.	4.3%	n.m.

n.m. = not meaningful

2007 COMPARED TO 2006

Our total net sales and revenues in 2007 declined driven by the de-consolidation of GMAC in November 2006 following the GMAC Transaction, which was offset by increased Automotive sales reflecting growth outside of North America. Our operating loss decreased reflecting improved automotive results, particularly in North America, driving a total improvement of $4.6 billion. The improvement in automotive results was partially offset by the de-consolidation of GMAC, which contributed $2.2 billion of operating profit in 2006 whereas in 2007 GMAC's results are reflected as equity income (loss) and increased costs in Corporate and Other. In addition to these factors, our loss from continuing operations increased substantially as a result of the $39 billion valuation allowance established in the third quarter against our net deferred tax assets in the United States, Canada and Germany and was also increased by our share of losses from our equity investment in GMAC totaling $1.2 billion. Net loss for 2007 also reflected the gain on sale of Allison of $4.3 billion. Further information on each of our businesses and segments is presented below.

In August 2007, we completed the sale of the commercial and military operations of Allison. The negotiated purchase price of $5.6 billion in cash plus assumed liabilities was paid at closing. The purchase price was subject to adjustment based on the amount of Allison's net working capital and debt on the closing date, which resulted in an adjusted purchase price of $5.4 billion. A gain on the sale of Allison in the amount of $5.3 billion ($4.3 billion after-tax), inclusive of the final purchase price adjustments, was recognized in 2007. Allison, formerly a division of our Powertrain Operations, is a global leader in the design and manufacture of commercial and military automatic transmissions and a premier global provider of commercial vehicle automatic transmissions for on-highway, including trucks, specialty vehicles, buses and recreational vehicles, off-highway and military vehicles, as well as hybrid propulsion systems for transit buses. We retained our Powertrain Operations' facility near Baltimore, which manufactures automatic transmissions primarily for our trucks and hybrid propulsion systems. The results of operations and cash flows of Allison have been reported in the consolidated financial statements as discontinued operations for all periods presented. Historically, Allison had been reported in GMNA.

2006 COMPARED TO 2005

Our total net sales and revenues in 2006 increased as a result of higher automotive sales principally in GMNA and GMLAAM. Our operating loss decreased due to lower restructuring charges in GMNA and improved operating results across all of our automotive segments. Further information on each of our businesses and segments is presented below.

CHANGES IN CONSOLIDATED FINANCIAL CONDITION

Deferred Income Taxes

In the third quarter of 2007, we recorded a charge of $39 billion related to establishing full valuation allowances against our deferred tax assets in the United States, Canada and Germany. See "Critical Accounting Estimates" in this MD&A for a discussion of the specific factors which lead us to this conclusion. We had determined in prior periods that valuation allowances were not necessary for our deferred tax assets in the United States, Canada and Germany based on several factors including: (1) degree to which our three-year historical cumulative losses were attributable to unusual items or charges, several of which were incurred as a result of actions to improve future profitability; (2) long duration of our deferred tax assets; and (3) expectation of continued strong earnings at GMAC and improved earnings in GMNA.

Consolidated Results of Operations *(concluded)*

Accounts and Notes Receivable, net

Accounts and notes receivable were $9.7 billion at December 31, 2007 compared to $8.2 billion at December 31, 2006, an increase of $1.5 billion (or 17.6%). This increase is primarily due to increased sales across all segments totaling $.9 billion, increases of $.3 billion at GME as a result of translation of our local currency accounts into U.S. Dollars (Foreign Currency Translation) and a reduction in securitization activities and higher accrued Delphi warranty recoveries at GMNA of $.4 billion.

Inventories

Inventories at December 31, 2007 were $14.9 billion compared to $13.9 billion at December 31, 2006, an increase of $1 billion (or 7.3%). The increase is primarily due to increases in finished product of $.8 billion at GME and GMAP, Foreign Currency Translation effects of $.5 billion at GME and GMLAAM; and raw materials increases of $.3 billion at GMLAAM, GMAP and GME to support future production. These increases were partially offset by a reduction in daily rental repurchase inventory of $.2 billion at GMNA.

Financing Equipment on Operating Leases, net

Equipment on operating leases, net, at December 31, 2007 was $6.7 billion compared to $11.8 billion at December 31, 2006, a decrease of $5.1 billion (or 43.1%). The decrease is due to the planned reduction of Equipment on operating leases, net which we retained as part of the GMAC Transaction.

Automotive Accounts Payable (Principally Trade)

Automotive accounts payable at December 31, 2007 was $29.4 billion compared to $26.9 billion at December 31, 2006, an increase of $2.5 billion (or 9.3%). The increase in accounts payable is primarily related to product mix in GMNA of $.9 billion and Foreign Currency Translation effects which resulted in increases totaling $1.3 billion across all regions.

Financing Debt

Financing debt at December 31, 2007 was $4.9 billion compared to $9.4 billion at December 31, 2006, a decrease of $4.5 billion (or 48%). The decrease in debt is due to the planned repayment of debt of $3.4 billion secured by equipment on operating leases which we retained as part of the GMAC Transaction combined with payments on short term and long-term debt of $.8 billion and $.3 billion, respectively.

Financing Other Liabilities and Deferred Income Taxes

Financing other liabilities and deferred income taxes at December 31, 2007 were $.9 billion compared to $1.9 billion at December 31, 2006, a decrease of $1 billion (or 55.1%). The decrease is due to a $1 billion payment to GMAC for amounts owed under the GMAC sales agreement to restore their tangible equity balance to contractually required levels.

Further information on each of our businesses and geographic regions is discussed below.

GM Automotive Operations Financial Review

Years Ended December 31,				2007 vs. 2006 Change		2006 vs. 2005 Change	
(Dollars in millions)	**2007**	2006	2005	Amount	Percentage	Amount	Percentage
Total net sales and revenue	**$178,199**	$171,435	$158,879	$6,764	3.9%	$12,556	7.9%
Automotive cost of sales	**165,632**	164,107	157,531	1,525	.9%	6,576	4.2%
Selling, general and administrative expense	**13,590**	12,965	12,560	625	4.8%	405	3.2%
Other expenses	**–**	–	812	–	–	(812)	n.m.
Operating loss	**(1,023)**	(5,637)	(12,024)	4,614	81.9%	6,387	53.1%
Automotive interest and other income (expense)	**(961)**	(698)	(1,688)	(263)	37.7%	990	58.6%
Loss from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(1,984)**	(6,335)	(13,712)	4,351	68.7%	7,377	53.8%
Equity income, net of tax	**522**	521	596	1	.2%	(75)	12.6%
Minority interests, net of tax	**(406)**	(334)	(112)	(72)	21.6%	(222)	198.2%
Loss from continuing operations before income taxes	**$ (1,868)**	$ (6,148)	$ (13,228)	$4,280	69.6%	$ 7,080	53.5%
Cumulative effect of a change in accounting principle	**$ –**	$ –	$ (109)	$ –	–	$ 109	n.m.
Income from discontinued operations, net of tax	**$ 256**	$ 445	$ 313	$ (189)	42.5%	$ 132	42.2%
Gain on sale of discontinued operations, net of tax	**$ 4,309**	$ –	$ –	$4,309	n.m.	$ –	–
Automotive cost of sales rate	**92.9%**	95.7%	99.2%	(2.8)%	n.m.	(3.5)%	n.m.
Net margin from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(1.1)%**	(3.7)%	(8.6)%	2.6%	n.m.	4.9%	n.m.
(Volume in thousands)							
Production Volume (a)	**9,286**	9,181	9,051	105	1.1%	130	1.4%
Vehicle Unit Sales (b):							
Industry	**70,649**	67,401	65,084	3,248	4.8%	2,317	3.6%
GM	**9,370**	9,093	9,179	277	3%	(86)	(.9)%
GM market share – Worldwide	**13.3%**	13.5%	14.1%	(.2)%	n.m.	(.6)%	n.m.

n.m. = not meaningful

(a) *Production volume represents the number of vehicles manufactured by our assembly facilities and also includes vehicles produced by certain joint ventures.*

(b) *Vehicle unit sales primarily represent sales to the ultimate customer.*

GM Automotive Operations Financial Review *(continued)*

The following discussion highlights key changes in operating results by Automotive region. The drivers of these changes are discussed in the regional analysis that follows this section.

2007 COMPARED TO 2006

Industry Global Vehicle Sales

Industry unit sales grew strongly in all regions outside North America in 2007. Industry unit sales increased in the Asia Pacific region 1.6 million units (or 8.2%) to 20.8 million units in 2007; Europe grew 1.2 million units (or 5.5%) to 23.1 million units in 2007; and, the Latin America/Africa/Mid-East region increased 1.1 million units (or 17.7%) to 7.2 million units in 2007. Industry sales decreased in North America by 599,000 units (or 3.0%), to 19.6 million units compared to 20.2 million units in 2006.

GM Global Vehicle Sales

Our worldwide vehicle unit sales increased to the second highest global sales total in our history, and the third consecutive year that we sold more than 9 million vehicles. Vehicle unit sales increased by 201,000 at GMLAAM, 188,000 at GMAP and 179,000 at GME, offset by a decline in vehicle units sales in GMNA of 291,000.

Our global production volume increased 105,000 units over 2006. Production increased year-over-year in all regions outside North America. Production volume increased most notably at GMAP by 335,000 units and at GMLAAM by 130,000 units, whereas GMNA declined by 382,000 units.

Total Net Sales and Revenue

The increase in Total net sales and revenues was driven by increases of $5.5 billion at GMAP, $4.3 billion at GMLAAM and $4.1 billion at GME, offset by a decline in Total net sales and revenue of $4.2 billion at GMNA as well as $2.9 billion in incremental inter-segment eliminations.

Automotive Cost of Sales

The increase in Automotive cost of sales resulted from increases of $4.8 billion at GMAP, $4.4 billion at GME and $3.5 billion at GMLAAM, offset by a decline in Automotive cost of sales of $8.3 billion at GMNA as well as $2.9 billion in incremental inter-segment eliminations.

Selling, General and Administrative Expense

The increase in Selling, general and administrative expense was driven by increases of $.3 billon at GMAP, $.2 billion at each of GME and GMLAAM, offset by a decrease of $.1 billion at GMNA.

Automotive Interest and Other Income (Expense)

The degradation in Automotive interest and other income (expense) resulted due to a $823 million decrease in interest and other income at GMAP, offset by increases in net expense of $271 million at GMLAAM, $219 million at GME and $74 million at GMNA.

Equity Income, Net of Tax

Equity income, net of tax, was relatively flat overall in 2007; but, we recorded increases of $60 million at GMAP due to continued growth at GM Daewoo, $15 million at GMLAAM, $8 million at GME, offset by a decrease of $82 million at GMNA.

Minority Interests, Net of Tax

The increase in Minority interests, net of tax results from increased earnings of consolidated affiliates, most notably $76 million at GMAP in 2007.

Income from Discontinued Operations, net of taxes

In August 2007, we completed the sale of the commercial and military operations of Allison, resulting in a gain of $4.3 billion, net of tax. Exclusive of the gain on sale, Income from discontinued operations, net of tax was $256 million, $445 million and $313 million in 2007, 2006 and 2005, respectively.

2006 COMPARED TO 2005

Industry Global Vehicle Sales

All regions outside North America experienced growth in industry unit volume compared to 2005. The Asia Pacific region increased 1.1 million units (or 6.2%) to 19.2 million units in 2006, Latin America/Africa/Mid-East region increased 794,000 units (or 15.0%) to 6.1 million units in 2006 and Europe increased 784,000 units (or 3.7%) to 21.9 million units in 2006. Industry sales decreased in North America by 376,000 units (or 1.8%), to 20.2 million units compared to 20.6 million units in 2005.

Global Vehicle Sales

We reported increases in worldwide vehicle unit sales in 2006 in all regions outside North America. GMAP increased 184,000 units (or 17.3%), GMLAAM increased 152,000 units (or 17.2%) and GME increased 19,000 units (or 1%). Vehicle unit sales declined at GMNA by 441,000 units (or 8.4%).

Our global production volume increased 130,000 units over 2005. Production volumes increased year-over-year at GMAP by 334,000 units and by 55,000 units at GMLAAM, offset most notably by a decline of 207,000 units at GMNA.

Total Net Sales and Revenue

Total net sales and revenues increased worldwide during 2006, driven by increases of $5.3 billion at GMNA, $4.7 billion at GMAP, $2.8 billion at GMLAAM and $1.3 billion at GME, offset by $1.5 billion in incremental inter-segment eliminations.

Automotive Cost of Sales

The increase in Automotive cost of sales resulted from increases of $3.9 billion at GMAP, $2.3 billion at GMNA and $2.2 billion at GMLAAM, offset by a decline in Automotive cost of sales of $.3 billion at GME as well as $1.5 billion in incremental inter-segment eliminations.

Selling, General and Administrative Expense

The increase in Selling, general and administrative expense was driven by increases of $.4 billon at GMAP, $.2 billion at GME, $.1 billion at GMLAAM, offset by a decrease of $.3 billion at GMNA.

Other Expenses

Other expense decreased to zero in 2006 resulting from a $.8 billion decrease at GMAP.

Automotive Interest and Other Income (Expense)

The improvement in Automotive interest and other income (expense) in 2006 resulted primarily due to improvements of $.8 billion at GMAP and $.1 billion at GMNA.

Equity Income, net of tax

Equity income, net of tax, decreased in 2006 principally due to a $152 million increase at GMNA offset by decreases of $162 million at GMAP and $66 million at GME.

Minority Interests, net of tax

Minority interests, net of tax increased in all regions except GME during 2006. The increase resulted primarily due to an increase of $172 million at GMAP.

Cumulative Effect of a Change in Accounting Principle

Effective December 31, 2005 we adopted Financial Accounting Standards Board Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations” (FIN 47). FIN 47 relates to legal obligations associated with retirement of tangible long-lived assets that result from acquisition, construction, development or normal operation of a long-lived asset. We performed an analysis of such obligations associated with all real property owned or leased, including plants, warehouses and offices. Our estimates of conditional asset retirement obligations related, in the case of owned properties, to costs estimated to be necessary for the legally required removal or remediation of various regulated materials, primarily asbestos. Asbestos abatement was estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable. For leased properties, such obligations related to the estimated cost of contractually required property restoration. Refer to Note 17. The application of FIN 47 resulted in a charge of $109 million, after-tax, in 2005 presented as a cumulative effect of a change in accounting principle. The liability for conditional asset retirement obligations as of December 31, 2007 and 2006 was $222 million and $193 million, respectively.

We evaluate our Automotive business and make certain decisions using supplemental categories for variable expenses and non-variable expenses. We believe these categories provide us with useful information and that investors would also find it beneficial to view the business in a similar manner.

We believe contribution costs, structural costs and impairment, restructuring and other charges provide meaningful supplemental information regarding our expenses because they place Automotive expenses into categories that allow us to assess the cost performance of GMA. We use these categories to evaluate our expenses, and believe that these categories allow us to readily view operating trends, perform analytical comparisons, benchmark expenses among geographic segments and assess whether the turnaround and globalization strategy for reducing costs is on target. We use these categories for forecasting purposes, evaluating management and determining our future capital investment allocations. Accordingly, we believe these categories are useful to investors in allowing for greater transparency of supplemental information used by management in our financial and operational decision-making.

While we believe that contribution costs, structural costs and impairment, restructuring and other charges provide useful information, there are limitations associated with the use of these categories. Contribution costs, structural costs and impairment, restructuring and other charges may not be completely comparable to similarly titled measures of other companies due to potential differences between companies in the exact method of calculation. As a result, these categories have limitations and should not be considered in isolation from, or as a substitute for, other measures such as Automotive cost of sales and Selling, general and administrative expense. We compensate for these limitations by using these categories as supplements to Automotive cost of sales and Selling, general and administrative expense.

	Years Ended December 31,		
(Dollars in billions)	**2007**	2006	2005
Automotive net sales and revenues	**$178**	$171	$159
Contribution costs (a)	**$124**	$119	$110
Structural costs (b)	**$ 53**	$ 51	$ 55
Impairment, restructuring and other charges (c)	**$ 2**	$ 7	$ 5

(a) *Contribution costs are expenses that we consider to be variable with production. The amount of contribution costs included in Automotive cost of sales was $123 billion, $118 billion and $109 billion in 2007, 2006 and 2005, respectively, and those costs were comprised of material cost, freight and policy and warranty expenses. The amount of contribution costs classified in Selling, general and administrative expenses was $1 billion in 2007, 2006 and 2005 and these costs were incurred primarily in connection with our dealer advertising programs.*

(b) *Structural costs are expenses that do not generally vary with production and are recorded in both Automotive cost of sales and Selling, general and administrative expense. Such costs include manufacturing labor, pension and other postretirement employee benefits (OPEB) costs, engineering expense and marketing related costs. Certain costs related to restructuring and impairments that are included in Automotive cost of sales are also excluded from structural costs. The amount of structural costs included in Automotive cost of sales was $40 billion, $39 billion and $44 billion in 2007, 2006 and 2005, respectively, and the amount of structural costs included in Selling, general and administrative expense was $13 billion, $12 billion and $11 billion in 2007, 2006 and 2005, respectively.*

(c) *Impairment, restructuring and other charges are included in Automotive cost of sales.*

CONTRIBUTION COSTS

Contribution costs in 2007 totaled $124 billion, an increase of $5 billion from 2006. The increase was a result of Foreign Currency Translation, accounting for $3.7 billion, richer product mix and increased policy and warranty costs. Overall material performance was flat year-over-year as improvements realized from supplier productivity, global sourcing and optimizing supplier footprints offset higher raw material costs and product enhancements on new vehicles. Increased global prices for steel, aluminum, copper and precious metals increased contribution costs by $1.3 billion in 2007 versus 2006. Contribution costs as a percentage of revenue increased to 69.5% in 2007 from 69.4% 2006.

Contribution costs in 2006 totaled $119 billion, an increase of $9 billion from 2005. The increase was a result of increased material costs and higher levels of vehicle content and product mix, as well as higher freight cost. Material performance was slightly favorable year-over-year. Contribution costs as a percentage of revenue increased slightly to 69.4% in 2006 from 69.2% in 2005.

STRUCTURAL COSTS

Automotive structural costs were $53 billion in 2007, an increase of $2 billion from 2006. Costs in 2007 were driven higher by the impact of Foreign Currency Translation and lower gains on commodity derivatives contracts related to purchases of raw materials. Global engineering and product development costs were higher in 2007 reflecting increased global vehicle development and advanced technology spending. Total structural cost expenditures were higher in GMAP and GMLAAM reflecting higher production costs and new product launches associated with volume growth. OPEB costs were reduced in 2007 at GMNA primarily due to the 2005 UAW Health Care Settlement Agreement and manufacturing labor costs declined as production-related headcount levels were reduced by the 2006 UAW Attrition Program. As a percentage of revenue, structural costs declined to 29.7% in 2007 from 29.9% in 2006.

Structural costs were $51 billion in 2006, a decrease of $4 billion from 2005. Cost reductions in GMNA of over $6 billion were the primary reason for this reduction, partially offset by structural cost increases in GMLAAM and GMAP as we continued to invest in infrastructure to support the higher unit production and sales volumes in those regions. Consolidation of GM Daewoo also increased 2006 structural costs in GMAP by over $1 billion as compared to 2005 since GM Daewoo was consolidated on June 30, 2005. As a percentage of revenue, structural costs declined to 29.9% in 2006 from 34.6% in 2005.

IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES

We incurred certain expenses primarily related to restructuring and asset impairments, which are included in Automotive cost of sales. Additional details regarding these expenses are included in Notes 20, 21 and 22 of our consolidated financial statements. These expenses are comprised of:

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
2006 UAW Attrition Program	**$ –**	$6,385	$ –
Restructuring initiatives	**918**	(412)	3,183
Asset impairments	**279**	686	2,052
Change in amortization period for pension prior service costs	**1,310**	–	–
Other	**(85)**	188	–
Total	**$2,422**	$6,847	$5,235

The 2007 amounts are related to the following:

- $918 million of total charges for restructuring initiatives as follows: GMNA, $290 million; GME, $579 million; GMAP, $49 million.
- $265 million for product-specific asset impairments at GMNA and $14 million at GMAP.
- $1.3 billion of additional pension expense at GMNA related to the accelerated recognition of unamortized prior service cost.
- Adjustment of $85 million in conjunction with cessation of production at a previously divested business.

GM Automotive Operations Financial Review *(concluded)*

The 2006 amounts are related to the following:

- $6.4 billion net charge related to the program under the UAW Attrition Program primarily for payments to employees of $2.1 billion and for the curtailment charges associated with our U.S. hourly pension, OPEB, and extended disability plans as a result of the 2006 UAW Attrition Program of $4.3 billion.
- Net reduction of $412 million for various restructuring and other matters. GMNA recorded favorable revisions of $1.1 billion to the reserves recorded in the fourth quarter of 2005 related to plant capacity actions, as a result of the favorable effects of the 2006 UAW Attrition Program and to the reserve for postemployment benefits, primarily due to higher than anticipated headcount reductions associated with plant idling activities. This was partially offset by other charges for restructuring initiatives of $146 million at GMNA, $437 million at GME, $43 million at GMLAAM and $16 million at GMAP.
- $405 million for product-specific asset impairment charges at GMNA, $60 million at GME and $61 million at GMAP, as well as impairment charges of $70 million and $89 million for the write-down of plant facilities at GMNA and GME, respectively.
- $224 million recorded in conjunction with cessation of production at a previously divested business, partially offset by a $36 million adjustment related to the sale of the majority of our investment in Suzuki.

The 2005 amounts are related to the following:

- $3.2 billion associated with restructuring initiatives. Of this, $2.1 billion was incurred at GMNA, including $1.8 billion for employee related costs in connection with the restructuring initiatives announced in the fourth quarter of 2005, and $222 million associated with a voluntary salaried early retirement program and other separation programs related to the U.S. salaried workforce. GME recognized separation and contract cancellation charges of $1.1 billion, mainly related to the restructuring plan announced in the fourth quarter of 2004. In addition, GMAP recognized separation costs of $55 million related to restructuring activities at GM Holden in Australia.
- $2.1 billion for product-specific asset impairment charges, of which $689 million was at GMNA, $262 million was at GME, $150 million at GMLAAM and $64 million at GMAP related to the write-down of product-specific assets. Also includes $887 million of impairment charges related to the write-down of plant facilities at GMNA.

GM Automotive Regional Results

GM NORTH AMERICA

Years Ended December 31,				2007 vs. 2006 Change		2006 vs. 2005 Change	
(Dollars in millions)	**2007**	2006	2005	Amount	Percentage	Amount	Percentage
Total net sales and revenue	**$112,448**	$116,653	$111,376	$(4,205)	3.6%	$5,277	4.7%
Automotive cost of sales	**106,097**	114,373	112,088	(8,276)	7.2%	2,285	2.0%
Selling, general and administrative expense	**8,316**	8,456	8,770	(140)	1.7%	(314)	3.6%
Operating loss	**(1,965)**	(6,176)	(9,482)	4,211	68.2%	3,306	34.9%
Automotive interest and other income (expense)	**(1,325)**	(1,399)	(1,539)	74	5.3%	140	9.1%
Loss from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(3,290)**	(7,575)	(11,021)	4,285	56.6%	3,446	31.3%
Equity income (loss), net of tax	**22**	104	(48)	(82)	78.8%	152	n.m.
Minority interests, net of tax	**(46)**	(63)	1	17	27.0%	(64)	n.m.
Loss from continuing operations before income taxes	**$ (3,314)**	$ (7,534)	$ (11,068)	$ 4,220	56.0%	$3,534	31.9%
Cumulative effect of a change in accounting principle	**$ –**	$ –	$ (83)	$ –	n.m.	$ 83	n.m.
Income from discontinued operations, net of tax	**$ 256**	$ 445	$ 313	$ (189)	42.5%	$ 132	42.2%
Gain on sale of discontinued operations, net of tax	**$ 4,309**	$ –	$ –	$ 4,309	n.m.	$ –	n.m.
Automotive cost of sales rate	**94.4%**	98.0%	100.6%	(3.6)%	n.m.	(2.6)%	n.m.
Net margin from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(2.9)%**	(6.5)%	(9.9)%	3.6%	n.m.	3.4%	n.m.
(Volume in thousands)							
Production Volume (a):							
Cars	**1,526**	1,821	1,834	(295)	(16.2)%	(13)	(0.7)%
Trucks	**2,741**	2,828	3,022	(87)	(3.1)%	(194)	(6.4)%
Total	**4,267**	4,649	4,856	(382)	(8.2)%	(207)	(4.3)
Vehicle Unit Sales (b):							
Industry – North America	**19,592**	20,191	20,567	(599)	(3.0)%	(376)	(1.8)%
GMNA	**4,516**	4,807	5,248	(291)	(6.1)%	(441)	(8.4)%
GM market share – North America	**23.0%**	23.8%	25.5%	(0.8)%	n.m.	(1.7)%	n.m.
Industry – U.S.	**16,474**	17,060	17,456	(586)	(3.4)%	(396)	(2.3)%
GM market share – U.S. industry	**23.5%**	24.2%	25.9%	(0.7)%	n.m.	(1.7)%	n.m.
GM cars market share – U.S. industry	**19.4%**	20.7%	22.6%	(1.3)%	n.m.	(1.9)%	n.m.
GM trucks market share – U.S. industry	**27.0%**	27.1%	28.5%	(0.1)%	n.m.	(1.4)%	n.m.

n.m. = not meaningful

(a) *Production volume represents the number of vehicles manufactured by our assembly facilities and also includes vehicles produced by certain joint ventures.*

(b) *Vehicle unit sales primarily represent sales to the ultimate customer.*

GM Automotive Regional Results *(continued)*

2007 COMPARED TO 2006

Industry Vehicle Sales

Industry vehicle sales in North America decreased due to weakness in the economy resulting from a decline in the housing market and rising and volatile gas prices. We expect that the weakness in the U.S. economy will result in challenging near-term market conditions in GMNA.

Total Net Sales and Revenue

Total net sales and revenue decreased due to a decline in volumes, net of favorable mix, of $4.6 billion, which was partially offset by the impact of favorable pricing on vehicles sold of $.4 billion, related to the recently launched fullsize pickup trucks. The decrease in volume was driven by a reduction in year-end dealer inventories of 160,000 units from 2006 year-end levels as a result of lower U.S. industry sales volumes and the impact of our declining market share in the United States and a reduction in daily rental volume of 108,000 units.

Automotive Cost of Sales

Automotive cost of sales decreased due to restructuring and impairment charges of $.5 billion in 2007, compared to $6.2 billion in 2006. In 2006, we recorded restructuring charges related to the UAW Attrition Program which were not incurred in 2007. Also contributing to the decrease in 2007 were: (1) lower production volumes, partially offset by mix which had a favorable net impact of $3.8 billion; (2) savings on retiree pension/OPEB costs of $1.8 billion, primarily due to the 2005 UAW Health Care Settlement Agreement; and (3) manufacturing savings of $1 billion from lower hourly headcount levels driven by the UAW Attrition Program and productivity improvements.

These cost reductions were partially offset by: (1) $1.3 billion of additional expense due to the accelerated recognition of pension unamortized prior service costs (Refer to Note 15); (2) higher material and freight costs of $.8 billion; (3) higher warranty related costs of $.5 billion primarily as a result of favorable adjustments to warranty reserves in 2006 which did not occur in 2007; (4) higher engineering costs of $.6 billion related to increased investment in future products; (5) higher foreign exchange losses of $.3 billion due to the appreciation of the Canadian Dollar against the U.S. Dollar; and (6) a decrease of $.5 billion on gains from commodity derivative contracts used to hedge forecasted purchases of raw materials.

Automotive cost of sales rate decreased due to the reduction in labor and pension costs driven by the 2006 UAW Attrition Program.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased due to ongoing cost reduction initiatives as well as a reduction in dealerships we own.

Automotive Interest and Other Income (Expense)

Automotive interest and other expense decreased primarily due to reductions in debt balances with other segments utilizing certain proceeds from the Allison sale.

Equity Income (Loss), net of tax

Equity income decreased due to decreased income from GMNA's investment in New United Motor Manufacturing, Inc. (NUMMI) as a result of increased project spending and pre-production expenses due to the upcoming launch of the new Vibe and increases in material, freight and labor costs.

Income from Discontinued Operations, net of tax

In August 2007, we completed the sale of the commercial and military operations of Allison, resulting in a gain of $4.3 billion. Income and the gain on sale from this business have been reported as discontinued operations for all periods presented.

2006 COMPARED TO 2005

Industry Vehicle Sales

Industry vehicle sales in North America decreased due to very strong 2005 sales levels and some weakness in the economy in 2006.

TOTAL NET SALES AND REVENUE

Total net sales and revenue increased primarily due to favorable mix, which more than offset declines in volume.

Automotive Cost of Sales

Automotive cost of sales increased primarily due to increases in restructuring and impairment charges of $2.5 billion, driven by charges for: (1) the 2006 UAW Attrition Program of $6.4 billion in 2006; (2) net reductions in vehicle and facility impairment charges of $1 billion; and (3) net reductions in the closed plant and other restructuring initiatives totaling $2.8 billion.

These increases were offset by: (1) $1.5 billion in reduced costs due to lower production volumes, which were partially offset by mix; (2) savings on retiree pension/OPEB costs of $2.8 billion, due to the 2005 UAW Health Care Settlement Agreement; (3) manufacturing savings of $1 billion from lower hourly headcount levels driven by the 2006 UAW Attrition Program; (4) lower warranty related costs of $.2 billion; (5) lower engineering costs of $.4 billion; (6) lower tooling amortization of $.3 billion; and (7) an increase of $.3 billion in gains from commodity derivative contracts used to hedge forecasted purchases of raw materials.

Automotive cost of sales rate decreased primarily due to the increase in revenue described above.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased primarily due to reduced advertising and sales promotion expense of $540 million, and reduced administrative expense due to GMNA cost reduction initiatives.

Automotive Interest and Other Income (Expense)

Automotive interest and other expense decreased due to the gain on the sale of our Mesa, Arizona proving grounds in 2006 of $270 million.

Equity Income (Loss), net of taxes

Equity income increased due to improved operating results from GMNA's investment in NUMMI.

GM EUROPE

Years Ended December 31,				2007 vs. 2006 Change		2006 vs. 2005 Change	
(Dollars in millions)	**2007**	2006	2005	Amount	Percentage	Amount	Percentage
Total net sales and revenue	**$37,397**	$33,278	$31,942	$4,119	12.4%	$1,336	4.2%
Automotive cost of sales	**35,254**	30,868	31,202	4,386	14.2%	(334)	1.1%
Selling, general and administrative expense	**2,781**	2,600	2,406	181	7.0%	194	8.1%
Operating loss	**(638)**	(190)	(1,666)	(448)	n.m.	1,476	88.6%
Automotive interest and other income (expense)	**97**	(122)	(128)	219	179.5%	6	4.7%
Loss from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(541)**	(312)	(1,794)	(229)	73.4%	1,482	82.6%
Equity income, net of tax	**44**	36	102	8	22.2%	(66)	64.7%
Minority interests, net of tax	**(27)**	(21)	(49)	(6)	28.6%	28	57.1%
Loss from continuing operations before income taxes	**$ (524)**	$ (297)	$ (1,741)	$ (227)	76.4%	$1,444	82.9%
Cumulative effect of a change in accounting principle	**$ –**	$ –	$ (21)	$ –	–	$ 21	n.m.
Automotive cost of sales rate	**94.3%**	92.8%	97.7%	1.5%	n.m.	(4.9)%	n.m.
Net margin from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(1.4)%**	(.9)%	(5.6)%	(.5)%	n.m.	4.7%	n.m.
(Volume in thousands)							
Production Volume [(a)]	**1,828**	1,806	1,858	22	1.2%	(52)	(2.8)%
Vehicle Unit Sales [(b)]:							
Industry – Europe	**23,069**	21,876	21,092	1,193	5.5%	784	3.7%
GM Europe	**2,182**	2,003	1,984	179	8.9%	19	1.0%
GM market share – Europe	**9.5%**	9.2%	9.4%	.3%	n.m.	(.2)%	n.m.
GM market share – Germany	**9.5%**	10.1%	10.8%	(.6)%	n.m.	(.7)%	n.m.
GM market share – United Kingdom	**15.2%**	14.3%	14.7%	.9%	n.m.	(.4)%	n.m.
GM market share – Russia	**9.6%**	6.5%	4.6%	3.1%	n.m.	1.9%	n.m.

n.m. = not meaningful

(a) *Production volume represents the number of vehicles manufactured by our assembly facilities and also includes vehicles produced by certain joint ventures.*

(b) *Vehicle unit sales primarily represent sales to the ultimate customer, including unit sales of Chevrolet brand products in the region. The financial results from sales of Chevrolet brand products are reported as part of GMAP as those units are sold by GM Daewoo.*

2007 COMPARED TO 2006

Industry Vehicle Sales

The 1.2 million (or 5.5%) growth in industry vehicle unit sales in 2007 primarily resulted from an increase of 680,000 vehicles (or 33.5%) in Russia; increases in Italy, the Ukraine, France, Poland, the United Kingdom, and various other markets in central and southeastern Europe, which were partially offset by a decrease of 290,000 vehicles (or 7.7%) in Germany.

Total Net Sales and Revenue

Total net sales and revenue increased due to: (1) a favorable impact of $2.9 billion in Foreign Currency Translation, driven mainly by the strengthening of the Euro, British Pound and Swedish Krona versus the U.S. Dollar; (2) an increase of $1.6 billion due to higher wholesale sales volume outside of Germany; and (3) an increase of $.4 billion due to improvements in pricing outside of Germany, primarily on the Corsa. Offsetting these increases was a decrease of $1.3 billion related to lower wholesale volumes and unfavorable pricing in Germany.

In line with the industry trends noted above, GME's revenue, which excludes sales of Chevrolet brand products, increased most significantly in Russia, where wholesale volumes were up 51,000 units (or 215%), followed by the United Kingdom, where wholesale volumes were up 35,000 units (or 9.2%). Wholesale volumes in Germany declined by 68,000 units (or 18.9%).

Automotive Cost of Sales

Automotive cost of sales increased due to: (1) an unfavorable impact of $2.9 billion as a result of Foreign Currency Translation; (2) an increase of $.5 billion for unfavorable vehicle and country mix, primarily as a result of higher freight and duties associated with vehicles imported into Russia and from Korea; and (3) an increase of $.4 billion related to higher wholesale sales volume.

Automotive cost of sales rate deteriorated during 2007 primarily due to the unfavorable impact of vehicle and country mix in Automotive cost of sales, partially offset by the favorable impact of price in Total net sales and revenue.

Selling, General, and Administrative Expense

Selling, general and administrative expense increased primarily due to Foreign Currency Translation.

Automotive Interest and Other Income (Expense)

Automotive interest and other income (expense) increased primarily as a result of a $.1 billion favorable settlement of VAT claims with the U.K. tax authorities.

2006 COMPARED TO 2005

Industry Vehicle Sales

Industry vehicle sales grew 784,000 vehicles (or 3.7%) during 2006 primarily due to increases of 373,000 vehicles (or 22.6%) in Russia, 157,000 vehicles (or 4.4%) in Germany, 122,000 vehicles (or 39.2%) in the Ukraine and 108,000 vehicles (or 4.3%) in Italy, which were offset by decreases of 98,000 vehicles (or 12.8%) in Turkey and 94,000 vehicles (or 3.3%) in the United Kingdom.

GM Automotive Regional Results *(continued)*

Total Net Sales and Revenue

Total net sales and revenue increased primarily due to: (1) an increase of $.3 billion due to improvements in pricing, primarily associated with the Zafira and Corsa; (2) an increase of $.3 billion related to vehicle mix, primarily associated with the Zafira and Astra; (3) a $.2 billion favorable impact associated with increased volume on parts and accessories; (4) a favorable impact of $.2 billion due to Foreign Currency Translation; and (5) an increase of $.2 billion for inclusion of a full year's results of the European Powertrain organization in 2006, as opposed to a partial year's results in 2005 following the dissolution of the Fiat joint venture.

Automotive Cost of Sales

Automotive cost of sales decreased due to: (1) a decrease in restructuring and impairment charges of $.7 billion; (2) lower material costs of $.3 billion; (3) an increase of $.2 billion related to vehicle mix, primarily associated with the Zafira; (4) a $.1 billion increase attributed to increased volume on parts and accessories; (5) a $.1 billion unfavorable impact due to Foreign Currency Translation; and (6) an increase of $.2 billion for inclusion of a full year's results of the European Powertrain organization in 2006, as opposed to a partial year's results in 2005 following the dissolution of the Fiat joint venture.

Automotive cost of sales rate improved during 2006 as a result of lower separation costs.

Selling, General, and Administrative Expense

Selling, general, and administrative expense increased primarily due to an increase in commercial expense.

Equity Income, net of tax

Equity income, net of tax decreased in 2006 due to a 2005 change in Polish tax law, which had generated additional equity income in 2005.

GM LATIN AMERICA/AFRICA/MID-EAST

Years Ended December 31,				2007 vs. 2006 Change		2006 vs. 2005 Change	
(Dollars in millions)	**2007**	2006	2005	Amount	Percentage	Amount	Percentage
Total net sales and revenue	**$18,894**	$14,627	$11,851	$4,267	29.2%	$2,776	23.4%
Automotive cost of sales	**16,776**	13,305	11,077	3,471	26.1%	2,228	20.1%
Selling, general and administrative expense	**1,009**	764	623	245	32.1%	141	22.6%
Operating income	**1,109**	558	151	551	98.7%	407	n.m.
Automotive interest and other income (expense)	**240**	(31)	(108)	271	n.m.	77	71.3%
Income from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**1,349**	527	43	822	156.0%	484	n.m.
Equity income, net of tax	**31**	16	15	15	93.8%	1	6.7%
Minority interests, net of tax	**(32)**	(25)	(11)	(7)	28.0%	(14)	127.3%
Income from continuing operations before income taxes	**$ 1,348**	$ 518	$ 47	$ 830	160.2%	$ 471	n.m.
Cumulative effect of a change in accounting principle	**$ –**	$ –	$ (2)	$ –	0.0%	$ 2	n.m.
Automotive cost of sales rate	**88.8%**	91.0%	93.5%	(2.2)%	n.m.	(2.5)%	n.m.
Net margin from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**7.1%**	3.6%	0.4%	3.5%	n.m.	3.2%	n.m.
(Volume in thousands)							
Production Volume (a)	**960**	830	775	130	15.7%	55	7.1%
Vehicle Unit Sales (b):							
Industry – LAAM	**7,181**	6,104	5,310	1,077	17.7%	794	15.0%
GMLAAM	**1,236**	1,035	883	201	19.4%	152	17.2%
GM market share – LAAM	**17.2%**	17.0%	16.6%	0.2%	n.m.	0.4%	n.m.
GM market share – Brazil	**20.3%**	21.3%	21.3%	(1.0)%	n.m.	0.0%	n.m.

n.m. = not meaningful

(a) *Production volume represents the number of vehicles manufactured by our assembly facilities and also includes vehicles produced by certain joint ventures.*

(b) *Vehicle unit sales primarily represent sales to the ultimate customer.*

2007 COMPARED TO 2006

Industry Vehicle Sales

Industry vehicle sales in the LAAM region increased because of strong growth throughout the region. This included increases in Brazil of 535,000 vehicles (or 27.7%), Venezuela of 148,000 vehicles (or 43.0%), Argentina of 119,000 vehicles (or 26.3%), the Middle East (excluding Israel) of 93,000 vehicles (or 6.0%), Colombia of 59,000 vehicles (or 30.8%), Egypt of 57,000 vehicles (or 36.1%), and Israel of 41,000 (or 26.6%) during 2007. Industry vehicle sales in South Africa declined by 34,000 vehicles (or 5.2%).

Total Net Sales and Revenue

Total net sales and revenue increased due to: (1) $2.9 billion in higher volumes across most GMLAAM business units, including increases in Brazil, Venezuela and Argentina, which more than offset a small decrease in Ecuador; (2) favorable impact of Foreign Currency Translation of $.7 billion, primarily related to the Brazilian Real and Colombian Peso; (3) favorable vehicle pricing of $.5 billion; and (4) favorable vehicle mix of $.2 billion.

Automotive Cost of Sales

Automotive cost of sales increased due to: (1) increased volume impact in the region of $2.3 billion; (2) unfavorable Foreign Currency Translation of $.7 billion, which also includes the impact of foreign exchange losses as a result of translating amounts payable in a currency other than the local currency; (3) higher content cost of $.3 billion; and (4) unfavorable product mix impact of $.1 billion.

Automotive cost of sales rate improved due to higher pricing and favorable product mix.

Selling, General and Administrative Expense

Selling, general and administrative expense increased due to: (1) a $66 million charge recorded in GM do Brasil during the second quarter of 2007 for additional retirement benefits under a government sponsored pension plan; (2) unfavorable Foreign Currency Translation impact of $40 million; (3) an increase in the cost of these expenses compared to 2006 of $29 million; and (4) $105 million of increased administrative, marketing and other expenses throughout the region in support of the higher volume levels.

GM Automotive Regional Results *(continued)*

Automotive Interest and Other Income (Expense)

Automotive interest and other income (expense) improved due to: (1) a gain of $194 million in 2007 recorded as a result of GM do Brasil's favorable resolution of prior tax cases; (2) reversals of previously established tax accruals of $81 million in 2007 associated with duties, federal excise tax and related matters that were no longer required; and (3) income of $25 million in South Africa relating to increased export incentives due to increases in volume of exports. These increases were partially offset by: (1) a $64 million charge related to previously recorded tax credits in GM do Brasil; and (2) $56 million of settlement and fines related to information submitted to the Brazil tax authorities for material included in consignment contracts at one of our facilities.

2006 COMPARED TO 2005

Industry Vehicle Sales

Industry vehicle sales in the LAAM region increased by 794,000 vehicles (or 15.0%) during 2006 as compared to 2005. This included increases in Brazil of 214,000 vehicles (or 12.5%), the Middle East of 193,000 vehicles (or 12.7%), Venezuela of 115,000 vehicles (or 50.3%), South Africa of 82,000 vehicles (or 14.4%), Argentina of 64,000 vehicles (or 16.3%), Egypt of 59,000 vehicles (or 60.2%) and Colombia of 50,000 vehicles (or 34.7%).

Total Net Sales and Revenue

Total net sales and revenue increased due to: (1) $1.4 billion in increased volumes across most GMLAAM business units, including increased revenues in Venezuela, Colombia, South Africa, the Middle East and Brazil, which more than offset a decrease in Chile; (2) favorable vehicle pricing of $.7 billion; and (3) favorable effects of Foreign Currency Transaction of $.2 billion.

Automotive Cost of Sales

Automotive cost of sales increased due to: (1) increased volume in the region of $1.1 billion; (2) higher content cost of $.4 billion; and (3) unfavorable Foreign Currency Translation effects of $.4 billion.

Automotive cost of sales rate improved due to higher pricing and favorable product mix.

Selling, General and Administrative Expense

Selling, general and administrative expense increased due to: (1) unfavorable Foreign Currency Translation effects of $25 million; (2) increases in the cost of these expenses as compared to the cost in 2005 of $18 million; and (3) increased administrative, marketing and other expenses of $99 million throughout the region in support of the higher volume levels.

Automotive Interest and Other Income (Expense)

Automotive interest and other income (expense) improved due to: (1) a decrease in interest expense of $74 million on short-term borrowings in GM do Brasil due to reduced short-term debt outstanding; and (2) a general increase in interest income of $23 million spread throughout the region. These factors were partially offset by: (1) an increase in interest expense of $15 million on short-term borrowings in Venezuela due primarily to increased short-term debt outstanding; and (2) unfavorable Foreign Currency Translation effects of $16 million.

GM ASIA PACIFIC

Years Ended December 31,				2007 vs. 2006 Change		2006 vs. 2005 Change	
(Dollars in millions)	**2007**	2006	2005	Amount	Percentage	Amount	Percentage
Total net sales and revenue	**$21,003**	$15,532	$10,846	$5,471	35.2%	$4,686	43.2%
Automotive cost of sales	**19,004**	14,182	10,249	4,822	34.0%	3,933	38.4%
Selling, general and administrative expense	**1,473**	1,145	761	328	28.6%	384	50.5%
Other expense	**–**	–	812	–	0.0%	(812)	100.0%
Operating income (loss)	**526**	205	(976)	321	156.6%	1,181	121.0%
Automotive interest and other income	**31**	854	87	(823)	96.4%	767	n.m.
Income (loss) from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**557**	1,059	(889)	(502)	47.4%	1,948	n.m.
Equity income, net of tax	**425**	365	527	60	16.4%	(162)	30.7%
Minority interests, net of tax	**(301)**	(225)	(53)	(76)	33.8%	(172)	n.m.
Income (loss) from continuing operations before income tax	**$ 681**	$ 1,199	$ (415)	$ (518)	43.2%	$1,614	n.m.
Cumulative effect of a change in accounting principle	**$ –**	$ –	$ (3)	$ –	0.0%	$ 3	n.m.
Automotive cost of sales rate	**90.5%**	91.3%	94.5%	(0.8)%	n.m.	(3.2)%	n.m.
Net margin from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**2.7%**	6.8%	(8.2)%	(4.1)%	n.m.	15.0%	n.m.
(Volume in thousands)							
Production Volume [(a)] [(b)]	**2,231**	1,896	1,562	335	17.7%	334	21.4%
Vehicle Unit Sales [(a)] [(c)]:							
Industry – Asia Pacific	**20,808**	19,231	18,115	1,577	8.2%	1,116	6.2%
GMAP	**1,436**	1,248	1,064	188	15.1%	184	17.3%
GM market share – Asia Pacific [(d)]	**6.9%**	6.5%	5.9%	0.4%	n.m.	0.6%	n.m.
GM market share – Australia	**14.2%**	15.4%	17.8%	(1.2)%	n.m.	(2.4)%	n.m.
GM market share – China [(d)]	**12.1%**	12.3%	11.6%	(0.2)%	n.m.	0.7%	n.m.

n.m. = not meaningful

(a) *Includes GM Daewoo, Shanghai GM and SAIC-GM-Wuling Automobile Co., Ltd. (SGMW) joint venture production/sales. We own 34% of SGMW and under the joint venture agreement have significant rights as a member as well as the contractual right to report SGMW global sales as part of our global market share.*

(b) *Production volume represents the number of vehicles manufactured by our assembly facilities and also includes vehicles produced by certain joint ventures.*

(c) *Vehicle unit sales primarily represent sales to the ultimate customer.*

(d) *Includes SGMW joint venture sales.*

GM Automotive Regional Results *(concluded)*

2007 COMPARED TO 2006

Industry Vehicle Sales

Industry vehicle sales in the Asia Pacific region increased due to strong growth in China and India. In 2007, industry sales increased by 1.4 million vehicles (or 20.4%) in China, increased by 246,000 vehicles (or 14.1%) in India and increased by 87,000 vehicles (or 9.1%) in Australia. The growth from these markets more than offset a decline of 385,000 vehicles (or 6.7%) in Japan. China's vehicle market remained strong in 2007 and increased to 8.5 million vehicles during 2007, compared to 7.1 million vehicles during 2006. GMAP continued to capitalize on the demand in the China passenger and light commercial vehicle markets. GMAP increased its vehicle sales in the Asia Pacific region in part due to strong sales in China where volumes exceeded 1 million vehicles in 2007.

GMAP market share increased due to increased market share in India driven by the launch of the Chevrolet Spark and the performance of other new models in the portfolio. Although our market share in Japan did not change, our overall regional market share was favorably impacted due to the decline in the Japanese market. Our market share in China declined due to continued robust industry growth at a faster pace than our volume growth and more intense competition. Our market share in Australia decreased because of an industry shift to small segments, away from GM Holden's (Holden) traditional strength. This change was attributable to relatively less expensive imports from Japan and Korea and the shift by major fleet buyers to small segments. Our market share in Thailand declined due to relatively aged models currently in production and political uncertainties on the industry, which had a greater adverse impact on those manufacturers with smaller market share. Our market share in South Korea also declined due to competitive pressure and product cycle, with several vehicles leaving our lineup and expected to be replaced in 2008 and beyond.

Total Net Sales and Revenue

Total net sales and revenue increased due to: (1) a $3.5 billion increase in GM Daewoo export sales to a diverse global customer base, which was driven by the Captiva/Winstrom launch; (2) a $1.2 billion favorable effect of Foreign Currency Translation, primarily related to the Australian Dollar and Euro; and (3) an increase in domestic unit sales in the remainder of the region.

Automotive Cost of Sales

Automotive cost of sales increased due to: (1) a 30% increase in GM Daewoo export volumes amounting to $2.9 billion; (2) higher product engineering expenses at GM Daewoo of $.2 billion and at Holden of $.1 billion; and (3) effect of Foreign Currency Translation primarily related to the Australian Dollar and Korean Won of $.8 billion.

Automotive cost of sales rate decreased due to material cost performance and efficiencies primarily in GM Daewoo.

Selling, General and Administrative Expense

Selling, general and administrative expense increased due to higher consumer influence, sales promotion and selling expense amounting to $181 million and increased administrative and other expenses amounting to $147 million in line with the growth in business across various operations in the region.

Automotive Interest and Other Income

Automotive interest and other income decreased due to: (1) a non-recurring gain of $.7 billion in 2006 for the sale of our equity stake in Suzuki, which reduced our ownership from 20.4% to 3.7%; and (2) the non-recurring gain of $.3 billion in 2006 for the sale of our remaining investment in Isuzu.

Equity Income, net of tax

Equity income increased due to improved performance at Shanghai GM, offset by decreased equity income due to the sale of part of our equity stake in Suzuki during 2006.

Minority Interests, net of tax

Minority interests increased due to the growth of income at GM Daewoo.

2006 COMPARED TO 2005

Industry Vehicle Sales

Industry vehicle sales in the Asia Pacific region increased due to strong growth in China, where industry vehicle sales increased 23.6% to 7.1 million vehicles during 2006, compared to 5.7 million vehicles during 2005. GMAP increased its vehicle sales in the Asia Pacific region due to the growth in China.

GMAP market share increased due to increased market share in China as we capitalized on the strong industry growth. Our market share in Australia declined due to the industry shift to small segments.

Consolidation of GM Daewoo

Beginning in June 2005, we consolidated GM Daewoo as a result of our obtaining majority ownership. This change primarily drives the increase in Total net sales and revenues, Automotive cost of sales, Selling, general and administrative expense and Minority interests, net of tax.

Other Expense

Other Expense was zero in 2006 compared to $.8 billion expense in 2005 due to the write-down to fair market value of our investment in FHI.

Automotive Interest and Other Income

Automotive interest and other income increased due to: (1) a gain of $.7 billion for the sale of our equity stake in Suzuki, which reduced our ownership from 20.4% to 3.7% in 2006 and (2) a gain of $.3 billion from the sale of our remaining investment in Isuzu in 2006.

Equity Income, net of tax

Equity income, net of tax decreased due to the sale of our equity stake in Suzuki during 2006.

FIO Financial Review

Our FIO business includes the consolidated operating results of GMAC's lines of business consisting of Automotive Finance Operations, Mortgage Operations, Insurance, and Other, which includes GMAC's Commercial Finance business and GMAC's equity investment in Capmark Financial Group (previously GMAC Commercial Mortgage). In the GMAC Transaction in November 2006, we sold a 51% controlling interest in GMAC to FIM Holdings LLC (FIM Holdings). Our remaining interest in GMAC is accounted for using the equity method. Also included in FIO are the financing entities that are not consolidated by GMAC as well as two special purpose entities holding automotive leases previously owned by GMAC and its affiliates that were retained by us as part of the GMAC Transaction. Therefore, in 2007, FIO's operations primarily reflected our 49% share of the operating results of GMAC as compared to 2006, which included 11 months of fully consolidated GMAC operations and one month of its 49% share of operating results of GMAC.

FIO Financial Review *(concluded)*

2007 COMPARED TO 2006

FIO reported a loss before income taxes of $.7 billion in 2007 compared to income before income taxes of $1.9 billion in 2006. This change was primarily due to lower operating results at GMAC during 2007. See the commentary below for a detailed discussion of the events and factors contributing to this change in GMAC's consolidated operating results, of which we record our proportionate share as equity income beginning in December 2006.

GMAC reported net loss available to members of $2.5 billion in 2007 compared to net income available to members of $2.1 billion in 2006. GMAC's net losses in 2007 reflect the adverse effects of the continued disruption in the mortgage, housing and capital markets on the Mortgage business and lower levels of realized capital gains by the Insurance business, which more than offset the continued strong performance in the Global Automotive Finance business. Mortgage results were adversely affected by domestic economic conditions, including delinquency increases in the mortgage loans held for investment portfolio and a significant deterioration in the securitization and residential housing markets. The Mortgage business was also affected by a downturn in certain foreign mortgage and capital markets. The disruption of mortgage, housing and capital markets has contributed to a lack of liquidity, depressed asset valuations, additional loss provisions related to credit deterioration and lower production levels.

Global Automotive Finance Operations benefited in 2007 from lower interest expense and higher gains on sales and servicing fee income due to an acceleration of its transition to an originate-to-distribute model in the United States, which resulted in higher levels of off-balance sheet securitizations and whole-loan sales.

Mortgage losses increased significantly in 2007 compared to 2006. During 2007, the mortgage and capital markets experienced severe stress due to credit concerns and housing market contractions in the United States. During the second half of the year, these negative market conditions spread to the foreign markets in which GMAC's Mortgage business operates, predominantly in the United Kingdom and Continental Europe, and to the residential homebuilders in the United States. The reduced accessibility to cost efficient capital in the secondary markets has made the residential mortgage industry even more capital intensive. In the short-term, it is probable the mortgage industry will continue to experience both declining mortgage origination volumes and reduced total mortgage indebtedness due to the deterioration of the nonprime and nonconforming mortgage market. Due to these market factors, including interest rates, the business of acquiring and selling mortgage loans is cyclical. The industry is experiencing a downturn in this cycle. The Mortgage business does not expect the current market conditions to turn favorable in the near term.

The persistence of the global dislocation in the mortgage and credit markets may continue to negatively affect the value of GMAC's mortgage-related assets. These markets continue to experience greater volatility, less liquidity, widening of credit spreads, repricing of credit risk and a lack of price transparency. The Mortgage business operates in these markets with exposure to loans, trading securities, derivatives and lending commitments. Mortgage's accessibility to capital markets continues to be restricted, both domestically and internationally, impacting the renewal of certain facilities and the cost of funding. It is difficult to predict how long these conditions will exist and which markets, products and businesses will continue to be affected. Accordingly, these factors could continue to adversely impact Mortgage's results of operations in the near term.

As a result, GMAC conducted a goodwill impairment test of its Mortgage business in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), during the third quarter of 2007. Based upon the results of their assessment, GMAC concluded that the carrying value of goodwill of its Mortgage business exceeded its fair value and recorded an impairment loss of $455 million. We reduced our investment in GMAC by $223 million for our share of GMAC's impairment loss and recorded a charge to Equity in loss of GMAC LLC during 2007.

Insurance Operations' net income decreased in 2007 due to a lower level of realized capital gains.

FIO's Other Financing reported income before income taxes of $.5 billion in 2007 compared to a loss before income taxes of $.4 billion in 2006. This increase was due to: (1) $2 billion of additional revenue in 2007 for two special purpose entities holding outstanding leases previously owned by GMAC, which were included in GMAC's net income for the first 11 months of 2006; and (2) a $2.9 billion loss on the GMAC Transaction recorded in 2006. These favorable items were partially offset by: (1) a $.3 billion increase in interest expense on lease assets; and (2) a $2.5 billion decrease in depreciation expense in 2006 on GMAC's long-lived assets classified as held for sale.

2006 COMPARED TO 2005

FIO reported income before income taxes of $1.9 billion in 2006 compared to $3.5 billion in 2005. This decrease of 46%, or $1.6 billion from 2005 to 2006, was primarily due to the GMAC Transaction. In 2006, FIO net income of $1 billion includes 12 months of activity for GMAC comprised of 11 months of operations as a wholly-owned subsidiary totaling $2.2 billion of income and one month of equity loss of $5 million as a result of the sale of a controlling interest in GMAC to FIM Holdings LLC. All comparisons for the GMAC activity below are on a 12 month basis.

Global Automotive Finance Operations' net income for 2006 increased 7.8% when compared to 2005. Net income was positively impacted by $.4 billion related to the write-off of certain net deferred tax liabilities as part of the conversion of GMAC to a limited liability corporation during November 2006. Results for 2006 include an unfavorable after-tax earnings impact of $.1 billion from a $1 billion debt tender offer to repurchase certain deferred interest debentures.

Net income for GMAC's ResCap mortgage subsidiary in 2006 declined 31% when compared to 2005. The 2006 operating results were adversely affected by domestic economic conditions especially during the fourth quarter. These developments were offset by the conversion to a limited liability corporation for income tax purposes, which resulted in the elimination of a $.5 billion net deferred tax liability. Excluding the benefit realized from the conversion to a limited liability company, Mortgage's net income was $.2 billion.

Insurance Operations' reported net income of $1.1 billion in 2006 compared to $.4 billion in 2005. The increase in income is mainly a result of higher realized capital gains of $1 billion in 2006 as compared to $.1 billion in 2005. Underwriting results were favorable primarily due to increased insurance premiums and service revenue earned and improved loss and loss adjustment expense experience partially offset by higher expenses.

GMAC's Other segment had a net loss of $1 billion in 2006 compared to a loss of $.3 billion in 2005. The increased loss was mainly due to the decline in income from Capmark Financial Group of $.2 billion due to the sale of 79% interest of the business in March 2006, goodwill impairment charges of $.7 billion, higher loss provisions, and the tax impact related to GMAC's conversion to a limited liability corporation.

FIO's Other Financing reported a loss before income taxes of $.4 billion in 2006 compared to $27 million in 2005. This change was primarily due to: (1) a $2.9 billion loss on the GMAC Transaction recorded in 2006; and (2) a $2.5 billion decrease in depreciation expense in 2006 on GMAC's long-lived assets classified as held for sale.

Corporate and Other Operations

Years Ended December 31,				2007 vs. 2006 Change		2006 vs. 2005 Change	
(Dollars in millions)	**2007**	2006	2005	Amount	Percentage	Amount	Percentage
Total net sales and revenues	**$ –**	$ (256)	$ (256)	$ 256	100%	$ –	–
Automotive cost of sales	**627**	(365)	723	992	n.m.	(1,088)	150.5%
Selling, general and administrative expense	**822**	685	443	137	20%	242	54.6%
Other expense	**2,354**	1,065	5,997	1,289	121%	(4,932)	82.2%
Operating loss	**(3,803)**	(1,641)	(7,419)	(2,162)	131.7%	5,778	77.9%
Automotive interest and other income (expense)	**184**	453	503	(269)	59.4%	(50)	9.9%
Loss from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle	**(3,619)**	(1,188)	(6,916)	(2,431)	n.m.	5,728	82.8%
Income tax expense (benefit)	**37,129**	(3,881)	(7,239)	41,010	n.m.	3,358	46.4%
Equity income, net of tax	**2**	3	20	(1)	33.3%	(17)	85.0%
Minority interests, net of tax	**12**	–	7	12	–	(7)	100.0%
Net income (loss)	**$(40,734)**	$ 2,696	$ 350	$(43,430)	n.m.	$ 2,346	670.3%

n.m. = not meaningful

Corporate and Other includes certain centrally recorded income and costs, such as interest and income taxes, corporate expenditures, the elimination of inter-region transactions and costs related to pension and OPEB for Delphi retirees and retirees of other divested businesses for which we have retained responsibility. Automotive interest and other income (expense) in prior years includes eliminations between our Automotive business and GMAC.

2007 COMPARED TO 2006

Automotive cost of sales and Selling, general and administrative expense increased $1.1 billion in 2007 compared to 2006. Pension expense increased $251 million in 2007 as the result of the accelerated recognition of unamortized prior service cost. Ongoing legacy costs were lower in 2007 by more than $100 million due to changes in U.S. salaried pension and OPEB plans and the 2005 UAW Health Care Settlement Agreement. Expenses were lower in 2006 due to a curtailment gain of $600 million associated with pension/OPEB expense related to the GMAC transaction, and reductions of $250 million related to the elimination of intersegment transactions with GMAC recorded in Automotive cost of sales in 2006. These transactions are no longer eliminated in 2007, as we no longer consolidate GMAC.

Other expense increased $1.3 billion in 2007 compared to 2006. Other expense in 2007 of $2.4 billion was comprised of charges of $1.5 billion related to the Delphi benefit guarantee, a charge to pension expense of $552 million for the Delphi portion of the 2007 National Agreement negotiations and $255 million related to transactions with other FIO. In 2006 Other expense was comprised of a charge of $500 million related to the Delphi benefit guarantee and $565 million of expenses related to transactions with GMAC, which did not recur in 2007.

Automotive interest and other income (expense) decreased due to the effect of the elimination of interest expense related to GMAC in 2006, partially offset by higher interest income in 2007.

Loss from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle was $3.6 billion in 2007 compared to $1.2 billion in 2006. Income tax expense was $37.1 billion in 2007, compared to a benefit of $3.9 billion in 2006. The increase is attributable to the valuation allowance of $39 billion we established in 2007 against our net deferred tax assets in the U.S., Canada and Germany.

2006 COMPARED TO 2005

Automotive cost of sales and Selling, general and administrative expense decreased $846 million in 2006 compared to 2005. The decrease was due primarily to a decrease of $1.1 billion in OPEB expense resulting from the 2005 UAW Health Care Settlement Agreement that reduced legacy costs related to employee benefits of divested businesses for which we have retained responsibility and the OPEB curtailment gain related to the GMAC Transaction noted above. This was partially offset by $250 million of increased administrative expenses, driven by higher outside consulting and information technology expenditures.

Other expense decreased due to a $5.5 billion charge recorded in 2005 related to the Delphi benefit guarantee pertaining to the contingent exposures relating to Delphi's Chapter 11 filing, compared to the $500 million charge recorded during 2006.

Automotive interest and other income (expense) was offset by the elimination of certain transactions with GMAC.

Loss from continuing operations before income taxes, equity income and minority interests and cumulative effect of a change in accounting principle decreased by $5.7 billion in 2006 compared to 2005. Income tax benefit was $3.9 billion in 2006 compared to $7.2 billion in 2005.

Key Factors Affecting Future and Current Results

The following discussion identifies the key factors, known events and trends that could affect our future results.

NORTH AMERICAN TURNAROUND PLAN

Our top priorities continue to be improving our business in North America and achieving competitiveness in an increasingly global environment, thus positioning us for sustained profitability and growth in the long term, while maintaining liquidity. We have been systematically and aggressively implementing our turnaround plan for GMNA's business to return the operations to profitability and positive cash flow as soon as possible. Our turnaround plan for GMNA is built on four elements:

- Product excellence;
- Revitalizing sales and marketing strategy;
- Accelerating cost reductions and quality improvements; and
- Addressing health care/legacy cost burden.

Key Factors Affecting Future and Current Results *(continued)*

The following update describes what we have done so far to achieve these elements:

Product Excellence

We continue to focus significant attention on maintaining consistent product freshness by introducing new vehicles frequently and reducing the average vehicle lifecycle. In 2008 we expect that a significant percentage of our retail sales will come from vehicles launched in the prior 18 months, such as the Cadillac CTS and the Chevrolet Malibu, Buick Lucerne and Saturn Aura, our fullsize trucks and sport utility vehicles and our mid-size crossovers, the Saturn Outlook, GMC Acadia and Buick Enclave. In the fourth quarter of 2007, we launched two of these vehicles -- the Cadillac CTS and the Chevrolet Malibu, both of which achieved robust sales volumes as well as significant industry awards, the Chevrolet Malibu receiving the 2008 North America Car of the Year award, and the Cadillac CTS being named the 2008 Motor Trend Car of the Year. Entering 2008, we expect the Cadillac CTS and the Chevrolet Malibu, as well as the upcoming launches of the Pontiac G8 and Chevrolet Traverse to contribute favorably to restoring our brand health.

We anticipate capital spending in North America of approximately $5 billion in 2008, which would be comparable to 2007 levels. GMNA will allocate capital and engineering resources to support more fuel-efficient vehicles, including hybrid vehicles in the United States, and is increasing production of active fuel management engines and six-speed transmissions. During the fourth quarter of 2007, we introduced new 2-mode hybrid models of the Chevrolet Tahoe and the GMC Yukon. In addition, we are undertaking a major initiative in alternative fuels through sustainable technologies such as E85 Flex Fuel vehicles, which run on gasoline, ethanol or any combination of the two fuels. In September 2007, we launched Project Driveway, which will make more than 100 Chevrolet Equinox fuel cell electric vehicles available for driving by the public in the vicinity of Los Angeles, New York City and Washington, D.C.

Revitalize Sales and Marketing Strategy

We are pursuing a revised sales and marketing strategy by focusing on clearly differentiating our brands, optimizing our distribution network, growing in key metropolitan markets and re-focusing our marketing efforts on the strength and value of our products. Since early 2006, our promotion strategy has emphasized our brands and vehicles, rather than price incentives. In addition, we have begun increasing advertising in support of new products and specific marketing initiatives, including price incentives, to improve our sales performance in key under-developed states. Our pricing strategy, improved quality, product execution, reduced sales to daily rental fleets and a strong market for used vehicles resulted in higher residual values and higher average transaction prices for our cars and trucks. For 2008, we plan to accelerate the alignment of our U.S. brands into four distinct dealer channels: Chevrolet, Saturn, Buick/Pontiac/GMC and Cadillac/Hummer/Saab. We expect that this will enhance dealer profitability and, over time, facilitate more highly differentiated products and brands. Continued weakness in the U.S. automotive market will be a significant challenge for us in the near-term, as more fully discussed in "Near-Term Market Challenges."

Accelerate Cost Reductions and Quality Improvements

Since the November 2005 announcement of our strategy to reduce structural costs in the manufacturing area, we have introduced a variety of initiatives to accomplish that strategy. In 2007, we achieved our announced target of reducing certain annual structural costs primarily related to labor, pension and other post retirement costs in GMNA and Corporate and other by $9 billion, on average, less than those costs in 2005. This improvement is due largely to the success of attrition programs which reduced the number of our hourly employees by 34,400, the effect of the resulting pension remeasurement, as well as a number of other items including the 2005 Health Care Settlement Agreement with the UAW, reductions in pensions for salaried employees and caps on healthcare costs for salaried retirees. In 2008, we have implemented an additional voluntary special attrition program, for which all 74,000 UAW-represented employees are eligible to participate, including 46,000 employees who are currently eligible for retirement. We continue to focus on our long-term goal of reducing our global automotive structural costs of revenues as a percentage of 2005 revenues to less than 25% by 2010. For 2007, global automotive structural costs were less than 30% of revenue. We believe that the new collective bargaining agreement entered into in October 2007 (2007 National Agreement) provides additional cost reduction opportunities, particularly in the areas of healthcare costs and savings from the implementation of the Tier II wage structure and, accordingly, have revised our previously announced target for further reductions in structural costs as a percent of revenues from 25% in 2010 to 23% by 2012.

Reducing material costs remains a critical part of GMNA's overall long-term cost reduction plans. In 2007, improved performance in purchasing was more than offset by improvements and content additions on new vehicle programs and higher commodity prices for steel and non-ferrous metals. Looking forward, we expect that commodity pricing pressures will remain flat or improve modestly. We also expect to reduce a substantial portion of the cost premiums we have historically paid to Delphi for systems and components over the next three to five years. The savings will be offset by various labor and transitional subsidies, so that we expect to achieve annual net savings over the medium term of approximately $500 million. Full realization of such savings depends on Delphi's successful emergence from bankruptcy protection on the terms that Delphi has negotiated with us (see Delphi Bankruptcy below).

We continue our aggressive pursuit of material cost reductions via improvements in our global processes for product development, which will enable further commonization and application of parts among vehicle architectures, as well as through the continued use of the most competitive supply sources globally and the extensive use of benchmarking and supplier footprint optimization. By leveraging our global reach to take advantage of economies of scale in purchasing, engineering, advertising, salaried employment levels and indirect material costs, we seek to continue to achieve cost reductions. We have seen significant improvements in both warranty and other quality related costs over the past several years, which have enabled the implementation of the extended powertrain warranty. In 2008, we plan to continue to focus on reducing these costs through continued investment in product development and new technology.

Vehicle quality demonstrates continued improvements in 2007. Our recent vehicle launches are performing at record warranty levels, and our Buick and Cadillac brands were first and third, respectively, in the most recent JD Power Vehicle Dependability Study. We have also experienced an 89% decrease in the number of vehicles involved in safety and non-compliance recall campaigns since 2005. In 2008, we will maintain our focus on improving our vehicle quality.

Address Health Care/Legacy Cost Burden

Addressing the legacy cost burden of health care for employees and retirees in the United States is one of the critical challenges we face. For the past three years we have worked with the UAW and our other U.S. labor unions to find solutions to this challenge. In October 2005, we announced the 2005 UAW Health Care Settlement Agreement, which modified postretirement healthcare benefits for UAW active employees, retirees and their eligible dependents to require monthly contributions, deductibles and co-pay obligations for the first time. In October 2007, we signed a Memorandum of Understanding – Post-Retirement Medical Care (Retiree MOU) with the UAW, now superseded by the Settlement Agreement currently pending for court approval (Settlement Agreement). The Settlement Agreement executed in connection with the 2007 National Agreement will incorporate and supersede the 2005 UAW Health Care Settlement Agreement when it is implemented on the later of January 1, 2010 or the date when all appeals or challenges to court approval of the Settlement Agreement have been exhausted (Implementation Date).

Key Factors Affecting Future and Current Results *(continued)*

We began recognizing benefits from the 2005 UAW Health Care Settlement Agreement during the three months ended September 30, 2006. The remeasurement of the U.S. hourly OPEB plans as of March 31, 2006 generated a $1.3 billion in OPEB expense and $14.5 billion reduction in the OPEB obligation, including the Mitigation Plan as described in Note 15 to our consolidated financial statements. In April 2006, we reached a tentative agreement with the International Union of Electrical Workers Communications Workers of America (IUE-CWA) to reduce healthcare costs that is similar to the 2005 UAW Health Care Settlement Agreement. This agreement was ratified by the IUE-CWA membership in April 2006 and received court approval in November 2006. The IUE-CWA healthcare agreement reduced our 2007 OPEB expense by $.1 billion and OPEB obligation by $.5 billion. The IUE-CWA collective bargaining agreement expired in the fourth quarter of 2007, and we anticipate that our new collective bargaining agreement with the IUE-CWA will include arrangements similar to those contemplated by the Settlement Agreement.

We also increased our U.S. salaried workforce's participation in the cost of healthcare. In January 2007 we established a cap on our contributions to salaried retiree healthcare at the level of our 2006 expenditures. In the future, when average costs exceed established limits, we will make additional plan changes that affect cost-sharing features of program coverage, effective with the start of the following calendar year. Program changes may include, but are not limited to, higher monthly contributions, deductibles, coinsurance, out-of-pocket maximums and prescription drug payments. We have also reduced the levels of coverage for corporate-paid life insurance for salaried retirees.

The 2007 National Agreement provides for a permanent shift in responsibility for retiree healthcare liabilities of $47 billion to a new benefit plan to be established and funded by the New VEBA, promptly after the Implementation Date. We believe that our initiatives in this area will reduce our U.S. healthcare related cash payments to $2 billion per year, beginning in 2010, reduced from $4.6 billion in 2007.

We will continue to work with our employees, healthcare providers and the U.S. government to find solutions to the critical issues posed by the rising cost of healthcare. The Settlement Agreement provides that we will publicly support federal policies to improve the quality and affordability of healthcare and work cooperatively with the UAW toward that goal. We have agreed with the UAW to form a National Institute for Health Care Reform, which will conduct research and analyze the current medical delivery system in the United States, develop targeted and broad-based reform proposals to improve the quality, affordability and accountability of the system and educate the public, policymakers and others about how these reforms could address the deficiencies of the current system. Our initiatives to reduce healthcare costs during 2007 also included using the global purchasing process to identify more cost-effective suppliers and auditing the eligibility of plan participants as well as working with the UAW and other vehicle manufacturers to support a variety of federal legislation that would reduce employer healthcare costs.

NEAR-TERM MARKET CHALLENGES

In the near-term, we expect the challenging market conditions that developed in the third quarter of 2007 in North America and Germany to continue.

In North America, the turmoil in the mortgage and credit markets, continued reductions in housing values, high energy prices and the threat of a recession have had a negative impact on consumer's willingness to purchase our products. These factors have contributed to lower unit sales in North America in 2007 and, combined with shifts in consumer preferences towards cars and away from fullsize trucks and utility vehicles, have negatively impacted our results as such larger vehicles are among our more profitable products. We expect these lower unit sales to continue in the near-term. In addition, competition in fullsize trucks has increased, resulting in increased consumer incentives as compared to our earlier expectations.

The German market experienced a 7.7% decrease in unit sales volumes during 2007 compared to 2006. While we had anticipated a drop in unit sales volumes during early 2007 as a result of increases in taxes on automobiles, however, we did not expect that the decrease would continue through the entire 2007 calendar year and into the near-term future. In response to this industry-wide volume decline, competitors increased consumer incentives to maintain volume. We expect that these increased consumer incentives will continue in the near-term. In addition, significant uncertainty developed in the market reflecting a new factor – the impact new European environmental regulations would have on the German automotive market. This further constrained volumes as consumers delayed purchases over the uncertainty of the cost of these new environmental regulations on automobiles. Finally, the global effect of the turmoil in the credit markets and increased oil prices continued to diminish consumers' ability and willingness to purchase new vehicles in Germany as well as other markets.

2007 NATIONAL AGREEMENT

On October 10, 2007, the 2007 National Agreement between us and the UAW and the related Retiree MOU were ratified. The 2007 National Agreement covers the wages, hours and terms and conditions of employment for UAW-represented employees. The Retiree MOU has been superseded by the Settlement Agreement executed in February 2008. The Settlement Agreement provides that responsibility for providing retiree health care will permanently shift from us to a new retiree plan funded by the New VEBA. Final effectiveness of the Settlement Agreement is subject to a number of conditions as described below, but we have already begun executing certain provisions of the Settlement Agreement. Following are the key terms and provisions of the 2007 National Agreement and the Settlement Agreement.

2007 National Agreement

The 2007 National Agreement established a new wage and benefit package for new hires (Tier II Wage) in certain non-core positions including but not limited to material movement, kitting, sequencing, certain stampings and certain subassemblies. New hires in Tier II Wage positions will receive base wages of approximately $15 per hour versus approximately $28 per hour for existing employees.

In addition, Tier II Wage new hires will have higher cost sharing arrangements for active healthcare coverage, a cash balance pension plan and receive a $1 per hour 401(k) contribution in lieu of a defined benefit postretirement medical benefit plan. In addition, the agreement provides lump sum payments of $3,000 in 2007 and 3%, 4% and 3% of wages in 2008, 2009 and 2010, respectively, for traditional employees. We will amortize each of these lump sum payments over the 12-month period following the payment. Finally, pension benefit increases and lump sum payments were provided to current retirees and covered employees of Delphi. As a result of these changes, we expect that our average hourly manufacturing wage rate for Tier II Wage positions will be reduced from approximately $78 per hour to $26 per hour.

Settlement Agreement

When fully implemented, the Settlement Agreement will cap our retiree healthcare obligations to UAW associated employees, retirees and dependents, as defined in the Settlement Agreement; will supersede and replace the 2005 UAW Health Care Settlement Agreement and will transfer responsibility for administering retiree healthcare benefits for these individuals to a new benefit plan to be established and funded by the New VEBA trust. Before it can become effective, the Settlement Agreement is subject to class certification, court approval and the completion of discussions between us and the SEC regarding accounting treatment for the transactions contemplated by the Settlement Agreement on a basis reasonably satisfactory to us. In light of theses contingencies, no recognition to the effects of the Settlement Agreement has been made in these consolidated financial statements. The Settlement Agreement provides that on the later of January 1, 2010 or final court approval of the Settlement Agreement, we will transfer our obligations to provide covered UAW employees with post-retirement medical benefits to a new retiree health care plan (the New Plan) to be established and funded by the New VEBA.

Key Factors Affecting Future and Current Results *(continued)*

In accordance with the Settlement Agreement, effective January 1, 2008 for bookkeeping purposes only, we will divide the existing internal VEBA into two bookkeeping accounts. One account will consist of the percentage of the existing internal VEBA's assets as of January 1, 2008 that is equal to the estimated percentage of our hourly OPEB liability covered by the existing internal VEBA attributable to Non-UAW represented employees and retirees, their eligible spouses, surviving spouses and dependents (Non-UAW Related Account) and will have a balance of approximately $1.2 billion. The second account will consist of the remaining assets in the existing internal VEBA as of January 1, 2008 (UAW Related Account) and will have a balance of approximately $14.5 billion. No amounts will be withdrawn from the UAW Related Account, including its investment returns, from January 1, 2008 until transfer to the New VEBA.

Pursuant to the Settlement Agreement we have issued $4.4 billion principal amount of our 6.75% Series U Convertible Senior Debentures due December 31, 2012 (the Convertible Note) to LBK, LLC, a Delaware limited liability company of which we are the sole member (LBK). LBK will hold the Convertible Note until it is transferred to the New VEBA in accordance with the terms of the Settlement Agreement. Interest on the Convertible Note is payable semiannually. In accordance with the Settlement Agreement LBK will transfer any interest it receives on the Convertible Note to a temporary asset account we maintain. The funds in the temporary asset account will be transferred to the New VEBA in accordance with the terms of the Settlement Agreement.

In conjunction with the issuance of the Convertible Note, LBK and we have entered into certain cash-settled derivative instruments maturing on June 30, 2011 that will have the economic effect of reducing the conversion price of the Convertible Note from $40 to $36. These derivative instruments will also entitle us to partially recover the additional economic value provided if our Common Stock price appreciates to between $63.48 and $70.53 per share and to fully recover the additional economic value provided if our common stock price reaches $70.53 per share or above. Pursuant to the Settlement Agreement, LBK will transfer its interests in the derivatives to the New VEBA when the Convertible Note is transferred from LBK to the New VEBA.

We also issued a $4 billion short term note to LBK (the Short Term Note) pursuant to the Settlement Agreement. The Short Term Note pays interest at a rate of 9% and matures on the date that the face amount of the Short Term Note is paid with interest to the New VEBA in accordance with the terms of the Settlement Agreement. LBK will hold the Short Term Note until it matures.

As a wholly owned consolidated subsidiary of ours, LBK will hold the convertible note, the short term note and the derivatives until they are paid or transferred to the New VEBA. As such, these three securities will be effectively eliminated in our consolidated financial statements until they are paid or transferred to the New VEBA without restrictions.

On April 1, 2008, we will make an additional contribution of $165 million to the temporary asset account. Beginning in 2009, we may be required to contribute an additional $165 million per year, limited to a maximum of an additional 19 payments, to either the temporary asset account or the New VEBA (when established). Such contributions will be required only if annual cash flow projections show that the New VEBA will become insolvent on a rolling 25-year basis. At any time, we will have the option to prepay all remaining contingent $165 million payments.

Additionally, at the initial effective date of the Settlement Agreement, we may transfer up to an additional $5.6 billion, subject to adjustment, to the New VEBA or we may instead opt to make annual payments of varying amounts between $421 million and $3.3 billion through 2020.

DELPHI BANKRUPTCY

Background

In October 2005, Delphi filed a petition for Chapter 11 proceedings under the U.S. Bankruptcy Code for itself and many of its U.S. subsidiaries. Delphi's financial distress and Chapter 11 filing posed significant risks to us for two principal reasons: (1) our production operations rely on systems, components and parts provided by Delphi, our largest supplier, and could be substantially disrupted if Delphi rejected its GM supply agreements or its labor agreements and thereby affected the availability or price of the required systems, components or parts; and (2) in connection with the 1999 spin-off of Delphi from GM, we provided limited guarantees of pension and OPEB benefits for hourly employees represented by the UAW, the IUE-CWA, and the United Steel Workers (USW) who were transferred to Delphi from GM (Benefit Guarantees), which could have been triggered in connection with the Chapter 11 proceedings.

Since the filing, we have worked with Delphi, its unions and other interested parties to negotiate a satisfactory resolution to Delphi's Chapter 11 restructuring process, including several interim agreements such as the 2006 attrition and buyout programs affecting certain GM and Delphi employees. As described below, certain labor issues have been resolved among Delphi, the union, and us. The Bankruptcy Court has approved Delphi's plan of reorganization (Delphi POR), which includes agreements between Delphi and GM (Delphi-GM Settlement Agreements) that would settle other claims. Delphi is pursuing approximately $6.1 billion of new exit financing in support of the Delphi POR, which may be difficult in light of the current challenging conditions of the U.S. and global credit markets, particularly the weakness and decline in capacity of the market for highly leveraged loans. In its 2007 Annual Report on Form 10-K, Delphi stated that it was in discussions with its plan investors and with us regarding implementation of exit financing and that there could be no assurance as to whether such exit financing could be obtained. The plan investors' obligation to invest in Delphi is subject to a number of conditions including Delphi's obtaining adequate exit financing. If the investments have not closed by March 31, 2008, or a later date if the parties agree, the lead investor can terminate the investment agreement. We are exploring alternatives with Delphi in the event that the planned financing level is not achieved, including providing an additional significant portion of Delphi's exit financing. Delphi's emergence from Chapter 11 proceedings remains contingent upon obtaining sufficient financing for the Delphi POR, and there can be no assurance that Delphi will obtain sufficient financing or that it will emerge from bankruptcy on the terms set forth in the Delphi POR. If Delphi cannot secure the financing it needs, the Delphi POR would not be consummated on the terms negotiated with us and with other interested parties. We believe that Delphi would likely seek alternative arrangements, but there can be no assurance that Delphi would be successful in obtaining any alternative arrangements. The resulting uncertainty could disrupt our ability to plan future production and realize our cost reduction goals, and could affect our relationship with the UAW and result in our providing additional financial support to Delphi, receiving less than the distributions that we expect from the resolution of Delphi's bankruptcy proceedings or assuming some of Delphi's obligations to its workforce and retirees. Due to these uncertainties it is reasonably possible that additional losses could arise in the future, but we currently are unable to estimate the amount or range of such losses, if any.

Labor Settlement

In July 2007, a Memorandum of Understanding among Delphi, the UAW, and us (Delphi UAW MOU) was approved by the Bankruptcy Court, and similar labor agreements with Delphi's other major unions have also been approved. The Delphi UAW MOU covers a number of issues, including: (1) an extension of the GM-UAW benefit guarantee and the related Delphi indemnity; (2) flowbacks by certain Delphi UAW employees; (3) settlement of a UAW claim against Delphi; and (4) GM support for certain specific Delphi sites.

Key Factors Affecting Future and Current Results *(continued)*

In the Delphi UAW MOU, we agreed to extend the expiration date of the Benefit Guarantees with the UAW, and Delphi agreed to extend its agreement to indemnify us for Benefit Guarantee payments, from October 18, 2007 to March 31, 2008. We also agreed that the applicable Benefit Guarantees will be triggered for certain UAW employees if Delphi terminates its pension plan, ceases to provide on-going service, or fails or refuses to provide post-retirement medical benefits for those UAW employees at any time before both: (1) the execution of a comprehensive settlement agreement by Delphi and us resolving the financial, commercial and other matters between us, and (2) substantial consummation of a plan of reorganization for Delphi such as the Delphi POR, which has been confirmed by the Bankruptcy Court.

We also agreed in the Delphi UAW MOU to allow Delphi UAW employees who were on the payroll prior to October 8, 2005 to flowback to GM and be offered job opportunities at GM under certain circumstances. We permitted certain Delphi UAW represented employees who agreed to retire by September 1, 2007 under the retirement incentives agreed to by Delphi and the UAW in the Delphi UAW MOU to flowback to GM, and agreed to assume OPEB obligations for those retirees. We further committed in the Delphi UAW MOU to pay $450 million to settle a UAW claim against Delphi, which the UAW has directed us to pay directly to the External VEBA upon execution of the Delphi-GM Settlement Agreements and substantial consummation of the Delphi POR or another reorganization plan for Delphi that incorporates the Delphi-GM Settlement Agreements. Our financial contribution for payments such as retirement incentives, buyouts, buy downs and severance payments agreed to by Delphi and the UAW in the Delphi UAW MOU is covered in the Delphi-GM Settlement Agreements, as described below.

In the Delphi UAW MOU, we also agreed to make commitments to certain product programs at certain specified Delphi sites. In addition, at certain Delphi sale sites (Saginaw Steering – Saginaw, Sandusky, and Adrian) and the Delphi "Footprint" sites (Flint East, Needmore Road, and Saginaw Manufacturing), we agreed to cause the production operations and the active and inactive Delphi UAW employees to be transferred to a third party by certain dates and under certain circumstances. Finally, we agreed to provide a certain number of job opportunities at each of the Delphi "Footprint" sites.

On August 5, 2007, we entered into a Memorandum of Understanding with Delphi and the IUE-CWA (Delphi IUE-CWA MOU), which provides terms that are similar to the Delphi UAW MOU with regard to establishing terms related to the consensual triggering of the Benefit Guarantee Agreement offering an additional attrition program, and continuing operations at certain Delphi sites for which we committed to certain product programs. We also entered into similar agreements with the USW and other U.S. labor unions that represent Delphi hourly employees. The Delphi IUE-CWA MOU and the similar agreements with the other labor unions representing U.S. employees transferred from GM to Delphi have now been ratified by the appropriate membership and approved by the Bankruptcy Court.

Warranty Claims Settlement

On October 1, 2007, the Bankruptcy Court approved the Warranty Settlement Agreement between Delphi and us, which resolves certain outstanding warranty claims asserted by us against Delphi related to components or systems supplied by Delphi to us, for an estimated settlement amount of $170 million, comprised of payments anticipated to total $130 million in cash and replacement components valued at $40 million.

Delphi POR and Delphi–GM Settlement Agreements

The Bankruptcy Court entered an order on January 25, 2008 confirming the Delphi POR, including the Delphi-GM Settlement Agreements. As mentioned above, Delphi is currently pursuing exit financing in support of the Delphi POR which may be particularly difficult in light of the recent contraction of the credit markets. The following discussion describes how implementing the Delphi POR would affect us. There can be no assurance, however, that the Delphi POR will be substantially consummated on the terms set forth therein or on other terms that are acceptable to us, and we also discuss below how we could be affected if Delphi's Chapter 11 process is not resolved.

Delphi POR. Under the Delphi POR and the terms of Delphi-GM Settlement Agreements, we would receive $1.5 billion in a combination of at least $750 million in cash and a second lien note, and $1 billion in junior preferred convertible stock at Delphi POR value. The ultimate value of any consideration is contingent on the fair market value of Delphi's securities upon emergence from bankruptcy. We would release our claims against Delphi, and we would receive an unconditional release of any alleged claims against us by Delphi. As with other customers, certain of our claims related to ordinary business would flow through the Chapter 11 proceedings and be satisfied by Delphi after the reorganization in the ordinary course of business. Delphi is continuing to experience difficulty in obtaining exit financing, as a result of the current weakness in the credit market. We have informed Delphi that we are prepared to reduce the cash portion of our distributions significantly and accept an equivalent amount of debt in the form of a first lien note to help facilitate Delphi's successful emergence from bankruptcy proceedings.

Delphi-GM Settlement Agreements. The Global Settlement Agreement, as amended (GSA) and the Master Restructuring Agreement, as amended (MRA) comprise the Delphi-GM Settlement Agreements. Under the GSA, we would be released from all claims by Delphi and its U.S. affiliates, their creditors, their unions, and all current and future stockholders of Delphi, and from any claims related to our spinoff of Delphi, collective bargaining agreements, and the Delphi bankruptcy by Delphi's subsidiaries outside the U.S., and we and our affiliates would release similar claims against Delphi and its affiliates. Claims resulting from the ordinary course of business would not be released under the GSA. We agreed to assume approximately $1.5 billion of Delphi's net pension obligations, and Delphi agreed to issue us a note for the same amount. We also agreed to reimburse Delphi for the cost of credited service accrued since January 1, 2007 by Delphi U.S. hourly employees, as well as the cost of OPEB claims paid by Delphi on behalf of those employees in 2007 after their retirement. The GSA also provides that we would reimburse Delphi for 100% of retirement incentives, 50% of the buyout payments and 100% of the buydown payments, each made as part of the most recent Delphi attrition programs for members of the UAW, the IUE-CWA and the USW. We would also make payments aggregating $60 million related to claims by the IUE-CWA and the USW against Delphi and costs and expenses incurred by Delphi in connection with the Delphi IUE-CWA MOU.

The MRA sets forth the terms and conditions governing the scope of the existing supply contracts, related pricing agreements, and extensions of certain supply contracts; our rights to move production to certain suppliers; and Delphi's rights to bid and qualify for new business. Delphi also agreed to assume or reinstate, as applicable, certain agreements with us, including certain agreements related to the 1999 spin-off of Delphi from GM, certain subsequent agreements, and all ordinary course agreements. Most prepetition contracts between us and Delphi, including contracts related to the 1999 spin-off of Delphi from GM, were terminated. We agreed to reimburse a certain portion of Delphi's hourly labor costs incurred to produce systems, components, and parts for us from October 1, 2006 through September 14, 2015, and to offer similar reimbursement to prospective buyers of certain Delphi facilities with GM production (Labor Cost Subsidy). The MRA provides additional GM commitments with regard to specific Delphi facilities. At certain U.S. facilities providing production for us, we agreed to reimburse Delphi's expenses as necessary to make up cash losses attributable to such production until the facilities are either closed or sold (Production Cash Burn Support). With regard to certain businesses that Delphi is holding for sale, we agreed to make up a certain portion of any shortfall if Delphi does not fully recover the net working capital invested in each such business, and if sales proceeds exceed net working capital, we would receive a certain portion of the excess. Finally, Delphi agreed to provide us or our designee with an option to purchase all or any of certain Delphi businesses for one dollar if such businesses have not been sold by certain specified deadlines. If such a business is not sold either to a third party or to us or any affiliate pursuant to the option by the applicable deadline, we (or at our option, a GM affiliate) will be deemed to have exercised the purchase option, and the unsold business, including materially all of its assets and liabilities, will automatically transfer to the GM "buyer". Similarly, under the Delphi UAW MOU if such a transfer has not occurred by the applicable deadline, responsibility for the UAW hourly employees of such an unsold business affected would automatically transfer to us or our designated affiliate. Delphi agreed to guarantee the performance of the subsidiary to which we will issue our U.S. purchase orders, provided that we are not in material breach of certain of our obligations under the Delphi-GM Settlement Agreements. Delphi further agreed to maintain majority ownership of such subsidiary, with certain limited exceptions.

Risks if Delphi POR is Not Consummated

If Delphi is not successful consummating the Delphi POR, we could be subject to many of the risks that we have reported since Delphi's 2005 bankruptcy filing. For example, Delphi could reject or threaten to reject individual contracts with us, either for the purpose of exiting specific lines of business or in an attempt to increase the price we pay for certain parts and components. Until the Delphi POR is consummated, we intend to continue to protect our right of setoff against the $1.15 billion we owed to Delphi in the ordinary course of business when it made its Chapter 11 filing. However, the extent to which these obligations are covered by our right to setoff may be subject to dispute by Delphi, the creditors' committee, or Delphi's other creditors, and limitation by the court. We cannot provide any assurance that we will be able to setoff such amounts fully or partially. To date, we have recorded setoffs of approximately $54 million against that pre-petition obligation, with Delphi's agreement. We have also filed a Consolidated Proof of Claim, in accordance with the Bankruptcy Court's procedures, setting forth our claims (including the claims of various GM subsidiaries) against Delphi and the other debtor entities, although the exact amount of our claims cannot be established because of the contingent nature of many of the claims involved and the fact that the validity and amount of the claims may be subject to objections from Delphi and other stakeholders.

Under the Labor MOUs, the Benefit Guarantees and the related indemnification agreement by Delphi will not expire until March 31, 2008, but if the Delphi POR or a similar agreement is not consummated, our obligation to make Benefit Guarantee payments could be triggered if Delphi makes certain changes in its pension or OPEB plans or ceases to provide on-going credited service. Delphi would be required to indemnify us for such payments but our claims for indemnity might not be paid, or may be partially paid, depending upon the reorganization plan approved for Delphi.

We would also have a claim against Delphi for $3.8 billion related to some of the costs we paid related to Delphi hourly employees who participated in special attrition and buyout programs, which provided a combination of early retirement programs and other incentives to reduce hourly employment at both GM and Delphi. In 2006, 13,800 Delphi employees represented by the UAW and 6,300 Delphi employees represented by the IUE-CWA elected to participate in these attrition and buyout programs.

GM Contingent Liability

We believe that it is probable that we have incurred a contingent liability due to Delphi's Chapter 11 filing. In our quarterly report on Form 10-Q for the second quarter of 2007, we reported that we believed that the range of the contingent exposures was approximately $7 billion. We have recorded charges of $1.1 billion, $.5 billion and $5.5 billion in 2007, 2006 and 2005, respectively, in connection with the Benefit Guarantee Agreements. In addition, during 2007 we have recorded charges of $.5 billion related to the Delphi-GM Settlement Agreements, consisting primarily of our guarantee of Delphi's recovery of the net working capital at facilities held for sale and amounts due under the Labor Cost Subsidy. These charges are net of estimated recoveries that would be due to us upon emergence of Delphi from bankruptcy. Our commitments under the Delphi-GM Settlement Agreements for the Labor Cost Subsidy and Production Cash Burn Support are expected to result in additional expense of between $300 million and $400 million annually beginning in 2008 through 2015, which will be treated as a period cost and expensed as incurred. We continue to expect that the cost of these reimbursements will be more than offset in the long term by our savings from reductions to the estimated $1.5 billion price penalty we now pay Delphi annually for systems, components, and parts.

During 2006 and 2007, certain amounts previously recorded under the Benefit Guarantee were reclassified to our OPEB liability, since we assumed OPEB obligations for 18,500 Delphi employees who returned to GM to continue working as GM employees or to retire from GM.

The actual impact of the resolution of issues related to Delphi cannot be determined until Delphi emerges from bankruptcy protection under the Delphi POR or another comprehensive resolution and plan of reorganization, and there can be no assurance that the parties will successfully consummate the Delphi POR that has been approved by the Bankruptcy Court, or that the parties will reach a subsequent comprehensive resolution and plan or that the Bankruptcy Court will approve such a resolution and plan, or that any resolution and plan will include the terms described above.

GMAC – SALE OF 51% CONTROLLING INTEREST

In November 2006, we completed the GMAC Transaction, which was the sale of a 51% controlling interest in GMAC for a purchase price of $7.4 billion to FIM Holdings. FIM Holdings is a consortium of investors including Cerberus FIM Investors LLC, Citigroup Inc., Aozora Bank Limited, and a subsidiary of The PNC Financial Services Group, Inc. We have retained a 49% interest in GMAC's Common Membership Interests. In addition, FIM Holdings purchased 555,000 of GMAC's Preferred Membership Interests for a cash purchase price of $500 million and we purchased 1,555,000 Preferred Membership Interests for a cash purchase price of $1.4 billion. On November 1, 2007, FIM Holdings converted 555,000 of its Preferred Membership Interests into Common Membership Interests and we converted 533,236 of our Preferred Membership Interests into Common Membership Interests, so that our percentage ownership of the Common Membership Interests remained unchanged.

The total value of the cash proceeds and distributions to us after payment of certain intercompany obligations, and before we purchased the preferred membership interests of GMAC was expected to be approximately $14 billion over three years, comprised of the $7.4 billion purchase price and $2.7 billion cash dividend at closing, and other transaction related cash flows including the monetization of a portfolio of vehicle leases and the related vehicles. The delinquency rate on this portfolio has increased recently, consistent with other trends in the credit markets. In January 2007, we made a capital contribution to GMAC of approximately $1 billion to restore its adjusted tangible equity balance to the contractually required amount due to the decrease in the adjusted tangible equity balance of GMAC as of November 30, 2006.

GMAC may be required to make certain quarterly distributions to holders of the Preferred Membership Interests in cash on a pro rata basis. The Preferred Membership Interests are issued in units of $1,000 and accrue a yield at a rate of 10% per annum. GMAC's Board of Managers (GMAC Board) may reduce any distribution to the extent required to avoid a reduction of the equity capital of GMAC below a minimum amount of equity capital equal to the net book value of GMAC at November 30, 2006. In addition, the GMAC Board may suspend the payment of Preferred Membership Interest distributions with the consent of

Key Factors Affecting Future and Current Results *(concluded)*

the holders of a majority of the Preferred Membership Interest. If distributions are not made with respect to any fiscal quarter, the distributions would not be cumulative. If the accrued yield of GMAC's Preferred Membership Interests for any fiscal quarter is fully paid to the preferred holders, then a portion of the excess of the net financial book income of GMAC in any fiscal quarter over the amount of yield distributed to the holders of the Preferred Membership Interests in such quarter will be distributed to the holders of the Common Membership Interests as follows: at least 40% of the excess will be paid for fiscal quarters ending prior to December 31, 2008 and at least 70% of the excess will be paid for fiscal quarters ending after December 31, 2008.

Prior to consummation of the GMAC Transaction: (1) certain assets with respect to automotive leases owned by GMAC and its affiliates having a net book value of approximately $4 billion and related deferred tax liabilities of $1.8 billion were transferred to us; (2) we assumed or retained certain of GMAC's OPEB obligations of $842 million, and related deferred tax assets of $302 million; (3) GMAC transferred entities that hold certain real properties to us; (4) GMAC paid cash dividends to us based on GMAC's anticipated net income for the period September 30, 2005 to November 30, 2006 totaling $1.9 billion; (5) we repaid certain indebtedness and specified intercompany unsecured obligations owing to GMAC; and (6) GMAC made a one-time cash distribution to us of $2.7 billion of cash to reflect the increase in GMAC's equity resulting from the transfer of a portion of GMAC's net deferred tax liabilities arising from the conversion of GMAC and certain of its subsidiaries to limited liability corporations.

As part of the agreement, we retained an option, for ten years after the closing date, to repurchase from GMAC certain assets related to the automotive finance business of the North American Operations and International Operations of GMAC. Our exercise of the option is conditional on our credit rating being investment grade or higher than GMAC's credit rating. The call option price is calculated as the higher of (1) fair market value or (2) 9.5 times the consolidated net income of GMAC's automotive finance business in either the calendar year the call option is exercised or the calendar year immediately following the year the call option is exercised.

The GMAC Transaction, an important element in our turnaround efforts, provided the following:

- Strong long-term services agreement between us and GMAC – As part of the transaction, we entered into a number of agreements with GMAC that were intended to continue the mutually-beneficial global relationship between us and GMAC. These agreements, in substance, were consistent with the existing and historical practices between GMAC and us, including requiring GMAC to continue to allocate capital to automotive financing, thereby continuing to provide critical financing support to a significant share of our global sales. While GMAC retains the right to make individual credit decisions, GMAC has committed to fund a broad spectrum of our customers and dealers consistent with historical practice in the relevant jurisdictions. Subject to GMAC's fulfillment of certain conditions, we have granted GMAC exclusivity for our products in specified markets around the world for U.S., Canadian and international GM-sponsored retail, lease and dealer marketing incentives, with the exception of Saturn branded products.

- Improved liquidity – We received significant cash proceeds at the closing to bolster our liquidity, strengthening our balance sheet and funding the turnaround plan.

- Enhanced stockholder value through a stronger GMAC – We retained a 49% Common Membership Interest in GMAC, and will be able to continue to participate in GMAC's financial results.

- Delinkage of GMAC's credit rating from ours – In pursuing the sale of a majority interest in GMAC, we expected that the introduction of a new controlling investor for GMAC, new capital at GMAC and significantly reduced intercompany exposures to us would provide GMAC with a solid foundation to improve its current credit rating, and de-link the GMAC credit ratings from us.

In November 2007, we converted 533,236 of our Preferred Membership Interests and FIM Holdings converted 555,000 of its Preferred Membership Interests into 3,912 and 4,072, respectively, of Common Membership Interests in order to strengthen GMAC's capital position. Our percentage ownership of the Common Membership Interests in GMAC remained unchanged after the conversion. We accounted for the conversion at fair value and recorded a loss of $27 million during 2007. The loss on conversion represents the difference between the fair value and the carrying value of the Preferred Membership Interests converted. GMAC accounted for the conversion of the Preferred Membership Interests as a recapitalization recorded at book value. Our proportionate share of the increase in GMAC's net equity attributable to Common Membership Interest holders as a result of the conversion exceeded the fair value of the Preferred Membership Interests we converted by $27 million. The difference was recorded as an increase to Additional paid-in capital in 2007. At December 31, 2007, we hold the remaining 1,021,764 of Preferred Membership Interests and 49% or 52,912 of Common Membership Interests in GMAC.

We periodically evaluate the carrying value of our investment in GMAC, including our Preferred Membership Interests, to assess whether our investment is impaired. We currently believe our investment in GMAC is not impaired. However, there are many economic factors which are unstable at December 31, 2007, which may affect GMAC's ability to generate sustainable earnings and continue distributions on its Preferred Membership Interests and, accordingly, our assessment of impairment. These factors include:

- The instability of the global credit and mortgage markets and the effect of this on GMAC's Residential Capital, LLC (ResCap) subsidiary as well as its automotive finance, insurance and other operations;

- The deteriorating conditions in the residential and home building markets, including significant changes in the mortgage secondary market, tightening underwriting guidelines and reduced product offerings;

- Recent credit downgrades of GMAC and ResCap and the effect on their ability to raise capital necessary on acceptable terms; and

- Effect of the expected near-term automotive market conditions on GMAC's automotive finance operations.

INVESTIGATIONS

As previously reported, we are cooperating with federal governmental agencies in connection with a number of investigations.

The SEC has issued subpoenas and information requests to us in connection with various matters including restatements of our previously disclosed financial statements in connection with our accounting for certain foreign exchange contracts and commodities contracts, our financial reporting concerning pension and OPEB, certain transactions between us and Delphi, supplier price reductions or credits and any obligation we may have to fund pension and OPEB costs in connection with Delphi's proceedings under Chapter 11 of the Bankruptcy Code. In addition, the SEC has issued a subpoena in connection with an investigation of our transactions in precious metal raw materials used in our automotive manufacturing operation.

We have produced documents and provided testimony in response to the subpoenas and will continue to cooperate with respect to these matters. A negative outcome of one or more of these investigations could require us to restate prior financial results, pay fines or penalties or satisfy other remedies under various provisions of the U.S. securities laws, and any of these outcomes could under certain circumstances have a material adverse effect on our business.

Liquidity and Capital Resources

Investors or potential investors in our securities consider cash flows of the Automotive and FIO businesses to be a relevant measure in the analysis of our various securities that trade in public markets. Accordingly, we provide supplemental statements of cash flows to aid users of our consolidated financial statements in the analysis of performance and liquidity and capital resources.

This information reconciles to the consolidated statements of cash flows after the elimination of "Net investing activity with Financing and Insurance Operations" and "Net financing activity with Automotive and Other Operations" line items shown in the table below. Following are such statements for the years ended December 31, 2007, 2006 and 2005:

Years Ended December 31,	Automotive and Other			Financing and Insurance		
(Dollars in millions)	**2007**	2006	2005	**2007**	2006	2005
Cash flows from operating activities						
Net income (loss)	**$(38,037)**	$(3,007)	$(12,674)	**$ (695)**	$ 1,029	$ 2,257
Less income from discontinued operations	**4,565**	445	313	**–**	–	–
Less cumulative effect of a change in accounting principle	**–**	–	(109)	**–**	–	–
Income (loss) from continuing operations	**(42,602)**	(3,452)	(12,878)	**(695)**	1,029	2,257
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) continuing operating activities:						
Depreciation, impairment and amortization expense	**8,254**	8,094	10,036	**1,259**	2,791	5,696
Mortgage servicing rights and premium amortization	**–**	–	–	**–**	1,021	1,142
Goodwill impairment – GMAC	**–**	–	–	**–**	828	712
Delphi charge	**1,547**	500	5,500	**–**	–	–
Loss on sale of 51% interest in GMAC	**–**	–	–	**–**	2,910	–
Provision for credit financing losses	**–**	–	–	**–**	1,799	1,074
Net gains on sale of credit receivables	**–**	–	–	**–**	(1,256)	(1,741)
Net gains on sale of investment securities	**–**	–	–	**–**	(1,006)	(104)
Other postretirement employee benefit (OPEB) expense	**2,362**	3,523	5,558	**–**	44	92
OPEB payments	**(3,751)**	(3,759)	(4,030)	**–**	(43)	(54)
VEBA/401(h) withdrawals	**1,694**	3,061	3,168	**–**	–	–
Pension expense	**1,799**	4,888	2,433	**–**	23	62
Pension contributions	**(937)**	(1,032)	(785)	**–**	–	(48)
Retiree lump sum and vehicle voucher expense, net of payments	**–**	(325)	(264)	**–**	–	–
Net change in mortgage loans	**–**	–	–	**–**	(21,578)	(29,119)
Net change in mortgage securities	**–**	–	–	**–**	427	(1,155)
Provisions for deferred taxes	**36,956**	(5,002)	(7,924)	**21**	836	1,193
Change in other investments and miscellaneous assets	**(202)**	581	136	**865**	(1,058)	(826)
Change in other operating assets and liabilities, net of acquisitions and disposals	**(2,800)**	(3,567)	(2,975)	**(612)**	(4,945)	2,995
Other	**3,099**	1,456	1,747	**1,250**	862	932
Net cash provided by (used in) continuing operating activities	**5,419**	4,966	(278)	**2,088**	(17,316)	(16,892)
Cash provided by discontinued operating activities	**224**	591	314	**–**	–	–
Net cash provided by (used in) operating activities	**$ 5,643**	$ 5,557	$ 36	**$2,088**	$(17,316)	$(16,892)

Liquidity and Capital Resources *(continued)*

Years Ended December 31,	Automotive and Other			Financing and Insurance		
(Dollars in millions)	**2007**	2006	2005	**2007**	2006	2005
Cash flows from investing activities						
Expenditures for property	**$ (7,538)**	$ (7,500)	$ (7,858)	**$ (4)**	$ (402)	$ (283)
Investments in marketable securities, acquisitions	**(10,098)**	(2,681)	(8,295)	**(57)**	(25,381)	(19,184)
Investments in marketable securities, liquidations	**8,080**	4,259	13,342	**39**	26,822	14,874
Net change in mortgage servicing rights	**–**	–	–	**–**	(61)	(267)
Increase in finance receivables	**–**	–	–	**–**	(1,160)	(6,582)
Proceeds from sale of finance receivables	**–**	–	–	**–**	18,374	31,652
Proceeds from the sale of 51% interest in GMAC	**–**	7,353	–	**–**	–	–
Proceeds from sale of discontinued operations	**5,354**	–	–	**–**	–	–
Proceeds from sale of business units/equity investments	**–**	1,968	846	**–**	8,538	–
Operating leases, acquisitions	**–**	–	–	**–**	(17,070)	(15,496)
Operating leases, liquidations	**–**	–	–	**3,165**	7,039	5,362
Net investing activity with Financing and Insurance Operations	**944**	3,354	2,500	**–**	–	–
Capital contribution to GMAC LLC	**(1,022)**	–	–	**–**	–	–
Investments in companies, net of cash acquired	**(46)**	(20)	1,357	**–**	(337)	(2)
Other	**374**	(353)	640	**15**	338	(1,503)
Net cash provided by (used in) continuing investing activities	**(3,952)**	6,380	2,532	**3,158**	16,700	8,571
Cash used in discontinued investing activities	**(22)**	(31)	(38)	**–**	–	–
Net cash provided by (used in) investing activities	**(3,974)**	6,349	2,494	**3,158**	16,700	8,571
Cash flows from financing activities						
Net increase (decrease) in short-term borrowings	**(1,297)**	(259)	(176)	**(4,452)**	7,289	(9,949)
Borrowings of long-term debt	**2,131**	1,937	386	**–**	77,629	77,890
Payments made on long-term debt	**(1,403)**	(97)	(46)	**–**	(92,193)	(69,520)
Net financing activity with Automotive and Other Operations	**–**	–	–	**(944)**	(3,354)	(2,500)
Cash dividends paid to stockholders	**(567)**	(563)	(1,134)	**–**	–	–
Other	**–**	–	–	**–**	2,487	6,030
Net cash provided by (used in) continuing financing activities	**(1,136)**	1,018	(970)	**(5,396)**	(8,142)	1,951
Cash provided by (used in) discontinued financing activities	**(5)**	3	(1)	**–**	–	–
Net cash provided by (used in) financing activities	**(1,141)**	1,021	(971)	**(5,396)**	(8,142)	1,951
Effect of exchange rate changes on cash and cash equivalents	**316**	189	(40)	**–**	176	(45)
Net transactions with Automotive Other/Financing Insurance	**(69)**	(4,529)	520	**69**	4,529	(520)
Net increase (decrease) in cash and cash equivalents	**775**	8,587	2,039	**(81)**	(4,053)	(6,935)
Cash and cash equivalents retained by GMAC LLC upon disposal	**–**	–	–	**–**	(11,137)	–
Cash and cash equivalents of held for sale operations	**–**	–	–	**–**	–	(371)
Cash and cash equivalents at beginning of the year	**23,774**	15,187	13,148	**349**	15,539	22,845
Cash and cash equivalents at end of the year	**$ 24,549**	$23,774	$15,187	**$ 268**	$ 349	$ 15,539

AUTOMOTIVE AND OTHER

Available Liquidity

We believe we have sufficient liquidity and financial flexibility to meet our capital requirements, including the required funding of the UAW Attrition Program, and other funding needs over the short and medium-term, even in the event of further U.S. industry decline. Over the medium to long-term, we believe that our ability to meet our capital requirements and other funding obligations, including the required funding outlined in the Settlement Agreement, primarily will depend on the successful execution of our turnaround plan and the return of our North American operations to profitability and positive cash flow. Automotive and Other (Automotive) available liquidity includes its cash balances, marketable securities and readily available assets of our VEBA trusts. At December 31, 2007, available liquidity was $27.3 billion compared with $26.4 billion at December 31, 2006 and $20.4 billion at December 31, 2005. The amount of our consolidated cash and marketable securities is subject to intra-month and seasonal fluctuations and includes balances held by various business units and subsidiaries worldwide that are needed to fund their operations. We manage our global liquidity centrally which allows us to optimize funding of our global operations. As of December 31, 2007, 60% of our reported liquidity was held in the U.S. Additionally, our U.S. operations have further access to much of our overseas liquidity through inter-company arrangements. A summary of our global liquidity is as follows:

	Years Ended December 31,		
(Dollars in billions)	**2007**	2006	2005
Cash and cash equivalents	**$24.6**	$23.8	$15.2
Marketable securities	**2.1**	.1	1.4
Readily-available assets of VEBA trusts	**.6**	2.5	3.8
Available Liquidity	**$27.3**	$26.4	$20.4

Liquidity and Capital Resources *(continued)*

At December 31, 2007, the total VEBA trust assets and related accounts were $16.3 billion, $.6 billion of which was readily available. At December 31, 2006 the total VEBA trust assets and related accounts were $17.8 billion, $2.5 billion of which was readily available. At December 31, 2005, the total VEBA trust assets and related accounts were $19.1 billion, $3.8 billion of which was readily available. The decline in VEBA balances since December 31, 2006 was primarily driven by $2.7 billion of withdrawals during 2007 partially offset by favorable asset returns during the year. In connection with the Settlement Agreement a significant portion of the VEBA trust assets has been allocated to the UAW Related Account which will also hold the proportional investment returns on that percentage of the trust. No amounts will be withdrawn from the UAW Related Account including its investment returns from January 1, 2008 until transfer to the New VEBA. This treatment has led us to exclude any portion of the UAW Related Account from our available liquidity at December 31, 2007.

We also have a $4.6 billion standby revolving credit facility with a syndicate of banks, of which $150 million terminates in June 2008 and $4.5 billion terminates in July 2011. As of December 31, 2007, the availability under the revolving credit facility was $4.5 billion. There are $91 million of letters of credit issued under the credit facility, and no loans are currently outstanding. Under the $4.5 billion secured facility, borrowings are limited to an amount based on the value of the underlying collateral, which consists of certain North American accounts receivable and inventory of GM, Saturn Corporation and GM Canada, certain plants, property and equipment of GM Canada and a pledge of 65% of the stock of the holding company for our indirect subsidiary General Motors de Mexico, S de R.L. de C.V. The collateral also secures certain lines of credit, automatic clearinghouse and overdraft arrangements and letters of credit provided by the same secured lenders. The facility totals $6 billion, $4.5 billion of which is the maximum available through the revolving credit facility. As of December 31, 2007, in addition to the $91 million of letters of credit issued under the revolving credit facility, $1.6 billion was utilized to secure other facilities. In the event of certain work stoppages, the secured revolving credit facility would be temporarily reduced to $3.5 billion.

In May 2007, we entered into an unsecured revolving credit agreement expiring in June 2008 that provided for borrowings of up to $500 million. After reviewing our liquidity position in December 2007, we believe that we have sufficient liquidity and financial flexibility to meet our capital requirements in the first half of 2008 without the credit agreement. As a result, we terminated the credit agreement on January 9, 2008. We never borrowed under this credit agreement.

As an additional source of available liquidity, we obtained a $4.1 billion standby revolving credit agreement with a syndicate of banks in June 2007. The facility was secured by our Common Membership Interests in GMAC and scheduled to mature in June 2008. After reviewing our liquidity position in December 2007, we believe that we have sufficient liquidity and financial flexibility to meet our capital requirements in the first half of 2008 without the credit agreement. As a result, we terminated the credit agreement on December 31, 2007. We never borrowed under this credit agreement.

In August 2007, we entered into a revolving credit agreement expiring in August 2009 that provides for borrowings of up to $1.3 billion. This agreement provides additional available liquidity that we could use for general corporate purposes, including working capital needs. Under this facility, borrowings are limited to an amount based on the value of underlying collateral, which consists of residual interests in trusts that own leased vehicles and issue asset-backed securities collateralized by the vehicles and the associated leases. The underlying collateral was previously owned by GMAC and was transferred to us as part of the GMAC Transaction in November 2006. The underlying collateral is held by bankruptcy-remote subsidiaries and pledged to a trustee for the benefit of the lender. We consolidate the bankruptcy-remote subsidiaries and trusts for financial reporting purposes. No borrowings were outstanding under this agreement at December 31, 2007.

We also have an additional $1.5 billion in undrawn committed facilities, including certain off-balance sheet securitization programs, with various maturities up to one year and $1 billion in undrawn uncommitted lines of credit. In addition, our consolidated affiliates with non-GM minority shareholders, primarily GM Daewoo, have a combined $1.6 billion in undrawn committed facilities.

In May 2007, we issued $1.5 billion principal amount of Series D convertible debentures due in 2009. The Series D convertible debentures were issued at par with interest at a rate of 1.5%, and may be converted at the option of the holder into Common Stock based on an initial conversion rate of .6837 shares per $25.00 principal amount of debentures, which represents an initial conversion price of $36.57 per share. In connection with the issuance of the Series D convertible debentures, we purchased a convertible note hedge of the convertible debentures in a private transaction. The convertible note hedge is expected to reduce the potential dilution with respect to our Common Stock upon conversion of the Series D convertible debentures, and effectively increases the conversion price to $45.71 per share. The proceeds from these debentures provided additional available liquidity that we may use for general corporate purposes, including working capital needs.

Other potential measures to strengthen available liquidity could include the sale of non-core assets and additional public or private financing transactions. We anticipate that such additional liquidity, along with other currently available liquidity described above, will be used for general corporate purposes including working capital needs as well as funding cash requirements outlined in the Settlement Agreement and potentially similar arrangements with other labor unions and the UAW Special Attrition Program.

We believe that it is possible that issues may arise under various other financing arrangements in connection with the restatement of prior consolidated financial statements. These financing arrangements principally consist of obligations in connection with sale/leaseback transactions and other lease obligations, including off-balance sheet arrangements, and do not include our public debt indentures. In connection with the 2006 restatement of prior consolidated financial statements, we evaluated the effect of our restatement under these agreements, including our legal rights with respect to any claims that could be asserted, such as our ability to cure. Based on our review, we believe that, although no assurances can be given as to the likelihood, nature or amount of any claims that may be asserted, amounts subject to possible claims of acceleration, termination or other remedies are not likely to exceed $2.7 billion, consisting primarily of off-balance sheet arrangements. Moreover, we believe there may be economic or other disincentives for third parties to raise such claims to the extent they have them. Based on this review, we reclassified $257 million of these obligations, as of December 31, 2006, from long-term debt to short-term debt. As of December 31, 2007 the amount of obligations reclassified from long-term debt to short-term debt based on this review was $212 million. We believe we have sufficient liquidity over the short and medium term to satisfy any claims related to these matters. To date, we have not received any such claims, and we do not anticipate receiving any such claims.

Cash Flow

The increase in available liquidity to $27.3 billion at December 31, 2007 from $26.4 billion at December 31, 2006 was primarily a result of positive operating cash flow, net of a $1 billion contribution to the Mitigation VEBA, $5.4 billion in proceeds from the sale of Allison, and cash flows received in connection with portfolios of vehicle operating leases held by FIO. This increase was partially offset by capital expenditures, $1 billion capital contribution to GMAC, and a decrease in readily-available VEBA trust assets of $1.9 billion primarily as a result of the Settlement Agreement.

Investments in marketable securities primarily consist of purchases, sales and maturities of highly-liquid corporate, U.S. government, U.S. government agency and mortgage-backed debt securities used for cash management purposes. During 2007, we acquired net $2.0 billion of marketable securities.

Liquidity and Capital Resources *(continued)*

For the year ended December 31, 2007, we had positive operating cash flow of $5.4 billion on a net loss from continuing operations of $42.6 billion. That result compares with the positive operating cash flow of $5 billion on a net loss from continuing operations of $3.5 billion in 2006. Operating cash flow in 2007 included withdrawals of $2.7 billion from our VEBA trust assets for our OPEB plans for reimbursement of retiree health-care and life insurance benefits provided to eligible plan participants. Operating cash flow was unfavorably impacted by $.9 billion of cash expenditures related to the GMNA restructuring initiative, $.4 billion of cash expenditures related to the GME restructuring initiative and $.3 billion of cash expenditures related to Delphi's restructuring activities, for which the charges were recorded in 2003 through 2006.

Capital expenditures of $7.5 billion were a significant use of investing cash in 2007 and were primarily attributable to global product programs, powertrain and tooling requirements. For the years ended December 31, 2006 and 2005, capital expenditures were $7.5 billion and $7.9 billion, respectively. We anticipate that capital expenditures in 2008 will increase to approximately $8 billion.

In August 2007, we completed the sale of the commercial and military operations of Allison for $5.4 billion in cash plus assumed liabilities.

In November 2006, we consummated the GMAC Transaction, in which we sold a controlling 51% interest in GMAC to FIM Holdings. In the first quarter of 2007, we made a capital contribution of $1 billion to GMAC to restore GMAC's adjusted tangible equity balance to the contractually required levels. This capital contribution was required due to the decrease in the adjusted tangible equity balance of GMAC as of November 30, 2006.

Debt

Automotive's total debt, including capital leases, industrial revenue bond obligations and borrowings from GMAC at December 31, 2007 was $39.4 billion, of which $6 billion was classified as short-term or current portion of long-term debt and $33.4 billion was classified as long-term debt. At December 31, 2006, total debt was $38.7 billion, of which $5.7 billion was short-term or current portion of long-term debt and $33 billion was long-term debt. This increase in total debt was primarily a result of $1.5 billion convertible debenture issuance on May 31, 2007 and increases in overseas debt balances, partly offset by $1.1 billion convertible debentures that were put to us and settled for cash on March 6, 2007. We funded this settlement using cash flow from operations and available liquidity.

Short-term borrowings and current portion of long-term debt of $6 billion includes $1.3 billion of debt issued by our subsidiaries and consolidated affiliates, and $2.5 billion of related party debt, mainly dealer financing from GMAC. We have various debt maturities of $2.3 billion in 2009 and $.2 billion in 2010 and various debt maturities of $30.9 billion thereafter. We believe we have adequate liquidity to settle those obligations as they become due.

In order to provide financial flexibility to us and our suppliers, we maintain a trade payables program through GMAC Commercial Finance (GMACCF). Under the terms of the GMAC Transaction, we will be permitted to continue administering the program through GMACCF so long as we provide the funding of advance payments to suppliers under the program. As of May 1, 2006, we commenced funding of the advance payments, and as a result, at December 31, 2007, there was no outstanding balance owed by us to GMACCF under the program.

Net Debt

Net debt, calculated as cash, marketable securities, and $.6 billion ($2.5 billion at December 31, 2006) of readily-available assets of the VEBA trust less the short-term borrowings and long-term debt, was $12.1 billion at December 31, 2007, compared with $12.3 billion at December 31, 2006.

FINANCING AND INSURANCE OPERATIONS

Prior to the consummation of the GMAC Transaction, GMAC paid a dividend to us of lease-related assets, having a net book value of $4 billion and related deferred tax liabilities of $1.8 billion. This dividend resulted in the transfer to us of two bankruptcy-remote subsidiaries that hold equity interests in ten trusts that own leased vehicles and issued asset-backed securities collateralized by the vehicles. GMAC originated these securitizations and remains as the servicer of the securitizations. In August 2007 we entered into a secured revolving credit arrangement of up to $1.3 billion that is secured by the equity interest on these ten securitization trusts. In connection with this credit facility, we contributed these two bankruptcy remote subsidiaries into a third bankruptcy remote subsidiary. We consolidate the bankruptcy-remote subsidiaries and the ten trusts for financial reporting purposes.

At December 31, 2007, these bankruptcy-remote subsidiaries had vehicles subject to operating leases of $6.7 billion compared to $11.8 billion at December 31, 2006, other net assets of $1.4 billion compared to $1.5 billion at December 31, 2006, outstanding secured debt of $4.9 billion compared to $9.4 billion at December 31, 2006 and net equity of $3.3 billion compared to $3.9 billion at December 31, 2006.

The decrease in operating leases, secured debt and net equity from December 31, 2006 is the result of the termination of some leases during 2007 and the repayment of the related secured debt. The secured debt has recourse solely to the leased vehicles and related assets. We continue to be obligated to the bankruptcy-remote subsidiaries for residual support payments on the leased vehicles in an amount estimated to total $.9 billion at December 31, 2007 and $1.6 billion at December 31, 2006. However, neither the securitization investors nor the trusts have any rights to the residual support payments. We expect the operating leases and related securitization debt to amortize gradually over the next two to three years, resulting in the release to these two bankruptcy-remote subsidiaries of certain cash flows related to their ownership of the securitization trusts and related operating leases.

The cash flow that we expect to realize from the leased vehicle securitizations over the next two to three years will come from three principal sources: (1) cash released from the securitizations on a monthly basis as a result of available funds exceeding debt service and other required payments in that month; (2) cash received upon and following termination of a securitization to the extent of remaining overcollateralization; and (3) return of the residual support payments owing from us each month. For the year ended December 31, 2007, the total cash flows released to these two bankruptcy-remote subsidiaries were $864 million and from November 2006 through December 31, 2007 the total cash flows released were $987 million.

STATUS OF DEBT RATINGS

Our fixed income securities are rated by four independent credit rating agencies: Dominion Bond Rating Services (DBRS), Moody's Investor Service (Moody's), Fitch Ratings (Fitch), and Standard & Poor's (S&P). The ratings indicate the agencies' assessment of a company's ability to pay interest, distributions, dividends and principal on these securities. Lower credit ratings are generally representative of higher borrowing costs and reduced access to capital markets to a company. Their ratings on us are based on information provided by us and other sources. Factors the agencies consider when determining a rating include, but are not limited to, cash flows, liquidity, profitability, business position and risk profile, ability to service debt and the amount of debt as a component of total capitalization.

DBRS, Moody's, Fitch and S&P currently rate our credit at non-investment grade. The following table summarizes our credit ratings as of February 18, 2008:

Rating Agency	Corporate	Secured	Senior Unsecured	Outlook
DBRS	B (high)	Not Rated	B	Stable
Fitch	B	BB	B-	Negative
Moody's	B3	Ba3	Caa1	Stable
S&P	B	BB-	B-	Stable

Liquidity and Capital Resources *(continued)*

Rating actions taken by each of the credit rating agencies during 2007 are as follows:

DBRS: On May 14, 2007, DBRS affirmed our senior unsecured debt rating at 'B' with 'Negative' trend. On October 11, 2007, DBRS affirmed our senior unsecured debt rating at 'B' but placed the credit rating on 'Stable' trend from 'Negative' trend. On November 2, 2007, DBRS assigned us an issuer rating at 'B (high)' with 'Stable' trend.

Fitch: On May 23, 2007, Fitch affirmed our issuer default rating at 'B' with 'Rating Watch Negative' but downgraded our senior unsecured debt rating to 'B-' from 'B'. On July 12, 2007 Fitch affirmed our issuer default rating at 'B' but removed it from 'Rating Watch Negative'. On September 24, 2007, Fitch affirmed our issuer-default rating at 'B' but placed the credit rating on 'Rating Watch Negative'. On September 26, 2007, Fitch affirmed our issuer-default rating at 'B' but placed the credit rating on 'Negative' outlook from 'Rating Watch Negative'.

Moody's: On October 16, 2007, Moody's affirmed our long-term debt rating, including the 'B3' corporate family rating, 'Ba3' senior secured rating, and 'Caa1' senior unsecured rating and placed the credit rating on 'Positive' outlook from 'Negative' outlook. On November 7, 2007, Moody's affirmed our long-term debt rating, including the 'B3' corporate family rating, 'Ba3' senior secured rating, and 'Caa1' senior unsecured rating and placed the credit rating on 'Stable' outlook from 'Positive' outlook.

S&P: On June 7, 2007, S&P recalibrated its rating scale resulting in an upgrade to our secured credit rating to 'BB-' from 'B+'. On September 16, 2007 S&P affirmed our corporate debt rating at 'B' and placed the credit rating on 'Credit Watch Positive' from 'Negative' outlook. On October 19, 2007, S&P affirmed our corporate debt rating at 'B' but placed the credit rating on 'Stable' outlook from 'Credit Watch Positive'.

While our non-investment grade rating has increased borrowing costs and limited access to unsecured debt markets, we have mitigated these outcomes by actions taken over the past few years to focus on increased use of liquidity sources other than institutional unsecured markets, which are not directly affected by ratings on unsecured debt, including secured funding sources and conduit facilities. Further reductions of our credit ratings could increase the possibility of additional terms and conditions contained in any new or replacement financing arrangements. As a result of specific funding actions taken over the past few years, management believes that we will continue to have access to sufficient capital to meet our ongoing funding needs over the short and medium-term. Notwithstanding the foregoing, management believes that the current ratings situation and outlook increase the level of risk for achieving our funding strategy. In addition, the ratings situation and outlook increase the importance of successfully executing our plans for improvement of operating results.

PENSION AND OTHER POSTRETIREMENT BENEFITS

Plans covering represented employees generally provide benefits of negotiated, stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age.

Our policy with respect to our qualified pension plans is to contribute annually not less than the minimum required by applicable law and regulation, or to directly pay benefit payments where appropriate. As of December 31, 2007, all legal funding requirements had been met. We made contributions to our pension plans as follows:

(Dollars in millions)	**2007**	2006	2005
U.S. hourly and salaried	**$ –**	$ 2	$ –
Other U.S.	**$ 89**	$ 78	$125
Non-U.S.	**$848**	$889	$708

In 2008, we do not have any contributions due and we do not expect to make discretionary contributions to our U.S. hourly or salaried pension plans. During 2008, we expect to contribute or pay benefits of approximately $100 million to our other U.S. pension plan and approximately $900 million to our primary non-U.S. pension plans.

Our U.S. pension plans were overfunded by $18.8 billion at the end of 2007 and $16 billion at the end of 2006. This increase was primarily attributable to actual asset returns of 11% in 2007. Our non-U.S. pension plans were underfunded by a net amount of $10.4 billion for 2007 and $11.0 billion for 2006. The funded status of U.S. pension plans is as follows:

(Dollars in millions)	**2007**	2006
U.S. hourly and salaried	**$20.0**	$17.2
U.S. nonqualified	**(1.2)**	(1.2)
Total	**$18.8**	$16.0

We also maintain hourly and salaried OPEB plans that provide postretirement medical, dental, vision and life insurance to most U.S. retirees and eligible dependents. Certain of our non-U.S. subsidiaries have postretirement benefit plans, although most participants are covered by government sponsored or administered programs. Our U.S. OPEB plan was underfunded by $43.4 billion in 2007 and $47.6 billion in 2006. Our non-U.S. OPEB plans were underfunded by $4.3 billion in 2007 and $3.7 billion in 2006.

In 2007, we withdrew a total of $2.7 billion from plan assets of our VEBA trusts for our OPEB plans for reimbursement of retiree healthcare and life insurance benefits provided to eligible plan participants. In 2006, we withdrew a total of $4.1 billion from our VEBA trusts.

Pursuant to the 2005 UAW Health Care Settlement Agreement, we are required to make certain contributions to an independent VEBA trust, the Mitigation VEBA to be used to mitigate the effect of reduced GM health-care coverage for UAW retirees over a number of years. We have no control over the assets of this VEBA trust.

The following benefit payments, which reflect estimated future employee services, as appropriate, are expected to be paid:

	Pension Benefits (a)		Other Benefits (b)	
(Dollars in millions)	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
2008	$ 7,665	$1,357	$ 3,845	$ 195
2009	$ 7,604	$1,375	$ 3,981	$ 208
2010	$ 7,518	$1,414	$ 4,121	$ 219
2011	$ 7,392	$1,451	$ 4,234	$ 232
2012	$ 7,168	$1,481	$ 4,309	$ 244
2013–2017	$34,462	$8,071	$22,161	$1,408

(a) *Benefits for most U.S. pension plans and certain non-U.S. pension plans are paid out of plan assets rather than our assets.*

(b) *Benefit payments presented in this table do not reflect changes which will result from the implementation of the Settlement Agreement.*

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet arrangements where the economics and sound business principles warrant their use. Our principal use of off-balance sheet arrangements occurs in connection with the securitization and sale of financial assets.

The financial assets we sell principally consist of trade receivables that are part of a securitization program in which we have participated since 2004. As part of this program, we sell receivables to a wholly-owned bankruptcy remote Special Purpose Entity (SPE). The SPE is a separate legal entity that assumes the risks and rewards of ownership of the receivables. In turn, the SPE has entered into an agreement to sell undivided interests in eligible trade receivables up to $600 million and $850 million in 2007 and 2006, respectively, directly to third party banks and to a third party bank conduit that funds its purchases through issuance of commercial paper or via direct bank funding. The receivables under the program are sold at a fair market value and removed from our consolidated balance sheets. The loss on the trade receivables sold is included in Automotive cost of sales and was $2 million in 2007 and $30 million in 2006. As of December 31, 2007, the banks and the bank conduit had no beneficial interest of the SPE's pool of eligible receivables. As of December 31, 2006, the banks and bank conduit had a beneficial interest of $200 million of the SPE's pool of eligible trade receivables. We do not have a retained interest in the receivables

Liquidity and Capital Resources *(concluded)*

sold, but perform collection and administrative functions. The gross amount of proceeds received from the sale of receivables to SPE under this program was $600 million and $9 billion in 2007 and 2006, respectively.

In addition to this securitization program, we participate in other trade receivable securitization programs, primarily in Europe. Financing providers had a beneficial interest in our pool of eligible European receivables of $87 million and $109 million as of December 31, 2007 and 2006, respectively, related to those securitization programs.

We lease real estate and equipment from various off-balance sheet entities that have been established to facilitate the financing of those assets for us by nationally prominent lessors that we believe 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. 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, us. We believe that none of our officers, directors, or employees, or their affiliates hold any direct or indirect equity interests in such entities.

Because of the GMAC Transaction in November 2006, GMAC's assets in off-balance sheet entities were not attributable to us at the end of 2006. Assets in off-balance sheet entities were as follows:

		December 31,
(Dollars in millions)	**2007**	2006
Assets leased under operating leases	**$2,164**	$2,248
Trade receivables sold	**87**	309
Total	**$2,251**	$2,557

CONTRACTUAL OBLIGATIONS AND OTHER LONG-TERM LIABILITIES

We have the following minimum commitments under contractual obligations, including purchase obligations. A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Other long-term liabilities are defined as long-term liabilities that are reflected on our consolidated balance sheet. Based on this definition, the table below includes only those contracts which include fixed or minimum obligations. The majority of our purchases are not included in the table as they are made under purchase orders which are requirements based and accordingly do not specify minimum quantities.

The following table provides aggregated information about our outstanding contractual obligations and other long-term liabilities as of December 31, 2007.

	Payments Due by Period				
(Dollars in millions)	2008	2009–2010	2011–2012	2013 and after	Total
Debt [(a)]	$ 7,929	$ 6,498	$ 5,861	$65,988	$ 86,276
Capital lease obligations [(a)]	480	349	240	637	1,706
Operating lease obligations	501	932	670	551	2,654
Contractual commitments for capital expenditures	771	227	–	–	998
Other contractual commitments:					
Postretirement benefits [(b)]	3,338	6,802	4,814	–	14,954
Less: VEBA assets [(c)]	(3,338)	(6,802)	(4,814)	–	(14,954)
Net post retirement benefits	–	–	–	–	–
Material	2,113	3,208	2,344	330	7,995
Information technology	1,012	906	100	6	2,024
Marketing	1,034	484	165	43	1,726
Facilities	447	402	92	26	967
Rental car repurchases	5,037	–	–	–	5,037
Policy, product warranty and recall campaigns liability	4,655	3,531	1,173	256	9,615
Total contractual commitments	$23,979	$16,537	$10,645	$67,837	$118,998
Remaining balance postretirement benefits	$ 728	$ 1,772	$ 5,248	$41,311	$ 49,059
Less: VEBA assets [(c)]	(728)	(621)	–	–	(1,349)
Net	$ –	$ 1,151	$ 5,248	$41,311	$ 47,710

(a) *Amounts include interest payments based on contractual terms and current interest rates on our debt and capital lease obligations.*

(b) *Amounts include postretirement benefits under the current contractual labor agreements in North America. The remainder of the estimated liability, for benefits beyond the current labor agreement and for essentially all salaried employees, is classified under remaining balance of postretirement benefits. These obligations are not contractual. Any amounts that would be required or reduced in accordance with the Settlement Agreement, when approved, have been excluded from the table.*

(c) *Total VEBA assets were allocated based on projected spending requirements. VEBA asset allocations do not reflect the impact of the Settlement Agreement which has not yet been approved by the court.*

The table above does not reflect unrecognized tax benefits of $2.8 billion due to the high degree of uncertainty regarding the future cash outflows associated with these amounts. Refer to Note 18 in our consolidated financial statements for additional discussion of unrecognized tax benefits.

The combined U.S. hourly and salaried pension plans were $20 billion overfunded at December 31, 2007. As a result, we do not expect to make any contributions to our U.S. hourly and salaried pension plans for the foreseeable future, assuming there are no material changes in present market conditions.

Dividends

Dividends may be paid on our Common Stock when, as, and if declared by our Board of Directors in its sole discretion out of amounts available for dividends under applicable law. Under Delaware law, our Board may declare dividends only to the extent of our statutory "surplus" (i.e., total assets minus total liabilities, in each case at fair market value, minus statutory capital), or if there is no such surplus, out of our net profits for the current and/or immediately preceding fiscal year.

Dividends *(concluded)*

Our policy is to distribute dividends on our Common Stock based on the outlook and indicated capital needs of our business. Cash dividends per share of Common Stock were $1.00 in 2007 and 2006, and $2.00 in 2005. At the February 5, 2008 meeting of our Board of Directors, the Board approved the payment of a $0.25 quarterly dividend on our Common Stock for the first quarter of 2008. For 2007, cash dividends per share of Common Stock were $0.25 per quarter.

Critical Accounting Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require the use of estimates, judgments, and assumptions that affect the reported amounts of asset and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the periods presented. Management believes that the accounting estimates employed are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

The critical accounting estimates that affect our consolidated financial statements and that use judgments and assumptions are listed below. In addition, the likelihood that materially different amounts could be reported under varied conditions and assumptions is discussed.

PENSIONS

We account for our defined benefit pension plans in accordance with Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions" (SFAS No. 87) as amended by SFAS No. 158, which requires that amounts recognized in the financial statements be determined on an actuarial basis. This determination involves the selection of various assumptions, including an expected rate of return on plan assets and a discount rate.

A key assumption in determining our net pension expense in accordance with SFAS No. 87 is the expected long-term rate of return on plan assets. The expected return on plan assets that is included in pension expense is determined from periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks using standard deviations, and correlations of returns among the asset classes that comprise the plans' asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return. The weighted average expected long-term rate of return on U.S. Plan assets used to determine net pension expense for 2007 was 8.5% compared to 9.0% for 2006 and 2005.

Another key assumption in determining our net pension expense is the assumed discount rate to be used to discount plan obligations. In estimating this rate, we use an iterative process based on a hypothetical investment in a portfolio of high-quality bonds rated AA or higher by a recognized rating agency and a hypothetical reinvestment of the proceeds of such bonds upon maturity using forward rates derived from a yield curve until our U.S. pension obligation is defeased. We incorporate this reinvestment component into our methodology because it is not feasible, in light of the magnitude and time horizon over which our U.S. pension obligations extend, to accomplish full defeasance through direct cash flows from an actual set of bonds selected at any given measurement date. The weighted average discount rate used to determine the U.S. net pension expense for 2007 was 6.0% as compared to 5.7% for 2006 and 5.6% for 2005.

The following table illustrates the sensitivity to a change in certain assumptions for US pension plans, holding all other assumptions constant:

Change in Assumption	Impact on 2008 Pension Expense	See Note 15 December 31, 2007 Impact on PBO
25 basis point decrease in discount rate	+$110 million	+$1.9 billion
25 basis point increase in discount rate	–$110 million	–$1.9 billion
25 basis point decrease in expected return on assets	+$240 million	–
25 basis point increase in expected return on assets	–$240 million	–

Our 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 applicable labor contract. The 2007 pension expense and pension obligation at December 31, 2007 do not comprehend any future benefit increases or decreases that may occur beyond our current labor contract. The usual cycle for negotiating new labor contracts is every four years. There is not a 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 changes in our pension expense and pension obligation as a result of changes in future benefit units. An annual one-percentage point increase in the benefit units for U.S. hourly employees, effective after the expiration of the current contract, would result in a $60 million increase in 2008 pension expense and a $300 million increase in the U.S. hourly plan pension benefit obligation at December 31, 2007. An annual one-percentage point decrease in the same benefit units would result in a $60 million decrease in 2008 pension expense and a $290 million decrease in the same pension benefit obligation.

OTHER POST RETIREMENT BENEFITS

We account for our OPEB in accordance with SFAS No. 106, "Employers' Accounting for Post Retirement Benefits Other Than Pensions," (SFAS No. 106), as amended by SFAS No. 158, which requires that amounts recognized in financial statements be determined on an actuarial basis. This determination requires the selection of various assumptions, including a discount rate and health care cost trend rates used to value benefit obligations. In estimating the discount rate, we use an iterative process based on a hypothetical investment in a portfolio of high-quality bonds rated AA or higher by a recognized rating agency and a hypothetical reinvestment of the proceeds of such bonds upon maturity using forward rates derived from a yield curve until our U.S. OPEB obligation is defeased. We incorporate this reinvestment component into our methodology because it is not feasible, in light of the magnitude and time horizon over which our U.S. OPEB obligations extend to accomplish full defeasance through direct cash flows from an actual set of bonds selected at any given measurement date. We develop our estimate of the health care cost trend rates used to value benefit obligations through review of historical retiree cost data and near-term health care outlook which includes appropriate cost control measures implemented by us. Changes in the assumed discount rate or health care cost trend rate can have significant impact on our actuarially determined obligation and related OPEB expense.

The following are the significant assumptions used in the measurement of the accumulated projected benefit obligations (APBO) as of December 31, the measurement date:

	December 31,	
Assumed Health-Care Trend Rates at December 31	**2007**	2006
Initial health-care cost trend rate	**8.2%**	9.0%
Ultimate health-care cost trend rate	**5.0%**	5.0%
Number of years to ultimate trend rate	**6**	6

Critical Accounting Estimates *(continued)*

Based on our assumptions as of December 31, 2007, the measurement date, a change in these assumptions, holding all other assumptions constant, would have the following effect on our U.S. OPEB expense and obligations on an annual basis (the U.S. APBO was a significant portion of our worldwide APBO of $64.0 billion as of December 31, 2007):

Change in Assumption	Effect on 2008 OPEB Expense	Effect on December 31, 2007 APBO
25 basis point decrease in discount rate	+ $103 million	+ $1.6 billion
25 basis point increase in discount rate	– $103 million	– $1.5 billion

A one-percentage point increase in the assumed U.S. health care trend rates would have increased the U.S. APBO by $6.4 billion, and the U.S. aggregate service and interest cost components of non-pension postretirement benefit expense on an annualized basis by $511 million. A one-percentage point decrease would have decreased the U.S. APBO by $5.4 billion and the U.S. aggregate service and interest cost components of non-pension postretirement benefit expense on an annualized basis by $420 million.

DEFERRED TAXES

We have significant net deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences that may reduce taxable income in future periods. The detailed components of our deferred tax assets, liabilities and valuation allowances are included in Note 18 to our consolidated financial statements.

Valuation allowances have been established for deferred tax assets based on a "more likely than not" threshold. Our ability to realize our deferred tax assets depends on our ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

In the third quarter of 2007, we recorded a charge of $39 billion related to establishing full valuation allowances against our net deferred tax assets in the U.S., Canada and Germany. Concluding that a valuation allowance is not required is difficult when there is significant negative evidence which is objective and verifiable, such as cumulative losses in recent years. We utilize a rolling twelve quarters of results as a measure of our cumulative losses in recent years. We then adjust those historical results to remove certain unusual items and charges. In the U.S., Canada and Germany our analysis indicates that we have cumulative three year historical losses on an adjusted basis. This is considered significant negative evidence which is objective and verifiable and therefore, difficult to overcome. In addition, as discussed in "Near-Term Market Challenges" our near-term financial outlook in the U.S., Canada and Germany deteriorated during the third quarter. While our long-term financial outlook in the U.S, Canada and Germany remains positive, we concluded that our ability to rely on our long-term outlook as to future taxable income was limited due to uncertainty created by the weight of the negative evidence, particularly:

- The possibility for continued or increasing price competition in the highly competitive U.S. market. This was seen in the external market in the third quarter of 2007 when a competitor introduced its new fullsize trucks and offered customer incentives to gain market share. Accordingly, we increased customer incentives on our recently launched fullsize trucks, which were not previously anticipated;
- Continued high fuel prices and the possible effect that may have on consumer preferences related to our most profitable products, fullsize trucks and utility vehicles;
- Uncertainty over the effect on our cost structure from more stringent U.S. fuel economy and global emissions standards which may require us to sell a significant volume of alternative fuel vehicles across our portfolio;
- Uncertainty as to the future operating results of GMAC's Residential Capital, LLC mortgage business; and
- Acceleration of tax deductions for OPEB liabilities as compared to prior expectations due to changes associated with the Settlement Agreement.

Accordingly, based on our current circumstances and uncertainty regarding our future taxable income, we recorded full valuation allowances against these net deferred tax assets during the third quarter of 2007. If and when our operating performance improves on a sustained basis, our conclusion regarding the need for full valuation allowances could change, resulting in the reversal of some or all of the valuation allowances in the future.

SALES INCENTIVES

We record the estimated impact of sales incentives to our dealers and customers as a reduction of revenue at the later of the time of sale or when an incentive program has been announced to our dealers. There may be numerous types of incentives available at any particular time, including a choice of incentives for a specific model. Incentive programs are generally brand specific, model specific, or regionally specific, and are for specified time periods, which may be extended. Significant factors used in estimating the cost of incentives include the volume of vehicles that will be affected by the incentive programs offered by product, product mix, and the rate of customer acceptance of any incentive program, and the likelihood that an incentive program will be extended, all of which are estimated based upon historical experience and assumptions concerning customer behavior and future market conditions. Additionally, when an incentive program is announced, we determine the number of vehicles in dealer inventory that are eligible for the incentive program, and record a reduction to our revenue in the period in which the program is announced. If the actual number of affected vehicles differs from this estimate, or if a different mix of incentives is actually paid, the reduction of revenue for sales incentives could be affected. As discussed above, there are a multitude of inputs affecting the calculation of the estimate for sales incentives, an increase or decrease of any of these variables could have a significant impact on the reduction of revenue for sales incentives.

POLICY, WARRANTY AND RECALLS

Provisions for estimated expenses related to policy and product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of claims. We actively study trends of claims and take action to improve vehicle quality and minimize claims. Actual experience could differ from the amounts estimated requiring adjustments to these liabilities in future periods.

IMPAIRMENT OF LONG-LIVED ASSETS

We periodically evaluate the carrying value of our long-lived assets held and used in the business, other than goodwill and intangible assets with indefinite lives and assets held for sale, when events and circumstances warrant. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair value for assets to be held and used. For assets classified as held for sale, such assets are reflected at the lower of carrying value or fair value less cost to sell. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Product lines could become impaired in the future or require additional charges as a result of declines in profitability due to changes in volume, pricing or costs.

DERIVATIVES

We use derivatives in the normal course of business to manage our exposure to fluctuations in commodity prices and interest and foreign currency rates. We account for our derivatives in the consolidated balance sheet as assets or liabilities at fair value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Critical Accounting Estimates *(concluded)*

Accounting for derivatives is complex and significant judgment and estimates are involved in estimating the fair values of these instruments, particularly in the absence of quoted market prices. Generally, fair value estimates of derivative contracts involve the selection of an appropriate valuation model and determining the appropriate inputs to use in those models, such as contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of these factors. The majority of our derivatives are related to assets or indexes that are actively traded or quoted, and the selection of the appropriate valuation model and inputs into those models are not subject to significant judgment, as market information is readily available.

In contrast, the selection of the appropriate valuation model and the related inputs for a minority of our derivatives that relate to assets or indexes that are thinly traded may be highly judgmental, as such instruments tend to be more complex and market information is less available. For example, valuing a commodities purchase contract that meets the definition of a derivative requires a subjective determination of the timing and quantities of expected purchases. Moreover, because the tenor of thinly traded commodities contracts is greater than the available market data used to value those contracts, forward prices and volatility curves are generally extrapolated using a linear methodology over the contract life.

VALUATION OF VEHICLE OPERATING LEASES AND LEASE RESIDUALS

In accounting for vehicle operating leases, we must make a determination at the beginning of the lease of the estimated realizable value (i.e., residual value) of the vehicle at the end of the lease. Residual value represents an estimate of the market value of the vehicle at the end of the lease term, which typically ranges from nine months to four years. The customer is obligated to make payments during the term of the lease to the contract residual. However, since the customer is not obligated to purchase the vehicle at the end of the contract, we are exposed to a risk of loss to the extent the value of the vehicle is below the residual value estimated at contract inception.

Residual values are initially determined by consulting independently published residual value guides. Realization of the residual values is dependent on our future ability to market the vehicles under the prevailing market conditions. Over the life of the lease, we evaluate the adequacy of our estimate of the residual value and may make adjustments to the extent the expected value of the vehicle at lease termination declines. For operating leases arising from vehicle sales to daily rental car companies, the adjustment may be in the form of revisions to the depreciation rate or recognition of an impairment loss. Impairment is determined to exist if the undiscounted expected future cash flows are lower than the carrying value of the asset. For operating leases arising from vehicles sold to dealers, the adjustment is made to the estimate of marketing incentive accruals for residual support programs initially recognized when vehicles are sold to dealers. When a lease vehicle is returned to us, the asset is reclassified from Equipment on operating leases, net to Inventory at the lower of cost or estimated fair value, less costs to sell.

Our depreciation methodology related to Equipment on operating leases, net considers management's expectation of the value of the vehicles upon lease termination, which is based on numerous assumptions and factors influencing used automotive vehicle values. The critical assumptions underlying the estimated carrying value of automotive lease assets include: (1) estimated market value information obtained and used by management in estimating residual values; (2) proper identification and estimation of business conditions; (3) our remarketing abilities; and (4) our vehicle and marketing programs. Changes in these assumptions could have a significant impact on the value of the lease residuals.

Accounting Standards Not Yet Adopted

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157) which provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. SFAS No. 157 requires expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard also requires that a company use its own nonperformace risk when measuring liabilities carried at fair value, including derivatives. In February 2008, the FASB approved a FASB Staff Position (FSP) that permits companies to partially defer the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FSP did not permit companies to defer recognition and disclosure requirements for financial assets and financial liabilities or for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. SFAS No. 157 is effective for financial assets and financial liabilities and for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions of SFAS No. 157 will be applied prospectively. We intend to defer adoption of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We are currently evaluating the effects, if any, that SFAS No. 157 may have on our financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of SFAS No. 115" (SFAS No. 159), which permits an entity to measure certain financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. The Statement also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. SFAS No. 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. We do not expect the adoption of this standard to have a material impact on our financial condition and results of operations.

In June 2007, the FASB ratified Emerging Issue Task Force (EITF) Issue No. 07-3, "Accounting for Nonrefundable Payments for Goods or Services to Be Used in Future Research and Development Activities" (EITF 07-3), requiring that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts should be expensed as the related goods are delivered or the related services are performed. The Statement is effective for fiscal years beginning after December 15, 2007. Management estimates that upon adoption, this guidance will not have a material effect on our financial condition and results of operations.

In June 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF 06-11), which requires entities to record to additional paid in capital the tax benefits on dividends or dividend equivalents that are charged to retained earnings for certain share-based awards. In a share-based payment arrangement, employees may receive dividends or dividend equivalents on awards of nonvested equity shares, nonvested equity share units during the vesting period, and share options until the exercise date. Generally, the payment of such dividends can be treated as deductible compensation for tax purposes. The amount of tax benefits recognized in additional paid-in capital should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 is effective for fiscal years beginning after December 15, 2007, and interim periods within those years. Management estimates that upon adoption, this guidance will not have a material effect on our financial condition and results of operations.

In December 2007, the FASB issued SFAS 141(R), "Business Combinations" (SFAS No. 141(R)) which retained the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS No. 141(R) changed the method of applying the acquisition method in a number of significant aspects. SFAS 141(R) will require that: (1) for all business combinations, the acquirer

Accounting Standards Not Yet Adopted *(concluded)*

records all assets and liabilities of the acquired business, including goodwill, generally at their fair values; (2) certain contingent assets and liabilities acquired be recognized at their fair values on the acquisition date; (3) contingent consideration be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled; (4) acquisition-related transaction and restructuring costs be expensed rather than treated as part of the cost of the acquisition and included in the amount recorded for assets acquired; (5) in step acquisitions, previous equity interests in an acquiree held prior to obtaining control be re-measured to their acquisition-date fair values, with any gain or loss recognized in earnings; and (6) when making adjustments to finalize initial accounting, companies revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they had been recorded on the acquisition date. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of this statement should also apply the provisions of SFAS No. 141(R). This standard will be applied to future business combinations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51" (SFAS No. 160) which amends ARB 51 to establish new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Also, SFAS No. 160 requires that: (1) noncontrolling interest, previously referred to as minority interest, be reported as part of equity in the consolidated financial statements; (2) losses be allocated to the noncontrolling interest even when such allocation might result in a deficit balance, reducing the losses attributed to the controlling interest; (3) changes in ownership interests be treated as equity transactions if control is maintained; and, (4) upon a loss of control, any gain or loss on the interest sold be recognized in earnings. SFAS No. 160 is effective on a prospective basis for all fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which will be applied retrospectively. We are currently evaluating the effects, if any, that SFAS No. 160 may have on our financial condition and results of operations.

Forward-Looking Statements

In this report and in reports we subsequently file with the SEC on Forms 10-K and 10-Q and filed or furnished on Form 8-K, and in related comments by our management, our use of the words "expect," "anticipate," "estimate," "forecast," "initiative," "objective," "plan," "goal," "project," "outlook," "priorities," "target," "intend," "when," "evaluate," "pursue," "seek," "may," "would," "could," "should," "believe," "potential," "continue," "designed," "impact" or the negative of any of those words or similar expressions is intended to identify forward-looking statements that represent our current judgment about possible future events. All statements in this report and subsequent reports which we may file with the SEC on Forms 10-K and 10-Q or file or furnish on Form 8-K, other than statements of historical fact, including without limitation, statements about future events and financial performance, are forward-looking statements that involve certain risks and uncertainties. We believe these judgments are reasonable, but these statements are not guarantees of any events or financial results, and our actual results may differ materially due to a variety of important factors that may be revised or supplemented in subsequent reports on SEC Forms 10-K, 10-Q and 8-K. Such factors include those listed above in Risk Factors, among others, and the following:

- Our ability to realize production efficiencies, to achieve reductions in costs as a result of the turnaround restructuring and health care cost reductions and to implement capital expenditures at levels and times planned by management;
- The pace of product introductions and development of technology associated with the products;
- Market acceptance of our new products;
- Significant changes in the competitive environment and the effect of competition in our markets, including on our pricing policies;
- Our ability to maintain adequate liquidity and financing sources and an appropriate level of debt;
- Changes in the existing, or the adoption of new laws, regulations, policies or other activities of governments, agencies and similar organizations where such actions may affect the production, licensing, distribution or sale of our products, the cost thereof or applicable tax rates;
- Costs and risks associated with litigation;
- The final results of investigations and inquiries by the SEC and other governmental agencies;
- Changes in the ability of GMAC to make distributions on the Preferred Membership Interests held by us;
- Changes in accounting principles, or their application or interpretation, and our ability to make estimates and the assumptions underlying the estimates, including the estimates for the Delphi pension benefit guarantees, which could result in an impact on earnings;
- Negotiations and bankruptcy court actions with respect to Delphi's obligations to us and our obligations to Delphi, negotiations with respect to our obligations under the benefit guarantees to Delphi employees and our ability to recover any indemnity claims against Delphi;
- Labor strikes or work stoppages at our facilities or our key suppliers such as Delphi or financial difficulties at our key suppliers such as Delphi;
- Additional credit rating downgrades and the effects thereof;
- Changes in relations with unions and employees/retirees and the legal interpretations of the agreements with those unions with regard to employees/retirees, including the negotiation of new collective bargaining agreements with unions representing our employees in the United States other than the UAW;
- Completion of the final settlement with the UAW and UAW retirees, including obtaining court approval in a form acceptable to us, the UAW, and class counsel; treatment of the terms of the 2007 National Agreement pursuant to the Settlement Agreement in a form acceptable to us, the UAW and class counsel; our completion of discussions with the staff of the SEC regarding accounting treatment with respect to the New VEBA and the Post-Retirement Medical Benefits for the Covered Group as set forth in the Settlement Agreement, on a basis reasonably satisfactory to us; and as applicable, a determination by us that the New VEBA satisfies the requirements of section 302(c)(5) of the Labor-Management Relations Act of 1947, as amended (LMRA), as well as bank and other regulatory approval;
- Shortages of and price increases for fuel; and
- Changes in economic conditions, commodity prices, currency exchange rates or political stability in the markets in which we operate.

In addition, GMAC's actual results may differ materially due to numerous important factors that are described in GMAC's most recent report on SEC Form 10-K, which may be revised or supplemented in subsequent reports on SEC Forms 10-K, 10-Q and 8-K. The factors identified by GMAC include, among others, the following:

- Rating agencies may downgrade their ratings for GMAC or ResCap in the future, which would adversely affect GMAC's ability to raise capital in the debt markets at attractive rates and increase the interest that it pays on its outstanding publicly traded notes, which could have a material adverse effect on its results of operations and financial condition;
- GMAC's business requires substantial capital, and if it is unable to maintain adequate financing sources, its profitability and financial condition will suffer and jeopardize its ability to continue operations;
- The profitability and financial condition of its operations are dependent upon our operations, and it has substantial credit exposure to us;

Forward-Looking Statements *(concluded)*

- Recent developments in the residential mortgage market, especially in the nonprime sector, may adversely affect GMAC's revenues, profitability and financial condition;
- The worldwide financial services industry is highly competitive. If GMAC is unable to compete successfully or if there is increased competition in the automotive financing, mortgage and/or insurance markets or generally in the markets for securitizations or asset sales, its margins could be materially adversely affected;
- Significant changes in the competitive environment and the effect of competition in GMAC's markets, including on GMAC's pricing policies;
- Restrictions on the ability of GMAC's residential mortgage subsidiary to pay dividends and prepay subordinated debt obligations to GMAC;
- Changes in the residual value of off-lease vehicles;
- Changes in U.S. government-sponsored mortgage programs or disruptions in the markets in which GMAC's mortgage subsidiaries operate;
- Changes in GMAC's contractual servicing rights;
- Costs and risks associated with litigation;
- Changes in GMAC's accounting assumptions that may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;
- The threat of natural calamities;
- Changes in economic conditions, currency exchange rates, or political stability in the markets in which it operates; and
- Changes in the existing, or the adoption of new laws, regulations, policies, or other activities of governments, agencies and similar organizations.

We caution investors not to place undue reliance on forward-looking statements. We undertake no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other factors that affect the subject of these statements, except where we are expressly required to do so by law.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and certain commodity prices. We enter into a variety of foreign exchange, interest rate and commodity forward contracts and options to maintain the desired level of exposure arising from these risks.

The overall financial risk management program is placed under the responsibility of our Risk Management Committee (RMC), which reviews and, where appropriate, approves recommendations on the level of exposure and the strategies to be pursued to mitigate these risks. A risk management control system is utilized to monitor the strategies, risks and related hedge positions, in accordance with the policies and procedures approved by the RMC.

A discussion of our accounting policies for derivative financial instruments is included in Note 2 to the consolidated financial statements. Further information on our exposure to market risk is included in Notes 16 and 19 to the consolidated financial statements.

The following analyses provide quantitative information regarding our exposure to foreign currency exchange rate risk, interest rate risk and commodity price risk. We use sensitivity analysis to measure the potential loss in the fair value of financial instruments with exposure to market risk. The model used assumes instantaneous, parallel shifts in exchange rates, interest rate yield curves and commodity prices. For options and other instruments with nonlinear returns, models appropriate to these types of instruments are utilized to determine the impact of market shifts. There are certain shortcomings inherent in the sensitivity analyses presented, primarily due to the assumption that interest rates and commodity prices change in a parallel fashion and that spot exchange rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled.

FOREIGN EXCHANGE RATE RISK

We have foreign currency exposures related to buying, selling and financing in currencies other than the local currencies in which we operate. Derivative instruments, such as foreign currency forwards, swaps and options are used to hedge these exposures. At December 31, 2007 and 2006, the net fair value asset of financial instruments with exposure to foreign currency risk was $1.9 billion and $4.4 billion, respectively. The potential loss in fair value for such financial instruments from a 10% adverse change in quoted foreign currency exchange rates would be $2 billion and $2 billion for 2007 and 2006, respectively.

INTEREST RATE RISK

We are subject to market risk from exposure to changes in interest rates due to our financing activities. Interest rate risk is managed mainly with interest rate swaps.

At December 31, 2007 and 2006, the net fair value liability of financial instruments held for purposes other than trading with exposure to interest rate risk was $26.7 billion and $25.3 billion, respectively. The potential loss in fair value resulting from a 10% adverse shift in quoted interest rates would be $1.7 billion and $1.5 billion for 2007 and 2006, respectively.

COMMODITY PRICE RISK

We are exposed to changes in prices of commodities used in our Automotive business, primarily associated with various non-ferrous and precious metals for automotive components and energy used in the overall manufacturing process. Some of the commodity purchase contracts meet the definition of a derivative under SFAS No. 133. In addition, we enter into various derivatives, such as commodity swaps and options, to offset our commodity price exposures.

At December 31, 2007 and 2006 the net fair value asset of derivative and purchase contracts was $517 million and $755 million, respectively. The potential loss in fair value resulting from a 10% adverse change in the underlying commodity prices would be $331 million and $318 million for 2007 and 2006, respectively. This amount excludes the offsetting impact of the commodity price risk inherent in the physical purchase of the underlying commodities.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chairman and Chief Executive Officer (CEO) and our Vice Chairman and Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) as of December 31, 2007. Based on that evaluation, our CEO and CFO concluded that, as of that date, our disclosure controls and procedures required by paragraph (b) of Rules 13a-15 or 15d-15 were not effective at the reasonable assurance level because of the identification of material weaknesses in our internal control over financial reporting, which we view as an integral part of our disclosure controls and procedures.

Certifications

General Motors filed certifications regarding the quality of its public disclosure by its Chairman and Chief Executive Officer and its Vice Chairman and Chief Financial Officer with the U.S. Securities and Exchange Commission pursuant to section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2007.

In 2007 General Motors submitted a Section 303A Annual CEO Certification to the New York Stock Exchange as required by section 303.12(a) of the Listed Company Manual, without qualifications.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Our management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007, utilizing the criteria described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The objective of this assessment was to determine whether our internal control over financial reporting was effective as of December 31, 2007.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. In our assessment of the effectiveness of internal control over financial reporting as of December 31, 2007, we identified the following material weaknesses:

Material weaknesses previously identified as of December 31, 2006 that continue to exist as of December 31, 2007:

1. Controls over the period-end financial reporting process were not effective. This has resulted in a significant number and magnitude of out-of-period adjustments to our consolidated financial statements and in previously reported restatements. Specifically, controls were not effective to ensure that significant non-routine transactions, accounting estimates, and other adjustments were appropriately reviewed, analyzed and monitored by competent accounting staff on a timely basis. Additionally, some of the adjustments that have been recorded relate to account reconciliations not being performed effectively. A material weakness in the period-end financial reporting process has a pervasive effect on the reliability of our financial reporting and could result in us not being able to meet our regulatory filing deadlines. If not remediated, it is reasonably possible that our consolidated financial statements will contain a material misstatement or that we will miss a filing deadline in the future.

2. Controls to ensure our consolidated financial statements comply with SFAS No. 109, "Accounting for Income Taxes" were not effective. We lacked sufficient technical expertise, reporting standards and policies and procedures. Additionally, we did not maintain adequate controls with respect to: (i) timely tax account reconciliations and analyses; (ii) coordination and communication between Corporate Accounting, Corporate and Regional Tax Staffs; (iii) timely review and analysis of corporate journals recorded in the consolidation process; and (iv) accuracy and completeness of legal entity accounting results. This material weakness resulted in a restatement of prior financial statements, as previously reported in our 2006 Annual Report on Form 10-K, and, if not remediated, it is reasonably possible that a material misstatement of our consolidated financial statements will occur in the future.

Material weakness initially identified as of December 31, 2007:

3. Controls over the accounting for employee benefit arrangements were not effective. We lacked sufficient control procedures as well as adequate involvement of technical accounting resources to ensure that employee benefit arrangements were accounted for properly. Specifically, certain employee benefit plans that we sponsor provide legal services to hourly employees represented by the UAW, IUE-CWA and the CAW (Legal Services Plans) were historically accounted for on a pay as you go basis. However, we have concluded that the Legal Services Plans should have been accounted for as defined benefit plans under the provisions of SFAS No. 106, "Employers Accounting for Postretirement Benefits Other than Pensions." Additionally, out-of-period adjustments have been recorded in 2007 related to our accounting for other benefit plans, including pensions and incentive compensation plans. This material weakness resulted in a restatement of prior periods to correct the accounting for the Legal Services Plans, as described in Note 15 to the Consolidated Financial Statements, and, if not remediated, it is reasonably possible that our consolidated financial statements will contain a material misstatement in the future.

Based on our assessment, and because of the material weaknesses described above, we have concluded that our internal control over financial reporting was not effective as of December 31, 2007.

The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Remediation and Changes in Internal Controls

We have developed and are implementing remediation plans to address our material weaknesses. We have taken the following actions to improve our internal control over financial reporting.

Actions to address previously reported material weaknesses that no longer exist as of December 31, 2007:

1. Our 2006 Annual Report on Form 10-K identified a material weakness because we did not maintain a sufficient complement of personnel with an appropriate level of technical accounting knowledge experience, and training in the application of generally accepted accounting principles commensurate with our complex financial accounting and reporting requirements and low materiality thresholds. This was evidenced by a significant number of out-of-period adjustments noted during the year-end closing process. This material weakness contributed to the restatement of prior financial statements, as previously reported in our 2006 Annual Report on Form 10-K. Since December 31, 2006 we have completed the following remedial actions: (i) reorganized and restructured Corporate Accounting by revising the reporting structure, hiring additional technical accounting personnel to address our complex accounting and financial reporting requirements and assessing the technical accounting capabilities in the operating units to ensure the right complement of knowledge, skills and training; (ii) hired a new assistant controller responsible for complex centrally managed accounting processes including compensation and benefit plans, treasury and hedge accounting, certain complex accruals and complex contracts; (iii) hired an experienced professional with strong SEC and technical accounting skills as an assistant controller and divided responsibility for accounting policy and research from SEC reporting to provide greater role clarity and focus; (iv) established a new chief accounting officer for our Treasurer's Office; (v) continued the deployment of several key training classes and hired 35 outside accountants in key accounting positions; (vi) hired a new assistant controller for Accounting Operations and Consolidations; and (vii) utilized over 100 external technical accounting resources in areas in which additional technical expertise

Remediation and Changes in Internal Controls *(concluded)*

was needed. Based on the foregoing, we now believe we have a sufficient complement of personnel with an appropriate level of technical accounting knowledge such that it is no longer reasonably possible that our consolidated financial statements will be materially misstated as a result of lack of technical accounting resources.

2. Our 2006 Annual Report on Form 10-K identified a material weakness because we in certain instances lacked the technical expertise and did not maintain adequate procedures to ensure that the accounting for derivative financial instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was appropriate. Procedures relating to hedging transactions in certain instances did not operate effectively to: (i) properly evaluate hedge accounting treatment; (ii) meet the documentation requirements of SFAS No. 133; (iii) adequately assess and measure hedge effectiveness on a quarterly basis; and (iv) establish the appropriate communication and coordination between relevant departments involved in complex financial transactions. This material weakness resulted in a restatement of prior financial statements, as previously reported in our 2006 Annual Report on Form 10-K. Since December 31, 2006, we have completed the following remedial actions: (i) terminated hedge accounting in areas where important control deficiencies were identified; (ii) enhanced procedures and controls regarding documentation requirements for hedge accounting to ensure compliance with SFAS No. 133; (iii) hired consultants in SFAS No. 133 until the necessary technical accounting personnel have been hired to support our complex hedge accounting activities; (iv) developed and started to provide training to operational organizations and traders; and (v) through regular internal meetings and other forums, have increased operational awareness of the implications of SFAS No. 133. Based on the foregoing, we now believe that it is no longer reasonably possible that our consolidated financial statements will be materially misstated as it relates to accounting for derivatives and hedging.

Actions implemented or initiated to address the material weaknesses described above that exist as of December 31, 2007:

1. Actions to strengthen controls over the period-end financial reporting process include: (i) improving period-end closing procedures by requiring all significant non-routine transactions to be reviewed by Corporate Accounting; (ii) ensuring that account reconciliations and analyses for significant financial statement accounts are reviewed for completeness and accuracy by qualified accounting personnel; (iii) implementing a process that ensures the timely review and approval of complex accounting estimates by qualified accounting personnel and subject matter experts, where appropriate; (iv) developing improved monitoring controls at Corporate Accounting and the operating units; (v) enhancing pre and post-closure communications processes to facilitate early identification, resolution and conclusions on accounting treatment of business transactions putting over 100 technical accounting resources both at headquarters and in the regions to assure large and complex transactions are appropriately accounted for; and (vi) initiating re-design of our consolidation process.

2. Actions to strengthen controls over income tax accounting include: (i) relocated tax accounting to reside within the tax department to assure that they are aware of tax issues with joint responsibility for tax accounting between controllers and tax; (ii) established focused tax accounting group and began securing necessary in-house and external technical resources; (iii) implemented new tax policies and procedures to ensure that tax account reconciliations and analyses are properly prepared and monitored on a timely basis; (iv) established appropriate communication and collaboration protocols between the Tax Staff and Controller's Staff, and began strengthening global reporting standards; (v) initiated re-engineering of tax accounting procedures and policies to ensure timely and accurate tax accounting, including establishing desk procedures for interim reporting; (vi) initiated corrective action designed to resolve legal entity accounting issues; (vii) initiated efforts designed to strengthen global tax reporting policies; and (viii) developed plans to complete staffing of the Tax Accounting Group.

3. Actions to strengthen controls over accounting for employee benefit arrangements include: (i) established a new Technical Accounting Manager for Compensation; (ii) began utilizing significant external resources to provide necessary technical expertise; (iii) Initiated the hiring of a new Director of Compensation and Benefits Accounting responsible for ensuring adequate involvement of technical accounting resources related to employee benefit arrangements; (iv) began implementing a process to obtain information regarding benefit arrangements world-wide for accounting analysis and to strengthen controls over census data completeness and accuracy; (v) began updating the use of spreadsheets for adequate controls; and (vi) began clarifying responsibilities over close process procedures and updating desk procedures.

As previously noted we have augmented the resources in Corporate Accounting, the Tax Department and other key departments by utilizing over 100 external resources in technical accounting areas and implemented additional closing procedures during 2007. As a result, we believe that there are no material inaccuracies or omissions of material fact and, to the best of our knowledge, believe that the consolidated financial statements as of and for the year ended December 31, 2007, fairly present in all material respects the financial condition and results of operations in conformity with accounting principles generally accepted in the United States of America.

Other than as described above, there have not been any other changes in our internal control over financial reporting during the quarter ended December 31, 2007, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

G. Richard Wagoner, Jr.
Chairman and
Chief Executive Officer
February 28, 2008

Frederick A. Henderson
Vice Chairman and
Chief Financial Officer
February 28, 2008

Report of Independent Registered Public Accounting Firm

General Motors Corporation, its Directors, and Stockholders:

We have audited the internal control over financial reporting of General Motors Corporation and subsidiaries (the Corporation) as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

(1) Controls over the period-end financial reporting process were not effective.

(2) Controls to ensure the consolidated financial statements comply with SFAS No. 109, *Accounting for Income Taxes,* were not effective.

(3) Controls over the accounting for employee benefit arrangements were not effective.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2007. This report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weaknesses identified above on the achievement of the objectives of the control criteria, the Corporation has not maintained effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets and the related Consolidated Statements of Operations, Cash Flows, and Stockholders' Equity (Deficit) of the Corporation as of and for the year ended December 31, 2007. Our report dated February 28, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to the adoption of the recognition and measurement provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, and the change in measurement date for defined benefit plan assets and liabilities to coincide with the Corporation's year end to conform to Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R).*

Deloitte & Touche LLP

Detroit, Michigan
February 28, 2008

Report of Independent Registered Public Accounting Firm

General Motors Corporation, its Directors, and Stockholders:

We have audited the accompanying Consolidated Balance Sheets of General Motors Corporation and subsidiaries (the Corporation) as of December 31, 2007 and 2006, and the related Consolidated Statements of Operations, Cash Flows and Stockholders' Equity (Deficit) for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of General Motors Corporation and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Corporation: (1) effective January 1, 2007, adopted the recognition and measurement provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, (2) effective January 1, 2007, changed the measurement date for defined benefit plan assets and liabilities to coincide with its year end to conform to Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158), (3) effective December 31, 2006, began to recognize the funded status of its defined benefit plans in its consolidated balance sheets to conform to SFAS No. 158, and (4) effective December 31, 2005, began to account for the estimated fair value of conditional asset retirement obligations to conform to FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations.*

As discussed in Note 3 to the consolidated financial statements, on November 30, 2006, the Corporation sold a 51% controlling interest in GMAC LLC, its former wholly-owned finance subsidiary. The Corporation's remaining 49% interest in GMAC LLC is accounted for as an equity method investment.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2008 expressed an adverse opinion on the Corporation's internal control over financial reporting.

Deloitte & Touche LLP

Detroit, Michigan
February 28, 2008

Consolidated Statements of Operations

(Dollars in millions except per share amounts) Years Ended December 31,	**2007**	2006	2005
Net sales and revenue			
Automotive sales	**$178,199**	$171,179	$158,623
Financial services and insurance revenue	**2,923**	34,422	34,427
Total net sales and revenue	**181,122**	205,601	193,050
Costs and expenses			
Automotive cost of sales	**166,259**	163,742	158,254
Selling, general and administrative expense	**14,412**	13,650	13,003
Financial services and insurance expense	**2,742**	29,794	30,813
Other expenses	**2,099**	4,238	7,024
Total costs and expenses	**185,512**	211,424	209,094
Operating loss	**(4,390)**	(5,823)	(16,044)
Equity in loss of GMAC LLC	**(1,245)**	(5)	–
Automotive and other interest expense	**(2,902)**	(2,642)	(2,534)
Automotive interest income and other non-operating income	**2,284**	2,812	1,349
Loss from continuing operations before income taxes, equity income, minority interests and cumulative effect of a change in accounting principle	**(6,253)**	(5,658)	(17,229)
Income tax expense (benefit)	**37,162**	(3,046)	(6,046)
Equity income, net of tax	**524**	513	610
Minority interests, net of tax	**(406)**	(324)	(48)
Loss from continuing operations	**(43,297)**	(2,423)	(10,621)
Discontinued operations (Note 3)			
Income from discontinued operations, net of tax	**256**	445	313
Gain on sale of discontinued operations, net of tax	**4,309**	–	–
Income from discontinued operations	**4,565**	445	313
Loss before cumulative effect of a change in accounting principle	**(38,732)**	(1,978)	(10,308)
Cumulative effect of a change in accounting principle	**–**	–	(109)
Net loss	**$ (38,732)**	$ (1,978)	$ (10,417)
Earnings (loss) per share, basic and diluted			
Continuing operations	**$ (76.52)**	$ (4.29)	$ (18.78)
Discontinued operations	**8.07**	0.79	0.55
Cumulative effect of a change in accounting principle	**–**	–	(0.19)
Total	**$ (68.45)**	$ (3.50)	$ (18.42)
Weighted average common shares outstanding, basic and diluted (millions)	**566**	566	565
Cash dividends per share	**$ 1.00**	$ 1.00	$ 2.00

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

Consolidated Balance Sheets

(Dollars in millions) December 31,	**2007**	2006
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 24,549**	$ 23,774
Marketable securities	**2,139**	138
Total cash and marketable securities	**26,688**	23,912
Accounts and notes receivable, net	**9,659**	8,216
Inventories	**14,939**	13,921
Equipment on operating leases, net	**5,283**	6,125
Other current assets and deferred income taxes	**3,566**	12,982
Total current assets	**60,135**	65,156
Financing and Insurance Operations Assets		
Cash and cash equivalents	**268**	349
Investments in securities	**215**	188
Equipment on operating leases, net	**6,712**	11,794
Equity in net assets of GMAC LLC	**7,079**	7,523
Other assets	**2,715**	2,269
Total Financing and Insurance Operations assets	**16,989**	22,123
Non-Current Assets		
Equity in net assets of nonconsolidated affiliates	**1,919**	1,969
Property, net	**43,017**	41,934
Goodwill and intangible assets, net	**1,066**	1,118
Deferred income taxes	**2,116**	33,079
Prepaid pension	**20,175**	17,366
Other assets	**3,466**	3,559
Total non-current assets	**71,759**	99,025
Total assets	**$148,883**	$186,304
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable (principally trade)	**$ 29,439**	$ 26,931
Short-term borrowings and current portion of long-term debt	**6,047**	5,666
Accrued expenses	**34,822**	34,120
Total current liabilities	**70,308**	66,717
Financing and Insurance Operations Liabilities		
Accounts payable	**30**	192
Debt	**4,908**	9,438
Other liabilities and deferred income taxes	**875**	1,947
Total Financing and Insurance Operations liabilities	**5,813**	11,577
Non-Current Liabilities		
Long-term debt	**33,384**	33,067
Postretirement benefits other than pensions	**47,375**	50,409
Pensions	**11,381**	11,934
Other liabilities and deferred income taxes	**16,102**	17,062
Total non-current liabilities	**108,242**	112,472
Total liabilities	**184,363**	190,766
Commitments and contingencies (Note 17)		
Minority interests	**1,614**	1,190
Stockholders' Deficit		
Preferred stock, no par value, authorized 6,000,000, no shares issued and outstanding	**–**	–
$1 2/3 par value common stock (2,000,000,000 shares authorized, 756,637,541 and 566,059,249 shares issued and outstanding at December 31, 2007, respectively, and 756,637,541 and 565,670,254 shares issued and outstanding at December 31, 2006, respectively)	**943**	943
Capital surplus (principally additional paid-in capital)	**15,319**	15,336
Retained earnings (deficit)	**(39,392)**	195
Accumulated other comprehensive loss	**(13,964)**	(22,126)
Total stockholders' deficit	**(37,094)**	(5,652)
Total liabilities, minority interests, and stockholders' deficit	**$148,883**	$186,304

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

Consolidated Statements of Cash Flows

(Dollars in millions) For the Years Ended December 31,	**2007**	2006	2005
Cash flows from operating activities			
Net loss	**$(38,732)**	$ (1,978)	$(10,417)
Less income from discontinued operations	**4,565**	445	313
Less cumulative effect of a change in accounting principle	**–**	–	(109)
Loss from continuing operations	**(43,297)**	(2,423)	(10,621)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) continuing operating activities:			
Depreciation, impairments and amortization expense	**9,513**	10,885	15,732
Mortgage servicing rights and premium amortization	**–**	1,021	1,142
Goodwill impairment – GMAC	**–**	828	712
Delphi charge	**1,547**	500	5,500
Loss on sale of 51% interest in GMAC	**–**	2,910	–
Provision for credit financing losses	**–**	1,799	1,074
Net gains on sale of credit receivables	**–**	(1,256)	(1,741)
Net gains on sale of investment securities	**–**	(1,006)	(104)
Other postretirement employee benefit (OPEB) expense	**2,362**	3,567	5,650
OPEB payments	**(3,751)**	(3,802)	(4,084)
VEBA/401(h) withdrawals	**1,694**	3,061	3,168
Pension expense	**1,799**	4,911	2,495
Pension contributions	**(937)**	(1,032)	(833)
Retiree lump sum and vehicle voucher expense, net of payments	**–**	(325)	(264)
Net change in mortgage loans	**–**	(21,578)	(29,119)
Net change in mortgage securities	**–**	427	(1,155)
Provisions for deferred taxes	**36,977**	(4,166)	(6,731)
Change in other investments and miscellaneous assets	**663**	(477)	(690)
Change in other operating assets and liabilities, net of acquisitions and disposals	**(3,412)**	(8,512)	20
Other	**4,349**	2,318	2,679
Net cash provided by (used in) continuing operating activities	**7,507**	(12,350)	(17,170)
Cash provided by discontinued operating activities	**224**	591	314
Net cash provided by (used in) operating activities	**$ 7,731**	$(11,759)	$(16,856)
Cash flows from investing activities			
Expenditures for property	**$ (7,542)**	$ (7,902)	$ (8,141)
Investments in marketable securities, acquisitions	**(10,155)**	(28,062)	(27,479)
Investments in marketable securities, liquidations	**8,119**	31,081	28,216
Net change in mortgage servicing rights	**–**	(61)	(267)
Increase in finance receivables	**–**	(1,160)	(6,582)
Proceeds from sale of finance receivables	**–**	18,374	31,652
Proceeds from sale of 51% interest in GMAC	**–**	7,353	–
Proceeds from sale of discontinued operations	**5,354**	–	–
Proceeds from sale of business units/equity investments	**–**	10,506	846
Operating leases, acquisitions	**–**	(17,070)	(15,496)
Operating leases, liquidations	**3,165**	7,039	5,362
Capital contribution to GMAC LLC	**(1,022)**	–	–
Investments in companies, net of cash acquired	**(46)**	(357)	1,355
Other	**389**	(15)	(863)
Net cash provided by (used in) continuing investing activities	**(1,738)**	19,726	8,603
Cash used in discontinued investing activities	**(22)**	(31)	(38)
Net cash provided by (used in) investing activities	**(1,760)**	19,695	8,565
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	**(5,749)**	7,030	(10,125)
Borrowings of long-term debt	**2,131**	79,566	78,276
Payments made on long-term debt	**(1,403)**	(92,290)	(69,566)
Cash dividends paid to stockholders	**(567)**	(563)	(1,134)
Other	**–**	2,487	6,030
Net cash provided by (used in) continuing financing activities	**(5,588)**	(3,770)	3,481
Cash provided by (used in) discontinued financing activities	**(5)**	3	(1)
Net cash provided by (used in) financing activities	**(5,593)**	(3,767)	3,480
Effect of exchange rate changes on cash and cash equivalents	**316**	365	(85)
Net increase (decrease) in cash and cash equivalents	**694**	4,534	(4,896)
Cash and cash equivalents retained by GMAC LLC upon disposal	**–**	(11,137)	–
Cash and cash equivalents of held for sale operations	**–**	–	(371)
Cash and cash equivalents at beginning of the year	**24,123**	30,726	35,993
Cash and cash equivalents at end of the year	**$ 24,817**	$ 24,123	$ 30,726

Consolidated Statements of Stockholders' Equity (Deficit)

For the Years Ended December 31, 2007, 2006 and 2005

(Dollars in millions)	Shares of Common Stock	Capital Stock	Capital Surplus	Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
Balance January 1, 2005	565	$942	$15,241		$ 14,511	$ (2,814)	$ 27,880
Prior period adjustment (Note 15)	–	–	–		(211)	–	(211)
Balance January 1, 2005, as restated	565	942	15,241		14,300	(2,814)	27,669
Net loss	–	–	–	$(10,417)	(10,417)	–	(10,417)
Other comprehensive income (loss):							
Foreign currency translation adjustments	–	–	–	(929)	–	–	–
Unrealized gains on derivatives	–	–	–	33	–	–	–
Unrealized loss on securities	–	–	–	(67)	–	–	–
Minimum pension liability adjustment	–	–	–	(758)	–	–	–
Other comprehensive loss	–	–	–	(1,721)	–	(1,721)	(1,721)
Comprehensive loss				$(12,138)			
Stock options	1	1	44		–	–	45
Cash dividends paid	–	–	–		(1,134)	–	(1,134)
Balance December 31, 2005, as restated	566	943	15,285		2,749	(4,535)	14,442
Net loss	–	–	–	$ (1,978)	(1,978)	–	(1,978)
Other comprehensive income (loss):							
Foreign currency translation adjustments	–	–	–	175	–	–	–
Unrealized loss on derivatives	–	–	–	(249)	–	–	–
Unrealized loss on securities	–	–	–	(504)	–	–	–
Minimum pension liability adjustment	–	–	–	(67)	–	–	–
Other comprehensive loss	–	–	–	(645)		(645)	(645)
Comprehensive loss				$ (2,623)			
Cumulative effect of a change in accounting principle – adoption of SFAS 158, net of tax	–	–	–		–	(16,946)	(16,946)
Stock options	–	–	51		–	–	51
Cumulative effect of a change in accounting principle – adoption of SFAS 156, net of tax	–	–	–		(13)	–	(13)
Cash dividends paid	–	–	–		(563)	–	(563)
Balance December 31, 2006, as restated	566	943	15,336		195	(22,126)	(5,652)
Net loss	**–**	**–**	**–**	**$(38,732)**	**(38,732)**	**–**	**(38,732)**
Other comprehensive income (loss):							
Foreign currency translation adjustments	**–**	**–**	**–**	**1,000**	**–**	**–**	**–**
Unrealized loss on derivatives	**–**	**–**	**–**	**(38)**	**–**	**–**	**–**
Unrealized loss on securities	**–**	**–**	**–**	**(17)**	**–**	**–**	**–**
Defined benefit plans, net (Note 24)	**–**	**–**	**–**	**6,064**	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**	**7,009**	**–**	**7,009**	**7,009**
Comprehensive loss				**$(31,723)**			
Effects of accounting change regarding pension plans and OPEB plans measurement dates pursuant to SFAS No. 158, net of tax	**–**	**–**	**–**		**(425)**	**1,153**	**728**
Cumulative effect of a change in accounting principle – adoption of FIN 48, net of tax	**–**	**–**	**–**		**137**	**–**	**137**
Stock options	**–**	**–**	**55**		**–**	**–**	**55**
Conversion of GMAC Preferred Membership Interest (Note 8)	**–**	**–**	**27**		**–**	**–**	**27**
Cash dividends paid	**–**	**–**	**–**		**(567)**	**–**	**(567)**
Purchase of convertible note hedge (Note 14)	**–**	**–**	**(99)**		**–**	**–**	**(99)**
Balance December 31, 2007	**566**	**$943**	**$15,319**		**$(39,392)**	**$(13,964)**	**$(37,094)**

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

Note 1. Nature of Operations

We (also General Motors Corporation, GM or the Corporation) are primarily engaged in the worldwide production and marketing of cars and trucks. We develop, manufacture and market vehicles worldwide through our four regions which consist of GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM) and GM Asia Pacific (GMAP). Also, our finance and insurance operations are primarily conducted through GMAC LLC, the successor to General Motors Acceptance Corporation (together with GMAC LLC, GMAC), a wholly-owned subsidiary through November 2006. On November 30, 2006, we sold a 51% controlling ownership interest in GMAC to a consortium of investors. After the sale, we have accounted for our 49% ownership interest in GMAC using the equity method. GMAC provides a broad range of financial services, including consumer vehicle financing, automotive dealership and other commercial financing, residential mortgage services, automobile service contracts, personal automobile insurance coverage and selected commercial insurance coverage. We operate in two businesses, consisting of Automotive (GM Automotive or GMA) and Financing and Insurance Operations (FIO).

Note 2. Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of General Motors Corporation and our majority-owned subsidiaries and variable interest entities (VIEs) of which it has been determined that we are the primary beneficiary. Our share of earnings or losses of nonconsolidated affiliates are included in the consolidated operating results using the equity method of accounting, when we are able to exercise significant influence over the operating and financial decisions of the affiliates. If we are not able to exercise significant influence over the operating and financial decisions of the affiliate, the cost method of accounting is used. All intercompany balances and transactions have been eliminated in consolidation.

CHANGE IN PRESENTATION OF FINANCIAL STATEMENTS

In 2007, we changed our statement of operations presentation to present costs and expenses of our FIO operations as a separate line. In so doing, we reclassified FIO's portion of Selling, general and administrative expense and Interest expense to Financial services and insurance expense. Also, Automotive and other interest expense has been presented within non-operating income and expenses. Additionally, prior period results have been reclassified for the retroactive effect of discontinued operations. Refer to Note 3. Certain reclassifications have been made to the comparable 2006 and 2005 financial statements to conform to the current period presentation.

USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require 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. Management believes that the accounting estimates employed are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

REVENUE RECOGNITION

Automotive Sales

Automotive sales consist primarily of revenue generated from the sale of vehicles. Vehicle sales are recorded when the title and risks and rewards of ownership have passed, which is generally when the vehicle is released to the carrier responsible for transporting vehicles to dealers. Provisions for recurring dealer and customer sales and leasing incentives, consisting of allowances and rebates, are recorded as reductions to Automotive sales at the time of vehicle sales. Additionally, all other incentives, allowances, and rebates related to vehicles previously sold are recognized as reductions to Automotive sales when announced.

Vehicle sales to daily rental car companies with guaranteed repurchase obligations are accounted for as Equipment on operating leases, net. Lease revenue is recognized ratably over the term of the lease based on the difference between net sales proceeds and the guaranteed repurchase amount. Equipment on operating leases, net is depreciated based on the difference between the cost of the vehicle and estimated residual value using the straight-line method over the term of the lease agreement. Management reviews residual values periodically to determine that estimates remain appropriate, and if an asset is impaired losses are recognized at the time of the impairment.

We also generate revenue from customer subscriptions related to comprehensive in-vehicle security, communications, and diagnostic systems in our vehicles, as well as the sale of prepaid minutes for our Hands-Free Calling (HFC) system. Subscription service revenue is deferred and recognized on a straight-line basis over the subscription period. OnStar offers a one-year subscription as part of the sale or lease of a new vehicle. The fair value of the subscription is recorded as deferred revenue when a vehicle is sold, and amortized over the one year subscription period beginning when the end user activates the subscription. The HFC revenue is deferred and recognized on a straight-line basis over the life of the contract.

For credit card programs in which we have a redemption liability, we recognize the payments received from the bank over our estimate of the time period the customer will accumulate and redeem their rebate points. Currently, this time period is estimated to be 60 months for the majority of our credit card programs and such revenue is amortized using the straight-line method. This redemption period is reviewed periodically to determine if it remains appropriate. We estimate and accrue the redemption liability anticipated to be paid to the dealer at the time specific vehicles are sold to the dealer. The redemption cost is classified as a reduction of Automotive revenue in our statements of operations.

Financial Services and Insurance Revenues

Financial services revenues are generated through the purchase of retail installment loans, dealer floor plan financing and other lines of credit to dealers, fleet leasing, and factoring of receivables. Financing revenue is recorded over the terms of the receivables using the interest method. Income from operating lease assets is recognized on a straight-line basis over the scheduled lease terms.

Insurance revenues consist of premiums earned on a basis related to coverage provided over the terms of the policies. Commissions, premium taxes, and other costs incurred in acquiring new business are deferred and amortized over the terms of the related policies on the same basis as premiums are earned.

Mortgage service revenues are generated through the origination, purchase, servicing, sale and securitization of consumer (i.e., residential) and commercial mortgage loans, and other mortgage related products. Typically, mortgage loans are originated and sold to investors in the secondary market, including securitization sales.

ADVERTISING

Advertising costs of $5.5 billion, $5.4 billion and $5.8 billion in 2007, 2006 and 2005, respectively, were expensed as incurred.

RESEARCH AND DEVELOPMENT EXPENDITURES

Research and development expenditures of $8.1 billion, $6.6 billion, and $6.7 billion in 2007, 2006 and 2005, respectively, were expensed as incurred.

PROPERTY, NET

Property, plant and equipment, including internal use software, is recorded at cost. Major improvements that extend the useful life of property are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. As of January 1, 2001, we adopted the straight-line method of depreciation for real estate, plants and equipment placed in service after that date. Assets placed in service before January 1, 2001 continue to be depreciated using accelerated methods. The accelerated methods accumulate depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated useful lives of property groups as compared to the straight-line method, which allocates depreciable costs equally over the estimated useful lives of property groups. Leasehold improvements are amortized over the period of lease or the life of the asset, whichever is shorter.

Note 2. Significant Accounting Policies *(continued)*

SPECIAL TOOLS

Special tools represent product specific tools, dies, molds and other items used in the manufacturing process of vehicles. Expenditures for special tools placed in service after January 1, 2001 were capitalized and amortized using the straight-line method over their estimated useful lives which range from one year to 10 years. Expenditures for special tools placed in service prior to January 1, 2001, were capitalized and amortized over their estimated useful lives, using the units of production method.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), goodwill is reviewed for impairment utilizing a two-step process. The first step of the impairment test requires the identification of the reporting units, and comparison of the fair value of each of these reporting units to the respective carrying value. The fair value of the reporting units is determined based on valuation techniques using the best information that is available, such as discounted cash flow projections. If the carrying value is less than the fair value, no impairment exists and the second step is not performed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step must be performed to compute the amount of the impairment. In the second step, the impairment is computed by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. SFAS No. 142 requires goodwill to be tested for impairment annually at the same time every year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. The annual impairment tests are performed in the fourth quarter of each year.

Other intangible assets, which include customer lists, trademarks, and other identifiable intangible assets, are amortized on a straight-line basis over estimated useful lives of three to 10 years.

VALUATION OF LONG-LIVED ASSETS

We periodically evaluate the carrying value of long-lived assets to be held and used in the business, other than goodwill and intangible assets with indefinite lives and assets held for sale, when events and circumstances warrant. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value for assets to be held and used. Assets classified as held for sale are reflected at the lower of carrying value or fair value less cost to sell. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Long-lived assets to be disposed of other than by sale are considered held for use until disposition.

VALUATION OF EQUITY METHOD INVESTMENTS

Investees accounted for under the equity method of accounting are evaluated for impairment in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". An impairment loss would be recorded whenever a decline in value of an equity investment below its carrying amount is determined to be other than temporary. In determining if a decline is other than temporary we consider such factors as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the equity affiliate, the near-term and longer-term operating and financial prospects of the affiliate and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

EQUIPMENT ON OPERATING LEASES, NET

Equipment on operating leases, net is reported at cost, less accumulated depreciation and net of origination fees or costs. Income from operating lease assets, which includes lease origination fees, net of lease origination costs, is recognized as operating lease revenue on a straight-line basis over the scheduled lease term. Depreciation of vehicles is generally provided on a straight-line basis to an estimated residual value over a period of time, consistent with the term of the underlying operating lease agreement. We evaluate our depreciation policy for leased vehicles on a regular basis.

We have significant investments in vehicles in our operating lease portfolio and are exposed to changes in the residual values of those assets. The residual values represent an estimate of the values of the assets at the end of the lease contracts and are determined by consulting an independently published residual value guide. Realization of the residual values is dependent on our future ability to market the vehicles under the prevailing market conditions. Over the life of the lease, we evaluate the adequacy of our estimate of the residual value and may make adjustments to the extent the expected value of the vehicle at lease termination changes. For operating leases arising from vehicle sales to daily rental car companies, the adjustment may be in the form of revisions to the depreciation rate or recognition of an impairment loss. Impairment is determined to exist if the undiscounted expected future cash flows are lower than the carrying value of the asset. For operating leases arising from vehicles sold to dealers, the adjustment is made to the estimate of marketing incentive accruals for residual support programs initially recognized when vehicles are sold to dealers. Refer to Note 27. When a lease vehicle is returned to us, the asset is reclassified from Equipment on operating leases, net to Inventory at the lower of cost or estimated fair value, less costs to sell.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION

The assets and liabilities of our foreign subsidiaries, using the local currency as their functional currency, are translated to U.S. Dollars based on the current exchange rate prevailing at each balance sheet date and any resulting translation adjustments are included in Accumulated other comprehensive income (loss). Our revenues and expenses are translated into U.S. Dollars using the average exchange rates prevailing for each period presented.

Included in Net income (loss) are the gains and losses arising from foreign currency transactions. The impact on net income (loss) of foreign currency transactions including the results of our foreign currency hedging activities, amounted to a loss of $669 million, a gain of $296 million and a loss of $118 million in 2007, 2006 and 2005, respectively.

POLICY AND WARRANTY

Provisions for estimated expenses related to policy and product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of claims. Revision to the reserves for estimated policy and product warranties is made when necessary, based on changes in these factors. We actively study trends of claims and take action to improve vehicle quality and minimize claims.

RECALL CAMPAIGNS

Provisions for estimated expenses related to product recalls based on a formal campaign soliciting return of that product are made when they are deemed to be probable and can be reasonably estimated.

ENVIRONMENTAL COSTS

We record a liability for environmental cleanup costs when a loss is probable and can be reasonably estimated. For environmental sites where there are potentially multiple responsible parties, we record a liability for the allocable share of the costs related to our involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. For environmental sites where we are the only potentially responsible party, we record a liability for the total estimated costs of remediation before consideration of recovery from insurers or other third parties.

We have an established process to develop our environmental reserve. This process consists of a number of phases which begins with the visual site inspections and an examination of historical site records. Once a potential problem has been identified, physical sampling of the site may include analysis of ground water and soil borings. The evidence obtained is then evaluated and based upon this evaluation, a remediation strategy is submitted for approval. The final phase of this process involves the commencement of remediation activities according to the approved plan. This process is used globally for all such sites.

Included in the estimated environmental liabilities are costs for ongoing operating, maintenance, and monitoring at environmental sites where remediation has been put in place. The process of estimating environmental remediation

Note 2. Significant Accounting Policies *(continued)*

liabilities is complex and dependent primarily on the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, the uncertainty as to what remediation and technology will be required, and the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites. Liabilities which have fixed or reliably determinable cash flows are discounted using a risk-free rate of return over the periods in which the ongoing maintenance is expected to occur, generally five to 30 years. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. In future periods, new laws or regulations, advances in remediation technologies and additional information about the ultimate remediation methodology to be used could significantly change our estimates.

CASH EQUIVALENTS

Cash equivalents are defined as short-term, highly-liquid investments with original maturities of 90 days or less.

MARKETABLE SECURITIES

Marketable securities are classified as available-for-sale, except for certain mortgage-related securities, which are classified as held-to-maturity. Available-for-sale securities are recorded at fair value with unrealized gains and losses reported, net of related income taxes, in Accumulated other comprehensive income (loss) until realized. Held-to-maturity securities are recorded at amortized cost. We determine realized gains and losses using the specific identification method.

DERIVATIVE INSTRUMENTS

We are party to a variety of foreign exchange rate, interest rate, and commodity derivative contracts entered into in connection with the management of our exposure to fluctuations in foreign exchange rates, interest rates, and certain commodity prices. These financial exposures are managed in accordance with corporate policies and procedures.

All derivatives are recorded at fair value in the consolidated balance sheets. Effective changes in fair value of derivatives designated as cash flow hedges are recorded in net unrealized gains (losses) on derivatives within a separate component of Other comprehensive income (loss). Amounts are reclassified from Accumulated other comprehensive income (loss) when the underlying hedged item affects earnings. All ineffective changes in fair value are recorded currently in earnings. Changes in fair value of derivatives designated as fair value hedges are recorded currently in earnings offset by changes in fair value of the hedged item to the extent the derivative was effective. Changes in fair value of derivatives not designated as hedging instruments are recorded currently in earnings.

ACCOUNTING FOR INCOME TAXES

We use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using the statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date under the law. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

ACCOUNTING FOR EARLY RETIREMENT PROGRAMS

We offer an early retirement program to certain employees located in the GME region which allows these employees to early transition from employment into retirement before their legal retirement age. Eligible employees who elect to participate in this pre-retirement leave program work full time during half of the pre-retirement period (the active period) and then do not work for the remaining half, the inactive period, and receive 50% of their salary during this pre-retirement period. These employees also receive an annual bonus equal to 35% of their annual net pay at the beginning of the pre-retirement period. Additionally, we are required to make contributions into the German government pension program for participants during the pre-retirement period. Under these programs, companies are entitled to a government subsidy if certain conditions are met. We have not been entitled to any program subsidy.

On January 1, 2006, we adopted Emerging Issue Task Force (EITF) 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features" (EITF 05-5), which states that the bonus and contributions made into the German government pension program should be accounted for under the guidance in SFAS No. 112, "Employers' Accounting for Postemployment Benefit Costs" (SFAS No. 112), and the government subsidy should be recognized when a company meets the necessary conditions to be entitled to the subsidy. As clarified in EITF 05-5, beginning in 2006, we recognized the bonus and additional contributions (collectively, additional compensation) into the German government pension plan over the period from when the employee signed the program contract until the end of the active service period. Prior to 2006, we recognized the full additional compensation one-year before the employee entered the active service period. The change, reported as a change in accounting estimate effected by a change in accounting principle, resulted in additional compensation expense of $68 million in 2006.

ACCOUNTING FOR EXTENDED DISABILITY BENEFITS

We accrue for estimated extended disability benefits ratably over the employees' active service period using the delayed recognition provisions prescribed by SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," (SFAS No. 106). As discussed in Note 15, at December 31, 2006, we adopted the recognition provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS No. 158). The liability consists of the future obligations for income replacement, health care costs and life insurance premiums for employees currently disabled and those in the active workforce who may become disabled. We estimate future disabilities in the current workforce using actuarial methods based on sufficient historical experience.

LABOR FORCE

On a worldwide basis, we have a concentration of our workforce working under the guidelines of unionized collective bargaining agreements. The current International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) labor contract is effective for a four-year term which began in October 2007 and expires in September 2011. Our current contract established a new wage and benefit structure for entry-level employees hired after the effective date of the contract in certain non-core positions, such as material movement, kitting and sequencing functions and certain stamping and subassemblies positions. These employees will receive base wages of approximately $15 per hour and will have a higher cost sharing arrangement for health care benefits. Additionally, the contract includes a $3,000 lump sum payment in 2007 and performance bonuses of 3%, 4% and 3% of wages in 2008, 2009 and 2010, respectively, for each UAW employee. We amortize these payments over the 12-month period following the respective payment dates. Active UAW employees and current retirees and surviving spouses were also granted pension benefit increases. Refer to Note 15.

Our previous UAW labor contract was effective for a four year term which began in October 2003 and expired in September 2007. This contract provided for a $3,000 lump sum payment for each UAW employee which was paid in October 2003, and a 3% performance bonus for each UAW employee, which was paid in October 2004. We amortized these payments over the 12-month period following the respective payment dates. UAW employees received a gross wage increase of 2% in 2005. For 2006, these employees were also granted a 3% gross wage increase under the labor contract, which was subsequently agreed between us and the UAW to be contributed to a Mitigation Voluntary Employee Beneficiary Association (VEBA) as a wage deferral, in connection with the 2005 UAW Health Care Settlement Agreement. Refer to Note 15. Active UAW employees were also granted pension benefit increases. There were no pension benefit increases granted to current retirees and surviving spouses. However, the contract did provide for four lump sum payments and two vehicle discount vouchers for current retirees and surviving spouses.

Note 2. Significant Accounting Policies *(continued)*

CHANGES IN ACCOUNTING PRINCIPLES

ACCOUNTING FOR SERVICING OF FINANCIAL ASSETS

On January 1, 2006, we adopted SFAS No. 156, "Accounting for Servicing of Financial Assets" (SFAS No. 156), which: (1) provides revised guidance on when a servicing asset and servicing liability should be recognized; (2) requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable; (3) permits an entity to elect to measure servicing assets and liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; (4) provides that upon initial adoption, a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting an entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and (5) requires separate presentation of servicing assets and liabilities subsequently measured at fair value in the balance sheet and additional disclosures. We recorded a reduction to Retained earnings as of January 1, 2006 of $13 million as a cumulative effect of a change in accounting principle for the adoption of SFAS No. 156.

ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Effective December 31, 2005, we adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 relates to legal obligations associated with retirement of tangible long-lived assets that result from acquisition, construction, development, or normal operation of a long-lived asset. We performed an analysis of such obligations associated with all real property owned or leased, including plants, warehouses, and offices. Our estimates of conditional asset retirement obligations relate, in the case of owned properties, to costs estimated to be necessary for the legally required removal or remediation of various regulated materials, primarily asbestos. Asbestos abatement was estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable. For leased properties, such obligations relate to the estimated cost of contractually required property restoration. The application of FIN 47 resulted in a charge of $109 million, after-tax, in 2005 presented as a cumulative effect of a change in accounting principle. The liability for conditional asset retirement obligations at December 31, 2007 and 2006 was $222 million and $193 million, respectively. Pro forma amounts, as if FIN 47 had been applied for 2005 are as follows (Dollars in millions except per share amounts):

Net loss, as reported	$(10,417)
Add: FIN 47 cumulative effect, net of tax	109
Less: FIN 47 depreciation and accretion expense, net of tax	(16)
Pro forma net loss	$(10,324)
Loss per share, basic and diluted, as reported	$ (18.42)
Pro forma loss per share	$ (18.26)
Pro forma asset retirement obligation – net, as of year-end	$ 181

Asset retirement obligations are included in Other long-term liabilities on the consolidated balance sheets. The following table reconciles our asset retirement obligations as of December 31, 2007 and 2006:

(Dollars in millions)	**2007**	2006
Asset retirement obligations as of January 1	**$193**	$181
Accretion expense	**22**	18
Liabilities incurred	**43**	5
Liabilities settled or disposed	**(40)**	(9)
Effect of foreign currency	**4**	–
Revisions to estimates	**–**	(2)
Asset retirement obligations as of December 31	**$222**	$193

As of December 31, 2007, our asset retirement obligation was primarily related to removal or remediation of various regulated materials, primarily asbestos.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

During the first quarter of 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which supplements SFAS No. 109 "Accounting for Income Taxes" (SFAS No. 109), by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires that the tax effect(s) of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the tax position are to be recognized. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. With the adoption of FIN 48, companies are required to adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained. Any necessary adjustment would be recorded directly to retained earnings and reported as a change in accounting principle. We adopted FIN 48 as of January 1, 2007, and recorded an increase to Retained earnings of $137 million as a cumulative effect of a change in accounting principle with a corresponding decrease to the liability for uncertain tax positions. Refer to Note 18 for more information regarding the impact of adopting FIN 48.

EMPLOYERS' ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

We recognized the funded status of our benefit plans at December 31, 2006 in accordance with the recognition provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). Additionally, we elected to adopt early the measurement date provisions of SFAS No. 158 at January 1, 2007. Those provisions require the measurement date for plan assets and liabilities to coincide with the sponsor's year end. Refer to Note 15.

ACCOUNTING STANDARDS NOT YET ADOPTED

FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157) which provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. SFAS No. 157 requires expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard also requires that a company use its own nonperformance risk when measuring liabilities carried at fair value, including derivatives. In February 2008, the FASB approved a FASB Staff Position (FSP) that permits companies to partially defer the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FSP did not permit companies to defer recognition and disclosure requirements for financial assets and financial liabilities or for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. SFAS No. 157 is effective for financial assets and financial liabilities and for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions of SFAS No. 157 will be applied prospectively. We intend to defer adoption of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We are currently evaluating the effects, if any, that SFAS No. 157 may have on our financial condition and results of operations.

FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of SFAS No. 115" (SFAS No. 159), which permits an entity to measure certain financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report

Note 2. Significant Accounting Policies *(concluded)*

unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. The Statement also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. SFAS No. 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. We do not expect the adoption of this standard to have a material impact on our financial condition and results of operations.

ACCOUNTING FOR NONREFUNDABLE PAYMENTS FOR GOODS OR SERVICES TO BE USED IN FUTURE RESEARCH AND DEVELOPMENT ACTIVITIES

In June 2007, the FASB ratified Emerging Issue Task Force (EITF) Issue No. 07-3, "Accounting for Nonrefundable Payments for Goods or Services to Be Used in Future Research and Development Activities" (EITF 07-3), requiring that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts should be expensed as the related goods are delivered or the related services are performed. The Statement is effective for fiscal years beginning after December 15, 2007. Management estimates that upon adoption, this guidance will not have a material effect on our financial condition and results of operations.

ACCOUNTING FOR INCOME TAX BENEFITS OF DIVIDENDS ON SHARE-BASED PAYMENT AWARDS

In June 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF 06-11), which requires entities to record to additional paid in capital the tax benefits on dividends or dividend equivalents that are charged to retained earnings for certain share-based awards. In a share-based payment arrangement, employees may receive dividends or dividend equivalents on awards of nonvested equity shares, nonvested equity share units during the vesting period, and share options until the exercise date. Generally, the payment of such dividends can be treated as deductible compensation for tax purposes. The amount of tax benefits recognized in additional paid-in capital should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 is effective for fiscal years beginning after December 15, 2007, and interim periods within those years. Management estimates that upon adoption, this guidance will not have a material effect on our financial condition and results of operations.

BUSINESS COMBINATIONS

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (SFAS No. 141(R)) which retained the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS No. 141(R) changed the method of applying the acquisition method in a number of significant aspects. SFAS No. 141(R) will require that: (1) for all business combinations, the acquirer records all assets and liabilities of the acquired business, including goodwill, generally at their fair values; (2) certain contingent assets and liabilities acquired be recognized at their fair values on the acquisition date; (3) contingent consideration be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled; (4) acquisition-related transaction and restructuring costs be expensed rather than treated as part of the cost of the acquisition and included in the amount recorded for assets acquired; (5) in step acquisitions, previous equity interests in an acquiree held prior to obtaining control be re-measured to their acquisition-date fair values, with any gain or loss recognized in earnings; and (6) when making adjustments to finalize initial accounting, companies revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they had been recorded on the acquisition date. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of this statement should also apply the provisions of SFAS No. 141(R). This standard will be applied to all future business combinations.

NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51" (SFAS No. 160) which amends ARB 51 to establish new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Also, SFAS No. 160 requires that: (1) noncontrolling interest, previously referred to as minority interest, be reported as part of equity in the consolidated financial statements; (2) losses be allocated to the noncontrolling interest even when such allocation might result in a deficit balance, reducing the losses attributed to the controlling interest; (3) changes in ownership interests be treated as equity transactions if control is maintained; and, (4) upon a loss of control, any gain or loss on the interest sold be recognized in earnings. SFAS No. 160 is effective on a prospective basis for all fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which will be applied retrospectively. We are currently evaluating the effects, if any, that SFAS No. 160 may have on our financial condition and results of operations.

Note 3. Acquisition and Disposal of Businesses

SALE OF ALLISON TRANSMISSION BUSINESS

In August 2007, we completed the sale of the commercial and military operations of our Allison Transmission (Allison) business. The negotiated purchase price of $5.6 billion in cash plus assumed liabilities was paid on closing. The purchase price was subject to adjustment based on the amount of Allison's net working capital and debt on the closing date, which resulted in an adjusted purchase price of $5.4 billion. A gain on the sale of Allison in the amount of $5.3 billion, $4.3 billion after-tax, inclusive of the final purchase price adjustments, was recognized in 2007. Allison, formerly a division of our Powertrain Operations, is a global leader in the design and manufacture of commercial and military automatic transmissions and a premier global provider of commercial vehicle automatic transmissions for on-highway, including trucks, specialty vehicles, buses and recreational vehicles, off-highway and military vehicles, as well as hybrid propulsion systems for transit buses. We retained the Powertrain Operations' facility near Baltimore, which manufactures automatic transmissions primarily for our trucks and hybrid propulsion systems.

The results of operations and cash flows of Allison have been reported in the consolidated financial statements as discontinued operations for all periods presented. Historically, Allison was reported within GMNA in the Automotive business.

The following table summarizes the results of discontinued operations:

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
Net sales	**$1,225**	$2,142	$1,750
Income from discontinued operations before income taxes	**$ 404**	$ 706	$ 489
Income tax provision	**$ 148**	$ 261	$ 176
Income from discontinued operations, net of tax	**$ 256**	$ 445	$ 313
Gain on sale of discontinued operations, net of tax	**$4,309**	$ –	$ –

Note 3. Acquisition and Disposal of Businesses *(concluded)*

As part of the transaction, we entered into an agreement with the buyers of Allison whereby we may provide the new parent company of Allison with contingent financing of up to $100 million. Such financing would be made available if, during a defined period of time, Allison was not in compliance with its financial maintenance covenant under a separate credit agreement. Such GM financing would be contingent on the stockholders of the new parent company of Allison committing to provide an equivalent amount of funding to Allison, either in the form of equity or a loan, and, if a loan, such loan would be granted on the same terms as the GM financing. This commitment expires on December 31, 2010. The new parent company of Allison did not borrow against this facility in 2007. Additionally, both parties have entered into non-compete arrangements for a term of 10 years in the United States and for a term of five years in Europe.

SALE OF 51% CONTROLLING INTEREST IN GMAC

In November 2006, we completed the sale of a 51% controlling interest in GMAC (GMAC Transaction) for a purchase price of $7.4 billion to FIM Holdings LLC (FIM Holdings). FIM Holdings is a consortium of investors including Cerberus FIM Investors LLC, Citigroup Inc., Aozora Bank Limited, and a subsidiary of The PNC Financial Services Group, Inc. We retained a 49% interest in GMAC's Common Membership Interests. In addition, FIM Holdings purchased 555,000 of GMAC's Preferred Membership Interests for a cash purchase price of $500 million, and we purchased 1,555,000 Preferred Membership Interests for a cash purchase price of $1.4 billion. The total value of the cash proceeds and distributions to us after repayment of certain intercompany obligations, and before we purchased the Preferred Membership Interests of GMAC was expected to be $14 billion over three years, comprised of the $7.4 billion purchase price and a $2.7 billion cash dividend at closing, and other transaction related cash flows including the monetization of certain retained assets. In January 2007, we made a capital contribution to GMAC of $1 billion to restore its adjusted tangible equity balance to the contractually required amount due to the decrease in the adjusted tangible equity balance of GMAC as of November 30, 2006.

Prior to consummation of the transaction: (1) certain assets with respect to automotive leases owned by GMAC and its affiliates having a net book value of $4 billion and related deferred tax liabilities of $1.8 billion were transferred to us; (2) we assumed or retained certain of GMAC's postemployment benefit obligations totaling $842 million and related deferred tax assets of $302 million; (3) GMAC transferred to us certain entities that hold a fee interest in certain real properties; (4) GMAC paid cash dividends to us based upon GMAC's anticipated net income for the period September 30, 2005 to November 30, 2006 totaling $1.9 billion; (5) we repaid certain indebtedness owing to GMAC and specified intercompany unsecured obligations owing to GMAC; and (6) GMAC made a one-time distribution to us of $2.7 billion of cash to reflect the increase in GMAC's equity resulting from the transfer of a portion of GMAC's net deferred tax liabilities arising from the conversion of GMAC and certain of its subsidiaries to limited liability company form.

In accordance with the terms of the sale agreement, in the second quarter of 2006, we settled our estimated outstanding liability with respect to a residual support and risk sharing agreement that was in place with GMAC related to certain operating lease portfolios for $1.4 billion. Under this arrangement, the customer's contractual residual value was set above GMAC's standard residual values. We reimbursed GMAC to the extent that remarketing sales proceeds were less than the customer's contractual residual value limited to GMAC's standard residual sales value. We also participated in a risk sharing arrangement whereby we shared equally in residual losses to the extent that remarketing proceeds were below GMAC standard residual values limited to a floor. The amount of the liability we previously recorded amounted to $1.8 billion, resulting in a gain on settlement of $390 million. We recognized $252 million of the gain in 2006 with the remainder reflected as a deferred gain which will be recognized in future periods as the leases terminate.

We recognized a non-cash impairment charge of $2.9 billion in Other expenses in 2006. The charge is comprised of the write-down of the carrying value of GMAC assets that were sold on November 30, 2006, partially offset by the realization of 51% of the unrecognized net gains reflected in GMAC's other comprehensive income.

For the eleven months ended November 30, 2006, GMAC's earnings and cash flows are fully consolidated in our consolidated statements of operations and consolidated statements of cash flows. After November 30, 2006, our remaining 49% interest in GMAC's common membership interests is reflected as an equity method investment. Also, our interest in GMAC's preferred membership interests is reflected as a cost method investment. Refer to Note 11.

As part of the agreement, we retained an option, for 10 years after the closing date, to repurchase from GMAC certain assets related to the automotive finance business of the North American Operations and International Operations of GMAC. Our exercise of the option is conditional on our credit rating being investment grade or higher than GMAC's credit rating. The call option price is calculated as the higher of: (1) fair market value, or (2) 9.5 times the consolidated net income of GMAC's automotive finance business in either the calendar year the call option is exercised or the calendar year immediately following the year the call option is exercised. No value was assigned to this fair value option.

We entered into a number of agreements with GMAC that were intended to continue the mutually-beneficial global relationship between us and GMAC. These agreements, in substance, were consistent with the existing and historical practices between us and GMAC, including requiring GMAC to continue to allocate capital to automotive financing thereby continuing to provide critical financing support to a significant share of our global sales. While GMAC retains the right to make individual credit decisions, GMAC has committed to fund a broad spectrum of customers and dealers consistent with historical practice in the relevant jurisdiction. Subject to GMAC's fulfillment of certain conditions, we have granted GMAC exclusivity for U.S., Canadian, and international GM-sponsored consumer and wholesale marketing incentives for our products in specified markets around the world, with the exception of Saturn branded products. Refer to Note 27 for additional information concerning these ongoing arrangements.

SALE OF GMAC COMMERCIAL MORTGAGE

In March 2006, through GMAC, we sold 79% of our equity in GMAC Commercial Mortgage for $1.5 billion in cash. Subsequent to the sale, the remaining interest in GMAC Commercial Mortgage is reflected using the equity method.

SALE OF ELECTRO-MOTIVE DIVISION

In April 2005, we completed the sale of our Electro-Motive Division (EMD) to an investor group led by Greenbriar Equity Group LLC and Berkshire Partners LLC for total consideration of $201 million. 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 our consolidated financial position or results of operations.

ACQUISITION OF GM DAEWOO AUTO & TECHNOLOGY COMPANY

In February 2005, we completed the purchase of 16.6 million newly-issued shares of common stock in GM Daewoo Auto & Technology Company (GM Daewoo) for $49 million, which increased our ownership in GM Daewoo to 48.2% from 44.6%. No other shareholders in GM Daewoo participated in the issue. In June 2005, we purchased from Suzuki Motor Corporation (Suzuki) 6.9 million shares of outstanding common stock in GM Daewoo for $21 million. This increased our ownership in GM Daewoo to 50.9%. Accordingly, we began consolidating the operations of GM Daewoo in June 2005.

The pro forma unaudited impact on Automotive sales had we consolidated GM Daewoo for the full year in 2005 would have been an increase to revenue of $2.8 billion. The pro forma effect on Net income (loss) is not significant compared to equity income recognized.

Note 4. Marketable Securities

Marketable securities we hold are classified as available-for-sale, except for certain mortgage-related securities, which are classified as held-to-maturity. Unrealized gains and losses, net of related income taxes, for available-for-sale securities are included as a separate component of stockholders' equity. We determine cost on the specific identification basis.

Investments in marketable securities are as follows:

	December 31, 2007				December 31, 2006			
(Dollars in millions)	**Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Automotive								
Available for sale:								
Corporate debt securities and other	**$1,278**	**$ 3**	**$ 9**	**$1,272**	$122	$–	$–	$122
United States government and agencies	**559**	**12**	**–**	**571**	13	–	–	13
Mortgage-backed securities	**296**	**2**	**2**	**296**	3	–	–	3
Total Automotive	**2,133**	**17**	**11**	**2,139**	138	–	–	138
Financing and Insurance Operations								
Available for sale:								
United States government and agencies	**1**	**–**	**–**	**1**	–	–	–	–
Foreign government securities	**20**	**1**	**–**	**21**	–	–	–	–
Mortgage and asset-backed securities	**33**	**–**	**–**	**33**	–	–	–	–
Corporate debt securities and other	**74**	**2**	**1**	**75**	98	–	4	94
Subtotal	**128**	**3**	**1**	**130**	98	–	4	94
Mortgage-backed securities held-to-maturity	**84**	**1**	**–**	**85**	93	1	–	94
Total Financing and Insurance Operations	**212**	**4**	**1**	**215**	191	1	4	188
Total consolidated	**$2,345**	**$21**	**$12**	**$2,354**	$329	$1	$4	$326

Proceeds from sales of marketable securities totaled $955 million, $7.9 billion and $20.4 billion in 2007, 2006 and 2005, respectively. The gross gains related to sales of marketable securities were $10 million, $1.1 billion and $223 million in 2007, 2006, and 2005, respectively. The gross losses related to sales of marketable securities were $4 million, $105 million and $132 million in 2007, 2006 and 2005, respectively.

The amortized cost and fair value of investments in available-for-sale securities by contractual maturity at December 31, 2007 are as follows:

(Dollars in millions)	Automotive		Financing and Insurance	
Contractual Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 year	$ 875	$ 874	$ 16	$ 17
2-5 years	878	880	14	14
6-10 years	126	131	36	37
11 years and thereafter	254	254	62	62
Total	$2,133	$2,139	$128	$130

On a monthly basis, we evaluate whether unrealized losses related to investments in debt and equity securities are temporary in nature. Factors considered in determining whether a loss is temporary include the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If losses are determined to be other-than-temporary, the investment carrying amount is considered impaired and adjusted to fair value. We recorded an other-than-temporary impairment of $72 million on certain marketable securities in 2007.

The fair value and gross unrealized losses of investments in an unrealized loss position that are not deemed to be other-than-temporarily impaired are summarized in the following table.

(Dollars in millions)	**December 31, 2007**			
	Less than 12 Months		**12 Months or Longer**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Automotive				
Corporate debt securities and other	**$483**	**$ 9**	**$ 3**	**$–**
Mortgage-backed securities	**88**	**2**	**–**	**–**
Total	**$571**	**$11**	**$ 3**	**$–**
Financing and Insurance Operations				
Corporate debt securities and other	**$ 1**	**$ –**	**$31**	**$1**
Total	**$ 1**	**$ –**	**$31**	**$1**

(Dollars in millions)	December 31, 2006	
	Less than 12 Months	
	Fair Value	Unrealized Losses
Financing and Insurance Operations		
Corporate debt securities and other	$94	$4
Total	$94	$4

In addition, we hold a strategic 3.7% stake in Suzuki that is recorded in Other Assets at its fair value of $492 million and $460 million as of December 31, 2007 and 2006, respectively. Our cost basis in this investment is $236 million. As discussed in Note 8, we also hold an investment in GMAC Preferred Membership Interests that is recorded in Other Assets at $1 billion and $1.6 billion as of December 31, 2007 and 2006, respectively. The fair value of this investment is $933 million and $1.6 billion as of December 31, 2007 and 2006, respectively.

Note 5. Finance Receivables and Securitizations

We generate receivables from our sales of vehicles to our dealer network domestically, as well as from service parts and powertrain sales. Certain of these receivables are sold to a wholly-owned bankruptcy-remote Special Purpose Entity (SPE). The SPE is a separate legal entity that assumes risks and rewards of ownership of the receivables. In turn, the SPE participates in a trade accounts receivable securitization program whereby it enters into an agreement to sell undivided interests in an eligible pool of trade receivables limited to $600 million and $850 million in 2007 and 2006, respectively, directly to banks and to a bank conduit, which funds its purchases through issuance of commercial paper. The receivables under the program are sold at fair market value and removed from our consolidated balance sheet at the time of sale. The loss recorded on the trade receivables sold, included in Automotive cost of sales, was $2 million, $30 million and $23 million in 2007, 2006 and 2005, respectively. As of December 31, 2007, the banks and the bank conduit had no beneficial interest in the SPE's pool of eligible trade receivables. As of December 31, 2006, the banks and the bank conduit had a beneficial interest of $200 million in the SPE's pool of eligible trade receivables. We do not have a retained interest in the receivables sold or provide any guarantees or other credit enhancements, but perform collection and administrative functions. The gross amount of proceeds from collections reinvested in revolving securitizations was $600 million, $9 billion and $12.8 billion in 2007, 2006, and 2005 respectively.

In addition to this securitization program, we participate in other trade receivable securitization programs, primarily in Europe. Financing providers had a beneficial interest in our pool of eligible European receivables of $87 million and $109 million as of December 31, 2007 and 2006, respectively, related to those securitization programs.

Since April 2006, certain other trade accounts receivables related to vehicle sales to dealers primarily in the Middle East are pledged as collateral under an on-balance sheet securitized borrowing program. The receivables pledged are not reported separately from other trade accounts receivables on the consolidated balance sheet. The amount of receivables pledged under this program was $215 million and $300 million, as of December 31, 2007 and 2006, respectively. Such amounts are also reported as short-term borrowings.

SECURITIZATIONS OF FINANCE RECEIVABLES AND MORTGAGE LOANS

Prior to the consummation of the GMAC Transaction, GMAC transferred to us two bankruptcy-remote subsidiaries, which function as SPEs that hold the equity interests in ten trusts that are parties to lease asset securitizations. The balance of lease securitization debt under these two SPEs was $4.8 billion and $9.4 billion as of December 31, 2007 and 2006, respectively.

With the completion of the GMAC Transaction in 2006, GMAC's finance receivables are no longer part of our consolidated balance sheet. Below is information on GMAC finance receivables for the eleven months ended November 30, 2006 and the year ended December 31, 2005.

GMAC sold retail finance receivables, wholesale and dealer loans, and residential mortgage loans. The following discussion and related information is only applicable to the transfers of finance receivables and loans that qualified as off-balance sheet securitizations under the requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement 125" (SFAS No. 140).

GMAC retained servicing responsibilities for and subordinated interests in all of its securitizations of retail finance receivables and wholesale loans. Servicing responsibilities were retained for the majority of its residential and commercial mortgage loan securitizations and GMAC retained subordinated interests in some of these securitizations. GMAC also held subordinated interests and acted as collateral manager in its collateralized debt obligation (CDO) securitization program.

As servicer, GMAC received a monthly fee stated as a percentage of the outstanding sold receivables. Typically, for retail automotive finance receivables where GMAC was paid a fee, it concluded that the fee represents adequate compensation as a servicer and, as such, no servicing asset or liability was recognized. Considering the short-term revolving nature of wholesale loans, no servicing asset or liability was recognized upon securitization of the loans. As of December 31, 2005, the weighted average basic servicing fees for its primary servicing activities were 100 basis points, 100 basis points and 40 basis points of the outstanding principal balance for sold retail finance receivables, wholesale loans, residential mortgage loans and commercial mortgage loans, respectively. Additionally, GMAC retained the rights to cash flows remaining after the investors in most securitization trusts have received their contractual payments. In certain retail securitization transactions, retail receivables were sold on a servicing retained basis, but with no servicing compensation and, as such, a servicing liability was established and recorded in Other liabilities.

For mortgage servicing, GMAC capitalizes the value expected to be realized from performing specified residential and commercial mortgage servicing activities as mortgage servicing rights.

The following tables summarize gains on securitizations and certain cash flows received from and paid to securitization trusts for transfers of finance receivables and loans that were completed during the eleven months ended November 30, 2006, and the year ended December 31, 2005:

	Eleven Months Ended November 30, 2006		
(Dollars in millions)	Retail Finance Receivables	Wholesale Loans	Mortgage Residential
Pre-tax gains on securitizations	$ –	$ 551	$ 731
Cash inflow information:			
Proceeds from new securitizations	$3,315	$ –	$56,510
Servicing fees received	$ –	$ 166	$ 435
Other cash flows received on retained interests	$ 308	$ 28	$ 534
Proceeds from collections reinvested in revolving securitizations	$ –	$89,385	$ –
Repayments of servicing advances	$ 3	$ –	$ 1,065
Cash outflow information:			
Servicing advances	$ (48)	$ –	$ (1,125)
Purchase obligations and options:			
Mortgage loans under conditional call option	$ –	$ –	$ (20)
Representations and warranties obligations	$ –	$ –	$ (37)
Administrator or servicer actions	$ (5)	$ –	$ (56)
Asset performance conditional calls	$ –	$ –	$ (47)
Clean-up calls	$ (242)	$ –	$ (1,099)

Note 5. Finance Receivables and Securitizations *(concluded)*

	Year Ended December 31, 2005				
(Dollars in millions)	Retail Finance Receivables	Wholesale Loans	Mortgage Loans: Residential	Mortgage Loans: Commercial	Commercial Mortgage Securities
Pre-tax gains (losses) on securitizations	$ (2)	$ 543	$ 513	$ 68	$ 8
Cash inflow information:					
Proceeds from new securitizations	$4,874	$ 7,705	$41,987	$3,990	$741
Servicing fees received	$ 65	$ 179	$ 245	$ 21	$ –
Other cash flows received on retained interests	$ 249	$ 503	$ 583	$ 262	$ 42
Proceeds from collections reinvested in revolving securitizations	$ –	$102,306	$ –	$ –	$ –
Repayments of servicing advances	$ 43	$ –	$ 1,115	$ 198	$ –
Cash outflow information:					
Servicing advances	$ (46)	$ –	$ (1,163)	$ (188)	$ –
Purchase obligations and options:					
Mortgage loans under conditional call option	$ –	$ –	$ (9)	$ –	$ –
Representations and warranties obligations	$ –	$ –	$ (29)	$ –	$ –
Administrator or servicer actions	$ (76)	$ –	$ –	$ –	$ –
Asset performance conditional calls	$ –	$ –	$ (99)	$ –	$ –
Clean-up calls	$ (715)	$ –	$ (2,202)	$ –	$ –

Key economic assumptions used in measuring the estimated fair value of retained interests of sales completed during the eleven months ended November 30, 2006 and the year ended December 31, 2005, as of the dates of such sales, were as follows:

	Eleven Months Ended November 30, 2006		Year Ended December 31, 2005			
	Retail Finance Receivables (a)	Residential Mortgage Loans (b)	Retail Finance Receivables (a)	Mortgage Loans: Residential (b)	Mortgage Loans: Commercial	Commercial Mortgage Securities
Key assumptions (c) (rates per annum):						
Annual prepayment rate (d)	0.9–1.7%	0.0–90.0%	0.9–1.2%	0.0–60.0%	0.0–50.0%	0.0%
Weighted average life (in years)	1.4–1.5	1.1–7.2	1.6–1.7	1.1–8.5	0.3–8.6	5.9–9.9
Expected credit losses	0.4–1.0	0.0–18.3	0.4–1.6	0.0–4.9	0.0	0.0
Discount rate	9.5–16.0%	7.0–25.0%	9.5–15.0%	6.5–21.4%	4.2–10.7%	10.0–12.0%

(a) *The fair value of retained interests in wholesale securitizations approximates cost because of the short-term and floating rate nature of wholesale loans.*
(b) *Included within residential mortgage loans are home equity loans and lines, high loan-to-value loans, and residential first and second mortgage loans.*
(c) *The assumptions used to measure the expected yield on variable rate retained interests are based on a benchmark interest rate yield curve plus a contractual spread, as appropriate. The actual yield curve utilized varies depending on the specific retained interests.*
(d) *Based on the weighted average maturity for finance receivables and constant prepayment rate for mortgage loans and commercial mortgage securities.*

We hedge interest rate and prepayment risks associated with certain of the retained interests; the effects of such hedge strategies have not been considered herein. Expected static pool net credit losses include actual incurred losses plus projected net credit losses divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static pool net credit losses based on our securitization transactions.

	Loans Securitized in Periods Ended December 31, (a)	
	2006 (b)	2005
Retail automotive	0.7%	0.6%
Residential mortgage	0.0–12.8%	0.0–16.9%
Commercial mortgage	–	0.0–3.4%
Commercial investment securities	–	0.0–6.7%

(a) *Static pool losses not applicable to wholesale finance receivable securitizations because of their short-term nature.*
(b) *Represents eleven months ended November 30, 2006.*

Note 6. Inventories

Inventories are comprised of the following:

	December 31,	
(Dollars in millions)	**2007**	2006
Productive material, work in process, and supplies	**$ 6,267**	$ 5,810
Finished product, including service parts, etc.	**10,095**	9,619
Total inventories at FIFO	**16,362**	15,429
Less LIFO allowance	**(1,423)**	(1,508)
Total automotive inventories, less allowances	**14,939**	13,921
FIO off-lease vehicles, included in FIO Other assets	**254**	185
Total consolidated inventories, less allowances	**$15,193**	$14,106

Inventories are stated at cost, which is not in excess of market. The cost of 50% of U.S. inventories is determined by the last-in, first-out (LIFO) method. The cost of all other inventories is determined by either the first-in, first-out (FIFO) or average cost methods.

During 2007 and 2006, U.S. LIFO eligible inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2007 and 2006 purchases, the effect of which decreased Automotive cost of sales by approximately $100 million and $50 million in 2007 and 2006, respectively.

Note 7. Equipment on Operating Leases, net

Information related to Assets leased to others and accumulated depreciation is as follows:

	December 31,	
(Dollars in millions)	**2007**	2006
Automotive		
Equipment on operating leases	**$ 5,798**	$ 6,629
Less accumulated depreciation	**(515)**	(504)
Net book value	**5,283**	6,125
Financing and Insurance Operations		
Equipment on operating leases	**9,313**	14,909
Less accumulated depreciation	**(2,601)**	(3,115)
Net book value	**6,712**	11,794
Total consolidated net book value	**$11,995**	$17,919

The lease payments to be received related to Equipment on operating leases, net maturing in each of the five years following December 31, 2007, are as follows: Auto – none, as the payment is received at lease inception and the revenue is deferred over the lease period; FIO – $1.2 billion, $477 million and $51 million maturing in 2008, 2009 and 2010, respectively. There are no leases maturing after 2010.

Note 8. Investment in Nonconsolidated Affiliates

Our nonconsolidated affiliates are those entities in which we own an equity interest and for which we use the equity method of accounting, because we have the ability to exert significant influence over decisions relating to their operating and financial affairs. Our significant affiliates, and the percent of our equity ownership or voting interest in them include the following:

- GMAC (49% at December 31, 2007 and 2006)
- Shanghai General Motors Co., Ltd (50% at December 31, 2007, 2006 and 2005)
- SAIC-GM-Wuling Automobile Co., Ltd (34% at December 31, 2007, 2006 and 2005)
- Suzuki (20.4% at December 31, 2005)

INVESTMENT IN GMAC

Summarized financial information for GMAC as of December 31, 2007 and 2006 and the year ended December 31, 2007 is presented in the tables below:

Results of Operations	*Year Ended December 31,*
(Dollars in millions)	**2007**
Total financing revenue	**$21,187**
Interest expense	**$14,776**
Depreciation expense on operating lease assets	**$ 4,915**
Total other revenue	**$10,303**
Total non interest expense	**$10,645**
Loss before income tax expense	**$ (1,942)**
Income tax expense	**$ 390**
Net loss	**$ (2,332)**

Financial Position	*December 31,*	
(Dollars in millions)	**2007**	2006
Loans held for sale	**$ 20,559**	$ 27,718
Total finance receivables and loans, net	**$124,759**	$170,870
Investment in operating leases, net	**$ 32,348**	$ 24,184
Other assets	**$ 27,026**	$ 23,496
Total assets	**$247,710**	$287,439
Total debt	**$193,148**	$236,985
Accrued expenses and deposits and other liabilities	**$ 27,484**	$ 22,659
Total liabilities	**$232,145**	$270,875
Redeemable preferred membership interests	**$ –**	$ 2,195
Total equity	**$ 15,565**	$ 14,369
Total liabilities, preferred interests and equity	**$247,710**	$287,439

Our investment in GMAC was $7.1 billion and $7.5 billion at December 31, 2007 and 2006, respectively.

As discussed in Note 3, we sold a 51% ownership interest in GMAC in November 2006. As such, our remaining 49% ownership interest is accounted for under the equity method. In addition, we purchased 1,555,000 Preferred Membership Interests for a cash purchase price of $1.4 billion, which are included within Other Assets in our consolidated balance sheet. Refer to Note 11.

The investment in GMAC Preferred Membership Interests, a cost method investment, was initially recorded at fair value at the date of its acquisition. The excess of fair value over the purchase price of the Preferred Membership Interests reduced our investment in GMAC Common Membership Interests. GMAC is required to make certain quarterly distributions to holders of the Preferred Membership Interests in cash on a pro rata basis. The Preferred Membership Interests are issued in units of $1,000 and accrue a yield at a rate of 10% per annum. GMAC's Board of Managers (GMAC Board) may reduce any distribution to the extent required to avoid a reduction of the equity capital of GMAC below a minimum amount of equity capital equal to the net book value of GMAC at November 30, 2006. In addition, the GMAC Board may suspend the payment of Preferred Membership Interest distributions with the consent of a majority of the Preferred Membership Interests. If distributions are not made with respect to any fiscal quarter, the distributions would not be cumulative. If the accrued yield of GMAC's Preferred Membership Interests for any fiscal quarter is fully paid to the preferred holders, then a portion of the excess of the net financial book income of GMAC in any fiscal quarter over the amount of yield distributed to the holders of the Preferred Membership Interests in such quarter will be distributed to the holders of the Common Membership Interests as follows: at least 40% of the excess will be paid for fiscal quarters ending prior to December 31, 2008 and at least 70% of the excess will be paid for fiscal quarters ending after December 31, 2008.

In November 2007, we converted 533,236 of our Preferred Membership Interests and FIM Holdings converted 555,000 of its Preferred Membership Interests into 3,912 and 4,072, respectively, of Common Membership Interests in order to strengthen GMAC's capital position. The percentage ownership of the Common Membership Interests in GMAC remained unchanged after the conversion. We accounted for the conversion at fair value and recorded a loss of $27 million during 2007. The loss on conversion represents the difference between the fair value and the carrying value of the Preferred Membership Interests converted. GMAC accounted for the conversion of the Preferred Membership Interests as a recapitalization recorded at book value. Our proportionate share of the increase in GMAC's net equity attributable to Common Membership Interest holders as a result of the conversion exceeded the fair value of the Preferred Membership Interests we converted by $27 million. The difference was recorded as an increase to Additional paid-in capital in 2007. At December 31, 2007, we hold the remaining 1,021,764 of Preferred Membership Interests and 49% or 52,912 of Common Membership Interests in GMAC.

Note 8. Investment in Nonconsolidated Affiliates *(concluded)*

We periodically evaluate the carrying value of our investment in GMAC, including our Preferred Membership Interests, to assess whether our investment is impaired. We currently believe our investment in GMAC is not impaired. However, there are many economic factors which are unstable at December 31, 2007, which may affect GMAC's ability to generate sustainable earnings and continue distributions on its Preferred Membership Interests and, accordingly, our assessment of impairment. These factors include:

- The instability of the global credit and mortgage markets and its effect on GMAC's Residential Capital, LLC (ResCap) subsidiary as well as its automotive finance, insurance and other operations;
- The deteriorating conditions in the residential and home building markets, including significant changes in the mortgage secondary market, tightening underwriting guidelines and reduced product offerings;
- Recent credit downgrades of GMAC and ResCap and the effect on their ability to raise capital necessary on acceptable terms; and
- Effect of the expected near-term automotive market conditions on GMAC's automotive finance operations.

As a result of deteriorating conditions in the residential and home building markets, recent credit downgrades of its unsecured debt obligations and significant year-to-date losses of its residential mortgage business, GMAC conducted an interim goodwill impairment test during the third quarter of 2007. GMAC concluded that the carrying amount of the reporting unit, including goodwill, exceeded its fair value and recorded an impairment loss of $455 million. Our share of the impairment loss decreased our investment in GMAC by $223 million at December 31, 2007 and is included in Equity in loss of GMAC LLC for 2007.

Prior to the GMAC Transaction in November 2006, GMAC recognized a gain of $415 million on the sale of its entire equity interest in a regional home builder, which was recorded in Automotive interest income and other non-operating income in the consolidated statements of operations. Under the equity method of accounting, GMAC's share of income recorded from this investment was $42 million and $35 million in 2006 and 2005, respectively.

INVESTMENT IN OTHER NONCONSOLIDATED AFFILIATES

Information regarding our remaining significant nonconsolidated affiliates, excluding GMAC, is presented in the table below:

(Dollars in millions)	**2007**	2006	2005
Book value of our investments in affiliates	**$ 811**	$ 851	$ 2,398
Our share of affiliates' net income	**$ 382**	$ 327	$ 475
Total assets of significant affiliates	**$6,441**	$4,828	$19,419
Total liabilities of significant affiliates	**$4,096**	$2,951	$ 9,646

INVESTMENT IN SUZUKI

In 2006, we sold 92.4 million shares of our investment in Suzuki, reducing our equity stake in Suzuki from 20.4% to 3.7% (16.3 million shares). The sale of our interest generated cash proceeds of $2 billion and a gain on sale of $666 million, which was recorded in Automotive interest income and other non-operating income in the consolidated statement of operations. Effective with completion of the sale, our remaining investment in Suzuki is accounted for as an available-for-sale equity security. Refer to Note 4.

INVESTMENT IN FUJI HEAVY INDUSTRIES (FHI)

In the fourth quarter of 2005, we completed the sale of our 20.1% investment in the common stock of FHI. In the second quarter of 2005, we recorded an impairment charge of $812 million associated with our investment in the common stock of FHI. In the fourth quarter of 2005, we recorded a gain of $78 million, due to the appreciation of the fair value of such stock after June 30, 2005, the date of the FHI impairment charge. The sale generated net proceeds of $775 million.

Note 9. Property – Net

Property – net is comprised of the following:

(Dollars in millions)	Estimated Useful Lives (Years)	*December 31,* **2007**	2006
Automotive			
Land	–	**$ 1,222**	$ 1,235
Buildings and land improvements	2–40	**19,127**	18,535
Machinery and equipment	3–30	**51,687**	51,017
Construction in progress	–	**4,439**	3,396
Real estate, plants, and equipment		**76,475**	74,183
Less accumulated depreciation		**(44,474)**	(43,440)
Real estate, plants, and equipment – net		**32,001**	30,743
Special tools – net	1–10	**11,016**	11,191
Total property – net		**$ 43,017**	$ 41,934

Depreciation, impairment and amortization expense is as follows:

(Dollars in millions)	*Years Ended December 31,* **2007**	2006	2005
Automotive			
Depreciation and impairment	**$4,937**	$ 4,575	$ 5,470
Amortization and impairment of special tools	**3,243**	3,450	4,498
Amortization of intangible assets	**74**	69	68
Total	**8,254**	8,094	10,036
Financing and Insurance Operations			
Depreciation (a)	**1,259**	2,776	5,680
Amortization of intangible assets	**–**	15	16
Total	**1,259**	2,791	5,696
Total consolidated depreciation, impairment and amortization	**$9,513**	$10,885	$15,732

(a) *Depreciation of property held by GMAC was ceased in April 2006 at the time the assets were classified as held for sale.*

In December 2006, we sold our proving grounds facility in Mesa, Arizona for $283 million in cash and subsequently leased it back for a three-year period. We recognized a gain of $270 million, which is included in Automotive interest income and other non-operating income in our consolidated statement of operations.

Note 10. Goodwill and Intangible Assets

The components of goodwill and intangible assets are as follows:

(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2007			
Amortizable intangible assets:			
Patents and intellectual property rights	**$570**	**$240**	**$ 330**
Indefinite-lived intangible assets:			
Goodwill			**736**
Total goodwill and intangible assets			**$1,066**
December 31, 2006			
Amortizable intangible assets:			
Patents and intellectual property rights	$488	$169	$ 319
Indefinite-lived intangible assets:			
Goodwill			799
Total goodwill and intangible assets			$1,118

Note 10. Goodwill and Intangible Assets *(concluded)*

Aggregate amortization expense on existing acquired intangible assets was $74 million, $84 million and $84 million in 2007, 2006 and 2005, respectively. Estimated amortization expense in each of the next five years is as follows: 2008 – $76 million; 2009 – $70 million; 2010 – $36 million; 2011 – $22 million; and 2012 – $16 million.

The changes in the carrying amounts of goodwill in 2007 and 2006 are as follows:

(Dollars in millions)	GMNA	GME	Total Auto	GMAC (b)	Total
Balance as of January 1, 2006	$324	$433	$757	$ 2,446	$ 3,203
Goodwill acquired during the period (a)	–	–	–	151	151
Impairment	–	–	–	(828)	(828)
GMAC divestiture (c)	–	–	–	(1,827)	(1,827)
Effect of foreign currency translation and other	(25)	67	42	58	100
Balance as of December 31, 2006	299	500	799	–	799
Goodwill acquired during the period	**–**	**28**	**28**	**–**	**28**
Allison divestiture (d)	**(66)**	**–**	**(66)**	**–**	**(66)**
Effect of foreign currency translation and other	**(60)**	**35**	**(25)**	**–**	**(25)**
Balance as of December 31, 2007	**$173**	**$563**	**$736**	**$ –**	**$ 736**

(a) *During 2006, GMAC recorded goodwill of $151 million primarily as a result of the purchase of a regional insurance company.*

(b) *With the changes in key personnel in the Commercial Finance business, GMAC initiated a goodwill impairment test, in accordance with SFAS No. 142, outside of the annual goodwill impairment testing period. A thorough review of the business by the new leadership, with a particular focus on long-term strategy, was performed. As a result of the review, the operating divisions were reorganized, and the decision was made to implement a different exit strategy for the workout portfolio and to exit product lines with lower returns. These decisions had a significant impact on expected asset levels and growth rate assumptions used to estimate the fair value of the business. In particular, the analysis performed during the third quarter of 2006 incorporates management's decision to discontinue activity in the equipment finance business, which had a portfolio of over $1 billion, representing 20% of Commercial Finance business average assets outstanding during 2006. The fair value of the Commercial Finance business was determined using an internally developed discounted cash flow analysis based on five year projected net income and a market driven terminal value multiple. Based upon the results of the assessment, an impairment charge of $828 million was recorded in 2006.*

(c) *In November 2006, we completed the sale of a 51% controlling interest in GMAC (Refer to Note 3).*

(d) *In August 2007, we completed the sale of Allison which resulted in the disposition of goodwill based on the relative fair value of Allison (Refer to Note 3).*

Note 11. Other Assets

Other assets are comprised of the following:

	December 31,	
(Dollars in millions)	**2007**	2006
Automotive		
Derivative assets	**$ 595**	$1,055
Restricted cash	**938**	879
Other	**1,933**	1,625
Total other assets	**3,466**	3,559
Financing and Insurance Operations		
Investment in GMAC Preferred Membership Interests	**1,046**	1,601
Inventory	**254**	185
Restricted cash held for securitization trusts	**1,107**	1,143
Other	**308**	(660)
Total other assets	**2,715**	2,269
Total consolidated other assets	**$6,181**	$5,828

Note 12. Variable Interest Entities

We are providing the information below concerning VIEs that: (1) are consolidated since we are deemed to be the primary beneficiary; and (2) those entities that we do not consolidate because, although we have significant interests in such VIEs, we are not the primary beneficiary. Those VIEs listed below that relate to the Financing and Insurance Operations were consolidated in 2005 and the period January 1, 2006 to November 30, 2006, the date of our sale of a 51% controlling interest in GMAC.

AUTOMOTIVE

We lease real estate and equipment from various SPEs that have been established to facilitate the financing of those assets for us by nationally prominent, creditworthy lessors. These assets consist principally of office buildings, warehouses, and machinery and equipment. The use of SPEs 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. There is a well-established market in which institutions participate in the financing of such property through their purchase of interests in these SPEs. Certain of these SPEs were determined to be VIEs under FIN 46(R) "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46(R)) and we consolidate such SPEs where we provide a residual value guarantee of the leased property and are considered the primary beneficiary under FIN 46(R). As of December 31, 2007, the carrying amount of assets and liabilities consolidated under FIN 46(R) amounted to $287 million and $335 million, respectively, compared to $636 million and $797 million as of December 31, 2006. Assets consolidated are reflected in Property-net in our consolidated financial statements. Liabilities consolidated are reflected in Debt in our consolidated financial statements. Our maximum exposure to loss related to these consolidated VIEs amounted to $335 million at December 31, 2007. For other such lease arrangements involving VIEs, we hold significant variable interests but are not considered the primary beneficiary under FIN 46(R). Our maximum exposure to loss related to these VIEs where we have a significant variable interest, but do not consolidate the entity, amounted to $705 million at December 31, 2007.

We also concluded an entity from whom we receive royalty payments and over whom we exercise control but in which we do not hold an equity interest meets the definition of a VIE. The entity modifies standard GM vehicles into high performance vehicles and sells them to the GM dealer network. We concluded that we are the primary beneficiary and consolidate the entity under FIN 46(R). Assets consolidated are reflected in Other Assets and liabilities are reflected in Other liabilities in our consolidated balance sheets. As of December 31, 2007, the carrying amount of assets and liabilities consolidated under FIN 46(R) amounted to $43 million and $29 million, respectively. Our maximum exposure to loss related to this consolidated VIE at December 31, 2007 is insignificant.

FINANCE AND INSURANCE OPERATIONS

Mortgage warehouse funding – GMAC's Mortgage operations transferred to warehouse funding entities commercial and residential mortgage loans, lending receivables, home equity loans, and lines of credit pending permanent sale or securitization through various structured finance arrangements in order to provide funds for the origination and purchase of future loans. We determined that for certain mortgage warehouse funding entities, GMAC was the primary beneficiary.

Construction and real estate lending – GMAC was the primary beneficiary of an SPE used to finance construction lending receivables.

Warehouse lending – GMAC had a facility in which it transferred mortgage warehouse lending receivables to a wholly owned SPE which then sold a senior participation interest in the receivables to an unconsolidated qualifying special purpose entity (QSPE). GMAC was the primary beneficiary of the SPE.

Note 12. Variable Interest Entities *(concluded)*

Collateralized debt obligations (CDOs) – GMAC's Mortgage operations sponsored and served as collateral manager for CDOs. Under CDO transactions, a trust is established that purchases a portfolio of securities and issues debt and equity certifications, representing interests in the portfolio of assets. In addition to receiving variable compensation for managing the portfolio, GMAC sometimes retained equity investments in the CDOs. The majority of the CDOs sponsored by GMAC were initially structured or were restructured as QSPEs, and were therefore exempt from FIN 46(R). For certain CDO entities, GMAC was the primary beneficiary.

Interests in real estate partnerships – GMAC's Commercial Mortgage operations syndicate investments in real estate partnerships to unaffiliated investors, and in certain partnerships, had guaranteed the timely payments of specified returns to those investors. GMAC had variable interests in the underlying operating partnerships. For certain partnerships, we determined that GMAC was the primary beneficiary; however, the consolidation of these entities did not impact reported net income.

New market tax credit funds – GMAC syndicated and managed investments in partnerships that make investments, typically mortgage loans that, in turn, qualify the partnerships to earn New Markets Tax Credits. For certain tax credit funds, GMAC was the primary beneficiary.

Note 13. Accrued Expenses, Other Liabilities, and Deferred Income Taxes

Accrued expenses, other liabilities and deferred income taxes are comprised of the following:

	December 31,	
(Dollars in millions)	**2007**	2006
Automotive – Current		
Dealer and customer allowances, claims and discounts	**$10,631**	$10,057
Deposits from rental car companies	**7,758**	9,112
Deferred revenue	**1,242**	906
Policy, product warranty, and recall campaigns	**4,655**	4,389
Delphi contingent liability	**924**	–
Payrolls and employee benefits excluding postemployment benefits	**2,146**	2,116
Self-insurance reserves	**351**	361
Taxes	**1,421**	1,761
Derivative liability	**587**	462
Postemployment benefits – plant idling	**476**	956
Postemployment benefits – extended disability benefits	**122**	146
Interest	**812**	827
Pensions	**446**	335
Postretirement benefits	**335**	275
Deferred income taxes	**116**	11
Other	**2,800**	2,406
Total accrued expenses	**$34,822**	$34,120
Automotive – Noncurrent		
Deferred revenue	**$ 1,933**	$ 2,109
Policy, product warranty, and recall campaigns	**4,960**	4,675
Delphi contingent liability	**1,870**	1,451
Payrolls and employee benefits excluding postemployment benefits	**2,082**	1,897
Self-insurance reserves	**1,483**	1,557
Derivative liability	**264**	454
Postemployment benefits – plant idling	**382**	313
Postemployment benefits – extended disability benefits	**631**	849
Deferred income taxes	**1,034**	722
Other	**1,463**	3,035
Total other liabilities and deferred income taxes	**$16,102**	$17,062

	December 31,	
(Dollars in millions)	**2007**	2006
Financing and Insurance Operations		
Unpaid insurance losses, loss adjustment expenses, and unearned insurance premiums	**$ –**	$ 125
Interest	**23**	46
Interest rate derivatives	**6**	2
GMAC capital contribution	**–**	1,022
Other	**846**	752
Total other liabilities and deferred income taxes	**$875**	$1,947

Activity for policy, product warranty, recall campaigns and certified used vehicle warranty liabilities is as follows:

	December 31,	
(Dollars in millions)	**2007**	2006
Balance at January 1	**$ 9,064**	$ 9,135
Payments	**(4,539)**	(4,463)
Increase in liability (warranties issued during period)	**5,135**	4,517
Adjustments to liability (pre-existing warranties)	**(165)**	(570)
Effect of foreign currency translation	**223**	445
Liabilities transferred in the sale of Allison (Note 3)	**(103)**	–
Balance at December 31	**$ 9,615**	$ 9,064

Management reviews and adjusts these estimates on a regular basis based on the differences between actual experience and historical estimates or other available information.

Note 14. Short-Term Borrowings and Long-Term Debt

SHORT-TERM BORROWINGS

We had short-term borrowings of $4.2 billion and $3.3 billion at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, short-term borrowings included related party debt of $2.5 billion and $2.8 billion, respectively, mainly dealer financing from GMAC. Amounts available under short-term line of credit agreements were $3.3 billion and $2.6 billion at December 31, 2007 and 2006, respectively. The interest rate on short-term borrowings outstanding ranged from 1.7% to 17.3% at December 31, 2007 and 2.5% to 11.2% at December 31, 2006. The weighted average interest rate on outstanding borrowings was 6.2% and 6% at December 31, 2007 and 2006, respectively. The weighted average interest rate on outstanding borrowings includes interest rates on debt denominated in various currencies.

We pay commitment fees on these credit facilities at rates negotiated in each agreement. Amounts paid and expensed for these commitments fees are not significant to any period.

LONG-TERM DEBT

Long-term debt is comprised of the following:

	December 31,	
(Dollars in millions)	**2007**	2006
Unsecured bonds	**$16,127**	$16,119
Contingent convertible debt	**8,440**	8,050
Foreign-currency-denominated bonds	**4,875**	4,479
Other long-term debt	**5,779**	6,824
Total debt	**35,221**	35,472
Less current portion of long-term debt	**(1,893)**	(2,341)
Fair value adjustment [(a)]	**56**	(64)
Total long-term debt	**$33,384**	$33,067

(a) *To adjust hedged fixed rate debt for fair value changes attributable to the hedged risk in accordance with SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133).*

Note 14. Short-Term Borrowings and Long-Term Debt *(continued)*

UNSECURED BONDS

Unsecured bonds represent obligations having various annual coupons ranging from 6.375% to 9.45% and maturities ranging from 2008 to 2052.

CONTINGENT CONVERTIBLE DEBT

In May 2007, we issued $1.5 billion of 1.5% Series D convertible debentures (Series D) due in 2009, with interest payable semiannually. The debentures are senior unsecured obligations ranking equally with all other unsecured and unsubordinated debt. The Series D may be converted at the option of the holder into our $1 2/3 par value common stock (Common Stock) based on an initial conversion rate of .6837 shares per $25.00 principal amount of debentures, which represents an initial conversion price of $36.57 per share.

The conversion price of $36.57 is subject to adjustment upon certain events, including but not limited to, the occurrence of stock dividends, the issuance of rights and warrants, and the distribution of assets or debt securities to all holders of shares of Common Stock. In addition, in the event of a make-whole fundamental change, as defined in the underlying prospectus supplement, the conversion rate will be increased based on: (1) the date on which such make-whole fundamental change becomes effective; and (2) our Common Stock price paid in the make-whole fundamental change or average Common Stock price. In any event, the conversion rate shall not exceed .8205 per $25.00 principal amount of Series D, subject to adjustment for events previously mentioned. If a fundamental change occurs prior to maturity, the debenture holders may require us to repurchase all or a portion of the debentures for cash at a price equal to the principal amount plus accrued and unpaid interest, if any, up to but not including, the date of repurchase. We may not elect to redeem the Series D prior to the maturity date.

In connection with the issuance of the Series D, we purchased a convertible note hedge for the Series D in a private transaction. The convertible note hedge is expected to reduce the potential dilution with respect to our Common Stock upon conversion of the Series D to the extent that the market value per share of our Common Stock does not exceed a specified cap, resulting in an effective conversion price of $45.71 per share. This transaction will terminate at the earlier of the maturity date of the Series D or when the Series D are no longer outstanding due to conversion or otherwise.

We received net proceeds from the issuance of the Series D, net of issue costs and the purchase of the convertible note hedge, of $1.4 billion. The net proceeds will be used for general corporate purposes, including working capital needs. Debt issue costs of $32 million were incurred and are being amortized using the effective interest method over the term of the Series D. In accordance with EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," we recorded the cost of the convertible note hedge of $99 million as a reduction of Additional paid-in capital. Any subsequent changes in fair value of the convertible note hedge are not recognized.

Convertible debt includes $1.2 billion original principal amount of 4.5% Series A convertible senior debentures due in 2032 (Series A), $2.6 billion principal amount of 5.25% Series B convertible senior debentures due in 2032 (Series B), $4.3 billion principal amount of 6.25% Series C convertible senior debentures due in 2033 (Series C) and $1.5 billion principal amount of 1.5% Series D due in 2009. We have unilaterally and irrevocably waived and relinquished our right to use stock, and have committed to use cash, to settle the principal amount of the debentures if: (1) holders choose to convert the debentures; or (2) we are required by holders to repurchase the debentures. We retain the right to use either cash or stock to settle any amount that may become due to debt holders in excess of the principal amount. Conversion prices for the bonds are as follows: $70.20 for the Series A securities, $64.90 for the Series B securities, $47.62 for the Series C securities and $36.57 for the Series D securities. In 2007, a majority of the Series A convertible debentures were put to us and settled in cash on March 6, 2007 for $1.1 billion. At December 31, 2007, the amount of the Series A convertible debentures outstanding was $39 million.

The notes are convertible by the holder as outlined below:

- If the closing sale price of our Common Stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; or
- If during the five business day period after any nine consecutive trading day period in which the trading price of the debentures for each day of such period was less than 95% of the product of the closing sale price of our Common Stock multiplied by the number of shares issuable upon conversion of $25.00 principal amount of the debentures; or
- If the debentures have been called for redemption (Series A on or after March 6, 2007, Series B on or after March 6, 2009, Series C on or after July 20, 2010, or
- For Series D, anytime from March 1, 2009 to the second business day immediately preceding the maturity date. The Series D mature June 1, 2009; or.
- Upon the occurrence of specified corporate events.

Our requirement to repurchase all or a portion of the notes is described below:

- If the investor exercises their right to require us to repurchase all or a portion of the debentures on the specified repurchase dates for each security (Series A: March 6, 2007, 2012, 2017, 2022, or 2027; Series B: March 6, 2014, 2019, 2024, or 2029; Series C: July 15, 2018, 2023 or 2028); or, if any of those days is not a business day, the next succeeding business day.

FOREIGN CURRENCY DENOMINATED BONDS

Foreign currency denominated bonds include Euro-denominated bonds with annual coupons ranging from 7.25% to 8.375% and maturity dates ranging from 2013 to 2033. Also, included within foreign-currency-denominated bonds are British Pounds bonds with annual coupons ranging from 8.375% to 8.875% and maturity dates ranging from 2015 to 2023. To mitigate the foreign exchange exposure created by this debt, we enter into cross currency swaps. The notional values of these swaps was $2.7 billion and $2.4 billion at December 31, 2007 and 2006, respectively.

OTHER LONG-TERM DEBT

Other long-term debt of $5.8 billion and $6.8 billion at December 31, 2007 and 2006, respectively, consisted of municipal bonds, capital leases, and other long-term obligations.

REVOLVING CREDIT AGREEMENTS

In August 2007, we entered into a revolving credit agreement expiring in August 2009, with a lender that provides for borrowings of up to $1.3 billion. Borrowings under this facility bear interest based on either the commercial paper rate or LIBOR. The borrowings are to be used for general corporate purposes, including working capital needs. Under the facility, borrowings are limited to an amount based on the value of underlying collateral, which consists of residual interests in trusts that own leased vehicles and issue asset-backed securities collateralized by the vehicles and the associated leases. The underlying collateral was previously owned by GMAC and was transferred to us as part of the GMAC transaction in November 2006. The underlying collateral is held by bankruptcy-remote subsidiaries and pledged to a trustee for the benefit of the lender. We consolidate the bankruptcy-remote subsidiaries and trusts for financial reporting purposes. No borrowings were outstanding under this agreement at December 31, 2007.

We also have a $4.6 billion standby revolving credit facility with a syndicate of banks, of which $150 million terminates in June 2008 and $4.5 billion terminates in July 2011. As of December 31, 2007, the availability under the revolving credit facility was $4.5 billion. There are $91 million of letters of credit issued under the credit facility, and no loans are currently outstanding. Under the $4.5 billion secured facility, borrowings are limited to an amount based on the value of the underlying collateral, which consists of certain North American accounts receivable and certain inventory of GM, Saturn Corporation, and General Motors of Canada Limited (GM Canada), certain plants, property and equipment of GM Canada

Note 14. Short-Term Borrowings and Long-Term Debt *(concluded)*

and a pledge of 65% of the stock of the holding company for our indirect subsidiary General Motors de Mexico, S de R.L. de C.V. The collateral also secures certain lines of credit, automatic clearinghouse and overdraft arrangements, and letters of credit provided by the same secured lenders. The facility totals $6 billion, $4.5 billion of which is the maximum available through the revolving credit facility. As of December 31, 2007, in addition to the $91 million letters of credit issued under the revolving credit facility, $1.6 billion was utilized to secure other facilities under the facility. In the event of certain work stoppages, the secured revolving credit facility would be temporarily reduced to $3.5 billion.

Our available long-term borrowings under line of credit arrangements with various banks totaled $5.9 billion and $4.7 billion at December 31, 2007 and 2006, respectively. The unused portion of the credit lines totaled $5.8 billion at December 31, 2007. In addition, our consolidated affiliates with non-GM minority shareholders, primarily GM Daewoo, have lines of credit with various banks that totaled $2.1 billion at December 31, 2007, all of which represented long-term facilities, compared with $2.7 billion at December 31, 2006. The unused portion of the credit lines totaled $1.6 billion at December 31, 2007.

In May 2007, we entered into an unsecured revolving credit agreement expiring in June 2008 that provided for borrowings of up to $500 million. After reviewing our liquidity position in December 2007, we believe that we have sufficient liquidity and financial flexibility to meet our capital requirements in the first half of 2008 without the credit agreement. As a result, we terminated the credit agreement on January 9, 2008. We never borrowed under this credit agreement.

INTEREST RATE RISK MANAGEMENT

To achieve our desired balance between fixed and variable debt, we have entered into interest rate swaps. The notional amount of pay variable swap agreements as of December 31, 2007 and 2006 for Automotive was $5.4 billion and $5.3 billion, respectively.

At December 31, 2007 and 2006, long-term debt included $26.2 billion and $25.5 billion, respectively, of obligations with fixed interest rates and $7.2 billion and $7.6 billion, respectively, of obligations with variable interest rates (predominantly LIBOR), after interest rate swap agreements.

OTHER

We have other financing arrangements consisting principally of obligations in connection with sale/leaseback transactions and other lease obligations (including off-balance sheet arrangements). In view of the restatement of our prior financial statements, we have evaluated the effect of the restatement under these agreements, including our legal rights (such as our ability to cure) with respect to any claims that could be asserted. Based on our review, we believe that amounts subject to possible claims of acceleration, termination or other remedies are not likely to exceed $2.7 billion (consisting primarily of off-balance sheet arrangements) although no assurances can be given as to the likelihood, nature or amount of any claims that may be asserted. Based on this review, we reclassified $212 million of these obligations from long-term debt to short-term debt.

Long-term debt maturities including capital leases at December 31, 2007 are as follows: 2008 – $1.9 billion; 2009 – $2.3 billion; 2010 – $.2 billion; 2011 – $1.7 billion; 2012 – $.2 billion, thereafter – $29 billion.

FINANCING AND INSURANCE OPERATIONS

Debt is comprised of the following:

	December 31,	
(Dollars in millions)	**2007**	2006
Short-term debt:		
Bank loans and overdrafts	**$ 10**	$ 23
Long-term debt:		
Secured debt	**4,863**	8,944
Related party – GMAC	**35**	471
Total debt	**$4,908**	$9,438

Prior to the consummation of the GMAC Transaction, GMAC transferred to us two bankruptcy-remote subsidiaries that hold a number of trusts that are parties to lease asset securitizations. The $4.9 billion of secured debt as of December 31, 2007 is primarily comprised of the asset-backed debt securities issued by these trusts as part of these lease securitizations.

To achieve our desired balance between fixed and variable rate debt, we have entered into interest rate swaps and cap agreements with GMAC as the counterparty. The notional amount of such agreements as of December 31, 2007 for FIO was $3.2 billion pay floating, and the variable interest rates ranged from 5.2% to 6.5%. The notional amount of such agreements as of December 31, 2006 for FIO was $7.2 billion pay floating, and the variable interest rates ranged from 5.3% to 6.6%.

Long-term debt maturities at December 31, 2007 are as follows: 2008 – $3.6 billion; 2009 – $1.2 billion; 2010 – $0; 2011 – $5 million; 2012 – $17 million; thereafter – $45 million.

Note 15. Pensions and Other Postretirement Benefits

EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PENSION PLANS

We sponsor a number of qualified defined benefit pension plans covering eligible hourly and salaried U.S. employees as well as certain other non-U.S. employees. Defined benefit pension plans covering eligible hourly U.S. and Canadian employees generally provide benefits of negotiated, stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age. The benefits provided by the defined benefit pension plans covering eligible U.S. and Canadian salaried employees and salaried employees in certain other non-U.S. locations are generally based on years of service and compensation history. We also have unfunded nonqualified pension plans covering certain executives that are based on targeted wage replacement percentages.

DEFINED CONTRIBUTION PLANS

We also sponsor the Savings-Stock Purchase Program (S-SPP), a defined contribution retirement savings plan for eligible U.S. salaried employees. The S-SPP provides for discretionary matching contributions up to certain predefined limits based upon eligible base salary (Matching Contribution). We suspended our Matching Contribution effective January 1, 2006, and reinstated the Matching Contribution effective January 1, 2007. In addition to the Matching Contribution, we also contribute an amount equal to 1% of eligible base salary for U.S. salaried employees with a service commencement date on or after January 1, 1993 to cover certain benefits in retirement that are different from U.S. salaried employees with a service commencement date prior to January 1, 1993 (Benefit Contribution). Effective January 1, 2007, we established a new contribution to the S-SPP for eligible U.S. salaried employees with a service commencement date on or after January 1, 2001. We automatically contribute an amount equal to 4% of eligible base salary under this program (Retirement Contribution). The total of these contributions to the S-SPP was $82 million, $12 million and $65 million in 2007, 2006 and 2005, respectively.

We also contribute to certain non-U.S. defined contribution plans. Contributions to the non-U.S. defined contribution plans were immaterial for all periods presented.

OTHER POSTRETIREMENT BENEFIT PLANS

Additionally, we sponsor hourly and salaried benefit plans that provide postretirement medical, dental, vision and life insurance to eligible U.S. and Canadian retirees and their eligible dependents. The cost of such benefits is recognized during the period employees provide service to us. Certain other non-U.S. subsidiaries have postretirement benefit plans, although most employees are covered by government sponsored or administered programs. The cost of such other non-U.S. postretirement plans is not significant.

Note 15. Pensions and Other Postretirement Benefits *(continued)*

We also provide post-employment extended disability benefits comprised of income security, health care and life insurance to eligible U.S. and Canadian employees who become disabled and can no longer actively work. The cost of such benefits is recognized during the period employees provide service.

In 2005 we entered into the 2005 UAW Health Care Settlement Agreement which reduced health care coverage to individual UAW retirees. To mitigate the effects of the reduced coverage, the 2005 UAW Health Care Settlement Agreement also provided that we make contributions to a new independent VEBA. These contributions constitute a defined benefit plan with a cap (Mitigation Plan) and are expected to be available to pay benefits for a number of years depending on the level of mitigation. Our obligation to make contributions to the Mitigation Plan is determined by a formula, consisting of fixed and variable components, as defined in the 2005 UAW Health Care Settlement Agreement. Our obligations are limited to these contributions. The 2005 UAW Health Care Settlement Agreement further provides that we do not guarantee the ability of the assets in the Mitigation Plan to mitigate retiree health care costs. Furthermore, the Mitigation Plan is completely independent of us and is administered by an independent trust committee (the Committee) which does not include any of our representatives. The assets of the independent VEBA trust for UAW retirees of GM are the responsibility of the Committee, which has full fiduciary responsibility for the investment strategy, safeguarding of assets and execution of the benefit plan as designed.

The Mitigation Plan is partially funded by our contributions of $1 billion in 2006, 2007 and a third contribution of $1 billion to be made in 2011. We shall also make future contributions subject to provisions of the 2005 UAW Health Care Settlement Agreement that relate to profit sharing payments, increases in the value of a notional number of shares of our Common Stock (collectively, the Supplemental Contributions), as well as wage deferral payments and dividend payments. Amounts we contribute to the Mitigation Plan related to wage deferrals, dividends or changes in the estimate of Supplemental Contributions are recorded as an expense in the quarter that the hours are worked, the dividend is declared, or the change in estimate occurs. We recognize the expense for the wage deferrals as the future services are rendered, since the active-UAW represented-hourly-employees elected to forgo contractual wage increases and to have those amounts contributed to the Mitigation Plan.

The net underfunded status of the Mitigation Plan is reflected in our consolidated balance sheet and in the Changes in Benefit Obligation (under U.S. Other Benefits) as detailed in the table below. The following represents the changes in plan assets and benefit obligation of the Mitigation Plan for 2007 and 2006:

	December 31,	
(Dollars in millions)	**2007**	2006
Changes in Benefit Obligation		
Benefit obligation at beginning of year	**$2,805**	$ –
SFAS No. 158 measurement date adjustment	**20**	–
Interest cost	**69**	56
Amendments	**–**	2,876
Actuarial (gains)/losses	**166**	7
Benefits paid	**(580)**	(119)
Other	**286**	(15)
Benefit obligation at end of year	**$2,766**	$2,805
Changes in Plan Assets		
Fair value of plan assets at beginning of year	**$ 914**	$ –
Contributions	**1,000**	1,000
Wage deferral contributions	**286**	4
Benefits paid	**(580)**	(119)
Actual return on plan assets	**109**	29
Fair value of plan assets at end of year	**$1,729**	$ 914

LEGAL SERVICES PLANS AND RESTATEMENT OF FINANCIAL INFORMATION

The accompanying consolidated balance sheets and statement of stockholders' equity (deficit) as of December 31, 2006 and January 1, 2005, respectively, have been restated to correct the accounting for certain benefit plans that provide legal services to hourly employees represented by the UAW, International Union of Electrical Workers Communications Workers of America (IUE-CWA) and the Canadian Auto Workers (CAW) (Legal Services Plans). Historically, the Legal Services Plans were accounted for on a pay as you go basis. However, we have now concluded that the Legal Services Plans should be accounted for as defined benefit plans under the provisions of SFAS No. 106 and a liability of $323 million has been recorded in our consolidated balance sheet as of January 1, 2005, the earliest period included in these consolidated financial statements. A charge in the amount of $211 million, which is net of a deferred tax asset of $112 million, to record the liability and related tax effects has been recorded as an adjustment to Retained earnings, because the liability related to the Legal Service Plans existed prior to January 1, 2005.

We have evaluated the effects of this misstatement on prior periods' consolidated financial statements in accordance with the guidance provided by SEC Staff Accounting Bulletin No. 108, codified as SAB Topic 1.N, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB 108), and concluded that no prior period financial statements are materially misstated. However, we considered the effect of correcting this misstatement on our interim and annual results of operations for the periods ended September 30 and December 31, 2007, respectively, and concluded that the impact of recording the cumulative effect in each of these periods may be material. Therefore, as permitted by SAB 108 we corrected our prior period consolidated financial statements for the immaterial effect of this misstatement in these consolidated financial statements. As such, we do not intend to amend our previous filings with the SEC with respect to this misstatement.

In order to correct the consolidated balance sheet at December 31, 2006, we increased deferred tax assets and OPEB liabilities by $112 million and $323 million, respectively. Previously reported amounts for deferred tax assets and OPEB liabilities of $33 billion and $50.1 billion, respectively, at December 31, 2006 have been restated to $33.1 billion and $50.4 billion, respectively.

We are not restating the consolidated statements of operations or cash flows for 2006 and 2005, or any interim periods in those years, for this misstatement because we have concluded that the impact is immaterial to all periods presented.

ADOPTION OF SFAS NO. 158

Effective December 31, 2006, we adopted SFAS No. 158 and recognized the funded status of our defined benefit plans at December 31, 2006 in accordance with the recognition provisions of SFAS No. 158. The incremental effect of applying the recognition provisions of SFAS No. 158 on the individual line items in the consolidated balance sheet as of December 31, 2006 is presented in the table below. Additionally, we elected to early adopt the measurement date provisions of SFAS No. 158 at January 1, 2007. Those provisions require the measurement date for plan assets and liabilities to coincide with the sponsor's year end. Using the "two-measurement" approach for those defined benefit plans where the measurement date was not historically consistent with our year-end, we recorded a decrease to Retained earnings of $728 million, or $425 million after-tax, representing the net periodic benefit cost for the period between the measurement date utilized in 2006 and the beginning of 2007, which previously would have been recorded in the first quarter of 2007 on a delayed basis. We also performed a measurement at January 1, 2007 for those benefit plans whose previous measurement dates were not historically consistent with our year end. As a result of the January 1, 2007 measurement, we recorded an increase to Accumulated other comprehensive income of $2.3 billion, or $1.5 billion after-tax, representing other changes in the fair value of the plan assets and the benefit obligations for the period between the measurement date utilized in 2006 and January 1, 2007.

Note 15. Pensions and Other Postretirement Benefits *(continued)*

These amounts are principally offset by an immaterial adjustment of $390 million, or $250 million after-tax, to correct certain demographic information used in determining the amount of the cumulative effect of a change in accounting principle reported at December 31, 2006 to adopt the recognition provisions of SFAS No. 158.

(Dollars in millions)	Prior to Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Other current assets and deferred income taxes	$ 2,147	$ 10,835	$ 12,982
Goodwill and intangible assets, net	$ 1,578	$ (460)	$ 1,118
Prepaid pension	$ 33,949	$(16,583)	$ 17,366
Total assets	$192,512	$ (6,208)	$186,304
Accrued expenses	$ 37,737	$ (3,617)	$ 34,120
Postretirement benefits other than pensions	$ 36,373	$ 14,036	$ 50,409
Pensions	$ 11,541	$ 393	$ 11,934
Other liabilities and deferred income taxes	$ 17,136	$ (74)	$ 17,062
Total liabilities	$180,028	$ 10,738	$190,766
Accumulated other comprehensive loss	$ (5,180)	$(16,946)	$ (22,126)
Total stockholders' equity (deficit)	$ 11,294	$(16,946)	$ (5,652)
Total liabilities, minority interests and stockholders' equity (deficit)	$192,512	$ (6,208)	$186,304

SIGNIFICANT PLAN AMENDMENTS, BENEFIT MODIFICATIONS AND RELATED EVENTS

2007

In October 2007, we signed a Memorandum of Understanding – Post-Retirement Medical Care (Retiree MOU) with the UAW, now superseded by the settlement agreement entered into February 21, 2008 currently pending for court approval (Settlement Agreement). The Settlement Agreement provides that responsibility for providing retiree health care will permanently shift from us to a new retiree plan funded by a new independent VEBA (New VEBA).

When fully implemented, the Settlement Agreement will cap our retiree healthcare obligations to UAW associated employees, retirees and dependents, as defined in the Settlement Agreement; will supersede and replace the 2005 UAW Health Care Settlement Agreement; and will transfer responsibility for administering retiree healthcare benefits for these individuals to the New VEBA trust. Before it can become effective, the Settlement Agreement is subject to class certification, court approval and the completion of discussions between us and the SEC regarding accounting treatment for the transactions contemplated by the Settlement Agreement on a basis reasonably satisfactory to us. In light of theses contingencies, no recognition to the effects of the Settlement Agreement has been made in these consolidated financial statements. The Settlement Agreement provides that on the later of January 1, 2010 or final court approval of the Settlement Agreement, we will transfer our obligations to provide covered UAW employees with post-retirement medical benefits to a new retiree health care plan (the New Plan) to be established and funded by the New VEBA.

In accordance with the Settlement Agreement, effective January 1, 2008 for bookkeeping purposes only, we will divide the existing internal VEBA into two bookkeeping accounts. One account will consist of the percentage of the existing internal VEBA's assets as of January 1, 2008 that is equal to the estimated percentage of our hourly OPEB liability covered by the existing internal VEBA attributable to Non-UAW represented employees and retirees, their eligible spouses, surviving spouses and dependents (Non-UAW Related Account) and will have a balance of approximately $1.2 billion. The second account will consist of the remaining percentage of the assets in the existing internal VEBA as of January 1, 2008 (UAW Related Account) and will have a balance of approximately $14.5 billion. No amounts will be withdrawn from the UAW Related Account, including its investment returns, from January 1, 2008 until transfer to the New VEBA.

Pursuant to the Settlement Agreement we have issued $4.4 billion principal amount of our 6.75% Series U Convertible Senior Debentures Due December 31, 2012 (the Convertible Note) to LBK, LLC, a Delaware limited liability company of which we are the sole member (LBK). LBK will hold the Convertible Note until it is transferred to the New VEBA in accordance with the terms of the Settlement Agreement. Interest on the Convertible Note is payable semiannually. In accordance with the Settlement Agreement LBK will transfer any interest it receives on the Convertible Note to a temporary asset account we maintain. The funds in the temporary asset account will be transferred to the New VEBA in accordance with the terms of the Settlement Agreement.

In conjunction with the issuance of the Convertible Note, LBK and we have entered into certain cash-settled derivative instruments maturing on June 30, 2011 that will have the economic effect of reducing the conversion price of the Convertible Note from $40 to $36. These derivative instruments will also entitle us to partially recover the additional economic value provided if our Common Stock price appreciates to between $63.48 and $70.53 per share and to fully recover the additional economic value provided if our Common Stock price reaches $70.53 per share or above. Pursuant to the Settlement Agreement, LBK will transfer its interests in the derivatives to the New VEBA when the Convertible Note is transferred from LBK to the New VEBA.

We also issued a $4 billion short term note to LBK (the Short Term Note) pursuant to the Settlement Agreement. The Short Term Note pays interest at a rate of 9% and matures on the date that the face amount of the Short Term Note is paid with interest to the New VEBA in accordance with the terms of the Settlement Agreement. LBK will hold the Short Term Note until it matures.

Because LBK is a wholly-owned consolidated subsidiary, and LBK will hold the Convertible Note, the Short Term Note and the derivatives until they are paid or transferred to the New VEBA, these three securities will be effectively eliminated in our consolidated financial statements until they are transferred to the New VEBA without restrictions.

On April 1, 2008, we will make an additional contribution of $165 million to the temporary asset account. Beginning in 2009, we may be required to contribute an additional $165 million per year, limited to a maximum of an additional 19 payments, to either the temporary asset account or the New VEBA (when established). Such contributions will be required only if annual cash flow projections show that the New VEBA will become insolvent on a rolling 25-year basis. At any time, we will have the option to prepay all remaining contingent $165 million payments.

Additionally, at the initial effective date of the Settlement Agreement, we may transfer up to an additional $5.6 billion, subject to adjustment, to the New VEBA or we may instead opt to make annual payments of varying amounts between $421 million and $3.3 billion through 2020.

Note 15. Pensions and Other Postretirement Benefits *(continued)*

As a result of the increased pension benefits granted as part of the 2007 National Agreement, we remeasured the U.S. hourly defined benefit pension plan as of October 1, 2007 generating a $41 million increase in pension expense in 2007. The remeasurement increased our U.S. hourly projected benefit obligation (PBO) by $4.2 billion. The terms of the 2007 National Agreement also provided for pension benefits to certain future and current retirees for Delphi Corporation (Delphi) that were transferred at the time of the spin off from us. Future Delphi retirees received the same incremental pension increase consistent with our employees while the current Delphi retirees will receive four lump-sum payments with the same terms of those received by our retires. These pension benefits granted to future and current retirees of Delphi will be funded by our hourly pension plan and were included in our October 1, 2007 remeasurement of our hourly pension plan. The value of the increased pension benefits of $552 million to future and current Delphi retirees was charged to Other expense in 2007.

Prior to the 2007 National Agreement, we amortized prior service cost related to our hourly defined benefit pension plans in the U.S. over the average remaining service period for active employees at the time of the amendment, currently estimated to be 10.1 years. We also expensed any lump sum payments granted to retirees in the quarter the associated contract was approved. In conjunction with entering into the 2007 National Agreement, we determined that the contractual life of the labor agreements better reflected the period of future economic benefit received from pension plan amendments for our collectively bargained hourly pension plans. Therefore, we are amortizing these amounts over a four year period. Also, we recorded $1.6 billion of additional pension expense in the third quarter of 2007 related to the accelerated recognition of previously unamortized prior service cost related to pension increases in the U.S. from prior collectively bargained agreements due to our determination that there is no period of future economic benefit remaining. This change in estimate resulted in an increase in basic and diluted loss per share of $2.76 in 2007. Such charge is included as a component of Automotive costs of sales of $1.5 billion and a component of Selling, general and administrative expense of $77 million in the consolidated statements of operations.

2006

In February 2006, we announced we would increase the U.S. salaried workforce's participation in the cost of health care, capping our contributions to salaried retiree health care at the level of 2006 expenditures. The resulting remeasurement of the U.S. salaried OPEB plans as of February 9, 2006 due to these benefit modifications generated a $500 million reduction in OPEB expense for 2006 and is reflected in the Components of pension and OPEB expense table. This remeasurement reduced the U.S. accumulated postretirement benefit obligation (APBO) by $4.7 billion.

In March 2006, we modified the terms of the U.S. salaried defined benefit pension plan to freeze benefits under the then current plan as of December 31, 2006 and implement a new plan using a new pension formula thereafter. The resulting remeasurement of our U.S. salaried defined benefit pension plan as of March 31, 2006 due to these benefit modifications generated a $383 million reduction in pension expense for 2006 and is reflected in the Components of pension and OPEB expense table. This remeasurement reduced the U.S. PBO by $2.8 billion.

In March 2006, the U.S. District Court for the Eastern District of Michigan approved the 2005 UAW Health Care Settlement Agreement, which reduced the health care provisions for our Health Care Program for Hourly Employees (Modified Plan). Upon court approval, the 2005 UAW Health Care Settlement Agreement was to remain in effect until at least September 2011, after which either we or the UAW could cancel the agreement upon 90 days written notice. The 2005 UAW Health Care Settlement Agreement will be replaced by the Settlement Agreement, as discussed above, at the later of the Final Effective Date or January 1, 2010. The 2005 UAW Health Care Settlement Agreement also provided that we make contributions to the Mitigation Plan described earlier. As a result of the 2005 UAW health Care Settlement Agreement, we remeasured the Modified Plan as of March 31, 2006 generating a $1.3 billion reduction in OPEB expense for the remaining periods in 2006 and reducing the 2006 U.S. APBO by $17.4 billion. The $17.4 billion reduction is being amortized on a straight line basis over the period to full eligibility of the active UAW hourly employees (7.4 years) as a reduction of OPEB expense. The measurement as of March 31, 2006 of the Mitigation Plan generated a U.S. APBO of $2.9 billion which will be amortized on a straight-line basis over the period to full eligibility of active UAW employees (7.4 years) as U.S. OPEB expense. The net result of the March 31, 2006 remeasurement of the Modified Plan and the initial measurement of the Mitigation Plan was a $14.5 billion reduction of the 2006 U.S. hourly APBO and a $1.3 billion reduction in OPEB expense in 2006.

In March 2006, we reached an agreement with Delphi and the UAW, which significantly reduced the number of U.S. hourly employees (the UAW Attrition Program), thereby significantly reducing the expected aggregate years of future service of employees covered by the U.S. hourly defined benefit pension, OPEB and extended disability plans. The resulting remeasurement of our U.S. hourly defined benefit pension plan as of April 30, 2006 generated a $4.4 billion curtailment loss, a $704 million reduction in pension expense in 2006 and a reduction of our U.S. hourly PBO of $1.2 billion. The resulting remeasurement of our U.S. hourly OPEB plan as of May 31, 2006 generated a $23 million curtailment loss, a $143 million reduction in OPEB expense in 2006, and a reduction of our U.S. hourly APBO of $700 million. We also recognized a curtailment gain of $132 million related to the U.S. hourly extended disability plan measured as of June 30, 2006. The impacts for the pension and OPEB plans are reflected in the Components of pension and OPEB expense table.

In October 2006, we reduced the levels of coverage for corporate-paid life insurance for salaried retirees. For eligible salaried employees who retire on or after May 1, 2007, coverage will be reduced by 50% on the tenth anniversary of their retirement date, and salaried employees who retire before May 1, 2007 will have their coverage reduced by 50% on January 1, 2017. This change reduced our U.S. APBO by $500 million and is reflected in 2007 OPEB expense.

As a result of the sale of GMAC in November 2006, as described in Note 3, GMAC salaried employees had their defined benefit pension benefits frozen under our defined benefit pension plans in place at the time of the sale. The resulting remeasurement of our U.S. salaried defined benefit pension plans as of November 30, 2006 generated an $86 million curtailment gain and an $8 million reduction in pension expense in 2006. This remeasurement increased the U.S. PBO by $200 million. We also agreed to maintain the salaried OPEB obligation for current GMAC retirees and OPEB-eligible employees. GMAC employees who were non OPEB-eligible were offered a cash lump sum payment based on credited service in lieu of GM provided OPEB at their date of retirement. The

Note 15. Pensions and Other Postretirement Benefits *(continued)*

resulting remeasurement of the U.S. and non-U.S. OPEB plans as of November 30, 2006 generated a $563 million curtailment gain, $27 million settlement loss, and $536 million reduction in OPEB expense for 2006. This remeasurement reduced the U.S. and non-U.S. APBO by $100 million. The impact to extended disability benefits was a curtailment gain of $14 million in 2006.

	U.S. Plans Pension Benefits		Non-U.S. Plans Pension Benefits		U.S. Other Benefits*		Non-U.S. Other Benefits*	
(Dollars in millions)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Change in benefit obligations								
Benefit obligation at beginning of year	**$ 85,422**	$ 89,133	**$ 22,538**	$ 20,850	**$ 64,584**	$ 81,467	**$ 3,744**	$ 3,797
SFAS 158 measurement date adjustment	**–**	–	**(539)**	–	**238**	–	**–**	–
Service cost	**627**	727	**486**	484	**370**	551	**45**	53
Interest cost	**4,931**	4,965	**1,143**	967	**3,609**	3,929	**199**	190
Plan participants' contributions	**–**	19	**29**	30	**354**	129	**–**	–
Amendments	**3,635**	(1,960)	**75**	(669)	**(1,338)**	(15,091)	**(66)**	–
Actuarial (gains) losses	**(2,452)**	(3,682)	**(1,486)**	524	**(3,225)**	(6,468)	**(133)**	(145)
Benefits paid	**(7,574)**	(7,013)	**(1,287)**	(1,049)	**(4,753)**	(4,188)	**(147)**	(133)
Medicare Part D receipts	**–**	–	**–**	–	**215**	243	**–**	–
Exchange rate movements	**–**	–	**2,736**	1,250	**–**	–	**666**	4
Curtailments, settlements, and other	**688**	3,233	**58**	151	**(351)**	4,012	**2**	(22)
Benefit obligation at end of year	**85,277**	85,422	**23,753**	22,538	**59,703**	64,584	**4,310**	3,744
Change in plan assets								
Fair value of plan assets at beginning of year	**101,392**	95,250	**11,506**	10,063	**16,939**	20,282	**–**	–
SFAS 158 measurement date adjustment	**–**	–	**277**	–	**110**	–	**–**	–
Actual return on plan assets	**10,073**	13,384	**492**	1,280	**1,183**	1,834	**–**	–
Employer contributions	**89**	80	**848**	810	**2,470**	(1,118)	**147**	133
Plan participants' contributions	**–**	19	**29**	30	**354**	129	**–**	–
Benefits paid	**(7,574)**	(7,013)	**(1,287)**	(1,049)	**(4,753)**	(4,188)	**(147)**	(133)
Exchange rate movements	**–**	–	**1,507**	435	**–**	–	**–**	–
Curtailments, settlements, and other	**90**	(328)	**(64)**	(63)	**–**	–	**–**	–
Fair value of plan assets at end of year	**104,070**	101,392	**13,308**	11,506	**16,303**	16,939	**–**	–
Funded status (a)	**18,793**	15,970	**(10,445)**	(11,032)	**(43,400)**	(47,645)	**(4,310)**	(3,744)
Employer contributions/withdrawals in fourth quarter	**–**	–	**–**	142	**–**	(60)	**–**	–
Benefits paid in fourth quarter	**–**	–	**–**	–	**–**	765	**–**	–
Curtailments and settlements in fourth quarter	**–**	–	**–**	17	**–**	–	**–**	–
Net amount recognized	**$ 18,793**	$ 15,970	**$(10,445)**	$(10,873)	**$(43,400)**	$(46,940)	**$(4,310)**	$(3,744)
Noncurrent asset	**$ 19,984**	$ 17,150	**$ 191**	$ 216	**$ –**	$ –	**$ –**	$ –
Current liability	**(85)**	(85)	**(361)**	(250)	**(168)**	(134)	**(167)**	(141)
Noncurrent liability	**(1,106)**	(1,095)	**(10,275)**	(10,839)	**(43,232)**	(46,806)	**(4,143)**	(3,603)
	$ 18,793	$ 15,970	**$(10,445)**	$(10,873)	**$(43,400)**	$(46,940)	**$(4,310)**	$(3,744)
Amounts recognized in accumulated other comprehensive income consist of:								
Net actuarial loss	**$ 10,180**	$ 15,483	**$ 4,981**	$ 6,478	**$ 16,425**	$ 21,957	**$ 1,418**	$ 1,406
Net prior service cost (credit)	**2,617**	1,165	**81**	13	**(11,277)**	(12,450)	**(563)**	(501)
Transition obligation	**–**	–	**17**	25	**–**	–	**–**	–
	$ 12,797	$ 16,648	**$ 5,079**	$ 6,516	**$ 5,148**	$ 9,507	**$ 855**	$ 905

* *Table does not include extended disability plans with a total APBO of $701 million at December 31, 2007 and $866 million at December 31, 2006.*

The total accumulated benefit obligation, the accumulated benefit obligation and fair value of plan assets for our defined benefit pension plans with accumulated benefit obligations in excess of plan assets, and the projected benefit obligation and fair value of plan assets for defined benefit pension plans with projected benefit obligations in excess of plan assets are as follows:

	U.S. Plans		Non-U.S. Plans	
(Dollars in millions)	**2007**	2006	**2007**	2006
Accumulated Benefit Obligation	**$85,226**	$85,422	**$23,179**	$21,926
Plans with ABO in excess of plan assets				
ABO	**$ 1,189**	$ 1,180	**$22,390**	$21,429
Fair value of plan assets	**$ –**	$ –	**$12,351**	$10,769
Plans with PBO in excess of plan assets				
PBO	**$ 1,191**	$ 1,180	**$23,380**	$22,270
Fair value of plan assets	**$ –**	$ –	**$12,941**	$11,155

Note 15. Pensions and Other Postretirement Benefits *(continued)*

The components of pension and OPEB expense along with the assumptions used to determine benefit obligations are as follows:

	U.S. Plans Pension Benefits			Non-U.S. Plans Pension Benefits		
(Dollars in millions)	**2007**	2006	2005	**2007**	2006	2005
Components of expense						
Service cost	**$ 627**	$ 727	$ 1,117	**$ 486**	$ 484	$ 345
Interest cost	**4,931**	4,965	4,883	**1,143**	967	965
Expected return on plan assets	**(7,983)**	(8,167)	(7,898)	**(984)**	(842)	(740)
Amortization of prior service cost (credit)	**2,167**	785	1,164	**32**	78	102
Amortization of transition obligation	**–**	–	–	**8**	7	6
Recognized net actuarial loss	**764**	1,126	2,065	**407**	399	281
Curtailments, settlements, and other losses (gains)	**75**	4,260	115	**156**	139	114
Divestiture of Allison (c)	**(30)**	(17)	(24)	**–**	–	–
Net expense	**$ 551**	$ 3,679	$ 1,422	**$1,248**	$1,232	$1,073
Weighted-average assumptions used to determine benefit obligations at December 31 (a)						
Discount rate	**6.35%**	5.90%	5.70%	**5.72%**	4.76%	4.72%
Rate of compensation increase	**5.25%**	5.00%	4.90%	**3.60%**	3.00%	3.10%
Weighted-average assumptions used to determine net expense for years ended December 31 (b)						
Discount rate	**5.97%**	5.70%	5.60%	**4.97%**	4.72%	5.61%
Expected return on plan assets	**8.50%**	9.00%	9.00%	**7.85%**	8.40%	8.50%
Rate of compensation increase	**5.00%**	4.90%	5.00%	**3.46%**	3.10%	3.20%

	U.S. Other Benefits*			Non-U.S. Other Benefits*		
(Dollars in millions)	**2007**	2006	2005	**2007**	2006	2005
Components of expense						
Service cost	**$ 370**	$ 551	$ 702	**$ 45**	$ 53	$ 50
Interest cost	**3,609**	3,929	4,107	**199**	190	218
Expected return on plan assets	**(1,400)**	(1,593)	(1,684)	**–**	–	–
Amortization of prior service cost (credit)	**(1,830)**	(1,071)	(70)	**(86)**	(82)	8
Amortization of transition obligation	**–**	–	–	**–**	–	–
Recognized net actuarial loss	**1,352**	1,986	2,250	**122**	133	88
Curtailments, settlements, and other losses (gains)	**(213)**	(505)	–	**(17)**	(9)	2
Divestiture of Allison (c)	**211**	(15)	(21)	**–**	–	–
Net expense	**$ 2,099**	$ 3,282	$ 5,284	**$ 263**	$ 285	$ 366
Weighted-average assumptions used to determine benefit obligations at December 31 (a)						
Discount rate	**6.35%**	5.90%	5.45%	**5.75%**	5.00%	5.00%
Rate of compensation increase	**3.30%**	4.60%	4.20%	**4.00%**	4.00%	4.00%
Weighted-average assumptions used to determine net expense for years ended December 31 (b)						
Discount rate	**5.90%**	5.45%	5.75%	**5.00%**	5.00%	6.00%
Expected return on plan assets	**8.40%**	8.80%	8.80%	**–**	–	–
Rate of compensation increase	**4.60%**	4.20%	3.90%	**4.00%**	4.00%	4.00%

* *Table does not include extended disability plans with a total net expense of $63 million, $105 million and $79 million in 2007, 2006 and 2005, respectively (excluding curtailments), as the amounts are not material.*

(a) *Determined as of end of year.*

(b) *Determined as of beginning of year and updated for remeasurements. Appropriate discount rates were used during 2007 to measure the effects of curtailments and plan amendments on various plans.*

(c) *As a result of the Allison divestiture, we recorded an adjustment to the unamortized prior service cost of our U.S. hourly and salaried defined benefit pension plans of $18 million and our U.S. hourly and salaried OPEB plans of $223 million. Those adjustments were included in the determination of the gain recognized on the sale of Allison. The net periodic pension and OPEB benefit expenses related to Allison were reported as a component of discontinued operations.*

Note 15. Pensions and Other Postretirement Benefits *(continued)*

Estimated amounts to be amortized from Accumulated other comprehensive income into net periodic benefit cost during 2008 based on December 31, 2007 plan measurements are as follows:

(Dollars in millions)	U.S. Plans Pension Benefits	Non-U.S. Plans Pension Benefits	U.S. Other Benefits	Non-U.S. Other Benefits
Amortization of prior service cost (credit)	$ 841	$ 40	$(1,861)	$(92)
Amortization of transition obligation	–	7	–	–
Recognized net actuarial loss	263	282	747	102
	$1,104	$329	$(1,114)	$ 10

Effective with the December 31, 2007 remeasurement, we will begin amortizing actuarial gains/losses and new prior service costs/credits over the life expectancy of inactive participants in the U.S. hourly healthcare plan due to the changing demographics of the participants in the plan.

ASSUMPTIONS

DISCOUNT RATE

We set the discount rate assumption annually for each of our retirement-related U.S. benefit plans at their respective measurement dates to reflect the yield of a portfolio of high quality, fixed-income debt instruments that would produce cash flows sufficient in timing and amount to defease projected future benefits. We have established for our U.S. defined benefit pension plans and U.S. OPEB plans a discount rate of 6.35% for year-end 2007.

HEALTH CARE TREND RATE

	December 31,	
Assumed Health-Care Trend Rates	**2007**	2006
Initial health-care cost trend rate	**8.2%**	9.0%
Ultimate health-care cost trend rate	**5.0%**	5.0%
Number of years to ultimate trend rate	**6**	6

A one percentage point increase in the assumed health care trend rates for all future periods would have increased the U.S. APBO by $6.4 billion at December 31, 2007 and the U.S. aggregate service and interest cost components of non-pension postretirement benefit expense for 2007 by $511 million. A one percentage point decrease would have decreased the U.S. APBO by $5.4 billion and the U.S. aggregate service and interest cost components of non-pension postretirement benefit expense for 2007 by $420 million.

LONG-TERM RATE OF RETURN ON PLAN ASSETS

We use detailed periodic studies conducted by our outside actuaries and our asset management group to determine our long-term strategic mix among asset classes and the expected return on asset assumptions for our U.S. pension plans. The U.S. study includes a review of alternative asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations among the asset classes that comprise the plans' asset mix. The primary non-U.S. pension plans conduct similar studies in conjunction with outside actuaries and asset managers. While the studies give appropriate consideration to recent fund performance and historical returns, the assumptions are primarily long-term, prospective rates of return.

Based on a study performed in 2006, our asset management group implemented certain changes in the long-run strategic asset allocations of the U.S. defined benefit pension plans. Specifically, we modified the target allocations to increase the fixed income exposure by 20% of total plan assets and to reduce the equity exposure by a corresponding amount. This change in strategic asset allocation was intended to significantly lower the expected volatility of asset returns and plan funded status, as well as the probability of future contribution requirements. In setting the new strategic asset mix, we considered the likelihood that the selected mix would effectively fund the projected pension plan liabilities while aligning with the risk tolerance of the plans' fiduciaries. Our strategic asset mix for U.S. defined benefit pension plans is intended to reduce exposure to equity market risks, to utilize asset classes which reduce surplus volatility and to utilize asset classes where active management has historically generated excess returns above market returns.

This asset mix is intended to place greater emphasis on investment manager skills than on general market returns to produce expected long-term returns, while employing various risk mitigation strategies to reduce surplus volatility. Based on the target asset allocations and a re-examination of expected asset return assumptions, we revised our expected long-term annual return rate assumption for our U.S. defined benefit plans effective January 1, 2007 to 8.5%, a reduction from our previous level of 9.0%. With the strategic mix fully implemented, our U.S. pension assets have the following target allocation relative to total assets: equity securities, 29%; debt securities, 52%; real estate, 8%; and other alternative investments, 11%. In 2006, our target allocations for such assets were: equity securities, 49%; debt securities, 32%; real estate, 8%; and other alternative investments, 11%.

The hourly VEBA is managed to achieve long-term asset returns while maintaining adequate liquidity for reimbursement of benefit payments, as needed. For 2006, the expected annual return for the hourly VEBA plan was 9.0% and the expected annual return for the salaried VEBA was 4.5%. Based on a reexamination of expected long-term asset return assumptions, we revised our expected annual return assumptions effective January 1, 2007 for the hourly VEBA and salaried VEBA to 8.5% and 6%, respectively.

PLAN ASSETS

Plan assets are valued using quoted market prices when available. Assets for which quoted market prices are not available are valued using independent pricing vendors, dealer or counterparty supplied valuations and net asset values provided by fund managers or portfolio investment advisors whose fair value estimates may utilize appraisals of the underlying assets or discounted cash flow models. In some instances, asset values are estimated by management in the absence of readily determinable fair values. Because of the inherent uncertainty of valuation, estimated fair values may differ significantly from the fair values that would have been used had a ready market existed.

Our defined benefit pension plans and U.S. OPEB plans have the following asset allocations, as of their respective measurement dates in 2007 and 2006:

	Plan Assets U.S. Pension Plans Actual Percentage of Plan Assets		Plan Assets Non-U.S. Pension Plans Actual Percentage of Plan Assets		Plan Assets OPEB Actual Percentage of Plan Assets	
Asset Category	**2007**	2006	**2007**	2006	**2007**	2006
Equity Securities	**26%**	38%	**62%**	60%	**53%**	54%
Debt Securities	**52%**	43%	**25%**	31%	**25%**	28%
Real Estate	**9%**	8%	**10%**	9%	**4%**	4%
Other	**13%**	11%	**3%**	0%	**18%**	14%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Equity securities include our Common Stock in the amounts of $17 million (less than 1% of total pension plan assets) and $24 million (less than 1% of total pension plan assets) at December 31, 2007 and 2006, respectively.

PLAN FUNDING POLICY AND CONTRIBUTIONS

Our funding policy with respect to our qualified defined benefit pension plans is to contribute annually not less than the minimum required by applicable law and regulations, or to directly pay benefit payments where appropriate. We made pension contributions to the U.S. hourly and salaried, other U.S., and non-U.S. defined benefit pension plans, or made direct payments where appropriate, as follows:

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
U.S. hourly and salaried	**$ –**	$ 2	$ –
Other U.S.	**$ 89**	$ 78	$125
Non-U.S.	**$848**	$889	$708

Note 15. Pensions and Other Postretirement Benefits *(concluded)*

In 2008, we do not have any contributions due, and we do not expect to make any discretionary contributions into the U.S. hourly and salaried defined benefit pension plans. We expect to contribute or pay benefits of approximately $100 million to our other U.S. defined benefit pension plans and approximately $900 million to our non-U.S. pension plans.

We contribute to our U.S. hourly and salaried VEBA trusts for U.S. OPEB plans. There were no contributions made to the VEBA trust in 2007 and 2006. Contributions by participants to the U.S. OPEB plans were $354 million and $129 million in 2007 and 2006, respectively. We withdrew a total of $2.7 billion and $4.1 billion from plan assets of our VEBA trusts for OPEB plans in 2007 and 2006, respectively.

BENEFIT PAYMENTS

The following benefit payments, which include assumptions related to estimated future employee service, as appropriate, are expected to be paid in the future:

	Pension Benefits (a)		U.S. Other Benefits (b)		Non-U.S. Other Benefits
(Dollars in millions)	U.S. Plans	Non-U.S. Plans	Gross Benefit Payments	Gross Medicare Part D Receipts	Gross Benefit Payments
2008	$ 7,665	$1,357	$ 4,064	$ 219	$ 195
2009	$ 7,604	$1,375	$ 4,219	$ 238	$ 208
2010	$ 7,518	$1,414	$ 4,381	$ 260	$ 219
2011	$ 7,392	$1,451	$ 4,514	$ 280	$ 232
2012	$ 7,168	$1,481	$ 4,609	$ 300	$ 244
2013–2017	$34,462	$8,071	$23,920	$1,759	$1,408

(a) *Benefits for most U.S. pension plans and certain non-U.S. pension plans are paid out of plan assets rather than our cash.*

(b) *U.S. Other Benefit payments exclude any amounts that would be required under the Settlement Agreement when approved.*

Note 16. Derivative Financial Instruments and Risk Management

DERIVATIVES AND HEDGE ACCOUNTING

We are exposed to market risk from changes in foreign currency exchange rates, interest rates, and certain commodity prices. In the normal course of business, we enter into a variety of foreign exchange, interest rate, and commodity forward contracts, swaps and options, with the objective of managing our financial and operational exposure arising from these risks by offsetting gains and losses on the underlying exposures with gains and losses on the derivatives used to hedge them. Our risk management control system is used to assist in monitoring the hedging program, derivative positions and hedging strategies. Our hedging documentation includes hedging objectives, practices and procedures, and the related accounting treatment. Hedges that receive designated hedge accounting treatment are evaluated for effectiveness at the time they are designated as well as throughout the hedging period.

CASH FLOW HEDGES

We use financial instruments designated as cash flow hedges for SFAS No. 133 purposes to hedge our exposure to foreign currency exchange risk associated with buying, selling, and financing in currencies other than the local currencies in which we operate. We also use financial instruments to hedge exposure to variability in cash flows related to foreign-currency-denominated debt. For foreign currency transactions, we typically hedge forecasted exposures up to three years in the future.

For derivatives designated as cash flow hedges for SFAS No. 133 purposes, we record changes in fair value in Other comprehensive income (OCI), then release those changes to earnings contemporaneously with the earnings effects of the hedged item. If the hedge relationship is terminated and the forecasted transaction is probable of not occurring, then the cumulative change in fair value of the derivative recorded in Accumulated OCI (AOCI) is recognized in earnings. To the extent the hedging relationship is not effective, the ineffective portion of the change in fair value of the derivative instrument is recorded in earnings.

Hedge ineffectiveness associated with instruments designated as cash flow hedges for SFAS No. 133 purposes increased Automotive cost of sales by $17 million and decreased Automotive cost of sales by $10 million in 2006 and 2005, respectively. Hedge ineffectiveness in 2007 was not significant. Net derivative gains of $51 million were reclassified from AOCI to Automotive cost of sales and net derivative gains of $225 million were reclassified from AOCI to Automotive revenue in 2007. Net derivative gains of $484 million were reclassified from AOCI to Automotive cost of sales and $693 million were reclassified from AOCI to Automotive revenue in 2006. Net derivative gains of $206 million were reclassified from AOCI to Automotive cost of sales and $200 million were reclassified to Automotive revenue in 2005. These net (losses) gains were offset by net gains (losses) on the transactions being hedged.

Net derivative gains of $122 million included in AOCI at December 31, 2007 are expected to be reclassified into earnings within 12 months from that date.

FAIR VALUE HEDGES

We use financial instruments designated as fair value hedges for SFAS No. 133 purposes to manage certain of our exposures to interest rate risk. We are subject to market risk from exposures to changes in interest rates due to our financing, investing, and cash management activities. A variety of instruments are used to hedge our exposure associated with our fixed rate debt and, prior to 2007, mortgage servicing rights (MSRs). We record changes in the fair value of a derivative designated as a fair value hedge for SFAS No. 133 purposes in earnings, offset by corresponding changes in the fair value of the hedged item to the extent the hedge is effective.

Hedge ineffectiveness associated with instruments designated as fair value hedges, primarily due to hedging of MSRs, increased Selling, general and administrative expenses by $1 million and decreased Selling, general and administrative expenses by $26 million in 2006 and 2005, respectively. We recorded no hedging ineffectiveness in 2007.

NET INVESTMENT HEDGES

We designate foreign-currency-denominated-debt to hedge foreign currency exposure related to our net investment in foreign entities. Foreign currency transaction gains and losses related to these debt instruments are recorded in the Accumulated foreign currency translation adjustment. Unrealized losses of $224 million and $139 million were recorded in Accumulated foreign currency translation adjustment in 2007 and 2006, respectively.

DERIVATIVES NOT DESIGNATED AS HEDGES

We use derivatives such as forward contracts and options, including caps, floors and collars to economically hedge exposures. Unrealized and realized gains and losses related to these derivatives that are not designated as accounting hedges are recorded currently in Automotive cost of sales.

We purchase commodities and parts with commodity content for use in production of vehicles which have purchase prices that vary based on commodity price indices. We hedge the commodity price risk economically by entering into derivative contracts. Unrealized and realized gains and losses related to these derivatives that are not designated as accounting hedges are recorded currently in Automotive cost of sales.

Additionally, we are exposed to foreign exchange risk related to forecasted foreign currency purchases of machinery and equipment and foreign-currency-denominated-debt. We hedge this foreign exchange risk economically by entering into derivative contracts. Unrealized and realized gains and losses related to these derivatives that are not designated as accounting hedges are recorded currently in Automotive cost of sales.

Note 16. Derivative Financial Instruments and Risk Management *(concluded)*

DERIVATIVES NOT MEETING A SCOPE EXCEPTION FROM FAIR VALUE ACCOUNTING

We enter into purchase contracts to hedge our physical exposure to the availability of certain commodities used in the production of cars and trucks. We have determined that some of these contracts did not qualify for the normal purchases and normal sales scope exception from fair value accounting in SFAS No. 133, and therefore these purchase contracts have been accounted for as derivatives with unrealized gains and losses recorded currently in Automotive cost of sales.

NET CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME

The net change in accumulated OCI related to cash flow hedging activities in 2007 and 2006 is as follows:

	December 31,	
	2007	2006
Beginning of year net unrealized gain (loss) on derivatives	**$ 359**	$ 608
Change in fair value	**140**	515
Reclassification to earnings	**(178)**	(764)
End of year net unrealized gain on derivatives	**$ 321**	$ 359

Note 17. Commitments and Contingencies

COMMITMENTS

We had the following minimum commitments under noncancelable operating leases having remaining terms in excess of one year, primarily for property:

(Dollars in millions)	2008	2009	2010	2011	2012	2013 and thereafter
Minimum commitments	$ 719	$ 683	$ 662	$ 565	$ 500	$ 2,731
Sublease income	(218)	(212)	(201)	(199)	(196)	(2,180)
Net minimum commitments	$ 501	$ 471	$ 461	$ 366	$ 304	$ 551

Certain of these minimum commitments fund the obligations of non-consolidated VIEs. Certain of the leases contain escalation clauses and renewal or purchase options. Rental expense under operating leases was $812 million, $1.2 billion and $1 billion in 2007, 2006 and 2005, respectively.

We sponsor credit card programs, which offer rebates that can be applied primarily against the purchase or lease of GM vehicles. The amount of rebates available to qualified cardholders, net of deferred program income, was $3.9 billion at December 31, 2007 and 2006. Refer to Note 2 for additional information regarding our accounting policy for credit card programs we sponsor.

Our credit card program deferred revenue and redemption liability for estimated rebates applicable to sold vehicles are comprised of the following:

	December 31,	
(Dollars in millions)	**2007**	2006
Current liabilities:		
Other accrued liabilities	**$214**	$141
Other liabilities and credits:		
Deferred revenue	**$532**	$547

GUARANTEES

We have provided guarantees related to the residual value of certain operating leases, primarily related to the lease of our corporate headquarters. At December 31, 2007, the maximum potential amount of future undiscounted payments that could be required to be made under these guarantees amount to $754 million. These guarantees terminate during years ranging from 2008 to 2018. Certain leases contain renewal options. In connection with the residual value guarantee related to the lease of our corporate headquarters, we have recorded liabilities totaling $63 million as of December 31, 2007. We expect to record an additional $83 million with respect to the residual value guarantees related to this lease prior to its expiration in May 2008.

We have agreements with third parties to guarantee the fulfillment of certain suppliers' commitments and related obligations. At December 31, 2007, the maximum potential future undiscounted payments that could be required to be made under these guarantees amount to $171 million. These guarantees terminate during years ranging from 2008 to 2017, or upon the occurrence of specific events, such as an entity's cessation of business. In connection with such guarantees, we have recorded liabilities totaling $18 million.

In addition, in some instances, certain assets of the party whose debt or performance is guaranteed may offset, to some degree, the effect of the triggering of the guarantee. The offset of certain payables may also apply to certain guarantees. Accordingly, no liabilities were recorded.

We also provide payment guarantees on outstanding commercial loans made by GMAC with certain third-parties, such as dealers or rental car companies. As of December 31, 2007, the maximum commercial obligations we guaranteed related to these loans were $123 million. Years of expiration related to these guarantees range from 2008 to 2012. Based on the creditworthiness of these third parties, the value ascribed to the guarantees we provided was determined to be insignificant.

We have entered into agreements indemnifying certain parties with respect to environmental conditions related to existing or sold properties. Due to the nature of the indemnifications, our maximum exposure under these guarantees cannot be estimated. No amounts have been recorded for such indemnities as our obligations are not probable or estimable at this time.

In connection with certain divestitures of assets or operating businesses, we have entered into agreements indemnifying certain buyers and other parties with respect to environmental conditions pertaining to real property we owned. Also, in connection with such divestitures, we have provided guarantees with respect to benefits to be paid to former employees relating to pensions, postretirement health care and life insurance. Aside from indemnifications and guarantees related to Delphi or a specific divested unit, both of which are discussed below, due to the conditional nature of these obligations it is not possible to estimate our maximum exposure under these indemnifications or guarantees. No amounts have been recorded for such obligations as they are not probable and estimable at this time.

In addition to the guarantees and indemnifying agreements mentioned above, we periodically enter into agreements that incorporate indemnification provisions in the normal course of business. Due to the nature of these agreements, the maximum potential amount of future undiscounted payments to which we may be exposed cannot be estimated. No amounts have been recorded for such indemnities as our obligations under them are not probable and estimable at this time.

ENVIRONMENTAL

Our operations, like operations of other companies engaged in similar businesses, are subject to a wide range of environmental protection laws, including laws regulating air emissions, water discharges, waste management and environmental cleanup. We are in various stages of investigation or remediation for sites where contamination has been alleged. We are involved in a number of remediation actions to clean up hazardous wastes as required by federal and state laws. Such statutes require that responsible parties fund remediation actions regardless of fault, legality of original disposal or ownership of a disposal site.

The future impact of environmental matters, including potential liabilities, is often difficult to estimate. We record an environmental reserve when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. This practice is followed whether the claims are asserted or unasserted. Management expects that the amounts reserved will be paid over the periods of remediation for the applicable sites, which typically range from five to 30 years.

Note 17. Commitments and Contingencies *(continued)*

For many sites, the remediation costs and other damages for which we ultimately may be responsible cannot be reasonably estimated because of uncertainties with respect to factors such as our connection to the site or to materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies and remediation to be undertaken (including the technologies to be required and the extent, duration and success of remediation). As a result, we are unable to determine or reasonably estimate the amount of costs or other damages for which we are potentially responsible in connection with these sites, although that total could be substantial.

While the final outcome of environmental matters cannot be predicted with certainty, it is the opinion of management that none of these items, when finally resolved, is expected to have a material adverse effect on our financial position or liquidity. However, it is possible that the resolution of one or more environmental matters could exceed the amounts accrued in an amount that could be material to our results of operations in any particular reporting period.

ASBESTOS CLAIMS

Like most automobile manufacturers, we have been subject to asbestos-related claims in recent years. We have seen these claims primarily arise from three circumstances: (1) a majority of these claims seek damages for illnesses alleged to have resulted from asbestos used in brake components; (2) limited numbers of claims have arisen from asbestos contained in the insulation and brakes used in the manufacturing of locomotives; and (3) claims brought by contractors who allege exposure to asbestos-containing products while working on premises we owned.

While we have resolved many of the asbestos-related cases over the years and continue to do so for strategic litigation reasons such as avoiding defense costs and possible exposure to excessive verdicts, management believes that only a small proportion of the claimants has or will develop any asbestos-related impairment. Only a small percentage of the claims pending against us allege causation of a disease associated with asbestos exposure. The amount expended on asbestos-related matters in any year depends on the number of claims filed, the amount of pretrial proceedings and the number of trials and settlements during the period.

We record the estimated liability associated with asbestos personal injury claims where the expected loss is both probable and can reasonably be estimated. Before 2006, we concluded we could not reasonably estimate losses that could arise from future asbestos related claims not yet asserted against us. In the fourth quarter of 2006, we determined that based on our ongoing analysis of data regarding asbestos personal injury claims asserted against us, we had sufficient information to determine a reasonable estimate of incurred but not yet reported claims that could be asserted in the following two years and recognized a liability of $127 million. We continued to monitor and evaluate our claims experience during 2007, and found that we incurred fewer claims and lower expense than we projected in 2006. As a result, we reduced the reserve for existing claims by $251 million.

In the fourth quarter of 2007 we retained Hamilton, Rabinovitz & Associates, Inc., a firm specializing in estimating asbestos claims to assist us in determining our potential liability for pending and unasserted future asbestos personal injury claims. The analysis relies upon and includes the following information and factors:

(1) A third-party forecast of the projected incidence of malignant asbestos related disease likely to occur in the general population of individuals occupationally exposed to asbestos;

(2) Data concerning claims filed against us and resolved, amounts paid, and the nature of the asbestos related disease or condition asserted during approximately the last four years (Asbestos Claims Experience);

(3) The estimated rate of asbestos related claims likely to be asserted against us in the future based on our Asbestos Claims Experience and the projected incidence of asbestos related disease in the general population of individuals occupationally exposed to asbestos;

(4) The estimated rate of dismissal of claims by disease type based on our Asbestos Claims Experience; and

(5) The estimated indemnity value of the projected claims based on our Asbestos Claims Experience, adjusted for inflation.

We reviewed a number of factors, including the analysis provided by Hamilton, Rabinovitz & Associates, Inc. and increased the reserve to $637 million as a reasonable estimate of our probable liability for pending and future asbestos related claims projected to be asserted over the next ten years, including legal defense costs. We will monitor our actual claims experience for consistency with this estimate and make periodic adjustments as appropriate.

We believe that our analysis was based on the most relevant information available combined with reasonable assumptions, and that we may prudently rely on its conclusions to determine the estimated liability for asbestos related claims. We note, however, that the analysis is inherently subject to significant uncertainties. The data sources and assumptions used in connection with the analysis may not prove to be reliable predictors with respect to claims asserted against us. Our experience in the recent past includes substantial variation in relevant factors, and a change in any of these assumptions – which include the source of the claiming population, the filing rate and the value of claims – could affect the estimate significantly up or down. In addition, other external factors such as legislation affecting the format or timing of litigation, the actions of other entities sued in asbestos personal injury actions, the distribution of assets from various trusts established to pay asbestos claims and the outcome of cases litigated to a final verdict could affect the estimate.

CONTINGENT MATTERS – LITIGATION

Various legal actions, governmental investigations, claims and proceedings are pending against us, including a number of shareholder class actions, bondholder class actions, shareholder derivative suits and class actions under the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), and other matters arising out of alleged product defects, including asbestos-related claims; 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.

With regard to the litigation matters discussed in the previous paragraph, we have established reserves for matters in which we believe that 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, incurred but not reported asbestos-related claims, environmental remediation programs, or sanctions, that if granted, could require us to pay damages or make other expenditures in amounts that could not be reasonably estimated at December 31, 2007. We believe that we have appropriately accrued for such matters under SFAS No. 5 or, for matters not requiring accrual, that such matters will not have a material adverse effect on our results of operations or financial position based on information currently available to us. Litigation is inherently unpredictable, however, and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such proceedings could exceed the amounts accrued in an amount that could be material to us with respect to our results of operations in any particular reporting period.

DELPHI CORPORATION

BENEFIT GUARANTEE

In 1999, we spun off our Automotive Components Group (ACG) into a new entity, which became Delphi. Delphi is our largest supplier of automotive systems, components and parts and we are Delphi's largest customer. At the time of the spin-off, employees of ACG became employees of Delphi. As part of the separation agreements, Delphi assumed the pension and other postretirement

Note 17. Commitments and Contingencies *(continued)*

benefit obligations for these transferred U.S. hourly employees who retired after October 1, 2000 and we retained pension and other postretirement obligations for U.S. hourly employees who retired on or before October 1, 2000. Additionally at the time of the spin-off, we entered into separate agreements with the UAW, the IUE-CWA and the USW (Benefit Guarantee Agreements) providing contingent benefit guarantees whereby we would make payments for certain pension benefits and OPEB benefits to certain former U.S. hourly employees that became employees of Delphi (defined as Covered Employees). Each Benefit Guarantee Agreement contains separate benefit guarantees relating to pension and OPEB obligations, with different triggering events. The UAW, IUE-CWA and USW required through the Benefit Guarantee Agreements that in the event that Delphi or its successor companies ceases doing business or becomes subject to financial distress we could be liable if Delphi fails to provide the corresponding benefits at the required level. The Benefit Guarantee Agreements do not obligate us to guarantee any benefits for Delphi retirees in excess of the corresponding benefits we provide at the time to our own hourly retirees. Accordingly, any reduction in the benefits we provide our hourly retirees reduces our obligation under the corresponding benefit guarantee. In turn, Delphi has entered into an agreement (Indemnification Agreement) with us that requires Delphi to indemnify us if we are required to perform under the UAW Benefit Guarantee Agreement. In addition, with respect to pension benefits, our guarantee arises only to the extent that the pension benefits provided by Delphi and the Pension Benefit Guaranty Corporation fall short of the guaranteed amount. Our rights under this Indemnification Agreement and our obligations to provide benefits under the Benefit Guarantees expire on March 31, 2008 unless we agree with Delphi and the UAW to extend the period.

We received notice from Delphi, dated October 8, 2005, that it was more likely than not that we would become obligated to provide benefits pursuant to the Benefit Guarantee Agreements, in connection with its commencement of Chapter 11 proceedings under the U.S. Bankruptcy Code. The notice stated that Delphi was unable to estimate the timing and scope of any benefits we might be required to provide under the benefit guarantees; however, in 2005, we believed it was probable that we had incurred a liability under the Benefit Guarantee Agreements. Also, on October 8, 2005, Delphi filed a petition for Chapter 11 proceedings under the U.S. Bankruptcy Code for itself and many of its U.S. subsidiaries. On June 22, 2007, we entered into a Memorandum of Understanding with Delphi and the UAW (Delphi UAW MOU) which included terms relating to the consensual triggering of the Benefit Guarantee Agreement with the UAW as well as additional terms relating to Delphi's restructuring. Under the Delphi UAW MOU we also agreed to pay for certain healthcare costs of Delphi retirees and their beneficiaries in order to provide a level of benefits consistent with those provided to our retirees and their beneficiaries from the Mitigation Plan VEBA. We also committed to pay $450 million to settle a UAW claim asserted against Delphi, which the UAW has directed us to pay directly to the GM UAW VEBA trust. Such amount is expected to be amortized to expense over future years. In August 2007, we entered into a Memorandum of Understanding with Delphi and the IUE-CWA (Delphi IUE-CWA MOU), and we entered into two separate Memoranda of Understanding with Delphi and the USW (collectively the USW MOUs). The terms of the Delphi IUE-CWA MOU and the USW MOUs are similar to the Delphi UAW MOU with regard to the consensual triggering of the Benefit Guarantee Agreements.

DELPHI-GM SETTLEMENT AGREEMENTS

We have entered into comprehensive settlement agreements with Delphi (Delphi-GM Settlement Agreements) consisting of a Global Settlement Agreement, as amended (GSA) and a Master Restructuring Agreement, as amended (MRA) that would become effective upon Delphi's substantial consummation of its Plan of Reorganization and our receipt of consideration provided for in the Plan. The GSA is intended to resolve outstanding issues between Delphi and us that have arisen or may arise before Delphi's emergence from Chapter 11 and will be implemented with Delphi shortly after emergence from bankruptcy. The MRA is intended to govern certain aspects of our commercial relationship following Delphi's emergence from Chapter 11. The more significant items contained in the Delphi-GM Settlement Agreements include our commitment to:

- reimburse Delphi for its costs to provide OPEB to certain of Delphi's hourly retirees from and after January 1, 2007 through the date that Delphi ceases to provide such benefits;
- reimburse Delphi for the "normal cost" of credited service in Delphi's pension plan between January 1, 2007 and the date its pension plans are frozen;
- assume $1.5 billion of net pension obligations of Delphi and Delphi providing us a $1.5 billion note receivable;
- reimburse Delphi for all retirement incentives and half of the buy-out payments made pursuant to the various attrition program provisions and to reimburse certain U.S. hourly buydown payments made to hourly employees of Delphi;
- award future product programs to Delphi and provide Delphi with ongoing preferential sourcing for other product programs, with Delphi re-pricing existing and awarded business;
- reimburse certain U.S. hourly labor costs incurred to produce systems, components and parts for us from October 1, 2006 through September 14, 2015 at certain U.S. facilities owned or to be divested by Delphi (Labor Cost Subsidy);
- reimburse Delphi's cash flow deficiency attributable to production at certain U.S. facilities that continue to produce systems, components and parts for us until the facilities are either closed or sold by Delphi (Production Cash Burn Support); and
- guarantee a minimum recovery of the net working capital that Delphi has invested in certain businesses held for sale.

In addition, Delphi agreed to provide us or our designee with an option to purchase all or any of certain Delphi businesses for one dollar if such businesses have not been sold by certain specified deadlines. If such a business is not sold either to a third party or to us or any affiliate pursuant to the option by the applicable deadline, we (or at our option, an affiliate) will be deemed to have exercised the purchase option, and the unsold business, including materially all of its assets and liabilities, will automatically transfer to the GM "buyer". Similarly, under the Delphi UAW MOU if such a transfer has not occurred by the applicable deadline, responsibility for the UAW hourly employees of such an unsold business affected would automatically transfer to us or our designated affiliate.

The GSA also resolves all claims in existence as of the effective date of Delphi's plan of reorganization that either Delphi or we have or may have against the other. Additionally, the GSA provides that Delphi will pay us: (1) $1.5 billion in a combination of at least $750 million in cash and a second lien note; and (2) $1 billion in junior preferred convertible stock at Plan of Reorganization Value upon Delphi's substantial consummation of its Plan of Reorganization. The ultimate value of any consideration is contingent on the fair market value of Delphi's securities upon emergence from bankruptcy.

We have recorded charges of $1.1 billion, $.5 billion, and $5.5 billion in 2007, 2006 and 2005, respectively, in connection with the Benefit Guarantee Agreements. These charges are net of estimated recoveries that would be due to us upon emergence of Delphi from bankruptcy. In addition, during 2007 we have recorded charges of $.5 billion related to the Delphi-GM Settlement Agreements, consisting primarily of our guarantee of Delphi's recovery of the net working capital at facilities held for sale and amounts due under the Labor Cost Subsidy. Our commitments under the Delphi-GM Settlement Agreements for the Labor Cost Subsidy and Production Cash Burn Support are expected to result in additional expense of between $300 million and $400 million annually beginning in 2008 through 2015, which will be treated as a period cost and expensed as incurred as part of Automotive cost of sales.

Note 17. Commitments and Contingencies *(concluded)*

In January 2008, Delphi withdrew its March 2006 motion under the U.S. Bankruptcy Code seeking to reject certain supply contracts with us.

The Bankruptcy Court entered an order on January 25, 2008 confirming Delphi's Plan of Reorganization (POR), including the Delphi-GM Settlement Agreements. Delphi is pursuing approximately $6.1 billion in exit financing in support of its POR, which may be particularly difficult in light of the weakness and decline in capacity in the credit markets. We have informed Delphi that we are prepared to reduce the cash portion of our distributions significantly and accept an equivalent amount of debt in the form of a first lien note to help facilitate Delphi's successful emergence from bankruptcy proceedings. If Delphi cannot secure the financing it needs, the Delphi POR would not be consummated on the terms negotiated with us and with other interested parties. We believe that Delphi would likely seek alternative arrangements, but there can be no assurance that Delphi would be successful in obtaining any alternative arrangements. The resulting uncertainty could disrupt our ability to plan future production and realize our cost reduction goals, and could affect our relationship with the UAW and result in our providing additional financial support to Delphi, receiving less than the distributions that we expect from the resolution of Delphi's bankruptcy proceedings or assuming some of Delphi's obligations to its workforce and retirees. Due to these uncertainties it is reasonably possible that additional losses could arise in the future, but we currently are unable to estimate the amount or range of such losses, if any.

BENEFIT GUARANTEES RELATED TO DIVESTED PLANTS

We have entered into various guarantees regarding benefits for our former employees at two previously divested plants that manufacture component parts whose results continue to be included in our consolidated financial statements in accordance with FIN 46(R). For these divested plants, we entered into agreements with both of the purchasers to indemnify, defend and hold each purchaser harmless for any liabilities arising out of the divested plants and with the UAW guaranteeing certain postretirement health care benefits and payment of postemployment benefits.

In 2006, we recorded a charge of $206 million related to the closure of two plants and the permanent idling of 2,000 employees, primarily consisting of a $214 million charge to recognize wage and benefit costs associated with employees accepting retirement packages, buyouts or supplemental unemployment, which was reduced by a curtailment gain of $11 million with respect to other postretirement benefits. During 2007, we recognized favorable adjustments of $44 million related to these plant closures, in addition to a $38 million curtailment gain with respect to OPEB.

Note 18. Income Taxes

Income (loss) from continuing operations before income taxes, equity income, minority interests and a cumulative effect of a change in accounting principle included the following:

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
U.S. loss	**$(9,355)**	$(5,917)	$(16,491)
Non-U.S. income (loss)	**3,102**	259	(738)
Total	**$(6,253)**	$(5,658)	$(17,229)

We estimate the provision for income taxes as follows:

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
Current income tax expense (benefit):			
U.S. federal	**$ (131)**	$ –	$ (147)
Non-U.S.	**295**	1,099	834
U.S. state and local	**21**	21	(2)
Total current	**185**	1,120	685
Deferred income tax expense (benefit):			
U.S. federal	**32,357**	(2,719)	(7,025)
Non-U.S.	**5,064**	(1,201)	(656)
U.S. state and local	**(444)**	(246)	950
Total deferred	**36,977**	(4,166)	(6,731)
Total income tax expense (benefit)	**$37,162**	$(3,046)	$(6,046)

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns. Cash paid for income taxes was $404 million, $259 million and $305 million in 2007, 2006 and 2005, respectively.

Provisions are made for estimated U.S. and non-U.S. income taxes, less available tax credits and deductions, which may be incurred on the remittance of our share of subsidiaries' undistributed earnings not deemed to be permanently reinvested. Taxes have not been provided on non-U.S. subsidiaries' earnings, which are deemed permanently reinvested, of $6.1 billion and $5.6 billion at December 31, 2007 and 2006, respectively. Quantification of the deferred tax liability, if any, associated with permanently reinvested earnings is not practicable.

A reconciliation of the provision (benefit) for income taxes compared with the amounts at the U.S. federal statutory rate is as follows:

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
Tax at U.S. federal statutory income tax rate	**$ (2,189)**	$(1,978)	$(6,031)
State and local tax expense	**(275)**	(147)	(616)
Foreign income taxed at rates other than 35%	**149**	(499)	(775)
Taxes on unremitted earnings of subsidiaries	**(135)**	(124)	(100)
Other tax credits	**(86)**	(115)	(69)
Settlement of prior year tax matters	**–**	(160)	(515)
Change in valuation allowance (a)	**38,892**	239	2,780
Change in statutory tax rates (b)	**885**	(27)	–
Tax effects of foreign reorganizations	**269**	96	(84)
Medicare prescription drug benefit	**(199)**	(348)	(324)
Other adjustments	**(149)**	17	(312)
Total income tax expense (benefit)	**$37,162**	$(3,046)	$(6,046)

(a) *See discussion related to valuation allowances on certain deferred tax assets below.*

(b) *Changes in the tax laws of two jurisdictions in 2007 had a significant impact on our consolidated financial statements as follows:*

- *In December 2007, the Canadian government enacted legislation to reduce its combined statutory corporate tax rates by 3.5% in addition to a .5% rate reduction enacted in June 2007. The combined 4% reduction will be phased in gradually over a period of five years beginning in 2008. The impact of this change was a reduction in the carrying amount of our Canadian deferred tax assets of $376 million as of December 31, 2007. The valuation allowance discussed below has been adjusted to reflect this change in statutory rates.*
- *In July 2007, the German Parliament passed legislation to lower its statutory corporate tax rate. The President signed the legislation into law on August 14, 2007. This new law reduces by approximately 9%, effective as of January 1, 2008, the combined German business tax rate, which consists of the corporate tax rate, the local trade tax rate, and the solidarity levy tax rate. The impact of this change was a reduction in the carrying amount of our German deferred tax assets of $475 million, which is included in the charge related to the valuation allowance discussed below.*

Note 18. Income Taxes *(continued)*

Deferred income tax assets and liabilities at December 31, 2007 and 2006 reflect the effect of temporary differences between amounts of assets, liabilities and equity for financial reporting purposes and the bases of such assets, liabilities and equity as measured by tax laws, as well as tax loss and tax credit carryforwards.

Temporary differences and carryforwards that give rise to deferred tax assets and liabilities are comprised of the following:

	December 31,			
	2007 Deferred Tax		2006 Deferred Tax	
(Dollars in millions)	**Assets**	**Liabilities**	Assets	Liabilities
Postretirement benefits other than pensions	**$ 17,726**	**$ –**	$18,721	$ –
Pension and other employee benefit plans	**2,582**	**6,618**	5,044	6,137
Warranties, dealer and customer allowances, claims and discounts	**4,148**	**54**	4,070	47
Depreciation and amortization	**7,108**	**4,536**	6,098	2,008
Tax carryforwards	**14,148**	**–**	13,293	–
Lease transactions	**–**	**136**	–	199
Miscellaneous U.S.	**7,799**	**1,556**	8,240	2,194
Miscellaneous non-U.S.	**2,598**	**37**	2,992	40
Subtotal	**56,109**	**12,937**	58,458	10,625
Valuation allowances	**(42,489)**	**–**	(6,523)	–
Total deferred taxes	**13,620**	**$12,937**	51,935	$10,625
Net deferred tax assets	**$ 683**		$41,310	

The following deferred tax assets and liabilities are included in the consolidated balance sheets:

	December 31,	
(Dollars in millions)	**2007**	2006
Current deferred tax assets	**$ 493**	$10,293
Current deferred tax liabilities	**(116)**	(9)
Non-current deferred tax assets	**1,340**	31,751
Non-current deferred tax liabilities	**(1,034)**	(725)
Total	**$ 683**	$41,310

The amount and expiration dates of operating loss and tax credit carryforwards as of December 31, 2007 is as follows:

(Dollars in millions)	Expiration Dates	Amounts
U.S. federal and state net operating loss carryforwards	2024–2027	$ 5,297
Non-U.S. net operating loss carryforwards	Indefinite	2,406
Non-U.S. net operating loss carryforwards	2008-2026	1,648
U.S. alternative minimum tax credit	Indefinite	694
U.S. general business credits (a)	2008–2027	1,514
U.S. foreign tax credits	2010–2017	2,589
Total		$14,148

(a) *The general business credits principally consist of research and experimentation credits.*

In accordance with SFAS No. 109 "Accounting for Income Taxes" (SFAS No. 109), we evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. SFAS No. 109 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified.

Valuation allowances have been established for deferred tax assets based on a "more likely than not" threshold. Our ability to realize our deferred tax assets depends on our ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

The valuation allowances that we have recognized relate to certain net deferred tax assets in U.S. and non-U.S. jurisdictions. The change in the valuation allowance and related considerations are as follows:

	December 31,		
(Dollars in millions)	**2007**	2006	2005
Balance at January 1	**$ 6,523**	$6,284	$3,504
Additions (Reversals):			
U.S.	**31,353**	250	1,425
Canada	**2,435**	–	–
Germany	**1,927**	–	–
Poland	**94**	6	538
Sweden	**91**	73	109
Spain	**31**	–	–
Brazil	**16**	(48)	617
South Korea	**–**	(211)	16
Other	**19**	169	75
Balance at December 31	**$42,489**	$6,523	$6,284

United States, Canada and Germany – In the third quarter of 2007, we recorded a charge of $39 billion related to establishing full valuation allowances against our net deferred tax assets in the U.S., Canada and Germany. Concluding that a valuation allowance is not required is difficult when there is significant negative evidence which is objective and verifiable, such as cumulative losses in recent years. We utilize a rolling twelve quarters of results as a measure of our cumulative losses in recent years. We then adjust those historical results to remove certain unusual items and charges. In the U.S., Canada and Germany our analysis indicates that we have cumulative three year historical losses on an adjusted basis. This is considered significant negative evidence which is objective and verifiable and therefore, difficult to overcome. In addition, our near-term financial outlook in the U.S., Canada and Germany deteriorated during the third quarter. While our long-term financial outlook in the U.S., Canada and Germany remains positive, we concluded that our ability to rely on our long-term outlook as to future taxable income was limited due to uncertainty created by the weight of the negative evidence, particularly:

- The possibility for continued or increasing price competition in the highly competitive U.S. market. This was seen in the external market in the third quarter of 2007 when a competitor introduced its new fullsize trucks and offered customer incentives to gain market share. Accordingly, we increased customer incentives on our recently launched fullsize trucks, which were not previously anticipated;
- Continued high fuel prices and the possible effect that may have on consumer preferences related to our most profitable products, fullsize trucks and utility vehicles;

Note 18. Income Taxes *(concluded)*

- Uncertainty over the effect on our cost structure from more stringent U.S. fuel economy and global emissions standards which may require us to sell a significant volume of alternative fuel vehicles across our portfolio;
- Uncertainty as to the future operating results of GMAC's Residential Capital, LLC mortgage business, and
- Acceleration of tax deductions for OPEB liabilities as compared to prior expectations due to changes associated with the Settlement Agreement.

Accordingly, based on our current circumstances and uncertainty regarding our future taxable income, we recorded full valuation allowances against these net deferred tax assets during the third quarter of 2007. If and when our operating performance improves on a sustained basis, our conclusion regarding the need for full valuation allowances could change, resulting in the reversal of some or all of the valuation allowances in the future.

In the U.S., a valuation allowance was recorded during 2006 and 2005 related to the 2006 and 2005 losses allocable to certain U.S. state jurisdictions where it was previously determined that tax attributes related to those jurisdictions were not realizable.

Brazil – In 2005, we determined that it was more likely than not that the net deferred taxes in our Brazilian operations would not be realized, and accordingly, we recorded a full valuation allowance against all tax credit carryforwards and net timing differences in Brazil. The decision was based on a consideration of historical results at our operations in Brazil coupled with the government imposed 30% annual limitation on net operating loss utilization. In 2007, we reversed a portion of our full valuation allowance because we utilized certain deferred tax assets. However, due to appreciation of the Brazilian Real against the U.S. Dollar in 2007, a net increase in the valuation allowance arose upon translation of the valuation allowance into U.S. Dollars. In the event our operating performance improves on a sustained basis, our conclusion regarding the need for a full valuation allowance could change, resulting in the reversal of some or all of the remaining valuation allowance in the future.

United Kingdom – No valuation allowance has been established for our net deferred tax assets in the U.K. Although our U.K. operations have incurred cumulative losses in recent years, we believe other considerations overcome that fact and, accordingly, these deferred tax assets will more likely than not be realized. This determination is based in particular on the unlimited expiration of net operating loss carryforwards in the U.K., together with those operations' histories of utilizing tax attributions in the past through earnings and strong prospects for future earnings.

Spain – We established a valuation allowance in 2007 against our Spanish deferred tax assets related to investment tax credits, which we do not expect will be realizable under a more likely than not threshold. Although Spanish net operating loss carryforwards expire after 15 years, we believe that our Spanish deferred tax assets related to these net operating loss carryforwards will more likely than not be realized because losses in our Spanish operations have largely been caused by non-recurring transactions. In addition, we believe our Spanish operations continue to have strong prospects for future earnings.

South Korea – While a full valuation allowance had historically been recorded, several positive events occurred during 2006 that lead us to conclude that a valuation allowance was no longer necessary. Accordingly, we reversed our full valuation allowance against the net deferred tax assets in South Korea in 2006. We expect continuing profitability in South Korea and that the net deferred tax asset will more likely than not be realized.

We allocate our income tax expense (benefit) between continuing operations, discontinued operations and other comprehensive income in accordance with SFAS No. 109. SFAS No. 109 is applied by tax jurisdiction, and in periods in which there is a pre-tax loss from continuing operations and pre-tax income in another category, such as discontinued operations or other comprehensive income, income tax expense is first allocated to the other sources of income, with a related benefit recorded in continuing operations.

Upon adoption of FIN 48 as of January 1, 2007, we recorded an increase to Retained earnings of $137 million as a cumulative effect of a change in accounting principle with a corresponding decrease to the liability for uncertain tax positions. At January 1, 2007, we had $2.7 billion of total gross unrecognized tax benefits, of which $2.1 billion represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. At December 31, 2007, the amount of gross unrecognized tax benefits before valuation allowances and the amount that would favorably affect the effective income tax rate in future periods after valuation allowances was $2.8 billion and $.1 billion, respectively. These amounts consider the guidance in FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48." At December 31, 2007, $2.2 billion of the liability for uncertain tax positions reduces deferred tax assets relating to the same tax jurisdictions. The remainder of the liability for uncertain tax positions is classified as a non-current liability.

A reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period is as follows (dollars in millions):

Balance at January 1, 2007	$2,717
Additions to tax positions recorded during the current year	274
Additions to tax positions recorded during prior years	454
Reductions to tax positions recorded during prior years	(602)
Reductions in tax positions due to lapse of statutory limitations	(75)
Other	(14)
Balance at December 31, 2007	$2,754

Our practice is to classify interest income on uncertain tax positions in Automotive interest income and other non-operating income, interest expense in Automotive and other interest expense and penalties in Selling, general and administrative expense. We recognized interest income of $133 million in 2007 on uncertain tax positions, and we recognized a net reduction in interest expense of ($32) million in 2007 principally due to the reversal of $88 million in previously accrued interest expense as the statute of limitations had expired for the related uncertain tax positions. Additionally, we recognized $23 million in penalties in 2007. As of December 31, 2007, we had $132 million accrued for the receipt of interest on uncertain tax positions, $192 million accrued for the payment of interest on uncertain tax positions and $104 million accrued for the payment of penalties.

We have open tax years from 1999 to 2007, with various taxing jurisdictions where our taxes remain subject to examination, including the United States, Australia, Canada, Mexico, Germany, the United Kingdom, Korea and Brazil. In the United States, our federal income tax returns for 2001 through 2006 are currently under review by the Internal Revenue Service, and we anticipate that the examination for years 2001 through 2003 will conclude in early 2008. Our Mexican subsidiary has recently received an income tax assessment related to the 2001 tax year covering warranty, tooling costs and withholding taxes. In addition, our previously filed tax returns are currently under review in Argentina, Australia, Belgium, Canada, China, Colombia, France, Germany, Greece, Hungary, Indonesia, India, Italy, Korea, Portugal, New Zealand, Taiwan, Thailand, Turkey, the United Kingdom, Venezuela and Vietnam, and we have received notices that tax audits will commence in the Netherlands and Spain. As of December 31, 2007, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits over the next twelve months.

Note 19. Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value; therefore, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions and/or estimation methodologies may be material to the estimated fair value amounts.

Book and estimated fair values of financial instruments for which it is practicable to estimate fair value are as follows:

	December 31,			
	2007		2006	
(Dollars in millions)	**Book Value**	**Fair Value**	Book Value	Fair Value
Automotive				
Assets				
Derivative assets	**$ 1,567**	**$ 1,567**	$ 2,080	$ 2,080
Liabilities				
Long-term debt (a)	**$33,384**	**$25,940**	$33,067	$28,877
Derivative liabilities	**$ 851**	**$ 851**	$ 916	$ 916
Financing and Insurance Operations				
Assets				
Derivative assets	**$ 2**	**$ 2**	$ 35	$ 35
Other assets (b)	**$ 1,046**	**$ 933**	$ 1,601	$ 1,601
Liabilities				
Debt (a)	**$ 4,908**	**$ 4,918**	$ 9,438	$ 9,438
Derivative liabilities	**$ 6**	**$ 6**	$ 2	$ 2

(a) *Long-term debt has an estimated fair value based on quoted market prices for the same or similar issues or based on the current rates offered to us for debt of similar remaining maturities. Estimated values of Industrial Development Bonds, included in long-term debt, were based on quoted market prices for the same or similar issues.*

(b) *The fair value of the GMAC Preferred Membership Interest was estimated by discounting the future cash flows considering dividend rate, interest rate, and credit spreads.*

Due to their short-term nature, the book value approximates fair value for cash and marketable securities, accounts and notes receivable (less allowances), accounts payable (principally trade), Automotive & Other loans payable and FIO debt payable within one year as of December 31, 2007 and 2006.

Note 20. GMNA Postemployment Benefit Costs

The majority of our hourly employees working within the U.S. are represented by the UAW. The collective bargaining agreement with the UAW contains a job security provision, commonly referred as the JOB Opportunity Bank (JOBS Bank) provisions. As stated in this provision, we are required to pay idled employees certain wage and benefit costs. In connection with our 2007 National Agreement, the provisions of the JOBS Bank were modified to substantially reduce the duration of time an idled employee can remain inactive. The modifications also increases our ability to redeploy and relocate idled employees to active facilities based on required manpower needs.

Historically, costs to idle, consolidate or close facilities and provide postemployment benefits to employees idled on an other than temporary basis were accrued based on management's best estimate of the wage and benefit costs to be incurred for qualified employees under the JOBS Bank provisions of the previous labor agreement through September 2007 plus the estimated costs expected to be paid thereafter factoring in revisions for anticipated policy changes with our new labor contracts. In the third quarter of 2007, we revised our estimate to provide for the new JOBS Bank provisions negotiated in our 2007 National Agreement. Such revisions did not result in a significant change from the previous estimate used to develop the accrual for wage and benefit costs. Costs related to the idling of employees that are expected to be temporary are expensed as incurred. We review the adequacy and continuing need for these liabilities on a quarterly basis in conjunction with our quarterly production and labor forecasts.

In March 2006, we reached an agreement with Delphi and the UAW (the UAW Attrition Program) intended to reduce the number of U.S. hourly employees through an accelerated attrition program (the Attrition Program). Under the UAW Attrition Program, we provided certain UAW-represented employees at GM with: (1) a lump sum payment of $35,000 for normal or early voluntary retirements retroactive to October 1, 2005; (2) a mutually satisfactory retirement for employees with at least 10 years of credited service and 50 years of age or older; (3) payment of gross monthly wages ranging from $2,750 to $2,900 to those employees who participate in a special voluntary pre-retirement program depending on years of credited service and plant work location; and (4) a buyout of $140,000 for employees with 10 or more years of seniority, or $70,000 for employees with less than 10 years seniority, provided such employees severed all ties with us except for any vested pension benefits. Approximately 34,400 GM hourly employees agreed to the terms of the UAW Attrition Program. We recorded a charge of $2.1 billion in 2006 to recognize the wage and benefit cost of those accepting normal and voluntary retirements, buyouts or pre-retirement leaves. As a result of the UAW Attrition Program, the JOBS Bank was substantially reduced as employees from the JOBS Bank retired, accepted a buyout or filled openings created by the UAW Attrition Program. Certain employees who chose to leave GM retired or left by January 1, 2007 but will continue to receive payments until 2010. Throughout 2006, we recorded favorable adjustments totaling $1 billion to the postemployment benefits reserve primarily as a result of: (1) the transfer of employees from idled plants to other plant sites to replace those positions previously held by employees who accepted retirements, buyouts, or pre-retirement leaves; (2) a higher than anticipated level of UAW Attrition Program participation by employees at idled facilities and facilities to be idled that were previously accrued for under the JOBS Bank provisions; and, (3) higher than anticipated headcount reductions associated with the GMNA plant idling activities announced in 2005.

In 2005, we recognized a charge of $1.8 billion for postemployment benefits related to the restructuring of our North American operations. The 2005 charge included 17,500 employees for locations included in this action, with some leaving through attrition and the remainder transferring to other sites.

The liability for postemployment benefit costs of $.9 billion at December 31, 2007 reflects estimated future wages and benefits for 8,900 employees primary located at idled facilities and facilities to be idled, and 3,800 employees subject to the terms of the 2006 Attrition Program. At December 31, 2006, the postemployment benefit cost reserve reflects estimated future wages and benefits of $1.3 billion related to 8,500 employees, primarily located at idled facilities and facilities to be idled as a result of previous announcements, and 10,900 employees under the terms of the UAW Attrition Program. At December 31, 2005, this reserve was $2 billion related to the estimated future wages and benefits of 18,400 employees, primarily at idled facilities and facilities to be idled as a result of previous announcements in 2005. The following table summarizes the activity in the reserve for the years 2007, 2006 and 2005:

(Dollars in millions)	**2007**	2006	2005
Balance at January 1	**$1,269**	$ 2,012	$ 237
Additions	**364**	2,212	1,891
Interest accretion	**21**	31	12
Payments	**(792)**	(1,834)	(91)
Adjustments	**(4)**	(1,152)	(37)
Balance at December 31	**$ 858**	$ 1,269	$2,012

Note 21. Restructuring and Other Initiatives

We have executed various restructuring and other initiatives and may execute additional initiatives in the future to align manufacturing capacity to prevailing global automotive production and to improve the utilization of remaining facilities. Such initiatives may include plant closings, consolidation of operations and functions, production relocations or reductions and voluntary and involuntary

Note 21. Restructuring and Other Initiatives *(continued)*

employee separation programs. Estimates of restructuring and other initiative charges are based on information available at the time such charges are recorded. Due to the inherent uncertainty involved, actual amounts paid for such activities may differ from amounts initially recorded. Accordingly, we may record revisions of previous estimates by adjusting previously established reserves.

The following table summarizes our restructuring and other initiative charges, by segment in 2007, 2006 and 2005:

	Year Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
Automotive Operations:			
GMNA	**$ 9**	$115	$ 222
GME	**579**	437	1,068
GMLAAM	**18**	43	–
GMAP	**49**	16	65
Total Automotive Operations	**655**	611	1,355
Financing and Insurance Operations	**–**	–	–
Corporate and Other	**–**	–	13
Total restructuring charges	**$655**	$611	$1,368

Refer to Note 20 for further discussion of postemployment benefits costs related to hourly employees of GMNA, Note 22 for asset impairment charges related to our restructuring initiatives and Note 15 for pension curtailments and other postretirement benefit charges related to our hourly employee separation initiatives.

2007 ACTIVITIES

The following table details the components of our 2007 restructuring charges by region:

(Dollars in millions)	**GMNA**	**GME**	**GMLAAM**	**GMAP**	**Corporate and Other**	**Total**
Separation costs	**$9**	**$579**	**$18**	**$49**	**$–**	**$655**
Contract termination costs	**–**	**–**	**–**	**–**	**–**	**–**
Total restructuring charges	**$9**	**$579**	**$18**	**$49**	**$–**	**$655**

GMNA recorded restructuring charges of $9 million in 2007 for a U.S. salaried severance program, which allows involuntarily terminated employees to receive ongoing wages and benefits for no longer than 12 months.

GME recorded charges of $579 million for separation programs during 2007. These charges were related to the following restructuring initiatives:

- Charges of $162 million, primarily related to early retirement programs, along with additional minor separations under other current programs in Germany. Approximately 4,600 employees will leave under early retirement programs in Germany through 2013. The total remaining cost for the early retirements will be recognized over the remaining service period of the employees.
- During the second quarter of 2007, we announced additional separation programs at the Antwerp, Belgium facility. These programs impact 1,900 employees, who will leave through July 2008, and have total estimated costs of $430 million. Of this amount, $353 million was recorded in 2007 in connection with these separation programs. The remaining cost of the Antwerp, Belgium program will be recognized over the remaining service period of the employees through July 2008.
- The remaining $64 million in separation charges relates to initiatives announced in 2006. These include separations in Sweden and the United Kingdom and the closure of our Portugal assembly plant.

GMLAAM recorded restructuring charges of $18 million in 2007 for employee separations at GM do Brasil. These initiatives were announced and completed during the second quarter of 2007 and resulted in the separation of 600 employees.

GMAP recorded charges of $49 million for a voluntary employee separation program at GM Holden's vehicle operations facility, which was announced in the first quarter of 2007. This initiative reduces the facility's workforce by 650 employees as a result of increased plant operational efficiency.

2006 ACTIVITIES

The following table details the components of our 2006 restructuring charges by region:

(Dollars in millions)	GMNA	GME	GMLAAM	GMAP	Corporate and Other	Total
Separation costs	$115	$408	$43	$16	$–	$582
Contract termination costs	–	29	–	–	–	29
Total restructuring charges	$115	$437	$43	$16	$–	$611

GMNA recorded restructuring charges of $115 million related to costs incurred under a new salaried severance program, which allows involuntarily terminated employees to receive continued salary and benefits for a period of time after termination.

GME recorded restructuring charges of $437 million in 2006. These charges consisted of separation and contract costs for several restructuring initiatives. Details of the individual restructuring initiatives and charges follow.

- We announced our European operations restructuring initiative in the fourth quarter of 2004. The European restructuring initiative targeted a total reduction of 12,000 employees from 2005 to 2007 through separation programs, early retirements, and selected outsourcing initiatives. GME recorded charges of $184 million in 2006 for activities related to the European restructuring initiative announced in 2004.
- In the third quarter of 2006, we announced the closure of our Azambuja, Portugal assembly plant and the transfer of its production to a lower cost facility in Zaragoza, Spain. The Portugal plant ceased production in December 2006, resulting in a total separation of 1,100 employees. GME recorded separation charges of $53 million and contract cancellation charges of $26 million for this closure.
- In May 2006, we announced the reduction of one shift at the Ellesmere Port plant in the United Kingdom in order to reduce costs and improve competitiveness. This shift reduction was achieved primarily through the offering of a voluntary separation package and reduced the work force in the U.K. by 1,200 employees by the end of 2006. GME recorded separation charges of $131 million and contract cancellation charges of $3 million during 2006 for the shift reduction at Ellesmere Port.
- New separation programs for Belgium, the United Kingdom and Sweden were announced in the fourth quarter of 2006. GME recorded $32 million in restructuring charges for these programs related to the separation of 280 employees, primarily in Sweden. In addition, GME also recorded a charge of $8 million for an early retirement program announced in the fourth quarter of 2006 in Germany. We recognize the cost over the remaining service period of each employee.

GMLAAM recorded restructuring charges of $43 million related to the costs of voluntary employee separations at GM do Brasil. This initiative resulted in separations of 1,500 hourly and administrative employees at our Sao Jose dos Campos and Sao Caetano do Sul facilities during 2006.

GMAP recorded restructuring charges of $16 million related to a voluntary separation program at GM Holden, which we announced in the fourth quarter of 2006. This program provided for the voluntary separation of 205 employees at our GM Holden engine plant.

Note 21. Restructuring and Other Initiatives *(concluded)*

2005 ACTIVITIES

The following table details the components of our 2005 restructuring charges by region:

(Dollars in millions)	GMNA	GME	GMLAAM	GMAP	Corporate and Other	Total
Separation costs	$222	$1,009	$–	$65	$13	$1,309
Contract termination costs	–	59	–	–	–	59
Total restructuring charges	$222	$1,068	$–	$65	$13	$1,368

During 2005, GMNA and Other Operations recorded restructuring charges of $222 million and $13 million, respectively. These costs related to voluntary early retirement and other separation programs for certain salaried employees in the United States.

GME recorded restructuring charges of $1.1 billion in 2005. These charges consisted primarily of $1 billion in separation costs for our European operations' restructuring initiative, which we announced in the fourth quarter of 2004. In addition, we also recorded contract cancellation charges of $39 million for the dissolution of our Fiat powertrain joint venture in the second quarter of 2005 and contract cancellation charges of $20 million related to the sale of our investment in FHI.

GMAP recorded restructuring charges of $65 million during 2005 related to the elimination of one shift, and the reduction of 1,400 employees by mid-2006 at the Adelaide, Australia plant.

Note 22. Impairments

We periodically review the carrying value of our long-lived assets to be held and used when events and circumstances warrant and in conjunction with the annual business planning cycle. If the carrying value of a long-lived asset or asset group is considered impaired, an impairment charge is recorded for the amount by which the carrying amount exceeds fair market value. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Product-specific assets may become impaired as a result of declines in profitability due to changes in volume, pricing or costs. Asset impairment charges are recorded in Automotive cost of sales in the consolidated statements of operations.

In addition, we test our goodwill for impairment annually and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. The annual impairment test requires the identification of our reporting units and a comparison of the fair value of each of our reporting units to the respective carrying value. The fair value of our reporting units is determined based on valuation techniques using the best information that is available, primarily discounted cash flow projections. If the carrying value of a reporting unit is greater than the fair value of the reporting unit then impairment may exist.

Our long-lived asset and goodwill impairment charges in 2007, 2006 and 2005 were:

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
Goodwill impairments	**$ –**	$ 828	$ 712
Long-lived asset impairments related to restructuring initiatives	**–**	89	700
Other long-lived asset impairments	**259**	596	1,353
Total	**$259**	$1,513	$2,765

2007 IMPAIRMENTS

We recorded long-lived asset impairment charges of $259 million in 2007 for the following segments: (1) GMNA recorded charges of $240 million for product-specific tooling assets; (2) GMAP recorded asset impairment charges of $14 million related to the cessation of production VZ Commodore passenger car derivatives at our Holden facility; and (3) GMLAAM recorded $5 million of vehicle and facility impairments at our South Africa and Chile locations.

2006 IMPAIRMENTS

We recorded long-lived asset impairment charges of $685 million in 2006. Of this amount, $424 million related to product-specific assets, including: (1) $303 million at GMNA; (2) $60 million at GME; and (3) $61 million at GMAP. In addition, GMNA recorded impairment charges totaling $172 million, which included $102 million related to product-specific assets and $70 million related to the write-down of various plant assets due to decreased profitability and production associated with the planned cessation of production at the Doraville, Georgia assembly plant in 2008. Additionally, GME recorded a charge of $89 million in connection with the December 2006 closure of our Portugal assembly plant.

During the third quarter of 2006, GMAC recognized a goodwill impairment charge of $828 million related to its Commercial Finance business. The fair value of the Commercial Finance business was determined using an internally developed discounted cash flow analysis based on five year projected net income and a market driven terminal value multiple. As GMAC was a wholly-owned subsidiary during the third quarter of 2006, the entire amount of this impairment loss is included in Financial services and insurance expense.

2005 IMPAIRMENTS

In November 2005, we announced our North America restructuring initiative (Turnaround Plan), which was implemented to improve capacity utilization of our manufacturing operations and accelerate structural cost reductions. This plan includes ceasing operations at nine assembly, stamping and powertrain facilities and three Service & Parts Operations facilities by 2008. As a result of these capacity reduction initiatives, GMNA recorded an impairment charge of $700 million for the write-down to fair market value of property, plants, and equipment for assets that were still in service as of December 31, 2005. Refer to Note 20 for further discussion of the employee costs associated with this restructuring.

GMNA recorded an additional impairment charge of $134 million for the write-down to fair market value of various plant assets. This charge was related to the first quarter announcement to discontinue production at a Lansing, Michigan assembly plant during the second quarter of 2005.

We accelerated our business planning cycle in 2005 as a result of the lack of improved performance in the second quarter of 2005. In connection with this process, we reviewed the carrying value of certain long-lived assets held and used, other than goodwill and intangible assets with indefinite lives. These reviews resulted in impairment charges for assets still in service in GMNA and GME of $743 million and $262 million, respectively.

In addition, restructuring initiatives were announced in the third quarter of 2005 in GMAP related to production in Australia, resulting in additional impairment charges of $64 million. In GMLAAM, unusually strong South American currencies adversely affected the profitability of GMLAAM's export business. Management's decision to adjust GMLAAM's export volumes resulted in lower expected future cash flows, resulting in a $150 million impairment charge in the region during 2005.

In the fourth quarter of 2005, GMAC recognized a goodwill impairment charge of $712 million related to its Commercial Finance operating segment and, in particular, primarily to the goodwill recognized in connection with the 1999 acquisition of The Bank of New York's commercial finance business. This charge resulted from the annual impairment test that was performed for all of its reporting units. As GMAC was a wholly-owned subsidiary during the fourth quarter of 2005, the entire amount of this impairment loss is included in Financial services and insurance expense.

Note 23. Other Expenses

Other expenses are comprised of the following:

(Dollars in millions)	2007	2006	2005
	Years Ended December 31,		
Loss on sale of 51% interest in GMAC (Note 3)	**$ –**	$2,910	$ –
FHI impairment loss (Note 8)	**–**	–	812
Delphi contingent exposure (Note 17)	**1,547**	500	5,500
Pension benefits for certain current and future retirees of Delphi (Note 15)	**552**	–	–
Goodwill impairment – GMAC (Note 10)	**–**	828	712
Total other expenses	**$2,099**	$4,238	$7,024

Note 24. Stockholders' Equity

COMMON STOCK

We have 2 billion shares of Common Stock authorized. The liquidation rights of our Common Stock are subject to certain adjustments if outstanding Common Stock is subdivided, by stock split or otherwise.

PREFERRED STOCK

We have 6 million shares of preferred stock authorized, without par value. The preferred stock is issuable in series with such voting powers, designations, powers, privileges, and rights and such qualifications, limits, or restrictions as may be determined by our Board of Directors, without stockholder approval. The preferred stock ranks senior to our Common Stock and any other class of stock we have issued. Holders of preferred stock shall be entitled to receive cumulative dividends, when and as declared by the Board of Directors on a quarterly basis. No shares of preferred stock were issued and outstanding at December 31, 2007 and 2006.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the components of Accumulated other comprehensive income (loss), net of taxes:

(Dollars in millions)	2007	2006	2005
	Years Ended December 31,		
Foreign currency translation adjustments	**$ (965)**	$ (1,965)	$(2,140)
Net unrealized gain on derivatives	**321**	359	608
Net unrealized gain on securities	**265**	282	786
Defined benefit plans	**(13,585)**	(20,802)	–
Minimum pension liability adjustment	**–**	–	(3,789)
Accumulated other comprehensive income (loss)	**$(13,964)**	$(22,126)	$(4,535)

OTHER COMPREHENSIVE INCOME

The following table summarizes the components of Other comprehensive income (loss):

Years Ended December 31,	2007			2006			2005		
(Dollars in millions)	**Pre-tax Amount**	**Tax Expense (Credit)**	**Net Amount**	Pre-tax Amount	Tax Expense (Credit)	Net Amount	Pre-tax Amount	Tax Expense (Credit)	Net Amount
Foreign currency translation adjustments	**$ 769**	**$ (231)**	**$ 1,000**	$ 370	$ 195	$ 175	$ (975)	$ (46)	$ (929)
Unrealized gain on securities:									
Unrealized holding gains (losses)	**(23)**	**(6)**	**(17)**	196	69	127	146	51	95
Reclassification adjustment	**–**	**–**	**–**	(971)	(340)	(631)	(249)	(87)	(162)
Net unrealized gain (loss)	**(23)**	**(6)**	**(17)**	(775)	(271)	(504)	(103)	(36)	(67)
Defined benefit plans:									
Prior service cost from plan amendments	**(2,813)**	**(700)**	**(2,113)**	–	–	–	–	–	–
Less: amortization of prior service cost included in net periodic benefit cost	**(5)**	**52**	**(57)**	–	–	–	–	–	–
Net prior service cost	**(2,818)**	**(648)**	**(2,170)**	–	–	–	–	–	–
Actuarial gains (losses) from plan measurements	**8,910**	**2,066**	**6,844**	–	–	–	–	–	–
Less: amortization of actuarial loss included in net periodic benefit cost	**1,723**	**331**	**1,392**	–	–	–	–	–	–
Net actuarial amounts	**10,633**	**2,397**	**8,236**	–	–	–	–	–	–
Net transition asset (obligation) from plan initiations	**–**	**–**	**–**	–	–	–	–	–	–
Less: amortization of transition asset / obligation included in net periodic benefit cost	**2**	**4**	**(2)**	–	–	–	–	–	–
Net transition amounts	**2**	**4**	**(2)**	–	–	–	–	–	–
Defined benefit plans, net	**7,817**	**1,753**	**6,064**	(103)	(36)	(67)	(1,166)	(408)	(758)
Net unrealized gain (loss) on derivatives	**(74)**	**(36)**	**(38)**	(383)	(134)	(249)	51	18	33
Other comprehensive income (loss)	**$ 8,489**	**$1,480**	**$ 7,009**	$(891)	$(246)	$(645)	$(2,193)	$(472)	$(1,721)

Note 25. Loss Per Share

Basic loss per share has been computed by dividing Loss from continuing operations by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, such as stock options and contingently convertible securities.

Due to net losses from continuing operations for all periods presented, the assumed exercise of certain stock option awards had an antidilutive effect and therefore were excluded from the computation of diluted loss per share. Total shares not considered for inclusion in the computation of diluted earnings per share were 104 million, 106 million and 112 million for the years ended December 31, 2007, 2006 and 2005, respectively.

On March 6, 2007, Series A convertible debentures in the amount of $1.1 billion were put to us and settled entirely in cash. At December 31, 2007, the amount outstanding on the Series A convertible debentures was $39 million. No shares potentially issuable to satisfy the in-the-money amount of the convertible debentures have been included in diluted earnings per share for the years ended December 31, 2007, 2006 and 2005, respectively, as the convertible debentures were not-in-the-money.

Note 26. Stock Incentive Plans

In accordance with the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS No. 148), we adopted the fair value based method of accounting for stock-based employee compensation pursuant to SFAS No. 123 effective January 1, 2003, for newly granted stock-based compensation awards only. On January 1, 2006, we adopted SFAS No. 123(R), "Accounting for Stock-Based Compensation" (SFAS No. 123 (R)). In 2007, 2006 and 2005, all awards were accounted for at fair value.

Our stock incentive plans consist of the General Motors 2007 Long Term Incentive Plan (2007 GMLTIP), the General Motors 2002 Stock Incentive Plan (GMSIP), the General Motors 2002 Long Term Incentive Plan (2002 GMLTIP), the General Motors 1998 Salaried Stock Option Plan (GMSSOP), the General Motors 2007 Cash-Based Restricted Stock Unit Plan (2007 GMCRSU) and the General Motors 2006 Cash-Based Restricted Stock Unit Plan (2006 GMCRSU), collectively the Plans. The 2007 GMLTIP, GMSIP and the GMCRSU plans are administered by the Executive Compensation Committee of our Board of Directors. The GMSSOP is administered by the Vice President of Global Human Resources.

The compensation cost for the above plans was $136 million, $170 million and $89 million in 2007, 2006 and 2005, respectively. The total income tax benefit recognized for share-based compensation arrangements was $43 million, $53 million and $31 million in 2007, 2006 and 2005, respectively.

In November 2006, we sold a 51% controlling interest in GMAC. GMAC employees who participated in our stock incentive plans changed status from employee to non-employee. Based on this change in status, certain outstanding share-based payment awards were forfeited under the original terms but were modified to allow continued vesting. This resulted in the cancellation of the original awards and the issuance of a new award to non-employees. The remainder of the awards were not forfeited under the original terms, and thus there was no modification to the outstanding awards. GM awards that require future service with GMAC will be accounted for as awards to non-employees over the remaining service period. The effect on compensation cost was not significant.

In August 2007, we completed the sale of the commercial and military operations of our Allison business. Allison employees who participated in our stock incentive plans were considered terminated employees on the date of sale. Based on this change in employment status, certain outstanding non vested share-based payment awards were forfeited. The remaining outstanding share-based payment awards were prorated for previous services provided under the original terms of the award and will remain exercisable for the earlier of three years from the date of termination, or the expiration of the option.

STOCK OPTIONS

Under the GMSIP, 27.4 million shares of our Common Stock were eligible for grants from June 1, 2002 through May 31, 2007. Stock option grants awarded since 1997 were generally exercisable one-third after one year, another one-third after two years and fully after three years from the dates of grant. Option prices were 100% of fair market value on the dates of grant, and the options generally expire 10 years from the dates of grant, subject to earlier termination under certain conditions. Our policy is to issue treasury shares upon exercise of employee stock options.

In 2007, the GMSIP was replaced with the 2007 GMLTIP. Under the 2007 GMLTIP, 16 million shares of our Common Stock may be granted from June 5, 2007 through May 31, 2012. At December 31, 2007 16.3 million shares were available for grant as a result of .3 million shares granted and undelivered under the GMSIP due primarily to termination which again become available for grant. Stock options granted under this plan are generally exercisable one-third after one year, another one-third after two years and fully after three years from the dates of grant. Option prices are 100% of fair market value on the dates of grant, and the options generally expire 10 years from the dates of grant, subject to earlier termination under certain conditions. Our policy is to issue treasury shares upon exercise of employee stock options.

Under the GMSSOP, which commenced January 1, 1998 and ended December 31, 2006, the number of shares of our Common Stock that could be granted each year was determined by management. Based on an amendment to the GMSSOP in 2006, there were no shares of our Common Stock available for grants after December 19, 2006. Stock options granted from 1998 through 2004 were exercisable two years from the date of grant. There have been no option grants made under the plan since 2004. Option prices were 100% of fair market value on the dates of grant, and the options generally expire ten years and two days from the grant date subject to earlier termination under certain conditions.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the weighted-average assumptions noted in the following table. Expected volatilities are based on both the implied and historical volatility of our stock. We used historical data to estimate option exercise and employee termination within the valuation model. The expected term of options represents the period of time that options granted were expected to be outstanding. The interest rate for periods during the expected life of the option was based on the U.S. Treasury yield curve in effect at the time of the grant.

(Dollars in millions)	**2007 GMSIP**	2006 GMSIP	2005 GMSIP
Interest rate	**4.98%**	4.66%	3.80%
Expected life (years)	**6.0**	6.0	6.0
Expected volatility	**35.80%**	47.90%	32.50%
Dividend yield	**3.43%**	4.71%	5.50%

The primary grants to executives on March 20, 2007, February 23, 2006 and January 24, 2005 made under the GMSIP were 2,771,920, 2,702,796 and 7,612,000 shares, respectively, at a grant date fair value of $8.75, $7.06 and $7.21, respectively. The assumptions used to estimate the grant date fair value of these grants are detailed in the table below.

(Dollars in millions)	**2007**	2006	2005
Interest rate	**4.98%**	4.63%	3.74%
Expected life (years)	**6.0**	6.0	6.0
Expected volatility	**35.80%**	48.40%	32.40%
Dividend yield	**3.44%**	4.78%	5.50%

Note 26. Stock Incentive Plans *(continued)*

Changes in the status of outstanding options in 2007 are as follows:

	2007 GMLTIP (formerly GMSIP) Common Stock			
	Shares Under Option	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2007	81,655,278	$52.41		
Granted	2,786,920	$29.12		
Exercised	(252,570)	$25.36		
Forfeited or expired	(5,723,633)	$45.43		
Options outstanding at December 31, 2007	78,465,995	$52.09	4.0	$9,769,953
Options expected to vest at December 31, 2007	6,534,957	$29.53	8.2	$6,566,701
Options vested and exercisable at December 31, 2007	71,513,914	$54.28	3.6	$ –

	GMSSOP Common Stock			
	Shares Under Option	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2007	26,583,895	$55.23		
Granted	–	–		
Exercised	(17,771)	$40.05		
Forfeited or expired	(1,776,176)	$60.41		
Options outstanding at December 31, 2007	24,789,948	$54.87	3.3	–
Options vested and exercisable at December 31, 2007	24,789,948	$54.87	3.3	–

The weighted-average grant-date fair value was $8.76, $7.19, and $7.23 for the GMSIP options granted in 2007, 2006 and 2005, respectively. There were no GMSSOP options granted in 2007, 2006, and 2005. The total intrinsic value of options exercised under the GMSIP was $3 million, $0 and $2 million in 2007, 2006 and 2005, respectively. The total intrinsic value of GMSSOP options exercised was $0 in 2007, 2006 and 2005. The tax benefit from the exercise of the share-based payment arrangements totaled $0 million, $0 and $1 million in 2007, 2006 and 2005, respectively.

SUMMARY

A summary of the status of our options as of December 31, 2007 and the changes during the year is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2007	10,093,967	$8.57
Granted	2,786,920	8.76
Vested	(5,799,594)	9.58
Forfeited	(129,212)	7.91
Nonvested at December 31, 2007	6,952,081	$7.82

As of December 31, 2007, there was $7 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 0.9 years.

Cash received from option exercise under all share-based payment arrangements was $1 million, $0 and $0 in 2007, 2006 and 2005, respectively.

MARKET CONDITION AWARDS

The 2007 GMLTIP, formerly the 2002 GMLTIP, also consists of award opportunities granted to participants that are based on a minimum percentile ranking of our Total Stockholder Return (TSR) among the companies in the S&P 500. The target number of shares of our Common Stock that may be granted each year is determined by management. The 2006 and 2005 grants under the 2002 GMLTIP are subject to a three year performance period and the final award payout may vary based on the achievement of those criteria. The 2007 grants under the 2002 GMLTIP are subject to four separate performance periods, three one-year performance periods and one three-year performance period, and the final award payout may vary based on the achievement of those criteria.

A summary of the outstanding 2002 GMLTIP shares is as follows:

	Shares (in millions)	Weighted-Average Grant-Date Fair Value
2005	1.8	$36.37
2006	2.2	$24.81
2007	1.7	$33.70
Total outstanding at December 31, 2007	5.7	

We are required to settle these awards in cash. As a result, these cash-settled awards are recorded as a liability until the date of final award payout. In accordance with SFAS No. 123(R), the fair value of each cash-settled award is recalculated at the end of each reporting period and the liability and expense adjusted based on the change in fair value. The preceding is the targeted number of shares that would be used in the final award calculation should the targeted performance condition be achieved. Final payout is subject to approval by the Executive Compensation Committee of the Board of Directors. The fair value at December 31, 2007 was $21.43, $31.11 and $0 for the awards granted in 2007, 2006 and 2005, respectively.

Prior to the adoption of SFAS No. 123(R), the fair value of each award under the GMLTIP was equal to the fair market value of the underlying shares on the date of grant. Beginning January 1, 2006 in accordance with the adoption of SFAS No. 123(R), the fair value of each cash-settled award under the GMLTIP is estimated on the date of grant, and for each subsequent reporting period, using a Monte Carlo simulation valuation model that uses the multiple input variables noted in the following table. Expected volatilities are based on the implied

Note 26. Stock Incentive Plans *(concluded)*

volatility from our tradeable options. The expected term of these target awards represent the remaining time in the performance period. The risk-free rate for periods during the contractual life of the performance shares is based on the U.S. Treasury yield curve in effect at the time of valuation. Since the payout depends on our performance ranked with the S&P 500, the valuation also depends on the performance of other stocks in the S&P 500 from the grant date to the exercise date as well as estimates of the correlations among their future performances. The following are the assumptions used at December 31, 2007 to value open award years:

	2007	2006	2005
Expected volatility	**47.66%**	48.38%	45.96%
Expected dividends	**N/A**	N/A	N/A
Expected term (years)	**2.0**	1.0	–
Risk-free interest rate	**3.83%**	4.03%	4.54%

The primary grant to executives on March 20, 2007, February 23, 2006 and January 24, 2005 made under the GMLTIP were 1.7 million, 2.4 million and 2 million shares, respectively, at a grant date fair value of $33.70, $24.81 and $36.37, respectively. The assumptions used to estimate fair value at December 31, 2007 and 2006 are detailed in the table above.

The weighted average remaining contractual term was 1.4 years for target awards outstanding at December 31, 2007. As the threshold performance required for a payment under the 2005-2007 GMLTIP was not achieved, there were no cash payments made under this plan in 2007. The 2006–2008 and 2007–2009 performance periods remain open at December 31, 2007.

CASH-BASED RESTRICTED STOCK UNITS

In 2006, we established a cash-based restricted stock unit plan that provides cash equal to the value of underlying restricted share units to certain global executives at predetermined vesting dates. Awards under the plan vest and are paid in one-third increments on each anniversary date of the award over a three year period. Compensation expense is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. Since the awards are settled in cash, these cash-settled awards are recorded as a liability until the date of payment. In accordance with SFAS No. 123(R), the fair value of each cash-settled award is recalculated at the end of each reporting period and the liability and expense adjusted based on the new fair value.

The fair value of each GMCRSU is based on our stock price on the date of grant and each subsequent reporting period until date of settlement. There were 5.2 million and 4.3 million GMCRSUs granted with a weighted average grant date fair value of $29.39 and $21.04 per share, respectively, in 2007 and 2006, respectively. The fair value at December 31, 2007 was $24.89 per share, and there were 7.4 million GMCRSUs outstanding.

The weighted average remaining contractual term was 1.9 years for the CRSUs outstanding at December 31, 2007. The total payments made for GMCRSUs vested in 2007 was $42.3 million.

Note 27. Transactions with GMAC

We have entered into various operating and financing arrangements with GMAC. The following describes our material transactions with GMAC and the related financial statement effects for the years ended December 31, 2007 and 2006, which are included in our consolidated financial statements.

MARKETING INCENTIVES AND OPERATING LEASE RESIDUALS

As a marketing incentive, we may sponsor interest rate support, capitalized cost reduction and residual support programs as a way to lower customers' monthly lease and retail contract payments. In addition we may sponsor lease pull-ahead programs to encourage customers to terminate their leases early in conjunction with the acquisition of a new GM vehicle.

Under the interest rate support program, we pay an amount to GMAC at the time of lease or retail contract origination to adjust the interest rate implicit in the lease or retail contract below GMAC's standard interest rate. Such marketing incentives are referred to as rate support or subvention and the amount paid at contract origination represents the present value of the difference between the customer rates and the GMAC standard rates.

Under the capitalized cost reduction program, we pay an amount to GMAC at the time of lease or retail contract origination to reduce the principal amount implicit in the lease or retail contract below our standard MSRP (manufacturers suggested retail price) value.

Under the residual support program, the customers' contractual residual value is adjusted above GMAC's standard residual values. We reimburse GMAC to the extent that sales proceeds are less than the customers' contractual residual value, limited to GMAC's standard residual value. As it relates to U.S. lease originations and U.S. balloon retail contract originations occurring after April 30, 2006 that GMAC retained after the consummation of the GMAC sale, we agreed to begin payment of the present value of the expected residual support owed to GMAC at the time of contract origination as opposed to after contract termination when the related used vehicle is sold. The residual support amount owed to GMAC is adjusted as the contracts terminate and, in cases where the estimate is adjusted, we may be obligated to pay each other the difference. As of December 31, 2007 and 2006, the maximum additional amount that could be paid by us under the U.S. residual support program was $1.1 billion and $276 million, respectively. We believe that it would be unlikely that the proceeds from the entire portfolio of assets would be lower than both the contractual residual value and GMAC's standard residual rates. As of December 31, 2007 and 2006, we had a total reserve recorded on our consolidated balance sheet of $118 million and $4 million, respectively, based on our estimated required future payments to GMAC associated with the maximum additional amount that could be paid by us to GMAC under the U.S. residual support program.

Under the lease pull-ahead program, customers are encouraged to terminate their leases early to buy or lease a new GM vehicle. As part of this program, GMAC waives the customer's remaining payment obligation under their current lease, and we compensate GMAC for any foregone revenue from the waived payments. Since these programs generally accelerate the resale of the vehicle, the proceeds are typically higher than if the vehicle had been sold at the contract maturity. The reimbursement to GMAC for the foregone payments is reduced by the amount of this benefit. We make anticipated payments to GMAC at the end of each month following lease termination. These estimates are adjusted to actual once all vehicles that could have been pulled-ahead have terminated and the vehicles have been resold. To the extent that the original estimates are adjusted, we may be obligated to pay each other the difference.

In addition to the interest rate support, capitalized cost reduction, residual support and lease pull-ahead programs, we also participate in a risk sharing arrangement that was amended on November 30, 2006 and applies to all new lease contracts. We are responsible for risk sharing on returns of lease vehicles in the U.S. and Canada whose resale proceeds are less than standard GMAC residual values, subject to a limitation. We will also pay GMAC a quarterly leasing payment in connection with the agreement beginning in the first quarter of 2009 and ending in the fourth quarter of 2014. At December 31, 2007 and 2006, the maximum amount guaranteed under the U.S. risk sharing arrangement was $1.1 billion and $339 million, respectively. The maximum amount would only be paid in the unlikely event that the proceeds from all outstanding lease vehicles would be lower than GMAC's standard residual rates, subject to the limitation. As of December 31, 2007 and 2006, we had a total reserve recorded on our consolidated balance sheet of $144 million and $50 million, respectively, based on our estimated future payments to GMAC associated with the maximum amount guaranteed under the U.S. risk sharing arrangement.

In accordance with our revenue recognition accounting policy, the marketing incentives, lease pull-ahead programs and the risk sharing arrangement, are recorded as reductions to Automotive sales at the time the vehicle is sold to the dealer based on the estimated GMAC lease and retail contract penetration. We paid $4.7 billion and $.2 billion under these U.S. programs during the years ended December 31, 2007 and 2006, respectively.

Note 27. Transactions with GMAC *(continued)*

The terms and conditions of interest rate support, capitalized cost reduction, residual support and lease pull-ahead programs, as well as the risk sharing arrangement, are included in the U.S., Canadian and International Consumer Financing Services Agreements, which expire in November 2016.

EQUIPMENT ON OPERATING LEASES TRANSFERRED TO US BY GMAC

In November 2006, GMAC transferred certain U.S. lease assets to us, along with related debt and other assets. GMAC retained an investment in a note, which had a balance of $35 million and $471 million at December 31, 2007 and 2006, respectively, and is secured by the lease assets transferred to us. GMAC continues to service the portfolio of leased assets and related debt on our behalf and receives a servicing fee. GMAC is obligated, as servicer, to repurchase any lease asset that is in breach of any of the covenants in the securitization agreements. In addition, in a number of the transactions securitizing the lease assets, the trusts issued one or more series of floating rate debt obligations and entered into derivative transactions to eliminate the market risk associated with funding the fixed payment lease assets with floating interest rate debt. To facilitate these securitization transactions, GMAC entered into secondary derivative transactions with the primary derivative counterparties, essentially offsetting the primary derivatives. As part of the transfer, we assumed the rights and obligations of the primary derivative while GMAC retained the secondary, leaving both companies exposed to market value movements of their respective derivatives. We subsequently entered into derivative transactions with GMAC that are intended to offset the exposure each party has to its component of the primary and secondary derivatives.

EXCLUSIVITY ARRANGEMENT

Subject to GMAC's fulfillment of certain conditions, we have granted GMAC exclusivity for U.S., Canadian and international GM-sponsored consumer and wholesale marketing incentives for GM products in specified markets around the world, with the exception of Saturn branded products. In return for this exclusivity, GMAC will pay us an annual exclusivity fee of $105 million ($75 million for the U.S. retail business, $15 million for the Canadian retail business, $10 million for retail business in international operations, and $5 million for the dealer business) and is committed to provide financing to our customers and dealers consistent with historical practices. The amount of exclusivity fee revenue we recognized for the year ended December 31, 2007 and the month of December 2006 was $105 million and $9 million, respectively.

MARKETING SERVICE AGREEMENT

We have entered into a 10-year marketing, promoting, advertising and customer support arrangement with GMAC related to GM products, GMAC products and the retail financing for GM products. This agreement expires in November 2016.

ROYALTY ARRANGEMENT

For certain insurance products, we have entered into 10-year intellectual property license agreements with GMAC giving GMAC the right to use the GM name on certain insurance products. In exchange, GMAC will pay a royalty fee of 3.25% of revenue, net of cancellations, related to these products with a minimum annual guarantee of $15 million in the U.S. The amount of royalty income recognized in the U.S. for the year ended December 31, 2007 and the month ended December 31, 2006 was $18 million and $1 million, respectively.

SHARED AND TRANSITION SERVICES AGREEMENT

We entered into a Shared and Transition Services Agreement with GMAC to continue to provide to each other with global support services, primarily treasury, tax, real estate and human resources, generally for a transition period of one to two years from November 30, 2006. GM expects that when the Shared and Transition Services Agreement expires, we will either renew this services agreement with GMAC or GM and GMAC will perform the related services internally or potentially outsource to other providers. We have agreed to continue to provide certain of these services through July 2011.

Balance Sheet

A summary of the balance sheet effects of transactions with GMAC at December 31, 2007 and 2006 is as follows:

	December 31,	
(Dollars in millions)	**2007**	2006
Assets:		
Accounts and notes receivable (a)	**$1,285**	$ 678
Other assets (b)	**$ 30**	$ 18
Liabilities:		
Accounts payable (c)	**$ 548**	$ 694
Short-term borrowings and current portion of long-term debt (d)(e)	**$2,802**	$3,175
Accrued expenses (f)	**$ 50**	$1,051
Long-term debt (g)	**$ 119**	$ 445

(a) *Represents wholesale settlements due from GMAC, as well as amounts owed by GMAC with respect to the Equipment on operating leases transferred to us, and the exclusivity fee and royalty arrangement as discussed above.*

(b) *Primarily represents distributions due from GMAC on our Preferred Membership Interests.*

(c) *Represents amounts accrued for interest rate support, capitalized cost reduction, residual support and lease pull-ahead programs and the risk sharing arrangement.*

(d) *Represents wholesale financing, sales of receivable transactions and the short-term portion of term loans provided to certain dealerships wholly-owned by us or in which we have an equity interest. In addition, it includes borrowing arrangements with Adam Opel and arrangements related to GMAC's funding of our company-owned vehicles, rental car vehicles awaiting sale at auction and funding of the sale of our vehicles in which we retain title while the vehicles are consigned to GMAC or dealers, primarily in the United Kingdom. Our financing remains outstanding until the title is transferred to the dealers. This amount also includes the short-term portion of a note provided to our wholly-owned subsidiary holding debt related to the Equipment on operating leases transferred to us from GMAC.*

(e) *At December 31, 2006, this amount included a note related to the overpayment of $317 million of income taxes by GMAC. These taxes were refunded to GMAC during December 2007.*

(f) *Primarily represents interest accrued on the transactions in (d) above. At December 31, 2006, this amount also included the $1 billion capital contribution that we owed GMAC to restore its adjusted tangible equity balance to the contractually required amount due to the decrease in adjusted tangible equity balance of GMAC as of November 30, 2006.*

(g) *Primarily represents the long-term portion of term loans and a note payable with respect to the Equipment on operating leases transferred to us mentioned in (d) above.*

Note 27. Transactions with GMAC *(concluded)*

Statement of Operations

A summary of the income statement effects of transactions with GMAC for the year ended December 31, 2007 and the month of December 2006 is as follows:

	Period Ended December 31,	
(Dollars in millions)	**2007**	2006
Net sales and revenues (a)	**$(4,323)**	$(63)
Cost of sales and other expenses (b)	**$ 590**	$ 55
Automotive interest income and other non-operating income (c)	**$ 433**	$ 20
Interest expense (d)	**$ 229**	$ 22
Servicing expense (e)	**$ 167**	$ 18
Derivatives (f)	**$ 19**	$ 6

(a) *Primarily represents the reduction in net sales and revenues for marketing incentives on vehicles which are sold to customers or dealers and financed by GMAC. This includes the estimated amount of residual support accrued under the residual support and risk sharing programs, rate support under the interest rate support programs, operating lease and finance receivable capitalized cost reduction incentives paid to GMAC to reduce the capitalized cost in automotive lease contracts and retail automotive contracts, and costs under lease pull-ahead programs. This amount is offset by net sales for vehicles sold to GMAC for employee and governmental lease programs and third party resale purposes.*

(b) *Primarily represents cost of sales on the sale of vehicles to GMAC for employee and governmental lease programs and third party resale purposes. Also includes miscellaneous expenses on services performed for us by GMAC.*

(c) *Represents income on our Preferred Membership Interests in GMAC, exclusivity and royalty fee income and reimbursements by GMAC for certain services we provided. Included in this amount is rental income related to GMAC's primary executive and administrative offices located in the Renaissance Center in Detroit, Michigan. The lease agreement expires on November 30, 2016.*

(d) *Represents interest incurred on term loans, notes payable and wholesale settlements.*

(e) *Represents servicing fees paid to GMAC on the automotive leases we retained.*

(f) *Represents gains recognized in connection with a derivative transaction entered into with GMAC as the counterparty.*

Note 28. Supplementary Quarterly Financial Information (Unaudited)

	Quarters			
(Dollars in millions, except per share amounts)	1st	2nd	3rd	4th
2007				
Net sales and revenue	**$43,387**	**$46,844**	**$ 43,806**	**$47,085**
Income (loss) from continuing operations	**$ (42)**	**$ 784**	**$(42,512)**	**$ (1,527)**
Income from discontinued operations	**$ 104**	**$ 107**	**$ 3,549**	**$ 805**
Net income (loss)	**$ 62**	**$ 891**	**$(38,963)**	**$ (722)**
Basic earnings (loss) per share				
Continuing operations	**$ (0.07)**	**$ 1.38**	**$ (75.12)**	**$ (2.70)**
Discontinued operations	**0.18**	**0.19**	**6.27**	**1.42**
Total	**$ 0.11**	**$ 1.57**	**$ (68.85)**	**$ (1.28)**
Diluted earnings (loss) per share				
Continuing operations	**$ (0.07)**	**$ 1.37**	**$ (75.12)**	**$ (2.70)**
Discontinued operations	**0.18**	**0.19**	**6.27**	**1.42**
Total	**$ 0.11**	**$ 1.56**	**$ (68.85)**	**$ (1.28)**
2006				
Total net sales and revenue	$51,930	$54,018	$ 48,850	$50,803
Income (loss) from continuing operations	$ 493	$ (3,494)	$ (277)	$ 855
Income from discontinued operations	$ 109	$ 111	$ 130	$ 95
Net income (loss)	$ 602	$ (3,383)	$ (147)	$ 950
Basic earnings (loss) per share				
Continuing operations	$ 0.87	$ (6.18)	$ (0.49)	$ 1.51
Discontinued operations	0.19	0.20	0.23	0.17
Total	$ 1.06	$ (5.98)	$ (0.26)	$ 1.68
Diluted earnings (loss) per share				
Continuing operations	$ 0.87	$ (6.18)	$ (0.49)	$ 1.50
Discontinued operations	0.19	0.20	0.23	0.17
Total	$ 1.06	$ (5.98)	$ (0.26)	$ 1.67

Note 28. Supplementary Quarterly Financial Information (Unaudited) *(concluded)*

Results for the three months ended September 30, 2007 included:

- Charges of $39 billion related to establishing valuation allowances against our net defined tax assets in the U.S., Canada and Germany.

Results for the three months ended December 31, 2007 included:

- Expenses of $622 million related to amendment of the GM-Delphi Settlement Agreements, support of Delphi's disposition of businesses and retiree healthcare and other expenses.
- Expenses of $552 million related to pension benefit increases pursuant to the 2007 National Agreement.
- Income tax expense on the sale of Allison, net of purchase price and other adjustments, in the amount of $805 million was reallocated between discontinued operations, continuing operations and Other comprehensive income.

Results for the three months ended June 30, 2006 included:

- Charges of $6.5 billion related to the UAW Special Attrition Program.

Results for the three months ended December 31, 2006 included:

- Other income of $270 million resulting from the sale of our providing ground in Mesa, Arizona.
- Adjustments of $1.1 billion to previously recorded estimates relating to the sale of GMAC.

Note 29. Segment Reporting

We operate in two businesses, consisting of GM Automotive (or GMA) and FIO. Our four automotive segments consist of GMNA, GME, GMLAAM and GMAP. We manufacture our cars and trucks in 35 countries under the following brands: Buick, Cadillac, Chevrolet, GMC, GM Daewoo, Holden, HUMMER, Opel, Pontiac, Saab, Saturn, Vauxhall and Wuling. For 2007 and for the month of December 2006, our FIO business consists of our 49% share of GMAC's operating results, which we account for under the equity method, and Other Financing, which is comprised primarily of two special purpose entities holding automotive leases previously owned by GMAC and its affiliates that we retained, and the elimination of inter-segment transactions between GM Automotive and Corporate and Other. For the eleven months ended November 30, 2006 and for 2005, our FIO business consisted of the consolidated operating results of GMAC's lines of business as follows: Automotive Finance Operations, Mortgage Operations, Insurance, and Other, which included its Commercial Finance business and GMAC's equity investment in Capmark Financial Group (previously GMAC Commercial Finance). Also included in FIO were the equity earnings of financing entities that were not consolidated by GMAC and the elimination of inter-segment transactions between GM Automotive and either GMAC or Corporate and Other.

Corporate and Other includes the elimination of inter-segment transactions, certain non-segment specific revenues and expenditures, including costs related to postretirement benefits for Delphi and other retirees and certain corporate activities. Amounts presented in Automotive sales, Interest income and Interest expense in the tables that follow principally relate to the inter-segment transactions eliminated at Corporate and Other. All inter-segment balances and transactions have been eliminated in consolidation.

In the fourth quarter of 2007, we changed our measure of segment profitability from net income to income before income taxes plus equity income, net of tax and minority interests, net of tax. In the first quarter of 2007, we changed our segment presentation to reflect the elimination of transactions that occur between GM Automotive segments in the Auto Eliminations column within total GMA, which was previously included in the GMNA region. These transactions consist primarily of inter-segment vehicle and service parts sales in accordance with our transfer pricing policy. Amounts for 2006 and 2005 have been revised to reflect these periods on a comparable basis for the changes discussed above. Additionally, 2006 and 2005 amounts have been reclassified for the retroactive effect of discontinued operations as discussed in Note 3.

Note 29. Segment Reporting *(continued)*

(Dollars in millions)	GMNA	GME	GM LAAM	GMAP
As of and for the year ended December 31, 2007				
Automotive sales				
External customers	**$109,024**	**$35,481**	**$18,326**	**$15,368**
Inter-segment	**3,424**	**1,916**	**568**	**5,635**
Total automotive sales	**112,448**	**37,397**	**18,894**	**21,003**
Financial services and insurance revenues	**–**	**–**	**–**	**–**
Total net sales and revenues	**$112,448**	**$37,397**	**$18,894**	**$21,003**
Depreciation, amortization and impairment	**$ 5,612**	**$ 1,679**	**$ 302**	**$ 576**
Equity in loss of GMAC	**$ –**	**$ –**	**$ –**	**$ –**
Interest income	**$ 1,174**	**$ 694**	**$ 164**	**$ 163**
Interest expense	**$ 2,936**	**$ 727**	**$ (4)**	**$ 236**
Income (loss) from continuing operations before income taxes, equity income, minority interests and cumulative effect of a change in accounting principle	**$ (3,290)**	**$ (541)**	**$ 1,349**	**$ 557**
Equity income (loss), net of tax	**22**	**44**	**31**	**425**
Minority interests, net of tax	**(46)**	**(27)**	**(32)**	**(301)**
Income (loss) from continuing operations before income taxes	**$ (3,314)**	**$ (524)**	**$ 1,348**	**$ 681**
Income from discontinued operations, net of tax	**$ 256**	**$ –**	**$ –**	**$ –**
Gain on sale of discontinued operations, net of tax	**$ 4,309**	**$ –**	**$ –**	**$ –**
Investments in nonconsolidated affiliates	**$ 269**	**$ 476**	**$ 57**	**$ 1,081**
Total assets	**$ 95,433**	**$25,201**	**$ 7,733**	**$15,567**
Goodwill	**$ 173**	**$ 563**	**$ –**	**$ –**
Expenditures for property	**$ 4,988**	**$ 1,311**	**$ 220**	**$ 899**
As of and for the year ended December 31, 2006				
Automotive sales				
External customers	$113,976	$31,490	$14,024	$11,945
Inter-segment	2,677	1,788	603	3,587
Total automotive sales	116,653	33,278	14,627	15,532
Financial services and insurance revenues	–	–	–	–
Total net sales and revenues	$116,653	$33,278	$14,627	$15,532
Depreciation, amortization and impairment	$ 5,691	$ 1,634	$ 227	$ 483
Interest income	$ 1,350	$ 533	$ 87	$ 122
Interest expense	$ 3,283	$ 664	$ 158	$ 222
Income (loss) from continuing operations before income taxes, equity income, minority interests and cumulative effect of a change in accounting principle	$ (7,575)	$ (312)	$ 527	$ 1,059
Equity income (loss), net of tax	104	36	16	365
Minority interests, net of tax	(63)	(21)	(25)	(225)
Income (loss) from continuing operations before income taxes	$ (7,534)	$ (297)	$ 518	$ 1,199
Income from discontinued operations, net of tax	$ 445	$ –	$ –	$ –
Investments in nonconsolidated affiliates	$ 295	$ 408	$ 132	$ 1,100
Total assets	$126,478	$26,610	$ 4,202	$13,273
Goodwill	$ 299	$ 500	$ –	$ –
Expenditures for property	$ 5,017	$ 1,103	$ 279	$ 1,030
As of and for the year ended December 31, 2005				
Automotive sales				
External customers	$108,724	$30,223	$11,136	$ 8,796
Inter-segment	2,652	1,719	715	2,050
Total automotive sales	111,376	31,942	11,851	10,846
Financial services and insurance revenues	–	–	–	–
Total net sales and revenues	$111,376	$31,942	$11,851	$10,846
Depreciation, amortization and impairment	$ 7,528	$ 1,788	$ 325	$ 379
Interest income	$ 1,329	$ 420	$ 57	$ 47
Interest expense	$ 3,168	$ 555	$ 197	$ 107
Income (loss) from continuing operations before income taxes, equity income, minority interests and cumulative effect of a change in accounting principle	$ (11,021)	$ (1,794)	$ 43	$ (889)
Equity income (loss), net of tax	(48)	102	15	527
Minority interests, net of tax	1	(49)	(11)	(53)
Income (loss) from continuing operations before income taxes	$ (11,068)	$ (1,741)	$ 47	$ (415)
Income from discontinued operations, net of tax	$ 313	$ –	$ –	$ –
Investments in nonconsolidated affiliates	$ 18	$ 359	$ 155	$ 2,590
Total assets	$133,277	$21,069	$ 4,340	$10,138
Goodwill	$ 324	$ 433	$ –	$ –
Expenditures for property	$ 5,380	$ 1,396	$ 229	$ 839

Auto Eliminations	Total GMA	Corporate & Other[a]	Total Excluding FIO	GMAC[c]	Other Financing[b]	Total FIO	Total
$ –	$178,199	$ –	$178,199	$ –	$ –	$ –	$178,199
(11,543)	–	–	–	–	–	–	–
(11,543)	178,199	–	178,199	–	–	–	178,199
–	–	–	–	–	2,923	2,923	2,923
$(11,543)	$178,199	$ –	$178,199	$ –	$ 2,923	$ 2,923	$181,122
$ 48	$ 8,217	$ 37	$ 8,254	$ –	$ 1,259	$ 1,259	$ 9,513
$ –	$ –	$ –	$ –	$ (1,245)	$ –	$ (1,245)	$ (1,245)
$ 2	$ 2,197	$ (969)	$ 1,228	$ –	$ 88	$ 88	$ 1,316
$ 10	$ 3,905	$(1,003)	$ 2,902	$ –	$ 405	$ 405	$ 3,307
$ (59)	$ (1,984)	$(3,619)	$ (5,603)	$ (1,147)	$ 497	$ (650)	$ (6,253)
–	522	2	524	–	–	–	524
–	(406)	12	(394)	–	(12)	(12)	(406)
$ (59)	$ (1,868)	$(3,605)	$ (5,473)	$ (1,147)	$ 485	$ (662)	$ (6,135)
$ –	$ 256	$ –	$ 256	$ –	$ –	$ –	$ 256
$ –	$ 4,309	$ –	$ 4,309	$ –	$ –	$ –	$ 4,309
$ –	$ 1,883	$ 36	$ 1,919	$ 7,079	$ –	$ 7,079	$ 8,998
$(11,313)	$132,621	$ (727)	$131,894	$ 12,339	$ 4,650	$ 16,989	$148,883
$ –	$ 736	$ –	$ 736	$ –	$ –	$ –	$ 736
$ 41	$ 7,459	$ 79	$ 7,538	$ –	$ 4	$ 4	$ 7,542
$ –	$171,435	$ (256)	$171,179	$ –	$ –	$ –	$171,179
(8,655)	–	–	–	–	–	–	–
(8,655)	171,435	(256)	171,179	–	–	–	171,179
–	–	–	–	33,629	793	34,422	34,422
$ (8,655)	$171,435	$ (256)	$171,179	$ 33,629	$ 793	$ 34,422	$205,601
$ 37	$ 8,072	$ 22	$ 8,094	$ 5,252	$(2,461)	$ 2,791	$ 10,885
$ 1	$ 2,093	$(1,375)	$ 718	$ 2,332	$ (480)	$ 1,852	$ 2,570
$ –	$ 4,327	$(1,685)	$ 2,642	$ 14,196	$ 105	$ 14,301	$ 16,943
$ (34)	$ (6,335)	$(1,188)	$ (7,523)	$ 2,242	$ (377)	$ 1,865	$ (5,658)
–	521	3	524	(11)	–	(11)	513
–	(334)	–	(334)	10	–	10	(324)
$ (34)	$ (6,148)	$(1,185)	$ (7,333)	$ 2,241	$ (377)	$ 1,864	$ (5,469)
$ –	$ 445	$ –	$ 445	$ –	$ –	$ –	$ 445
$ –	$ 1,935	$ 34	$ 1,969	$ 7,523	$ –	$ 7,523	$ 9,492
$ (7,819)	$162,744	$ 1,437	$164,181	$ 13,050	$ 9,073	$ 22,123	$186,304
$ –	$ 799	$ –	$ 799	$ –	$ –	$ –	$ 799
$ –	$ 7,429	$ 71	$ 7,500	$ 401	$ 1	$ 402	$ 7,902
$ –	$158,879	$ (256)	$158,623	$ –	$ –	$ –	$158,623
(7,136)	–	–	–	–	–	–	–
(7,136)	158,879	(256)	158,623	–	–	–	158,623
–	–	–	–	34,081	346	34,427	34,427
$ (7,136)	$158,879	$ (256)	$158,623	$ 34,081	$ 346	$ 34,427	$193,050
$ –	$ 10,020	$ 16	$ 10,036	$ 5,548	$ 148	$ 5,696	$ 15,732
$ –	$ 1,853	$(1,329)	$ 524	$ 2,185	$ (514)	$ 1,671	$ 2,195
$ –	$ 4,027	$(1,493)	$ 2,534	$ 13,106	$ (35)	$ 13,071	$ 15,605
$ (51)	$ (13,712)	$(6,916)	$ (20,628)	$ 3,426	$ (27)	$ 3,399	$ (17,229)
–	596	20	616	(6)	–	(6)	610
–	(112)	7	(105)	57	–	57	(48)
$ (51)	$ (13,228)	$(6,889)	$ (20,117)	$ 3,477	$ (27)	$ 3,450	$ (16,667)
$ –	$ 313	$ –	$ 313	$ –	$ –	$ –	$ 313
$ –	$ 3,122	$ 120	$ 3,242	$ 308	$ (308)	$ –	$ 3,242
$ (6,718)	$162,106	$ 218	$162,324	$320,557	$(8,613)	$311,944	$474,268
$ –	$ 757	$ –	$ 757	$ 2,446	$ –	$ 2,446	$ 3,203
$ –	$ 7,844	$ 14	$ 7,858	$ 279	$ 4	$ 283	$ 8,141

Note 29. Segment Reporting *(concluded)*

We attribute our revenues to geographic areas based on the country in which the product is sold, except for our revenues from certain joint ventures. In such case, these revenues are attributed based on the geographic location of the joint venture. Information concerning principal geographic areas is as follows:

(Dollars in millions)	**2007**		2006		2005	
	Net Sales & Revenues	**Long Lived Assets (d)**	Net Sales & Revenues	Long Lived Assets (d)	Net Sales & Revenues	Long Lived Assets (d)
North America						
U.S.	**$100,545**	**$32,293**	$127,260	$39,434	$123,215	$49,619
Canada and Mexico	**14,758**	**5,772**	19,979	4,906	16,769	12,739
Total North America	**115,303**	**38,065**	147,239	44,340	139,984	62,358
Europe						
France	**2,699**	**309**	2,411	284	2,612	333
Germany	**6,147**	**4,172**	7,687	3,651	7,384	4,090
Italy	**3,671**	**256**	2,883	78	2,971	40
Spain	**2,911**	**1,359**	2,866	1,364	2,847	1,182
Sweden	**2,330**	**1,207**	2,229	1,255	2,161	1,139
United Kingdom	**7,869**	**1,214**	7,975	1,143	7,859	1,958
Other	**9,789**	**2,347**	8,380	2,250	7,752	2,615
Total Europe	**35,416**	**10,864**	34,431	10,025	33,586	11,357
Latin America						
Brazil	**6,477**	**1,026**	4,961	882	3,813	784
Other Latin America	**6,875**	**193**	4,777	159	3,836	162
Total Latin America	**13,352**	**1,219**	9,738	1,041	7,649	946
Asia Pacific						
Australia	**397**	**10**	301	18	357	–
Korea	**9,178**	**2,443**	7,550	2,154	2,861	1,523
Other Asia Pacific	**6,058**	**2,185**	3,386	2,126	5,387	1,981
Total Asia Pacific	**15,633**	**4,638**	11,237	4,298	8,605	3,504
All Other	**1,418**	**239**	2,956	158	3,226	313
Total	**$181,122**	**$55,025**	$205,601	$59,862	$193,050	$78,478

The aggregation of principal geographic information by U.S. and non-U.S. is as follows:

(Dollars in millions)	**2007**		2006		2005	
	Net Sales & Revenues	**Long Lived Assets (d)**	Net Sales & Revenues	Long Lived Assets (d)	Net Sales & Revenues	Long Lived Assets (d)
U.S.	**$100,545**	**$32,293**	$127,260	$39,434	$123,215	$49,619
Non-U.S.	**80,577**	**22,732**	78,341	20,428	69,835	28,859
Total	**$181,122**	**$55,025**	$205,601	$59,862	$193,050	$78,478

(a) *Corporate and Other includes charges of $1.5 billion, $.5 billion and $5.5 billion for 2007, 2006 and 2005, respectively, related to the Benefit Guarantee Agreements and the restructuring of Delphi's operations. In addition, Corporate and Other includes $552 million in 2007 related to pension benefit increases granted to Delphi employees and retirees/surviving spouses as part of the 2007 National Agreement.*

(b) *In 2006, we recognized a non-cash impairment charge of $2.9 billion in connection with the sale of a controlling interest in GMAC, which is reflected in Other Financing. Refer to Note 3. Other Financing also includes the elimination of net receivables from total assets. Receivables eliminated at December 31, 2007, 2006 and 2005 were $4.2 billion, $4.1 billion and $4.5 billion, respectively.*

(c) *We sold a 51% ownership interest in GMAC in November 2006. The remaining 49% ownership interest is accounted for using the equity method and is included in GMAC's segment assets. Refer to Notes 8 and 27 for summarized financial information of GMAC for the year ended December 31, 2007 and the month of December 2006.*

(d) *Primarily consists of property and equipment on operating leases, net. Refer to Notes 7 and 9.*

Note 30. Supplemental Information for Consolidated Statements of Cash Flows

	Years Ended December 31,		
(Dollars in millions)	**2007**	2006	2005
Increase (decrease) in other operating assets and liabilities is as follows:			
Accounts receivable	**$(1,035)**	$ (231)	$ 83
Other receivables	**214**	(2,982)	4,091
Prepaid expenses and other deferred charges	**(649)**	294	(95)
Inventories	**(699)**	384	(1,444)
Other assets	**(80)**	(173)	(32)
Accounts payable	**1,119**	367	(80)
Deferred taxes and income taxes payable	**(1,311)**	(75)	345
Accrued expenses and other liabilities	**(851)**	(5,921)	(775)
Fleet rental – acquisitions	**(6,443)**	(8,701)	(9,452)
Fleet rental – liquidations	**6,323**	8,526	7,379
Total	**$(3,412)**	$ (8,512)	$ 20
Cash paid for interest	**$ 3,346**	$17,415	$15,815

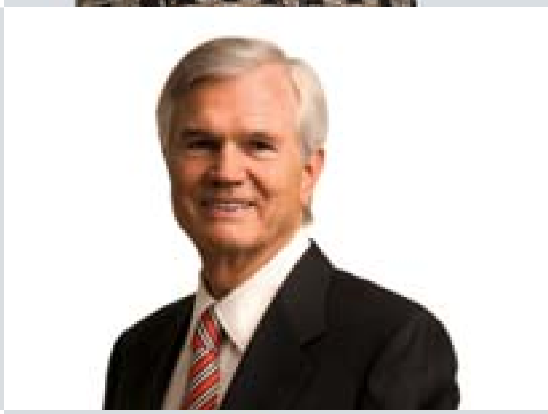
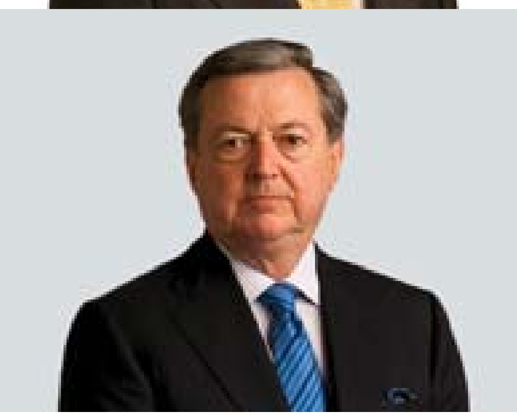
Note 31. Subsequent Event

On February 12, 2008, we announced an agreement was reached with the UAW regarding a Special Attrition Program which is intended to further reduce the number of U.S. hourly employees. The program that will be offered to our 74,000 UAW-represented employees consists of wage and benefit packages for normal and voluntary retirements, buyouts or pre-retirement employees with 26 to 29 years of service. Those employees that are retirement eligible will receive a lump sum payment of $45,000 or $62,500 depending upon classification, that will be funded from our U. S. Hourly Pension Plan in addition to their vested pension benefits. For those employees not retirement eligible, other retirement and buyout options will be offered. These options are similar to the packages offered in our UAW Attrition Program. The cost of the special termination benefits for those employees participating in the program including any effect of curtailments related to our pension, OPEB and extended disability benefit plans is not known. Such effects will be recorded in 2008.









First row, left to right:
Percy N. Barnevik, George M.C. Fisher, Philip A. Laskawy

Second row, left to right:
Erskine B. Bowles, Karen Katen, Kathryn V. Marinello

Third row, left to right:
John H. Bryan, Eckhard Pfeiffer

Fourth row, left to right:
Armando M. Codina, Kent Kresa, G. Richard Wagoner, Jr.

Fifth row, left to right:
Erroll B. Davis, Jr., Ellen J. Kullman

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John F. Smith
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Gary A. White
GM North America Vice President,
Vehicle Line Executive
Full Size Truck Team

Kevin W. Williams
President and Managing Director,
GM de Mexico

[1] Appointed GM Vice President, Global Sales, Service, and Marketing, effective June 1, 2008

[2] Appointed GM Europe Vice President, Sales, Marketing, and Aftersales, effective June 1, 2008

[3] Retires July 1, 2008

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Chester N. Watson
General Auditor

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Chief Tax Officer

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GM common stock, $1 2/3 par value, is listed on the New York Stock Exchange and on other exchanges outside the United States.

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Computershare Trust Company, N.A.
General Motors Corporation
P.O. Box 43078
Providence, RI 02940-3078

800-331-9922 or 781-575-3990 (from outside the U.S., Canada or Puerto Rico)

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Computershare representatives are available Monday through Friday from 9 a.m. to 5 p.m. ET. Automated phone service (800-331-9922) and the Computershare website at *www.computershare.com/gm* are always available.

For other information, stockholders may contact:

GM Stockholder Services
General Motors Corporation
Mail Code 482-C38-B71
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P.O. Box 300
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GM Investor Relations
General Motors Corporation
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Available Publications
The current annual report, proxy statement, Forms 10-K and 10-Q, *Stockholder News* newsletter and *Winning With Integrity: Our Values and Guidelines for Employee Conduct* are available electronically, or print copies may be requested at "Request Information" on *investor.gm.com.*

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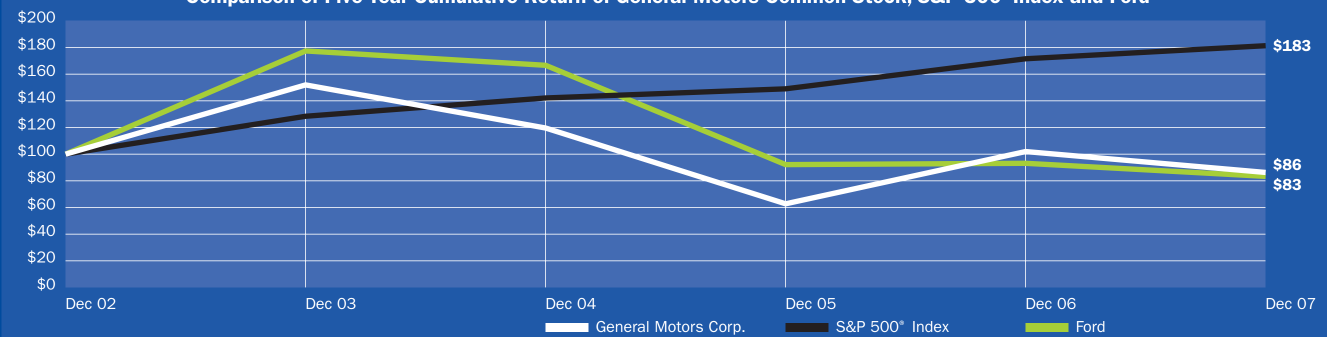
General Motors Corporation
300 Renaissance Center
P.O. Box 300
Detroit, MI 48265-3000
313-556-5000

The following graph compares the five-year cumulative return to stockholders for General Motors Common Stock against the S&P 500® Index and comparator data. Each line represents an assumed initial investment of $100 on December 31, 2002, and reinvestment of dividends over the period.

Comparison of Five-Year Cumulative Return of General Motors Common Stock, S&P 500® Index and Ford



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General Motors Corporation
300 Renaissance Center
P.O. Box 300
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