NOTE 1. PRINCIPLES OF PRESENTATION AND CONSOLIDATION

We present our financial statements on two bases: 1) sector basis for Automotive and Financial Services and 2) consolidated basis. We believe the additional information provided in the sector basis statements enables the reader to better understand the operating performance, financial position, cash flow and liquidity of our two very different businesses.

Our financial statements include consolidated majority-owned subsidiaries and, beginning July 1, 2003, consolidated Variable Interest Entities ("VIEs") of which we are the primary beneficiary. Affiliates that we do not consolidate, but for which we have significant influence over operating and financial policies, are accounted for using the equity method. Described below are accounting policies applicable to us and our consolidated majority-owned subsidiaries.

We have reclassified certain prior-year amounts to conform to current year presentation and certain amounts previously disclosed in our Current Report on Form 8-K dated January 20, 2005 have been revised, including *Revenues* and *Operating and other expenses* due to a reclassification by Hertz.

Transactions Between Automotive and Financial Services Sectors

Intersector transactions occur in the ordinary course of business. We formally documented certain long-standing business practices with Ford Motor Credit Company ("Ford Credit"), a wholly owned subsidiary, in a 2001 agreement. Additional details on certain transactions and the effect on each sector's balance sheet at December 31 is shown below (in billions):

	2004		2003	
	Automotive	Financial Services	Automotive	Financial Services
Finance receivables, net a/		$ 3.1		$ 3.2
Net investment in operating leases b/		4.0		4.1
Other assets c/		0.8		1.2
Intersector non-current receivables/(payables) d/	$ (1.4)	1.4	$ (3.2)	3.2
Intersector current receivables/(payables) e/	(1.4)	1.4	(0.1)	0.1

a/ Automotive sector receivables (generated primarily from vehicle and parts sales to third parties) sold to Ford Credit. These receivables have been reclassified from *Finance receivables, net* to *Receivables, net* for presentation on our Consolidated Balance Sheet.

b/ Primarily Automotive sector vehicles used by Hertz for rental ($3.1 billion in 2004 and $3.2 billion in 2003) and Ford Credit vehicles leased to employees ($0.9 billion in 2004 and $0.9 billion in 2003).

c/ Primarily used vehicles purchased by Ford Credit pursuant to the Automotive sector's obligation to repurchase such vehicles from daily rental car companies, including Hertz. These vehicles are subsequently sold at auction by Ford Credit.

d/ Primarily amounts due Ford Credit from the Automotive sector under a tax sharing agreement.

e/ Net result of all other transactions including receivables of Ford Credit from the Automotive Sector's consolidated dealerships and a tax sharing agreement between the Automotive sector and Hertz.

Additionally, amounts recorded as revenue by the Financial Services sector and billed to the Automotive sector for interest and special financing and leasing programs were $3.3 billion in 2004, $3.3 billion in 2003, and $3.5 billion in 2002.

Beginning with our year ended December 31, 2004 Consolidated Statement of Cash Flows, we have changed our presentation of cash flows from wholesale finance receivables. The change stemmed from concerns raised by the staff of the Securities and Exchange Commission about the previous presentation. Prior-year amounts have been reclassified to conform to current year presentation.

Wholesale finance receivables are generated by Ford Credit's financing of dealer purchases of vehicles. The vehicles financed are primarily vehicles sold by our Automotive sector to the dealers. Dealer purchases of our inventory financed by Ford Credit do not generate cash on a consolidated basis until settlement of the wholesale receivable by the dealer. Historically, in the period in which we sold a vehicle to a dealer and the dealer financed the purchase through Ford Credit, we had presented the related cash flows as separate transactions in our Consolidated Statement of Cash Flows. The cash inflow resulting from the sale of inventory was presented as an operating cash flow. The cash outflow from the origination by Ford Credit of a wholesale finance receivable was presented as an investing cash flow.

In our revised presentation, our Consolidated Statement of Cash Flows has been adjusted to reflect the fact that there was no cash received by the consolidated entity upon the initial sale of inventory, to reflect the elimination of the effects of the intercompany transactions and to properly classify cash receipts from the settlement of Ford Credit's wholesale receivables related to the sale of inventory as operating activities.