Foreign Currency Risk. Foreign currency risk is the possibility that our financial results could be better or worse than planned because of changes in foreign currency exchange rates. Accordingly, we use derivative instruments to hedge our economic exposure with respect to forecasted revenues and costs, assets, liabilities, investments in foreign operations, and firm commitments denominated in foreign currencies. In our hedging actions, we use primarily instruments commonly used by corporations to reduce foreign exchange risk (e.g., forward contracts and options).

At December 31, 2004, the EaR from foreign currency exchange movements over the next twelve months is projected at $360 million, within a 95% confidence level for the unhedged exposure. When calculated at the end of each quarter throughout the year, the high was $465 million, the low was $235 million and the average was $340 million; the risks impacting financial instruments are offset with underlying exposure being hedged. The 2004 year-end projection is approximately $10 million higher than the EaR projection for 2004 calculated as of December 31, 2003. The increased exposure results primarily from changes in the unhedged portfolio. The effect of currency movements on business units will vary based on the currency profile of the business unit (including any hedging actions taken). It can also be affected by competitive responses to currency changes.

Commodity Price Risk. Commodity price risk is the possibility of higher or lower costs due to changes in the prices of commodities, such as non-ferrous metals (e.g., aluminum) and precious metals (e.g., palladium), ferrous metals (e.g., steel and iron castings), energy (e.g., natural gas and electricity), and plastics/resins (e.g., polypropylene), which we use in the production of motor vehicles.

We use derivative instruments to hedge the price risk associated with the purchase of those commodities that we can economically hedge (primarily non-ferrous metals, precious metals and energies). In our hedging actions, we primarily use instruments commonly used by corporations to reduce commodity price risk (e.g., financially settled forward contracts, swaps, and options). Based on our financial hedging activities with derivatives and the associated underlying commodities exposures at December 31, 2004, the EaR from commodity price movements over the next twelve months is projected at $147 million, within a 95% confidence level (when calculated at the end of each quarter throughout the year, the high was $147 million, the low was $97 million and the average was $115 million); the risks impacting financial instruments are offset with underlying exposure being hedged. The year-end level is approximately $57 million higher than the EaR projection for 2004 calculated as of December 31, 2003. The increased exposure results primarily from higher commodity prices and hedging levels consistent with our overall hedging strategy.

In addition, our purchasing organization (with the oversight of the GRMC) negotiates contracts to ensure continuous supply of raw materials. In some cases, these contracts stipulate minimum purchase amounts and specific prices and as such, play a role in managing price risk.

Interest Rate Risk. Interest rate risk relates to the gain or loss we could incur in our Automotive investment portfolio due to a change in interest rates. Our interest rate sensitivity analysis on the investment portfolio includes cash and cash equivalents, marketable and loaned securities and short-term VEBA assets. At December 31, 2004, we had $23.6 billion in our automotive investment portfolio, compared to $25.9 billion at December 31, 2003. We invest the portfolio in securities of various types and maturities, the value of which are subject to fluctuations in interest rates. These securities are generally classified as either trading or available-for-sale. The trading portfolio gains and losses (unrealized and realized) are reported in the income statement. The available-for-sale portfolio realized gains or losses are reported in the income statement, and unrealized gains and losses are reported in the Consolidated Statement of Stockholders' Equity in other comprehensive income. The investment strategy is based on clearly defined risk and liquidity guidelines to maintain liquidity, minimize risk, and earn a reasonable return on the short-term investment.

At any time, a rise in interest rates could have a material adverse impact on the fair value of our trading and available-for-sale portfolios. As of December 31, 2004, the value of our trading portfolio was $19.6 billion, which is $4.6 billion lower than December 31, 2003. The value of our available-for-sale portfolio was $4.0 billion, which is $2.3 billion higher than December 31, 2003.

Assuming a hypothetical increase in interest rates of one percentage point, the value of our trading and available-for-sale portfolios would be reduced by $88 million and $45 million, respectively. This compares to $206 million and $29 million, respectively, as calculated as of December 31, 2003. The decrease in reported exposure is the result of using actual portfolio durations instead of long-term targets. Portfolio durations have been reduced below long-term targets to help shield the portfolios from the possible adverse impact of an increase in interest rates. Using the actual duration of our trading and available-for-sale portfolios as of December 31, 2003, the value of these portfolios would have been reduced by $114 million and $25 million, respectively, by a hypothetical increase in interest rates of one percentage point. While these are our best estimates of the impact of the specified interest rate scenario, actual results could differ from those projected. The sensitivity analysis presented assumes interest rate changes are instantaneous, parallel shifts in the yield curve. In reality, interest rate changes of this magnitude are rarely instantaneous or parallel.