

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended October 31, 2004

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the transition period from To

Commission file number 1-9618

NAVISTAR INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3359573
(I.R.S. Employer
Identification No.)

4201 Winfield Road, P.O. Box 1488, Warrenville, Illinois
(Address of principal executive offices)

60555
(Zip Code)

Registrant's telephone number, including area code (630) 753-5000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common stock, par value \$0.10 per share	New York Stock Exchange Chicago Stock Exchange Pacific Exchange
Cumulative convertible junior preference stock, Series D (with \$1.00 par value per share)	New York Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

As of April 30, 2004, the aggregate market value of common stock held by non-affiliates of the registrant was \$ 3,151,915,676.

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

As of January 31, 2005, the number of shares outstanding of the registrant's common stock was 69,992,334.

Documents Incorporated by Reference

Portions of the Proxy Statement to be delivered to shareowners in connection with the 2005 Annual Meeting of Shareowners (Part III)
Navistar Financial Corporation 2004 Annual Report on Form 10-K (Part IV)

NAVISTAR INTERNATIONAL CORPORATION
FORM 10-K

Year Ended October 31, 2004

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PART I

ITEM 1. BUSINESS

Navistar International Corporation was incorporated under the laws of the state of Delaware in 1993 and is a holding company. Its principal operating subsidiary is International Truck and Engine Corporation (International). As used hereafter, "Navistar" or "company" refers to Navistar International Corporation and its consolidated subsidiaries.

Navistar operates in three principal industry segments: truck, engine (collectively called "manufacturing operations") and financial services. The company's truck segment is engaged in the manufacture and marketing of Class 5 through 8 trucks, including school buses (however, the company is not currently participating in the Class 5 truck market). The company's truck segment also comprises various majority owned International brand dealerships. The company's engine segment is engaged in the design and manufacture of mid-range diesel engines. The truck segment operates primarily in the United States (U.S.), Canada, Mexico and other selected export markets while the engine segment operates in the U.S. and Brazil. Based on assets and revenues, the truck and engine segments represent the majority of the company's business activities. The financial services operations consist of Navistar Financial Corporation (NFC) and the company's foreign finance subsidiaries. Industry and geographic segment data for 2004, 2003 and 2002 is summarized in Note 16 to the Financial Statements, which is included in Item 8.

DISCONTINUED OPERATIONS

On October 29, 2002, the company announced its decision to exit the domestic truck business in Brazil effective October 31, 2002. The financial results for this business have been classified as discontinued operations on the Statement of Income in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Financial and operating data reported in this Business Section has been restated to reflect the discontinuance of this operation for all periods presented. For further information, see Note 12 to the Financial Statements, which is included in Item 8.

PRODUCTS AND SERVICES

The following table illustrates the percentage of the company's sales of products and services by product line based on dollar amount:

<u>PRODUCT LINE</u>	<u>YEARS ENDED OCTOBER 31</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Class 6 and 7 medium trucks			
and school buses	30%	32%	30%
Class 8 heavy trucks	34%	25%	28%
Truck service parts	10%	12%	12%
Total truck	74%	69%	70%
Engine (including service parts)	23%	27%	26%
Financial services	3%	4%	4%
Total	100%	100%	100%

The truck segment manufactures and distributes a full line of diesel-powered trucks and school buses in the common carrier, private carrier, government/service, leasing, construction, energy/petroleum and student transportation markets. The truck segment also provides customers with proprietary products needed to support the International® truck and the IC™ bus lines, together with a wide selection of other standard truck and trailer aftermarket parts. The company offers diesel-powered trucks and school buses because of their improved fuel economy, ease of serviceability and greater durability over gasoline-powered vehicles.

PRODUCTS AND SERVICES (continued)

The truck and bus manufacturing operations in the U.S., Canada and Mexico consist principally of the assembly of components manufactured by its suppliers, although the company produces its own mid-range diesel truck engines, sheet metal components (including cabs) and miscellaneous other parts.

The engine segment designs and manufactures diesel engines for use in the company's Class 6 and 7 medium trucks, school buses and selected Class 8 heavy truck models, and for sale to original equipment manufacturers (OEMs) in the U.S., Mexico and Brazil. This segment also sells engines for industrial and agricultural applications. In addition, the engine segment provides customers with proprietary products needed to support the International® engine lines, together with a wide selection of other standard engine and aftermarket parts. Based upon information published by R.L. Polk & Company, diesel-powered Class 5, 6 and 7 medium truck and bus shipments represented 95% of all medium truck and bus shipments for fiscal 2004 in the U.S. and Canada.

The financial services segment provides retail, wholesale and lease financing of products sold by the truck segment and its dealers within the U.S. and Mexico as well as finances the company's wholesale accounts and selected retail accounts receivable. The foreign finance subsidiaries' primary business is to provide wholesale, retail and lease financing to the Mexican operations' dealers and retail customers.

THE MEDIUM AND HEAVY TRUCK INDUSTRY

The markets in which Navistar competes are subject to considerable volatility as they move in response to cycles in the overall business environment. They are particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Government regulation has impacted, and will continue to impact, trucking operations and the efficiency and specifications of equipment.

The following table shows industry retail deliveries in the combined U.S. and Canadian markets for the five years ended October 31, in thousands of units:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Class 6 and 7 medium trucks and school buses	<u>125.4</u>	104.1	100.1	123.9	163.5
Class 8 heavy trucks.....	<u>219.3</u>	<u>159.3</u>	<u>163.3</u>	<u>163.7</u>	<u>258.3</u>
Total	<u>344.7</u>	<u>263.4</u>	<u>263.4</u>	<u>287.6</u>	<u>421.8</u>

Source: Annual data derived from monthly materials produced by Ward's Communications in the U.S. and the Canadian Vehicle Manufacturers Association.

Industry retail deliveries of Class 6 through 8 trucks and school buses in the Mexican market were 24,700 units, 24,000 units and 24,100 units in 2004, 2003 and 2002, respectively, based on monthly data provided by the Asociacion Nacional de Productores de Autobuses, Camiones y Tractocamiones.

The Class 6 through 8 truck markets in the U.S., Canada and Mexico are highly competitive. Major U.S. domestic competitors include PACCAR, Ford Motor Company (Ford) and General Motors. Competing foreign-controlled domestic manufacturers include: Freightliner, Sterling and Western Star (Daimler Chrysler) and Volvo and Mack (Volvo Global Trucks). In addition, manufacturers from Japan such as Hino (Toyota), Isuzu, Nissan and Mitsubishi are competing in the U.S. and Canadian markets. In Mexico, the major domestic competitors are Kenmex (PACCAR), General Motors and Mercedes (Daimler Chrysler). The intensity of this competition results in price discounting and margin pressures throughout the industry. In addition to the influence of price, market position is driven by product quality, engineering, styling, utility and distribution.

From October 31, 2004, the company's truck segment currently estimates \$317 million in capital spending through 2007 for the continued development of the company's products.

TRUCK MARKET SHARE

The company delivered 96,800 Class 6 through 8 trucks, including school buses, in the U.S. and Canada in fiscal 2004, an increase of 28% from the 75,700 units delivered in 2003. This increase in deliveries can be attributed to a 31% industry unit increase in 2004 from 2003. Market share decreased to 28.1% in 2004 from 28.8% in 2003. The company's overall market share in 2004 was adversely impacted by the industry growth within the Class 8 heavy truck market, a market in which the company has its smallest market share. However, the company did significantly increase its Class 8 heavy truck market share to 19%, an increase of three percentage points over its 2003 Class 8 heavy market share of 16%. In addition, the company experienced slight market share decreases within Class 6 and 7 medium truck and bus due to increased pricing competition in very competitive marketplaces.

The company delivered 7,000 Class 6 through 8 trucks, including school buses, in Mexico in 2004, an 8% increase from the 6,500 units delivered in 2003. Navistar's combined share of the Class 6 through 8 truck markets in Mexico increased to 28.6% in 2004 from 27.3% in 2003.

MARKETING AND DISTRIBUTION

Navistar's truck products are distributed in virtually all key markets in the U.S. and Canada. The company's truck distribution and service network in these countries was composed of 847, 843 and 872 dealers and retail outlets at October 31, 2004, 2003 and 2002, respectively. Included in these totals were 515, 496 and 502 secondary and associate locations at October 31, 2004, 2003 and 2002, respectively. The company also has a dealer network in Mexico composed of 68 dealer locations at October 31, 2004, and 70 dealer locations at October 31, 2003 and 2002.

Five regional operations in the U.S. and general offices in Canada and Mexico support retail dealer activity. The company has a national account sales group, responsible for 72 major U.S. national account customers. Navistar's network of 15 Used Truck Centers in the U.S. provides trade-in support to the company's dealers and national accounts group, and markets all makes and models of reconditioned used trucks to owner-operators and fleet buyers.

In the U.S. and Canada, the company operates seven regional parts distribution centers, which allow it to offer 24-hour parts availability, order status information and technical support. The company also operates a parts distribution center in Mexico.

ENGINE AND FOUNDRY

Navistar is the leading supplier of mid-range diesel engines in the 160-325 horsepower range according to data supplied by Power Systems Research of Minneapolis, Minnesota. The company's diesel engines are sold under the International® brand as well as produced for other OEMs, principally Ford.

Navistar has an agreement to supply its 6.0L electronically controlled diesel engine to Ford through the year 2012 for use in all of Ford's diesel-powered super-duty trucks and vans over 8,500 lbs. gross vehicle weight (GVW) in North America. Shipments to Ford account for approximately 96% of the engine segment's 6.0L shipments. Total engine units shipped reached 432,800 in 2004, 9% higher than the 396,000 units shipped in 2003. The company's shipments of engines to OEMs totaled 357,900 units in 2004, an increase of 8% from the 332,400 units shipped in 2003.

From October 31, 2004, the company's engine segment currently estimates \$351 million in capital spending and \$455 million in development expense through 2007 primarily to comply with future emission standards and other engine projects.

FINANCIAL SERVICES

NFC is a commercial financing organization that provides wholesale, retail and lease financing for sales of new and used trucks sold by the company and its dealers in the U.S. NFC also finances the company's wholesale accounts and selected retail accounts receivable. Sales of new products (including trailers) of other manufacturers are also financed regardless of whether designed or customarily sold for use with the company's truck products. As of the year ended October 31, 2004 and 2003, NFC provided wholesale financing for 95% and 96%, respectively, of the new truck inventory sold by the company to its dealers and distributors in the U.S. During 2004 and 2003, the company provided retail and lease financing for 16% of all new truck units sold or leased by the company to retail customers.

Navistar's wholly owned subsidiaries, Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., provide wholesale, retail and lease financing to the truck segment's dealers and retail customers in Mexico.

IMPORTANT SUPPORTING OPERATIONS

International Truck and Engine Corporation Canada has an agreement with a subsidiary of General Electric Capital Canada, Inc. to provide financing for Canadian dealers and customers.

RESEARCH AND DEVELOPMENT

Research and development activities, which are directed toward the introduction of new products, improvements of existing products and the processes used in their manufacture, totaled \$207 million, \$216 million and \$218 million for 2004, 2003 and 2002, respectively.

BACKLOG

The company's worldwide backlog of unfilled truck orders (subject to cancellation or return in certain events) at October 31, 2004, 2003 and 2002, was \$1,530 million, \$1,143 million and \$1,080 million, respectively. All of the backlog at October 31, 2004, is expected to be filled within the next fiscal year.

Although the backlog of unfilled orders is one of many indicators of market demand, other factors such as changes in production rates, available capacity, new product introductions and competitive pricing actions may affect point-in-time comparisons.

EMPLOYEES

Worldwide employees totaled 14,800 individuals at October 31, 2004, 14,200 individuals at October 31, 2003 and 16,500 individuals at October 31, 2002.

LABOR RELATIONS

As of October 31, 2004, the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) represented 4,900 of the company's active employees in the U.S., and the National Automobile, Aerospace and Agricultural Implement Workers of Canada (CAW) represented 900 of the company's active employees in Canada. Other unions represented 1,700 of the company's active employees in the U.S. and Mexico. The company's master contract with the UAW expires on September 30, 2007. On June 23, 2004, the company and the CAW agreed to extend the expiration date of the existing labor contract to June 30, 2009.

PATENTS AND TRADEMARKS

Navistar continuously obtains patents on its inventions and owns a significant patent portfolio. Additionally, many of the components which Navistar purchases for its products are protected by patents that are owned or controlled by the component manufacturer. Navistar has licenses under third-party patents relating to its products and their manufacture and grants licenses under its patents. The monetary royalties paid or received under these licenses are not significant. No particular patent or group of patents is considered by the company to be essential to its business as a whole. See Item 3, Legal Proceedings, for discussion regarding various claims and controversies between the company and Caterpillar Inc. (Caterpillar).

Navistar's primary trademarks are an important part of its worldwide sales and marketing efforts and provide instant identification of its products and services in the marketplace. To support these efforts, Navistar maintains, or has pending, registrations of its primary trademarks in those countries in which it does business or expects to do business. Navistar grants licenses under its trademarks for consumer-oriented goods, such as toy trucks and apparel, outside the product lines which it manufactures. The monetary royalties received under these licenses are not significant.

RAW MATERIALS AND ENERGY SUPPLIES

The company purchases raw materials, parts and components from numerous outside suppliers. To avoid duplicate tooling expense and to maximize volume benefits, single-source suppliers fill a majority of the company's requirements for parts and components.

The impact of an interruption in supply will vary by commodity. Some parts are generic to the industry while others are of a proprietary design requiring unique tooling, which would require effort to relocate. However, the company's exposure to a disruption in production as a result of an interruption of raw materials and supplies is no greater than the industry as a whole. In order to alleviate losses resulting from an interruption in supply, the company maintains contingent business interruption insurance for loss of earnings and/or extra expense directly resulting from physical loss or damage at a direct supplier location.

While the company believes that it has adequate assurances of continued supply, the inability of a supplier to deliver could have an adverse effect on production at certain of the company's manufacturing locations. The company's exposure in Mexico and Brazil to an interruption in local supply could result in an inability to meet local content requirements.

IMPACT OF GOVERNMENT REGULATION

Truck and engine manufacturers continue to face significant governmental regulation of their products, especially in the areas of environment and safety. The company believes its products comply with all applicable environmental and safety regulations.

As a diesel engine manufacturer, the company has incurred research, development and tooling costs to design its engine product lines to meet United States Environmental Protection Agency (U.S. EPA) and California Air Resources Board (CARB) emission requirements that came into effect in 2004. The company is currently providing engines that satisfy CARB's 2004 emission standards for engines used in vehicles from 8,501 to 14,000 lbs. GVW. With a Federal Court's affirmation in 2001 of the U.S. EPA's 2007 rule for heavy-duty diesel engines and its accompanying requirement of low sulfur diesel fuel beginning in 2006 and the settlement in 2003 of issues relating to other technical provisions of the U.S. EPA's 2004 and 2007 and CARB's 2005 rule, all of which the company actively participated in, the company intends to provide heavy-duty engines that will comply with the more stringent CARB and U.S. EPA emission standards for 2004 and later model years. At the same time, Navistar expects to meet all of the obligations it agreed to in the Consent Decree entered into July 1999 with the U.S. EPA and in a Settlement Agreement with CARB concerning alleged excess emissions of nitrogen oxides.

IMPACT OF GOVERNMENT REGULATION (continued)

Canadian and Mexican heavy-duty engine emission regulations essentially mirror those of the U.S. EPA, except that compliance in Mexico is conditioned on availability of low sulfur diesel fuel. The company's engines comply with emission regulations of Argentina, Brazil, Canada and Mexico.

Truck manufacturers are also subject to various noise standards imposed by federal, state and local regulations. The engine is one of a truck's primary noise sources, and the company, therefore, works closely with OEMs to develop strategies to reduce engine noise. The company is also subject to the National Traffic and Motor Vehicle Safety Act (Safety Act) and Federal Motor Vehicle Safety Standards (Safety Standards) promulgated by the National Highway Traffic Safety Administration. The company believes it is in compliance with the Safety Act and the Safety Standards.

Expenditures to comply with various environmental regulations relating to the control of air, water and land pollution at production facilities and to control noise levels and emissions from the company's products have not been material. It is not expected that the costs of compliance with foreseeable environmental requirements will have a material effect on the company's statement of financial condition or the results of operations.

AVAILABLE INFORMATION

The company maintains a website with the address www.internationaldelivers.com. The company is not including the information contained on the company's website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. The company makes available free of charge through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (SEC). The board of directors of the company documented its governance practices by adopting the Board Corporate Governance Guidelines. The governance guidelines, as well as the charters for the key committees of the Board (Finance Committee, Audit Committee, Compensation Committee and the Nominating and Governance Committee) may also be viewed at the company's website. Copies of such documents will be sent to shareowners free of charge upon written request of the corporate secretary at the address shown on the cover page of this Form 10-K.

In accordance with New York Stock Exchange (NYSE) Rules, on March 23, 2004, the company filed the annual certification by our CEO that, as of the date of the certification, he was unaware of any violation by the company of the NYSE's corporate governance listing standards.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following selected information for each of the company's current executive officers (as defined by regulations of the Securities and Exchange Commission) was prepared as of January 31, 2005.

<u>NAME</u>	<u>AGE</u>	<u>OFFICERS AND POSITIONS WITH NAVISTAR AND OTHER INFORMATION</u>
Daniel C. Ustian.....	54	Chairman, since February 2004 and President and Chief Executive Officer since 2003 and a Director since 2002. Mr. Ustian also is Chairman of International since February 2004 and President and Chief Executive Officer of International since 2003 and a Director since 2002. Mr. Ustian was President and Chief Operating Officer from 2002-2003. In addition, he was President and Chief Operating Officer of International from 2002-2003. Mr. Ustian was also President of the Engine Group of International from 1999-2002. Prior to this, Mr. Ustian served as Group Vice President and General Manager of Engine and Foundry, 1993-1999; and Vice President of Manufacturing and Director of Finance in the Engine and Foundry Division.
Robert C. Lannert	64	Vice Chairman since 2002 and Chief Financial Officer and a Director since 1990. Mr. Lannert was also Executive Vice President from 1990-2002. Mr. Lannert also is Vice Chairman and Chief Financial Officer of International since 2002 and Executive Vice President and Chief Financial Officer of International from 1990-2002 and a Director since 1987.
John J. Allen.....	47	President of the Engine Group of International since January 2004. Prior to this Mr. Allen served as Vice President and General Manager of the Parts Group of International from 2002-2004. Mr. Allen served as Vice President and General Manager of the Blue Diamond Truck Company, an International and Ford Motor Company Joint Venture, 2001-2002; and Assistant General Manager of International's Heavy Vehicle Center, 1997-2001.
D.T. (Dee) Kapur.....	50	President of the Truck Group of International since 2003. Prior to International, Mr. Kapur served as Executive Director, North American Business Revitalization, Value Engineering, Ford Motor Company; Executive Director, Ford Outfitters, North American Truck, 2001-2002; and Vehicle Line Director, Full Size Pick-ups and Utilities, 1997-2001.
Phyllis E. Cochran	52	Vice President and General Manager of the Parts Group of International since January 2004. Prior to this, Ms. Cochran served as Vice President and General Manager of International Finance Group of International from 2003 to 2004. Ms. Cochran was also Chief Executive Officer and General Manager of Navistar Financial Corporation from 2003 to 2004. Ms. Cochran was Executive Vice President and General Manager of Navistar Financial Corporation from 2002 to 2003. Ms. Cochran also served as Vice President of Operations for Navistar Financial Corporation, 2000-2002; and Vice President and Controller for Navistar Financial Corporation, 1994-2000.
Steven K. Covey.....	53	Senior Vice President and General Counsel since September 2004. Mr. Covey is also Senior Vice President and General Counsel of International since September 2004. Prior to this Mr. Covey served as Deputy General Counsel of International from April 2004 to September 2004 and as Vice President and General Counsel of International Finance Group from 2000 to 2004. Mr. Covey also served as Corporate Secretary for Navistar International Corporation, 1990-2000; and Associate General Counsel of International, 1992-2000.
Mark T. Schwetschenau	48	Senior Vice President and Controller since August 2004. Prior to this, Mr. Schwetschenau served as Vice President and Controller since 1998. Mr. Schwetschenau also is Senior Vice President and Controller of International since August 2004 and was Vice President and Controller of International since 1998.
Pamela J. Turbeville	54	Senior Vice President and Chief Executive Officer of Navistar Financial Corporation since February 2004. Ms. Turbeville is also Senior Vice President and General Manager of International Finance Group of International since February 2004. Prior to this, Ms. Turbeville served as Senior Vice President, Human Resources and Administration, of International from 1998-2004.
Terry M. Endsley.....	49	Vice President and Treasurer since 2003. Mr. Endsley also is Vice President and Treasurer of International since 2003. Prior to this, Mr. Endsley served as Assistant Treasurer, 1997-2003. Mr. Endsley also served as Assistant Treasurer of International, 1997-2003.
Thomas M. Hough	59	Vice President, Strategic Initiatives since 2003. Prior to this, Mr. Hough served as Vice President and Treasurer, 1992-2003. Mr. Hough also served as Vice President and Treasurer of International, 1992-2003.
Gregory W. Elliott	43	Vice President, Corporate Human Resources and Administration since September 2004. Prior to this, Mr. Elliott served as Vice President, Corporate Communications from 2000-2004. Prior to International, Mr. Elliott served as Director of Executive Communications of General Motors Corporation from 1997-1999.
Robert J. Perna.....	41	Corporate Secretary since 2001. Mr. Perna also is General Attorney, Finance and Securities, of International since 2001. Prior to this, Mr. Perna served as Associate General Counsel, General Electric Railcar Services Corporation, a subsidiary of GE Capital Corp., 2000-2001; Senior Counsel, Finance and Securities, of International, 1997-2000.

ITEM 2. PROPERTIES

In North America, the company operates eleven manufacturing and assembly operations, which contain approximately 12 million square feet of floor space. Of these eleven facilities, nine plants are owned and two are subject to long-term leases. Six plants manufacture and assemble trucks and five plants are used by the company's engine segment. Of these five plants, three manufacture diesel engines, one manufactures grey iron castings and one manufactures ductile iron castings. In addition, the company owns or leases other significant properties in the U.S. and Canada including vehicle and parts distribution centers, sales offices, two engineering centers which serve the company's truck and engine segments, and its headquarters which is located in Warrenville, Illinois. In addition, the company owns and operates manufacturing plants in both Brazil and Argentina, which contain a total of 500,000 square feet of floor space for use by the company's South American engine subsidiary.

The truck segment's principal research and engineering facility is located in Fort Wayne, Indiana, while the engine segment's principal facility is located in Melrose Park, Illinois. In addition, certain research is conducted at each of the company's manufacturing plants.

All of the company's plants are being utilized and have been adequately maintained, are in good operating condition and are suitable for its current needs through productive utilization of the facilities. These facilities, together with planned capital expenditures, are expected to meet the company's manufacturing needs in the foreseeable future.

A majority of the activity of the financial services operations is conducted from its leased headquarters in Rolling Meadows, Illinois. The financial services operations also lease two other office locations in the U.S. and one in Mexico.

ITEM 3. LEGAL PROCEEDINGS

The company and its subsidiaries are subject to various claims arising in the ordinary course of business, and are parties to various legal proceedings that constitute ordinary routine litigation incidental to the business of the company and its subsidiaries. The majority of these claims and proceedings relate to commercial, product liability and warranty matters. In the opinion of the company's management, the disposition of these proceedings and claims, including those discussed below, after taking into account established reserves and the availability and limits of the company's insurance coverage, will not have a material adverse affect on the business or the financial condition of the company.

Various claims and controversies have arisen between the company and its former fuel system supplier, Caterpillar Inc., regarding the ownership and validity of certain patents covering fuel system technology used in the company's new version of diesel engines that were introduced in February 2002. In June 1999, in Federal Court in Peoria, Illinois, Caterpillar sued Sturman Industries, Inc. (Sturman), the company's joint venture partner in developing fuel system technology, alleging that technology invented and patented by Sturman and licensed to the company, belongs to Caterpillar. After a trial, on July 18, 2002, the jury returned a verdict in favor of Caterpillar finding that this technology belongs to Caterpillar under a prior contract between Caterpillar and Sturman. Sturman appealed the adverse judgment, and the jury's verdict was reversed by the appellate court on October 28, 2004 and remanded to the district court for retrial. The company is cooperating with Sturman in this effort. In May 2003, in Federal Court in Columbia, South Carolina, Caterpillar sued the company, its supplier of fuel injectors and joint venture, Siemens Diesel Systems Technology, L.L.C., and Sturman for patent infringement alleging that the Sturman fuel system technology patents and certain Caterpillar patents are infringed in the company's new engines. The company believes that it has meritorious defenses to the claims of infringement of the Sturman patents as well as the Caterpillar patents and will vigorously defend such claims. In January 2002, Caterpillar sued the company in the Circuit Court in Peoria County, Illinois, alleging the company breached the purchase agreement pursuant to which Caterpillar supplied fuel systems for the company's prior version of diesel engines. Caterpillar's claims involve a 1990 agreement to reimburse Caterpillar for costs associated with the delayed launch of the company's V-8 diesel engine program. Reimbursement of the delay costs was made by a surcharge of \$8.08 on each injector purchased

ITEM 3. LEGAL PROCEEDINGS (continued)

and the purchase of certain minimum quantities of spare parts. In 1999, the company concluded that, in accordance with the 1990 agreement, it had fully reimbursed Caterpillar for its delay costs and stopped paying the surcharge and purchasing the minimum quantities of spare parts. Caterpillar is asserting that the surcharge and the spare parts purchase requirements continue throughout the life of the contract and has sued the company to recover these amounts, plus interest. Caterpillar also asserts that the company failed to purchase all of its fuel injector requirements under the contract and, in collusion with Sturman, failed to pursue a future fuel systems supply relationship with Caterpillar. The company believes that it has meritorious defenses to Caterpillar's claims.

Along with other vehicle manufacturers, the company and certain of its subsidiaries have been subject to an increase in the number of asbestos-related claims in recent years. Management believes that such claims will not have a material adverse affect on the company's financial condition or results of operations. In general these claims relate to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some cases relate to the presence of asbestos in company facilities. In these claims the company is not the sole defendant, and the claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. Management has strongly disputed these claims, and it has been the company's policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material to the company's financial condition. However, management believes the company and other vehicle manufacturers are being more aggressively targeted, largely as a result of bankruptcies of manufacturers of asbestos and products containing asbestos. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.

On October 13, 2004, the company received a request from the staff of the SEC to voluntarily produce certain documents and information related to the company's accounting practices with respect to defined benefit pension plans and other postretirement benefits. The company is fully cooperating with this request. Given the preliminary nature of the matter, the company is not able to predict what impact, if any, this inquiry will have on the company.

On January 31, 2005, the company announced that it would restate its financial results for the fiscal years 2002 and 2003 and the first three quarters of fiscal 2004. The SEC notified the company on February 9, 2005, that it was conducting an informal inquiry into the company's restatement. The company intends to fully cooperate with the SEC on the informal inquiry. Given the preliminary nature of the matter, the company is not able to predict what impact, if any, this inquiry will have on the company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the three months ended October 31, 2004.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Navistar International Corporation common stock is listed on the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange under the abbreviated stock symbol "NAV." Information regarding high and low market price per share of common stock for each quarter of 2004 and 2003 is included in Note 22 to the Financial Statements on page 78. There were approximately 17,650 holders of record of common stock at October 31, 2004.

Holders of common stock are entitled to receive dividends when and as declared by the board of directors out of funds legally available therefore, provided that, so long as any shares of the company's preferred stock and preference stock are outstanding, no dividends (other than dividends payable in common stock) or other distributions (including purchases) may be made with respect to the common stock unless full cumulative dividends, if any, on the shares of preferred stock and preference stock have been paid. Under the General Corporation Law of the State of Delaware, dividends may only be paid out of surplus or out of net profits for the fiscal year in which the dividend is declared or the preceding fiscal year, and no dividend may be paid on common stock at any time during which the capital of outstanding preferred stock or preference stock exceeds the net assets of the company.

Directors of the company who are not employees receive an annual retainer and meeting fees payable at their election in shares of common stock of the company or in cash. Currently the board of directors mandates that at least one-fourth of the annual retainer be paid in the form of common stock of the company. For the period covered by this report, receipt of approximately 1,962 shares was deferred as payment for the 2004 annual retainer and meeting fees. In each case, the shares were acquired at prices ranging from \$34.375 to \$37.560 per share, which represented the fair market value of such shares on the date of acquisition. Exemption from registration of the shares is claimed by the company under Section 4(2) of the Securities Act of 1933, as amended.

The company has not paid cash dividends on the common stock since 1980. The company does not expect to pay cash dividends on the common stock in the foreseeable future, and is subject to restrictions under the indentures for the 7.5% Senior Notes, the 9 3/8% Senior Notes and the 9.95% Senior Notes on the amount of cash dividends the company may pay. Navistar Financial Corporation is subject to certain restrictions under its revolving credit facility which may limit its ability to pay dividends to International.

ITEM 6. SELECTED FINANCIAL DATA

This information is included in the table "Five-Year Summary of Selected Financial and Statistical Data" on page 83 of this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Navistar International Corporation is a holding company and its principal operating subsidiary is International Truck and Engine Corporation (International). Navistar operates in three principal industry segments: truck, engine (collectively called "manufacturing operations") and financial services. The company's principal operations are located in the U.S., Canada, Mexico, and Brazil. In this discussion and analysis, "company", "Navistar", "NIC", "we" or "our" refers to Navistar International Corporation and its consolidated subsidiaries.

The company's focus in fiscal 2004 was on three key areas: quality, cost and growth. Improvements in quality and cost were anticipated through changes in manufacturing, design, engineering, supplier management and customer service, while growth was expected through the introduction of new products and the development of new markets. During fiscal 2004, the company succeeded in many ways in these three areas.

Quality was, and will continue to be, the key focus in the design and manufacture of the company's products. As part of this commitment to quality, the company invested in product warranty in order to exceed customer requirements and create long-term value. The company anticipates that this will pay off in the long run through satisfied and repeat customers. The company's focus on cost, through various initiatives within its truck and engine segments, contributed in part to an almost one percentage point increase in manufacturing gross margin over the previous year. This increase is significant since the company encountered numerous challenges that had a negative impact on our cost structure. These challenges include supplier constraints which caused allocations of Big Bore engines, axles and transmissions, emission compliance within the engine segment and the impact of rising steel costs on both our truck and engine business segments. The company's overall market share declined slightly from fiscal 2003. However, our recommitment to the heavy truck market increased the company's Class 8 market share to 19%, a three-percentage point improvement over the prior year. In addition, bus body share was a record 53%, an increase of 11 percentage points over the prior year.

Overall, the focus on these three key initiatives helped the company achieve full-year profitability, sales in excess of \$9 billion and diluted earnings per share of \$3.20. The company believes that these positive results, along with the anticipated entry into other markets that leverage our core competencies, such as the military, and the industry forecast for 2005, all point to the company having another profitable fiscal year in 2005.

RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

The accompanying management's discussion and analysis gives effect to the restatement of the consolidated financial statements for the years ended October 31, 2003 and 2002, as discussed in Note 23 to the consolidated financial statements.

RESULTS OF OPERATIONS

The following table illustrates the key financial indicators that management uses to assess the consolidated financial results for the years ended October 31.

Key Financial Indicators: (Millions of dollars, except per share data and margin)			
	2004	2003	2002
Sales and revenues.....	\$ 9,724	\$ 7,585	\$ 7,021
Cost of products and services sold.....	\$ 8,159	\$ 6,370	\$ 5,972
Restructuring and other non-recurring charges	(1)	(41)	521
Total expenses	1,255	1,305	1,300
Total costs and expenses	\$ 9,413	\$ 7,634	\$ 7,793
Net income (loss).....	\$ 247	\$ (21)	\$ (538)
Diluted earnings (loss) per share.....	\$ 3.20	\$ (0.31)	\$ (8.92)
Manufacturing gross margin	14.3%	13.5%	12.1%

The company's improved earnings over fiscal 2003 are a result of improved pricing, the company's cost reduction initiatives and better performance from the manufacturing operations. Fiscal 2004 sales and revenues improved 28% over fiscal 2003 on higher sales volume in the truck industry. In fiscal 2003, sales and revenue were 8% higher than fiscal 2002 supported by higher bus volume, increased engine sales to original equipment manufacturers (OEMs) and greater gains on sales of receivables. The events that impacted the performance of the company's three operating segments will be analyzed, in detail, later in this discussion.

As stated earlier, gross margins from manufacturing operations in fiscal 2004 increased almost one percentage point over a year ago. Gross margin improvements in fiscal 2004 were attributable to cost reduction initiatives within the manufacturing process, product pricing and the reduction in start-up expenses that occurred in 2003 attributable to the introduction of the 6.0L V-8 engine. These improvements were partially offset by margin pressures from additional warranty expense, cost of emissions compliance and the impact of higher steel prices. The company's exposure to steel price fluctuations had a greater impact on our margins than our competitors. About 80% of our truck cabs are steel and with all bus bodies being steel, we are impacted more by steel prices than those companies whose products have a lower steel content. The company's margins within the engine segment were impacted as well by rising steel prices. The company anticipates that while steel prices have moderated from their previous highs in 2004, the company will continue to incur margin pressure from steel in fiscal 2005. In 2003, manufacturing margins improved versus 2002 as a result of pricing and cost reduction initiatives.

Total expenses for fiscal 2004 improved over the prior year due to the positive effects of our cost reduction initiatives and lower postretirement benefits expense. The decrease in postretirement expense over prior year was due to greater than anticipated returns on invested assets and the benefit from a \$32 million credit, which is a result of the Medicare prescription drug act and the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." Included in selling, general and administrative expense for fiscal 2004 is an accrual for profit sharing and incentive compensation that did not occur in 2003. Also, total expenses in fiscal 2003 included a benefit of \$41 million from the reversal of certain accruals related to restructuring and other non-recurring charges. In fiscal 2004, the benefit from restructuring and other non-recurring charges was \$1 million. Total expenses in 2003 were essentially unchanged when compared with fiscal 2002. In fiscal 2003, postretirement benefits expense increased due to higher pension and health care obligations and lower return on invested assets. This increase was offset by the company's focus on reducing expenses.

The following sections analyze the company's operating results as they relate to its three principal segments: truck, engine, and financial services.

RESULTS OF OPERATIONS (continued)

Truck

The truck segment manufactures and distributes a full line of Class 6 through 8 diesel-powered trucks and school buses in the common carrier, private carrier, government/service, leasing, construction, energy/petroleum and student transportation markets. The truck segment also provides customers with proprietary products needed to support the International® truck and the IC™ bus lines, together with a wide selection of other standard truck and trailer aftermarket parts. Sales of Class 6 through 8 trucks have historically been cyclical, with demand affected by such economic factors as industrial production, construction, demand for consumer durable goods, interest rates as well as the earnings and cash flow of dealers and customers. In addition, the Class 6 through 8 truck markets in the U.S. and Canada are highly competitive. The intensity of this competition results in price discounting and margin pressures throughout the industry. Even though sales volume has improved, the company continues to experience competitive pricing pressure on its new truck sales. In addition to the influence of price, market position is driven by product quality, engineering, styling, utility and distribution.

The following table highlights the truck segment's financial and industry results for the years ended October 31.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Results (Millions of dollars):			
Sales.....	\$ 7,256	\$ 5,312	\$ 4,936
Segment profit (loss).....	336	(48)	(303)
Industry data (in units) [1]:			
U.S. and Canadian sales (Class 6 through 8)	344,700	263,400	263,400
Class 8 heavy truck	219,300	159,300	163,300
Class 6 and 7 medium truck [2]	99,200	74,900	72,700
School buses	26,200	29,200	27,400
Company data (in units):			
U.S. and Canadian sales (Class 6 through 8)	96,800	75,700	74,100
Class 8 heavy truck	40,900	26,100	27,700
Class 6 and 7 medium truck [2]	39,900	31,400	30,300
School buses	16,000	18,200	16,100
Order backlog (in units)	23,900	21,500	21,500
Overall U.S. and Canada market share (Class 6 through 8 and bus)	28.1%	28.8%	28.1%

[1] Industry data derived from materials produced by Ward's Communications.

[2] The company does not meaningfully participate in the Class 5 medium truck market.

The truck segment's improved financial performance for fiscal 2004 is the result of increased sales volume in heavy and medium trucks and the favorable impact from cost reduction initiatives. The company's overall market share in fiscal 2004 declined slightly over the prior year. The decline in overall market share in 2004 was adversely impacted by the industry growth within the Class 8 heavy truck market, a market in which the company has its smallest market share. However, the company did significantly increase its Class 8 heavy truck market share to 19%, an increase of three percentage points over its 2003 Class 8 heavy market share of 16%. The company's growth within the Class 8 heavy truck market is a direct result of the company's recommitment to the market and our dealer distribution strategy. The market share decreases within medium truck and bus are due to increased pricing competition in a very competitive marketplace. In 2003, overall market share increased over 2002 due to market growth in Class 6 and 7 medium trucks. The company's U.S. and Canadian order backlog increased 11%, when compared to 2003, due to strong orders for heavy trucks.

RESULTS OF OPERATIONS (continued)

Truck (continued)

The company currently projects fiscal 2005 U.S. and Canadian total truck retail sales volume for Class 6-8 and school buses at 389,500 units, up 13% from the 344,700 units sold by the industry in fiscal 2004. Demand for Class 8 heavy trucks is expected to increase 19% to 262,000 units from 219,300 units, while demand for Class 6-7 medium trucks is estimated to be essentially unchanged at 100,000 units. School bus demand is forecast at 27,500 units, up from 26,200 units in 2004.

Engine

The engine segment designs and manufactures diesel engines in the 160-325 horsepower range for use in the company's Class 6 and 7 medium trucks, school buses and selected Class 8 heavy truck models. The company's diesel engines are also produced for OEMs, principally Ford Motor Company (Ford). This segment also sells engines for industrial and agricultural applications. In addition, the engine segment provides customers with proprietary products needed to support the International® engine lines, together with a wide selection of other standard engine and aftermarket parts.

The following table highlights the engine segment's financial results and sales data for the years ended October 31.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Results (Millions of dollars):			
Sales	\$ 2,829	\$ 2,469	\$ 2,248
Segment profit	108	85	200
Sales data (in units):			
Total engine sales	432,800	396,000	375,500
OEM sales	357,900	332,400	315,100

The increases in the engine segment's profits and revenues for fiscal 2004 and 2003 were the result of higher engine shipments to OEMs and increased sales volume in medium trucks. In fiscal 2004, the engine segment experienced margin pressure from the cost of steel, cost of emission compliance and costs associated with the launch of our new I-6 diesel engine. However, cost reduction initiatives on the I-6 engine were initiated in the third quarter of 2004 which the company anticipates will favorably impact margins over the next four to six quarters. The decrease in the engine segment's profits from fiscal 2002 to fiscal 2003 was attributable to start-up costs associated with the 6.0 liter V-8 engine but has since been able to realize benefits from cost reduction initiatives. The company's V-8 shipments to Ford accounted for 85% of year-to-date OEM engine sales for fiscal 2003 and 2004.

The company forecasts that OEM shipments of mid-range diesel engines in fiscal 2005 are expected to be 365,400 units, 2% higher than 2004.

Financial Services

The financial services segment provides wholesale, retail and lease financing for sales of new and used trucks sold by the company and its dealers in the U.S. and Mexico. Financial services also finances the company's wholesale accounts and selected retail accounts receivable. Sales of new products (including trailers) of other manufacturers are also financed regardless of whether designed or customarily sold for use with the company's truck products.

RESULTS OF OPERATIONS (continued)

Financial Services (continued)

The following table highlights the financial services segment's financial results for the years ended October 31.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Results (Millions of dollars):			
Revenues	\$ 289	\$ 325	\$ 320
Segment profit.....	116	123	89
 Sales of retail receivables	 \$ 1,120	 \$ 1,705	 \$ 1,000
Gain on sales of retail receivables	26	46	16

Revenue and profit from financial services declined in 2004, primarily from lower volume as a result of timing of sales of receivables and higher rates on asset backed securities. Profits in 2003 were higher than in 2002 primarily due to greater gains on sales of receivables and lower rates on asset backed securities.

RESTRUCTURING AND OTHER NON-RECURRING CHARGES

Restructuring

In 2000 and 2002, the company's board of directors approved two separate plans to restructure its manufacturing and corporate operations (Plans of Restructuring). The company incurred charges for severance and other benefits, curtailment losses, lease terminations, asset and inventory write-downs and other exit costs relating to the major restructuring, integration and cost reduction initiatives originally included in the Plans of Restructuring. A detailed discussion of the charges and initiatives can be found in Note 11 to the Financial Statements.

Other Non-Recurring Charges

The company entered into an agreement with Ford to develop and manufacture a V-6 diesel engine to be used in specific Ford vehicles. In October 2002, Ford advised the company that its current business case for a V-6 diesel engine in the specified vehicles was not viable and discontinued its program for the use of these engines. Accordingly, in 2002, the company recorded charges for the write-off of deferred pre-production costs, the write-down of fixed assets that were abandoned, lease obligations under non-cancelable operating leases and accruals for amounts contractually owed to suppliers. In April 2003, the company reached a comprehensive agreement with Ford concerning termination of its V-6 diesel engine program. The terms of the agreement included compensation to neutralize certain current and future V-6 diesel engine program related costs not accrued for as part of the 2002 non-recurring charge, resolution of ongoing pricing related to the company's V-8 diesel engine program and a release by the parties of all of their obligations under the V-6 diesel engine contract. The company, under current agreements, will continue as Ford's exclusive supplier of V-8 diesel engines through 2012.

Status

In fiscal 2004, the company recorded a \$1 million net favorable adjustment to previously recorded restructuring reserves. The net adjustment relates to the reversal of reserves relating to employee severance and a beneficial change in estimate on sublease income for lease terminations. Partially offsetting these reversals were additional charges on the early retirement and voluntary severance program offered to employees at the Chatham facility, additional charges related to the realignment of our dealer network and additional reserves for amounts contractually owed to suppliers for the V-6 diesel engine program.

Through October 31, 2004, the company has recorded cumulative charges of \$818 million relating to the Plans of Restructuring and other non-recurring charges. The remaining liability of \$97 million is expected to be funded

RESTRUCTURING AND OTHER NON-RECURRING CHARGES (continued)

from existing cash balances and internally generated cash flows from operations. The total cash outlay for 2005 is expected to be \$18 million with the remaining obligation of \$79 million, primarily related to non-recurring charges and long-term non-cancelable lease agreements, to be settled in 2006 and beyond.

The initiatives resulting from the Plans of Restructuring are expected to generate at least \$70 million of annualized savings for the company, primarily from lower salary and benefit costs and plant operating costs. The company will continue to realize these benefits in 2005 and beyond.

Components of the company's Plans of Restructuring and other non-recurring charges are shown in the following table.

Millions of dollars	Balance October 31 2002	Adjustments	Amount Incurred	Balance October 31 2003	Adjustments	Amount Incurred	Balance October 31 2004
Severance and other benefits	\$ 112	\$ (46)	\$ (45)	\$ 21	\$ (4)	\$ (17)	\$ -
Curtailment loss	-	(5)	5	-	2	(2)	-
Lease terminations	30	6	(3)	33	(7)	(5)	21
Inventory write-downs	-	9	(9)	-	-	-	-
Other asset write-downs	-	1	(1)	-	-	-	-
Dealer terminations and other charges ..	50	(8)	(13)	29	2	(19)	12
Other non-recurring charges	104	11	(41)	74	6	(16)	64
Total	<u>\$ 296</u>	<u>\$ (32)</u>	<u>\$ (107)</u>	<u>\$ 157</u>	<u>\$ (1)</u>	<u>\$ (59)</u>	<u>\$ 97</u>

The adjustments made in 2003 were primarily to record the reversal of severance and other benefit reserves related to the decision to keep the Chatham, Ontario plant open. Amounts incurred are primarily cash payments. The change in the restructuring liability between 2002 and 2003 includes foreign exchange gains of \$4 million. The fiscal 2004 adjustments are included in "Restructuring and other non-recurring charges" on the Statement of Income. The company is in the process of completing certain aspects of the Plans of Restructuring and will continue to evaluate the remaining restructuring reserves as the plans are executed. As a result, there may be additional adjustments to the reserves noted above. Since the company-wide restructuring plans are an aggregation of many individual components requiring judgments and estimates, actual costs have differed from estimated amounts.

DISCONTINUED OPERATIONS

In October 2002, the company announced its decision to discontinue the domestic truck business in Brazil (Brazil Truck) effective October 31, 2002. In connection with this discontinuance, the company recorded a loss on disposal of \$46 million. The loss relates to the write-down of assets to fair value, contractual settlement costs for the termination of the dealer contracts, severance and other benefits costs, and the write-off of Brazil Truck's cumulative translation adjustment due to the company's substantial liquidation of its investment in Brazil Truck.

The disposal of Brazil Truck has been accounted for as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the operating results of Brazil Truck have been classified as "Discontinued operations" and prior periods have been restated.

Net sales and loss from the discontinued operation for Brazil Truck for the years ended October 31, are as follows, in millions:

	2004	2003	2002
Net sales	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>
Loss from discontinued operations	-	-	(12)
Loss on disposal	-	(4)	(46)
Income tax expense	-	-	(2)
Net loss from discontinued operations	<u>\$ -</u>	<u>\$ (4)</u>	<u>\$ (60)</u>

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements

The company generates cash flow from the manufacture and sale of trucks, mid-range diesel engines and service parts. In addition, cash flow is generated from product financing provided to the company's dealers and retail customers by the financial services segment. It is the opinion of management that, in the absence of significant unanticipated cash demands, current and forecasted cash flow from the company's manufacturing operations, financial services operations and financing capacity will provide sufficient funds to meet operating requirements and capital expenditures. Management of the company's financial services operations believes that collections on the outstanding receivables portfolios as well as funds available from various funding sources will permit the financial services operations to meet the financing requirements of International's dealers and retail customers.

Sources and Uses of Cash

<u>Millions of dollars</u>	For the Years Ended October 31		
	2004	2003	2002
Cash flow from operations.....	\$ 173	\$ (52)	\$ (211)
Cash flow from investment programs	(113)	(147)	(40)
Cash flow from financing activities.....	78	31	64
Total cash flow	<u>\$ 138</u>	<u>\$ (168)</u>	<u>\$ (187)</u>
Cash and cash equivalents, beginning balance.....	\$ 467	\$ 635	\$ 822
Cash and cash equivalents, ending balance.....	605	467	635
Outstanding capital commitments	60	64	145

The company had negative working capital of \$83 million at October 31, 2004, compared to \$147 million of positive working capital at October 31, 2003. The maturity of a revolving retail warehouse facility of \$500 million in 2005, is the main driver behind the negative working capital at October 31, 2004. Cash flows from operations for fiscal 2004 includes an increase in receivables primarily due to an increase in wholesale notes and account balances resulting from higher truck sales to dealers. In addition, inventories increased by \$194 million reflecting inventory increases of \$100 million at the truck manufacturing facilities due to higher production levels and ongoing constraints within the supply base which have impacted the assembly process. Cash was provided by income of \$247 million and an increase in accounts payable of \$401 million resulting from higher truck production.

During 2004, investment programs used \$113 million of cash which includes a net increase in retail notes and lease receivables of \$198 million and \$230 million of capital expenditures. These were offset by a \$343 million net decrease in marketable securities.

In June 2004, the company entered into fixed-for-floating interest rate swap agreements with several counterparties for its 7.5% \$250 million fixed-rate public notes. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk as the instruments may become more or less valuable due to changes in market conditions or interest rates.

In fiscal 2003, the company's negative cash flow of \$168 million was a result of the company's net loss and the purchase of marketable securities. In fiscal 2002, the company's negative cash flow of \$187 million was a result of the company's net loss and the purchase of retail notes and lease receivables.

The company manages exposure to counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. These transactions are accounted for as cash flow hedges and consequently, to the extent that the hedge is effective, gains and losses on these derivatives are recorded in other comprehensive income.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources and Uses of Cash (continued)

In June 2004, manufacturing operations assumed the \$220 million 4.75% subordinated exchangeable notes due in 2009 from Navistar Financial Corporation (NFC). As compensation for the assumption of this debt, NFC paid manufacturing operations approximately \$170 million in cash. Manufacturing operations previously received \$50 million from NFC as compensation for providing NFC the company's common stock in case the bonds had converted. The company used a portion of the proceeds from this transaction to increase its 2004 pension contribution, which will improve future cash flow by reducing required pension contributions for 2005 and 2006.

Cash flow from the company's manufacturing operations, financial services operations and financing capacity is currently sufficient to cover planned investments in the business. Capital investments for 2005 are expected to be \$300 million. The company had outstanding capital commitments of \$60 million at October 31, 2004.

The company currently estimates \$317 million in capital spending through 2007 for the continued development of the company's products, and \$351 million in capital spending and \$455 million in development expense through 2007 primarily to comply with future emission standards as well as other engine projects. Approximately \$165 million of the development expenses for the engine programs are planned for 2005.

The company's required debt principal payment obligations including obligations under lease commitments at October 31, 2004, are as follows:

Indebtedness:	<u>Total</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010+</u>
Manufacturing operations	\$ 1,331	\$ 71	\$ 456	\$ 50	\$ 243	\$ 245	\$ 266
Financial services operations	<u>1,539</u>	<u>752</u>	<u>736</u>	<u>34</u>	<u>13</u>	<u>4</u>	<u>-</u>
Total indebtedness	<u>2,870</u>	<u>823</u>	<u>1,192</u>	<u>84</u>	<u>256</u>	<u>249</u>	<u>266</u>
Operating leases	<u>679</u>	<u>121</u>	<u>80</u>	<u>80</u>	<u>127</u>	<u>242</u>	<u>29</u>
Total	<u>\$ 3,549</u>	<u>\$ 944</u>	<u>\$ 1,272</u>	<u>\$ 164</u>	<u>\$ 383</u>	<u>\$ 491</u>	<u>\$ 295</u>

At October 31, 2004, \$77 million of a Mexican subsidiary's receivables were pledged as collateral for bank borrowings. In addition, as of October 31, 2004, the company is contingently liable for approximately \$84 million for various purchasing commitments, credit guarantees and buyback programs. Based on historical loss trends, the company's exposure is not considered material.

Financial Services

The financial services segment, mainly NFC, has traditionally obtained the funds to provide financing to the company's dealers and retail customers from sales of finance receivables, commercial paper, short and long-term bank borrowings and medium and long-term debt. As of October 31, 2004, NFC's funding consisted of sold finance receivables of \$3,275 million, bank and other borrowings of \$1,172 million, and secured borrowings of \$153 million. NFC securitizes and sells receivables through Navistar Financial Retail Receivables Corp. (NFRRC), Navistar Financial Securities Corp. (NFSC), Truck Retail Accounts Corp. (TRAC), Truck Engine Receivables Financing Co. (TERFCO) and Truck Retail Instalment Paper Corporation (TRIP), all special purpose corporations and wholly owned subsidiaries of NFC. The sales of finance receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold receivables are removed from NFC's balance sheet and the investors' interests in the related trust or conduit are not reflected as liabilities.

Through the asset-backed public market and private placement sales, NFC has been able to fund fixed rate retail notes and finance leases at rates which are more economical than those available to NFC in the unsecured public bond market. During 2004, NFC sold \$1,120 million of retail notes and finance leases, net of unearned finance income, for a pre-tax gain of \$26 million. The receivables were sold through NFRRC to an owner trust which, in turn, issued asset-backed securities that were sold to investors. At October 31, 2004, the remaining shelf registration available to NFRRC for the public issuance of asset-backed securities was \$4 billion.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financial Services (continued)

The following are the funding facilities, in millions of dollars, that NFC and its related affiliates have in place as of October 31, 2004.

<u>Company</u>	<u>Instrument type</u>	<u>Total Amount</u>	<u>Purpose of funding</u>	<u>Amount utilized</u>	<u>Matures or expires</u>
TERFCO	Trust	\$ 100	Unsecured Ford trade receivables	\$ 100	2005
NFSC	Revolving wholesale note trust and marketable securities	\$1,186	Eligible wholesale notes	\$ 1,132	various
TRAC	Revolving retail account conduit	\$ 100	Eligible retail accounts	\$ 100	2005
TRIP	Revolving retail facility	\$ 500	Retail notes and leases	\$ 500	2005
NFC	Revolving credit facilities	\$ 820	Retail notes and leases	\$ 697	2005

As of October 31, 2004, the aggregate available to fund finance receivables under the various facilities was \$177 million.

In June 2004, International Truck Leasing Corp. (ITLC), a special purpose, wholly owned subsidiary of NFC, was established to provide for the funding of certain leases. As of October 31, 2004, \$20 million has been funded through this subsidiary. ITLC's assets are available to satisfy its creditors' claims prior to such assets becoming available for ITLC's uses or to NFC or affiliated companies.

At October 31, 2004, the Canadian operating subsidiary was contingently liable for \$407 million of retail customers' contracts and \$41 million of retail leases that are financed by a third party. The Canadian operating subsidiary is responsible for the residual values of these financing arrangements. These contract amounts approximate the resale market value of the collateral underlying the note liabilities. At October 31, 2004, the maximum amount of dividends that were available for distribution to the company from its subsidiaries under the most restrictive covenants was \$808 million.

NFC's maximum contractual exposure under all receivable sale recourse provisions at October 31, 2004, was \$383 million. Management believes that the recorded reserves for losses on sold receivables are adequate. See Notes 5 and 6 to the Financial Statements.

The company and International are obligated under certain agreements with public and private lenders of NFC to maintain the subsidiary's income before interest expense and income taxes at not less than 125% of its total interest expense. No income maintenance payments were required for the three years ended October 31, 2004.

There have been no material changes in the company's hedging strategies or derivative positions since October 31, 2003. NFC uses derivative financial instruments as part of its overall interest rate management strategy to reduce its exposure to interest rate volatility. Further disclosure may be found in Note 13 to the Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financial Services (continued)

In November 2002, the company completed the sale of a total of 7,755,030 shares of its common stock held in Treasury, par value \$0.10 per share, at a price of \$22.566 per share, for an aggregate purchase price of \$175 million to three employee benefit plan trusts of International. The securities were offered and sold in reliance upon the exemption from securities registration afforded by Section 4(2) of the Securities Act of 1933 and Rule 506 under Regulation D. The proceeds from the sale of the stock were used primarily to fund the company's retirement plans in 2003.

In December 2002, Fitch IBCA lowered the company's and NFC's senior unsecured debt ratings to BB from BB+. They also lowered the company's and NFC's senior subordinated debt ratings to B+ from BB-. Also in December 2002, Standard and Poor's lowered the company's and NFC's senior unsecured debt ratings to BB- from BB and the company's senior subordinated debt rating to B from B+. In December 2002, Moody's also lowered the company's senior unsecured debt rating to Ba3 from Ba1 and the company's and NFC's senior subordinated debt ratings to B2 from Ba2.

Other Matters

In December 2002, the company completed the private placement of \$190 million of senior convertible bonds due 2007. The bonds were priced to yield 2.5% with a conversion premium of 30% on a closing price of \$26.70. Simultaneous with the issuance of the convertible bonds, the company entered into two call option derivative contracts, the consequences of which will allow the company to eliminate share dilution upon conversion of the convertible debt from the conversion price of the bond up to a 100% premium over the share price at issuance. In 2004, the company amended its written call option derivative contracts to raise the effective conversion price from \$53.40/share to \$75.00/share. This action minimizes the share dilution associated with convertible debt from the conversion price of each note up to \$75.00 per share. In February 2003, \$100 million of the net proceeds from the \$190 million offering was used to repay the aggregate principal amount of the 7% senior notes due February 2003. The remaining funds were used to repay other existing debt, replenish cash balances that were used to repay other debt that matured in fiscal 2002 and to pay fees and expenses related to the offering.

It is the opinion of management that, in the absence of significant unanticipated cash demands, current and forecasted cash flow as well as available financing actions will provide sufficient funds to meet operating requirements and capital expenditures. Currently, under the limitations in various debt agreements, the manufacturing operations are generally unable to incur material amounts of additional debt. The manufacturing operations are generally allowed under these limitations to refinance their debt as it matures. Management believes that collections on the outstanding receivables portfolios as well as funds available from various funding sources will permit the financial services operations to meet the financing requirements of International's dealers and retail customers.

As part of outstanding long-term debt agreements with various lenders, the company is obligated to timely file, and/or deliver to the lender, a copy of its annual filings with the Securities and Exchange Commission (SEC). The delay in filing the company's Form 10-K, did not result in the automatic acceleration of maturity of any series of the company's debt. In addition, the trustees or the holders of the long-term debt of the company, excluding NFC, did not declare the company in default due to its non-compliance with the filing requirement. If a notice of default would have been brought against the company and the company was not able to cure the event of default within a specified time period, the principal amount and all accrued interest would have been due and payable. In addition, any acceleration in the maturity of the company's long-term debt could have led to the acceleration of the maturity of the indebtedness of the company's other indentures, an automatic default and termination of used commitments under NFC's revolving credit facility and default under certain other indebtedness of the company and NFC. NFC has similar annual filing obligations under its credit agreements with various lenders. NFC, after obtaining the necessary waivers from certain lenders, was not held in default under any of its obligations and did not incur other adverse actions with respect to its credit facilities as a result of its delay in filing. The company believes that the NFC defaults will be cured prior to the expiration of the related waivers through the delivery of NFC's Annual Reports on Form 10-K and the related information.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Other Matters (continued)

The company also has obligations under various operating leases which have a similar requirement that the company timely file, and/or deliver to the lessor a copy of its annual filings with the SEC. Failure to comply with this requirement, would give the lessor the right to declare a default under the lease and take other adverse actions. The company did not receive a notice of default or incur other adverse actions with respect to the operating leases as a result of the company's delay in filing.

Pension and Other Postretirement Benefits

Generally, the company's pension plans are non-contributory. The company's policy is to fund its pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. At October 31, 2004, all legal funding requirements had been met. The company contributed \$231 million to its pension plans in 2004 and \$164 million in 2003. In 2005, the company does not anticipate that it will be required to make a contribution to its two largest plans, but does expect to contribute approximately \$20 million to its other pension plans to meet legal requirements.

Other postretirement benefit obligations, such as retiree medical, are primarily funded in accordance with a legal agreement, which requires the company to fund a portion of the plan's annual service cost, and was \$10 million in 2004.

Funded status is derived by subtracting the value of the projected benefit obligations at October 31, 2004, from the end of year fair value of plan assets.

The funded status of the pension benefits improved from \$(994) million at the end of 2003 to \$(805) million at the end of 2004. This improvement was primarily due to higher plan asset values at October 31, 2004. During 2004, positive returns on plan assets of \$230 million and company contributions of \$231 million, more than offset payments to plan beneficiaries of \$323 million out of plan assets. The benefit obligation also decreased \$34 million in fiscal 2004 as payments to beneficiaries offset the expenses and other increases to the obligation. The funded status of the other benefits deteriorated from \$(1,810) million at the end of 2003 to \$(1,880) million at the end of 2004. This decline was primarily due to an increase in the benefit obligation resulting from net actuarial losses of \$74 million in 2004.

Changes in management's assumptions used by the actuaries will have an impact on postretirement benefits expense and the projected benefit obligation. A change in the expected return on assets of 25 basis points would increase/decrease pension expense by \$8 million and other postretirement benefits expense by \$2 million annually. A 25 basis point change in the discount rate would increase/decrease other benefits expense by approximately \$2 million annually. A 25 basis point discount rate change would have an impact of less than \$1 million on annual pension expense. The impact of a change of 25 basis points in the discount rate would increase/decrease the obligation for pension benefits by approximately \$81 million and the obligation for other benefits by approximately \$56 million.

OFF-BALANCE SHEET ARRANGEMENTS

The company enters into various arrangements not reflected on its balance sheet that have or could have an effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources. The principal off-balance sheet arrangements that the company enters into are guarantees, sales of receivables and postretirement benefits.

Guarantees

The company and its subsidiaries occasionally provide guarantees that could obligate them to make future payments if the primary entity fails to perform under its contractual obligations. The company has not recorded a liability for these guarantees. The company has no recourse as guarantor in case of default. The company guarantees lines of credit made available to its Mexican finance subsidiaries by third parties and NFC. NFC guarantees the borrowings of the Mexican finance subsidiaries. As of October 31, 2004, the total amount of these guarantees was \$611 million.

OFF-BALANCE SHEET ARRANGEMENTS (continued)

Guarantees (continued)

The company also guarantees many of the operating leases of its subsidiaries. The leases have various expiration dates that extend through June 2014. The remaining maximum obligation under these leases as of October 31, 2004, totaled approximately \$606 million. The company and International also guarantee real estate operating leases of International and the subsidiaries of the company. The leases have various maturity dates extending through 2019. As of October 31, 2004, the total remaining obligation under these leases is approximately \$45 million. The company and NFC have issued residual value guarantees in connection with various operating leases. The amount of the guarantees is undeterminable because in some instances, neither the company nor NFC is responsible for the entire amount of the guaranteed lease residual. The company's and NFC's guarantees are contingent upon the fair value of the leased assets at the end of the lease term. The excess of the guaranteed lease residual value over the fair value of the residual represents the amount of the company's and NFC's exposure.

In addition, the company enters into various guarantees for purchase commitments, insurance loss reserves, credit guarantees and buyback programs with various expiration dates. In the ordinary course of business, the company also provides routine indemnifications and other guarantees whose terms range in duration and often are not explicitly defined. The company does not believe these will have a material impact on the results of operations or financial condition of the company.

Sales of Receivables

The company's affiliate, NFC, securitizes and sells receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC) and Truck Engine Receivables Financing Co. (TERFCO), all special purpose, wholly-owned subsidiaries (SPC's) of NFC, to fund its business operations. The securitization market provides NFC with a cost-effective source of funding. In a typical securitization transaction, NFC sells a pool of finance receivables to SPC that establishes a qualifying special purpose entity (QSPE) consistent with the requirements of SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The SPC then transfers the receivables to the QSPE, generally a trust, in exchange for proceeds from interest-bearing securities, commonly called asset-backed securities. These securities are issued by the QSPE and are secured by future collections on the sold receivables. The sales of receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold receivables are removed from NFC's balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities.

NFC often retains interests in the securitized receivables. The retained interests may include senior and subordinated securities, undivided interests in wholesale receivables, restricted cash held for the benefit of the QSPE's, and interest-only strips. NFC's retained interests will be the first to absorb any credit losses on the sold receivables because NFC retains the most subordinated interests in the QSPE, including subordinated securities, the right to receive excess spread (interest-only strip) and any residual or remaining interests of the QSPE after all asset-backed securities are repaid in full. NFC's exposure to credit losses on the sold receivables is limited to its retained interests. The SPC's assets are available to satisfy the creditors' claims prior to such assets becoming available for the SPC's own uses or to NFC or affiliated companies. NFC is under no obligation to repurchase any sold receivable that becomes delinquent in payment or otherwise is in default. The holders of the asset-backed securities have no recourse to NFC or its other assets for credit losses on sold receivables and have no ability to require NFC to repurchase their securities. NFC does not guarantee any securities issued by QSPE's. NFC, as the seller and servicer of the finance receivables, is obligated to provide certain representations and warranties regarding the receivables. Should any receivables fail to meet these representations and warranties, NFC, as servicer, is required to repurchase the receivables.

Postretirement Benefits

The company's postretirement benefit obligations are accounted for under SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and as a result, the company has obligations that are not recognized in the company's financial statements. Details regarding these obligations can be found in Note 2 to the Financial Statements.

CONTRACTUAL OBLIGATIONS

The following table provides aggregated information, in millions of dollars, on the company's outstanding contractual obligations and other long-term liabilities as of October 31, 2004.

Type of Contractual Obligation:	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt.....	\$ 2,870	\$ 823	\$ 1,276	\$ 505	\$ 266
Capital lease obligations.....	194	20	40	40	94
Operating lease obligations.....	679	121	160	369	29
Purchase obligations.....	-	-	-	-	-
Other long-term liabilities	384	-	310	44	30
Total	<u>\$ 4,127</u>	<u>\$ 964</u>	<u>\$ 1,786</u>	<u>\$ 958</u>	<u>\$ 419</u>

The company has no material, outstanding purchase obligations as of October 31, 2004. The company's "Other long-term liabilities" total \$384 million. This total is primarily comprised of product liability and warranty accruals, restructuring reserves and other miscellaneous liabilities. The company anticipates that a majority of these reserves will be paid within 3 years. Any payments over 3 years relate to restructuring reserves for long-term lease terminations. The company also has long-term obligations for postretirement benefits which are not included in the above table. Information regarding the company's obligations for postretirement benefits can be found in Note 2 to the Financial Statements.

ENVIRONMENTAL MATTERS

The company has been named a potentially responsible party (PRP), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation and Liability Act, popularly known as the Superfund law. These cases involve sites that allegedly received wastes from current or former company locations. Based on information available to the company which, in most cases, consists of data related to quantities and characteristics of material generated at current or former company locations, material allegedly shipped by the company to these disposal sites, as well as cost estimates from PRPs and/or federal or state regulatory agencies for the cleanup of these sites, a reasonable estimate is calculated of the company's share, if any, of the probable costs and is provided for in the financial statements. These obligations are generally recognized no later than completion of the remedial feasibility study and are not discounted to their present value. The company reviews all accruals on a regular basis and believes that, based on these calculations, its share of the potential additional costs for the cleanup of each site will not have a material effect on the company's financial results.

Two sites formerly owned by the company, Wisconsin Steel in Chicago, Illinois, and Solar Turbines in San Diego, California, have been identified as having soil and groundwater contamination. While investigations and cleanup activities continue at both sites, the company anticipates that all necessary costs to complete the cleanup have been adequately reserved.

DERIVATIVE FINANCIAL INSTRUMENTS

The company documents and accounts for derivative and hedging activities in accordance with the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The company recognizes all derivatives as assets or liabilities in the Statement of Financial Condition and measures them at fair value. When certain criteria are met, it also provides for matching the timing of gain or loss recognition on the derivative hedging instrument with the recognition of (a) changes in the fair value or cash flows of the hedged asset or liability attributable to the hedged risk or (b) the earnings effect of the hedged forecasted transaction. Changes in the fair value of derivatives which are not designated as, or which do not qualify as, hedges for accounting purposes are reported in earnings in the period in which they occur.

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The call option derivative contracts entered into in connection with the \$190 million senior convertible notes are recorded in permanent equity in accordance with EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company’s Own Stock.”

As disclosed in Notes 1 and 13 to the Financial Statements, the company uses derivative financial instruments to reduce its exposure to interest rate volatility and potentially increase the return on invested funds.

The company’s manufacturing operations, as conditions warrant, hedge foreign exchange exposure on the purchase of parts and materials from foreign countries and its exposure from the sale of manufactured products in other countries. Contracted purchases of commodities or manufacturing equipment may also be hedged.

The financial services operations may use forward contracts to hedge future interest payments on the notes and certificates related to an expected sale of receivables. The financial services operations also use interest rate swaps or caps to reduce exposure to interest rate changes.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The significant accounting principles which management believes are the most important to aid in fully understanding our financial results are included below. Management also believes that all of the accounting policies are important to investors. Therefore, see the Notes to the Financial Statements for a more detailed description of these and other accounting policies of the company.

Sales Allowances

At the time of sale, the company records as a reduction of revenue the estimated impact of sales allowances in the form of dealer and customer incentives. There may be numerous types of incentives available at any particular time. This estimate is based upon the assumption that a certain number of vehicles in dealer inventory will have a specific incentive applied against them. If the actual number of vehicles differs from this estimate, or if a different mix of incentives occurs, the sales allowances could be affected.

Sales of Receivables

NFC securitizes finance receivables through qualified special purpose entities (QSPEs), which then issue securities to public and private investors. NFC sells receivables to the QSPEs with limited recourse. Gains or losses on sales of receivables are credited or charged to finance revenue in the periods in which the sales occur. Retained interests, which include interest-only receivables, cash reserve accounts and subordinated certificates, are recorded at fair value in the periods in which the sales occur. The accretion of the discount related to the retained interests is recognized on an effective yield basis.

Management estimates the prepayment speed for the receivables sold, the discount rate used to determine the present value of the interest-only receivable and the anticipated net losses on the receivables in order to calculate the gain or loss. The method for calculating the gain or loss aggregates the receivables in a homogenous pool. Estimates are based on historical experience, anticipated future portfolio performance, market-based discount rates and other factors, and are made separately for each securitization transaction. In addition, NFC estimates the fair value of the retained interests on a quarterly basis. The fair value of the interest-only receivable is based on present value estimates of expected cash flows using management’s key assumptions of prepayment speeds, discount rates and net losses.

CRITICAL ACCOUNTING POLICIES (continued)

Presentation of NFC's Receivables on Statement of Cash Flow

The company classifies NFC's wholesale notes and receivables from national accounts as cash flows from operations on its Statement of Cash Flow. These programs provide financing for the purchase of inventory directly from the company. NFC's retail notes and lease receivables, which provide financing to end customers primarily for the purchase of new and used trucks sold by the company's dealers, are classified as cash flows from investment programs on the Statement of Cash Flow.

Product Warranty

Provisions for estimated expenses related to product warranty are made at the time products are sold. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve vehicle quality and minimize warranty claims. Management believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

Product Liability

The company is subject to product liability lawsuits and claims in the normal course of business. To the extent permitted under applicable law, the company maintains insurance to reduce the risk to the company. Most insurance coverage includes self-insured retention. The company records product liability reserves for the self-insured portion of any pending or threatened product liability actions. The reserve is based upon two estimates. First, management determines an appropriate case specific reserve based upon management's best judgment and the advice of legal counsel. These estimates are continually evaluated and adjusted based upon changes in facts or circumstances surrounding the case. Second, management obtains a third party actuarial analysis to determine the amount of additional reserve required to cover certain known claims and all incurred but not reported product liability issues. Based upon this process, management believes that the product liability reserve is appropriate; however, actual claims incurred and the actual settlement values of outstanding claims may differ from the original estimates, requiring adjustments to the reserve.

Pension and Other Postretirement Benefits

The company provides postretirement benefits to a substantial portion of its employees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees and surviving spouses and dependents. The company's employee pension and postretirement health care expenses are dependent on management's assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, inflation, long-term expected rate of return on plan assets, retirement rates, mortality rates and other factors. Health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. The inflation assumption is based on an evaluation of external market indicators. Retirement and mortality rates are based primarily on actual plan experience.

The company's approach to establishing the discount rate assumption reflects an investment strategy that effectively settles a portion of its pension liability by investing in a bond portfolio that generates monthly cash flows equal to a portion of the projected monthly pension benefit payments. This portion of the liability is weighted using a discount rate based on the October 31, 2004, effective yield on the dedicated bond investment portfolio. The remaining non-dedicated portion of the liability used the average of the October 31, 2004, yields on the Merrill Lynch Ten Year + High Quality Corporate Bond Index and Moody's AA Corporate Bond Index, both adjusted for an incremental yield of approximately 50 basis points that is to be achieved by active management of the bond portfolio. For the other postretirement benefits, the discount rate is based on the Merrill Lynch Ten Year + High Quality Corporate Bond Index and Moody's AA Corporate Bond Index with a similar provision for an incremental yield.

CRITICAL ACCOUNTING POLICIES (continued)

Pension and Other Postretirement Benefits (continued)

Based on this approach, at October 31, 2004, the company lowered the discount rate for pension plans to 5.8% from 6.2% at October 31, 2003. The discount rate for the other benefits was lowered from 6.6% at October 31, 2003 to 6.0% at October 31, 2004.

The company determines its expected return on plan asset assumption by evaluating both historical returns as well as estimates of future returns. Specifically, the company analyzed the average historical broad market returns for various periods of time over the past 100 years for equities and over a 30 year period for fixed income securities, and adjusted the computed amount for any expected changes in the long-term outlook for both the equity and fixed income markets. The company considers its current asset mix as well as its targeted asset mix when establishing its expected return on plan assets.

The company's estimate of the long-term rate of return on assets for both its pension and postretirement health benefits was 9.0% at October 31, 2004 and 2003. The company's estimate of the long-term rate of return for its pension and postretirement health benefits was 10.1% and 11.0%, respectively, at October 31, 2002. The company plans on utilizing a 9.0% long-term rate of return on plan assets for both pension and postretirement health benefits in 2005.

See Note 2 to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Allowance for Losses

The allowance for losses is established through a charge to the provision for losses. The allowance is an estimate of the amount required to absorb losses on the existing portfolio of finance receivables and operating leases that may become uncollectible. The allowance is maintained at an amount management considers appropriate in relation to the outstanding portfolio based on factors such as overall portfolio credit risk quality, historical loss experience, and current economic conditions. Finance receivables and operating leases are charged off to the allowance for losses when amounts due from the customers are determined to be uncollectible.

Under various agreements, International and its dealers may be liable for a portion of customer losses or may be required to repurchase the repossessed collateral at the receivable principal value. Financial services' losses recorded as part of the bad debt provision are net of the amounts received under these agreements.

Impairment of Long-Lived Assets

The company periodically reviews the carrying value of its long-lived assets held and used and assets to be disposed of, including other intangible assets, when events and circumstances warrant such a review. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates of such cash flows and fair value could affect the evaluations.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities." This Interpretation addresses consolidation requirements of variable interest entities (VIEs). In December 2003, the FASB revised this Interpretation to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest for the entity to finance its activities without additional financial

NEW ACCOUNTING PRONOUNCEMENTS (continued)

support. This Interpretation, as revised, is effective for periods ending after December 15, 2003. The company analyzed its minority investments and determined that it does not have an interest in a VIE, as defined within this Interpretation. Therefore, this Interpretation has no impact on the company's results of operations, financial condition and cash flows.

In December 2003, the FASB issued a revision to SFAS No. 132 (SFAS 132), "Employers' Disclosure about Pensions and Other Postretirement Benefits." This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The disclosures required by this Statement are included in Note 2 to the Financial Statements.

In May 2004, the FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act) which provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. The company adopted this FSP in May of 2004, retroactive to the effective date of the Act, December 8, 2003. See Note 2 to the Financial Statements for the required disclosures.

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF 03-1 paragraph 21 requires specific disclosure for all investments in an unrealized loss position for which other than temporary impairments have not been recognized. The company does not have any investments in an unrealized loss position for which other-than-temporary impairments have not been recognized.

In June 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This Statement generally requires the recognition of the cost of employee services received in exchange for an award of equity instruments. This cost is based on the grant date fair value of the equity award and will be recognized over the period during which the employee is required to provide service in exchange for the award. The effective date for the company is the beginning of the fourth fiscal quarter of 2005. The company is still evaluating the impact, if any, this Statement may have on its results of operations, financial condition or cash flows.

In December 2004, the FASB issued two FASB Staff Positions (FSP's) that provide accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 (the Act) that was signed into law on October 22, 2004. The Act could affect how companies report their deferred income tax balances. The first FSP is FSP FAS 109-1 (FAS 109-1); the second is FSP FAS 109-2 (FAS 109-2). In FAS 109-1, the FASB concludes that the tax relief (special tax deduction for domestic manufacturing) from the Act should be accounted for as a "special deduction" instead of a tax rate reduction. FAS 109-2 gives a company additional time to evaluate the effects of the Act on any plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109, "Accounting for Income Taxes." However, companies must provide certain disclosures if it chooses to utilize the additional time granted by the FASB. The company is still evaluating the impact, if any, these FSP's may have on its results of operations, financial condition or cash flows.

INCOME TAXES

The Statement of Financial Condition at October 31, 2004, includes a deferred tax asset of \$1,446 million, net of valuation allowances of \$76 million. The deferred tax asset at October 31, 2003, of \$1,482 million is net of valuation allowances of \$110 million. The deferred tax asset has been reduced by the valuation allowance, as management believes it is more likely than not that some portion of the deferred tax asset may not be realized in the future. The valuation allowance was reduced by \$34 million in 2004 primarily as a result of restructuring certain foreign operations.

The deferred tax asset at October 31, 2004, includes the tax benefit from cumulative tax net operating losses (NOL) of \$1,538 million, cumulative alternative minimum tax and research and development credits of \$64 million and cumulative expenses of \$2,203 million that have not been deducted on the company's tax returns. The company has no open tax years that are currently under audit by the Internal Revenue Service (IRS), and management believes

INCOME TAXES (continued)

that it is unlikely the IRS would limit utilization of the NOLs. Until the company has utilized its significant NOL carryforwards and credits, the cash payment of U.S. federal income taxes will be minimal. See Note 3 to the Financial Statements.

The company performs extensive analysis to determine the amount of the net deferred tax asset. Such analysis is based on the premise that the company is, and will continue to be, a going concern and that it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Management reviews all available evidence, both positive and negative, to assess the long-term earnings potential of the company. The financial results are evaluated using a number of alternatives in economic cycles at various industry volume conditions. One significant factor considered is the company's role as a leading producer of heavy and medium trucks and school buses and mid-range diesel engines. Realization of the cumulative deferred tax asset, net of liabilities, is dependent on the generation of approximately \$3,700 million of future taxable income. Management believes that, with the combination of available tax planning strategies and the maintenance of significant truck and engine market share, sufficient earnings are achievable in order to realize the deferred tax asset, net of liabilities, of \$1,413 million.

Currently there is no annual limitation on the company's ability to use NOLs to reduce future income taxes. However, if an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended, occurs with respect to the company's capital stock, it would limit the use of NOLs to specific annual amounts. Generally, an ownership change occurs if certain persons or groups increase their aggregate ownership by more than 50 percentage points of the company's total capital stock in any three-year period. If an ownership change occurs, the company's ability to use domestic NOLs to reduce income taxes is limited to an annual amount based on the fair market value of the company immediately prior to the ownership change multiplied by the long-term tax-exempt interest rate published monthly by the IRS. Currently the company's change in ownership percentage is minimal.

Reconciliation of the company's income (loss) before income taxes from continuing operations for financial statement purposes to U.S. taxable income (loss) for the years ended October 31 is as follows:

Millions of dollars	2004	2003	2002
Income (loss) from continuing operations before			
income taxes	\$ 311	\$ (49)	\$ (772)
Exclusion of income (loss) of foreign subsidiaries	(67)	(51)	133
State income taxes	(2)	-	2
Temporary differences	92	(268)	217
Permanent differences	(60)	(40)	21
U.S. taxable income (loss)	<u>\$ 274</u>	<u>\$ (408)</u>	<u>\$ (399)</u>

FORWARD LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, and such forward-looking statements only speak as of the date of this Form 10-K. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this Form 10-K, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. For a further description of these factors, see Exhibit 99.1 to this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The company's primary market risks include fluctuations in interest rates and currency exchange rates. The company is also exposed to changes in the prices of commodities used in its manufacturing operations and to changes in the prices of equity instruments owned by the company. Commodity price risk related to the company's current commodity financial instruments and equity price risk related to the company's current investments in equity instruments are not material. The company does not hold a material portfolio of market risk sensitive instruments for trading purposes.

The company has established policies and procedures to manage sensitivity to interest rate and foreign currency exchange rate market risk. These procedures include the monitoring of the company's level of exposure to each market risk, the funding of variable rate receivables primarily with variable rate debt, and limiting the amount of fixed rate receivables which may be funded with floating rate debt. These procedures also include the use of derivative financial instruments to mitigate the effects of interest rate fluctuations and to reduce the company's exposure to exchange rate risk.

Interest rate risk is the risk that the company will incur economic losses due to adverse changes in interest rates. The company measures its interest rate risk by estimating the net amount by which the fair value of all of its interest rate sensitive assets and liabilities would be impacted by selected hypothetical changes in market interest rates. Fair value is estimated using a discounted cash flow analysis. Assuming a hypothetical instantaneous 10% adverse change in interest rates as of October 31, 2004 and 2003, the net fair value of these instruments would decrease by approximately \$21 million and \$18 million, respectively. The company's interest rate sensitivity analysis assumes a parallel shift in interest rate yield curves. The model, therefore, does not reflect the potential impact of changes in the relationship between short-term and long-term interest rates.

Foreign currency risk is the risk that the company will incur economic losses due to adverse changes in foreign currency exchange rates. The company's primary exposures to foreign currency exchange fluctuations are the Canadian dollar/U.S. dollar, Mexican peso/U.S. dollar and Brazilian real/U.S. dollar. The potential reduction in future earnings from a hypothetical instantaneous 10% adverse change in quoted foreign currency spot rates applied to foreign currency sensitive instruments would be less than \$1 million and \$2 million at October 31, 2004 and 2003, respectively. The foreign currency sensitivity model is limited by the assumption that all of the foreign currencies to which the company is exposed would simultaneously decrease by 10% because such synchronized changes are unlikely to occur. The effects of foreign currency forward contracts have been included in the above analysis, however, the sensitivity model does not include the inherent risks associated with the anticipated future transactions denominated in foreign currency for which these forward contracts have been entered into for hedging purposes.

The company is exposed to changes in the price of commodities used in its manufacturing operations. Due to the amount of steel used in the production of truck cabs, buses and engines, the company's margins are impacted by steel price fluctuations. Steel prices increased significantly during fiscal 2004 and had a \$60 million negative impact on the company's cost structure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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STATEMENT OF FINANCIAL REPORTING RESPONSIBILITY

Management of Navistar International Corporation and its subsidiaries is responsible for the preparation and for the integrity and objectivity of the accompanying financial statements and other financial information in this report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based on management's estimates and judgments.

The accompanying financial statements have been audited by Deloitte & Touche LLP, an independent registered public accounting firm. Management has made available to Deloitte & Touche LLP all the company's financial records and related data, as well as the minutes of the board of directors' meetings. Management believes that all representations made to Deloitte & Touche LLP during its audit were valid and appropriate.

Management is responsible for establishing and maintaining a system of internal controls throughout its operations that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use and the execution and recording of transactions in accordance with management's authorization. The company's system of internal controls, which provides for appropriate division of responsibility, is supported by written policies and procedures that are updated by management, as necessary. Management is responsible for the periodic evaluation of the system of internal controls. The system is tested and evaluated regularly by the company's internal auditors as well as by the independent registered public accounting firm in connection with its annual audit of the financial statements. The independent registered public accounting firm conducts its audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and perform such tests of transactions and balances as they deem necessary. The company's system of internal controls is improved or modified, in a manner that is cost-effective in the circumstances, in response to changes in business conditions and operations and recommendations made by internal auditors and independent registered public accounting firm.

The Audit Committee of the board of directors, composed of six non-employee directors, meets periodically with the independent registered public accounting firm, management, general counsel and internal auditors to satisfy itself that such persons are properly discharging their responsibilities regarding financial reporting and auditing. In carrying out these responsibilities, the Committee has full access to the independent registered public accounting firm, internal auditors, general counsel and financial management in scheduled joint sessions or private meetings as in the Committee's judgment seems appropriate. Similarly, the company's independent registered public accounting firm, internal auditors, general counsel and financial management have full access to the Committee and to the board of directors and each is responsible for bringing before the Committee or its Chair, in a timely manner, any matter deemed appropriate to the discharge of the Committee's responsibility.

Daniel C. Ustian
Chairman, President and
Chief Executive Officer

Robert C. Lannert
Vice Chairman
and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Navistar International Corporation,
Its Directors and Shareowners:

We have audited the Statement of Financial Condition of Navistar International Corporation and Consolidated Subsidiaries as of October 31, 2004 and 2003, and the related Statements of Income, Comprehensive Income and Cash Flow for each of the three years in the period ended October 31, 2004. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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 Navistar International Corporation and Consolidated Subsidiaries at October 31, 2004 and 2003, and the results of their operations and their cash flow for each of the three years in the period ended October 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23 to the consolidated financial statements, the accompanying 2003 and 2002 financial statements have been restated.

Deloitte & Touche LLP
February 14, 2005
Chicago, Illinois

STATEMENT OF INCOME

Navistar International Corporation and Consolidated Subsidiaries

For the Years Ended October 31

Millions of dollars, except share data

	2004	2003 As Restated *	2002 As Restated *
Sales and revenues			
Sales of manufactured products	\$ 9,468	\$ 7,282	\$ 6,725
Finance revenue.....	245	283	276
Other income	11	20	20
Total sales and revenues.....	<u>9,724</u>	<u>7,585</u>	<u>7,021</u>
Costs and expenses			
Cost of products and services sold	8,159	6,361	5,949
Cost of products sold related to restructuring.....	-	9	23
Total cost of products and services sold.....	<u>8,159</u>	<u>6,370</u>	<u>5,972</u>
Restructuring and other non-recurring charges	(1)	(41)	521
Postretirement benefits expense	205	297	228
Engineering and research expense	245	242	260
Selling, general and administrative expense.....	656	597	624
Interest expense	127	142	159
Other expense	22	27	29
Total costs and expenses	<u>9,413</u>	<u>7,634</u>	<u>7,793</u>
Income (loss) from continuing operations before income taxes..	311	(49)	(772)
Income tax expense (benefit)	64	(32)	(294)
Income (loss) from continuing operations.....	<u>247</u>	<u>(17)</u>	<u>(478)</u>
Discontinued operations:			
Loss from discontinued operations (less applicable income taxes of \$0, \$0 and \$2, respectively).....	-	-	(14)
Loss on disposal	-	(4)	(46)
Loss from discontinued operations	<u>-</u>	<u>(4)</u>	<u>(60)</u>
Net income (loss)	<u>\$ 247</u>	<u>\$ (21)</u>	<u>\$ (538)</u>
Basic earnings (loss) per share			
Continuing operations	\$ 3.54	\$ (0.25)	\$ (7.92)
Discontinued operations.....	-	(0.06)	(1.00)
Net income (loss)	<u>\$ 3.54</u>	<u>\$ (0.31)</u>	<u>\$ (8.92)</u>
Diluted earnings (loss) per share			
Continuing operations	\$ 3.20	\$ (0.25)	\$ (7.92)
Discontinued operations.....	-	(0.06)	(1.00)
Net income (loss)	<u>\$ 3.20</u>	<u>\$ (0.31)</u>	<u>\$ (8.92)</u>
Average shares outstanding (millions)			
Basic.....	69.7	68.0	60.3
Diluted.....	80.1	68.0	60.3

See Notes to the Financial Statements.

* See Note 23 to the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Navistar International Corporation and Consolidated Subsidiaries

For the Years Ended October 31

Millions of dollars	2004	2003 As Restated *	2002 As Restated *
Net income (loss).....	<u>\$ 247</u>	<u>\$ (21)</u>	<u>\$ (538)</u>
Other comprehensive income (loss), net of tax:			
Minimum pension liability adjustment, net of tax of \$9, \$31 and \$222	-	(56)	(369)
Foreign currency translation adjustments and other.....	<u>(11)</u>	<u>(25)</u>	<u>11</u>
Other comprehensive income (loss), net of tax	<u>(11)</u>	<u>(81)</u>	<u>(358)</u>
Comprehensive income (loss)	<u>\$ 236</u>	<u>\$ (102)</u>	<u>\$ (896)</u>

See Notes to the Financial Statements.

* See Note 23 to the Financial Statements.

STATEMENT OF FINANCIAL CONDITION

Navistar International Corporation
and Consolidated Subsidiaries

As of October 31

Millions of dollars

2004

2003

As Restated *

ASSETS

Current assets

Cash and cash equivalents.....	\$ 605	\$ 467
Marketable securities.....	182	80
Receivables, net.....	1,215	932
Inventories.....	790	592
Deferred tax asset, net.....	207	183
Other assets	<u>168</u>	<u>165</u>

Total current assets..... 3,167 2,419

Marketable securities.....	73	515
Finance and other receivables, net.....	1,222	891
Property and equipment, net.....	1,444	1,439
Investments and other assets	374	300
Prepaid and intangible pension assets	73	66
Deferred tax asset, net	<u>1,239</u>	<u>1,299</u>

Total assets..... \$ 7,592 \$ 6,929

LIABILITIES AND SHAREOWNERS' EQUITY

Liabilities

Current liabilities

Notes payable and current maturities of long-term debt	\$ 823	\$ 254
Accounts payable, principally trade	1,462	1,113
Other liabilities	<u>965</u>	<u>905</u>

Total current liabilities..... 3,250 2,272

Debt: Manufacturing operations.....	1,258	993
Financial services operations.....	787	1,533
Postretirement benefits liability.....	1,382	1,433
Other liabilities	<u>384</u>	<u>406</u>

Total liabilities..... 7,061 6,637

Commitments and contingencies

Shareowners' equity

Series D convertible junior preference stock.....	4	4
Common stock and additional paid in capital		
(par value \$0.10 per share, 75.3 million shares issued)	2,096	2,118
Retained earnings (deficit)	(604)	(833)
Accumulated other comprehensive loss	(789)	(778)
Common stock held in treasury, at cost		
(5.3 million and 6.5 million shares held).....	<u>(176)</u>	<u>(219)</u>

Total shareowners' equity..... 531 292

Total liabilities and shareowners' equity..... \$ 7,592 \$ 6,929

See Notes to the Financial Statements.

* See Note 23 to the Financial Statements.

STATEMENT OF CASH FLOW

Navistar International Corporation And Consolidated Subsidiaries

For the Years Ended October 31

Millions of dollars

	2004	2003	2002
		As Restated *	As Restated *
Cash flow from operations			
Net income (loss).....	\$ 247	\$ (21)	\$ (538)
Adjustments to reconcile net income (loss) to cash provided by (used in) operations:			
Depreciation and amortization	256	205	231
Deferred income taxes.....	50	(41)	(269)
Postretirement benefits funding less than (in excess of) expense.....	(158)	(11)	15
Postretirement benefits curtailment.....	(2)	(5)	157
Non-cash restructuring and other non-recurring charges	-	6	157
Non-cash charge related to discontinued operations.....	-	-	28
Gains on sales of receivables	(26)	(46)	(16)
Other, net.....	(144)	(65)	-
Change in operating assets and liabilities:			
Receivables, including wholesale notes	(417)	(121)	33
Inventories.....	(194)	125	(173)
Prepaid and other current assets	(6)	(51)	3
Accounts payable	401	88	(60)
Other liabilities.....	166	(115)	221
Cash provided by (used in) operations	173	(52)	(211)
Cash flow from investment programs			
Purchases of retail notes and lease receivables	(1,616)	(1,288)	(1,311)
Collections/sales of retail notes and lease receivables	1,418	1,856	1,197
Purchases of marketable securities	(427)	(807)	(49)
Sales or maturities of marketable securities	770	328	196
Proceeds from sale of business.....	2	-	63
Capital expenditures	(230)	(210)	(252)
Proceeds from sale-leasebacks	-	-	164
Property and equipment leased to others	5	20	(21)
Investment in affiliates	(25)	(1)	42
Other investment programs	(10)	(45)	(69)
Cash used in investment programs	(113)	(147)	(40)
Cash flow from financing activities			
Issuance of debt	64	228	361
Majority owned dealer debt.....	125	8	101
Principal payments on debt	(206)	(296)	(312)
Net increase (decrease) in notes and debt outstanding under revolving credit facility and commercial paper programs....	94	(68)	(104)
Proceeds from sale of stock to benefit plans	-	175	-
Premiums on call options, net	(27)	(26)	-
Debt issuance costs and other financing activities	28	10	18
Cash provided by financing activities.....	78	31	64
Cash and cash equivalents			
Increase (decrease) during the year	138	(168)	(187)
At beginning of the year.....	467	635	822
Cash and cash equivalents at end of the year	\$ 605	\$ 467	\$ 635

See Notes to Financial Statements.

*See Note 23 to the Financial Statements.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

1. SUMMARY OF ACCOUNTING POLICIES

Basis of Consolidation

Navistar International Corporation (NIC) is a holding company, whose principal operating subsidiary is International Truck and Engine Corporation (International). As used hereafter, “company” or “Navistar” refers to Navistar International Corporation and its consolidated subsidiaries. Navistar operates in three principal industry segments: truck, engine (collectively called “manufacturing operations”) and financial services.

The company’s truck segment is engaged in the manufacture and marketing of Class 6 through 8 trucks, including school buses, and operates primarily in the United States (U.S.), Canada, Mexico and other selected export markets. The company’s truck segment includes a number of majority owned International brand dealerships. The company’s engine segment is engaged in the design and manufacture of mid-range diesel engines and primarily operates in the U.S. and Brazil. The financial services operations of the company provide wholesale, retail and lease financing for new and used trucks sold by International and its dealers.

The consolidated financial statements include the results of the company’s manufacturing operations, majority owned dealers and its wholly owned financial services subsidiaries. The effects of transactions between the manufacturing, dealer and financial services operations have been eliminated to arrive at the consolidated totals. Certain 2002 and 2003 amounts have been reclassified to conform with the presentation used in the 2004 financial statements. On October 29, 2002, the company announced its decision to exit the domestic truck business in Brazil effective October 31, 2002. The financial results of this business have been classified as discontinued operations on the Statement of Income for all periods presented and are discussed in Note 12. In January 2005, the company concluded that it was necessary to restate its consolidated financial statements for the years ended October 31, 2003 and 2002, as discussed in Note 23 to the Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Truck operations recognize shipments of new trucks and service parts to dealers and retail customers as sales at the time of shipment to the customer. Price allowances, expected in the normal course of business, and the cost of special incentive programs are recorded at the time of sale. This estimate is based upon the assumption that a certain number of vehicles in dealer inventory will have a specific incentive applied against them. Engine sales are recognized at the time of shipment to original equipment manufacturers (OEMs). An allowance for losses on receivables is maintained at an amount that management considers appropriate in relation to the outstanding receivables portfolio and other business conditions, and is charged to selling, general and administrative expense when receivables are determined to be uncollectible.

Financial services operations recognize finance charges on finance receivables as income over the term of the receivables utilizing the interest method. Operating lease revenues are recognized on a straight-line basis over the life of the lease. Recognition of revenue is suspended when management determines the collection of future income is not probable. Selected receivables are securitized and sold to public and private investors with limited recourse. Financial services operations continue to service the sold receivables and receive a fee for such services. Gains or losses on sales of receivables are credited or charged to revenue in the period in which the sale occurs. Discount

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

accretion is recognized on an effective yield basis. An allowance for losses is maintained at a level deemed appropriate based on such factors as overall portfolio quality, historical loss experience and current economic conditions. Receivables are charged off to the allowance for losses when the receivable is determined to be uncollectible.

Cash and Cash Equivalents

All highly liquid financial instruments with maturities of three months or less from date of purchase, consisting primarily of bankers' acceptances, commercial paper, U.S. government securities and floating rate notes, are classified as cash equivalents on the Statements of Financial Condition and Cash Flow.

Marketable Securities

Marketable securities are classified as available-for-sale securities and are reported at fair value. The difference between amortized cost and fair value is recorded as a component of accumulated other comprehensive loss in shareowners' equity, net of applicable deferred taxes. Most securities with remaining maturities of less than twelve months and other investments needed for current cash requirements are classified as current within the Statement of Financial Condition. All equity securities are classified as current because they are highly liquid financial instruments, which can be readily converted to cash. Marketable securities used as collateral in NFC's revolving retail warehouse facility are invested in short-term instruments, but due to liquidity restrictions, these short-term marketable securities are classified as non-current. All other securities are classified as non-current.

Inventories

Inventories are valued at the lower of average cost or market.

Property and Other Long-Lived Assets

Significant expenditures for replacement of equipment, tooling and pattern equipment and major rebuilding of machine tools are capitalized. Manufacturing production assets placed in service after November 1, 2001, are depreciated on a units-of-production basis. Prior to November 1, 2001, manufacturing production assets were depreciated on a straight-line basis over the estimated useful lives of the assets. The impact of the change in depreciation on the net loss in fiscal 2002 was not material. The estimated depreciable lives of manufacturing production assets range from five to 12 years. Non-production related assets are depreciated on a straight-line basis over the estimated useful lives of the assets, which average 35 years for buildings and improvements and 12 years for all other assets. Gains and losses on property disposals are included in other income and expense. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets and the projected, undiscounted cash flows of the operations in which the long-lived assets are deployed.

Engineering and Research Expense

Engineering and research expense includes research and development expenses and routine ongoing costs associated with improving existing products and manufacturing processes. Research and development expenses, which include activities for the introduction of new truck and engine products and major improvements to existing products and processes, totaled \$207 million, \$216 million, and \$218 million in 2004, 2003 and 2002, respectively.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Product Related Costs

The company accrues warranty expense at the time of end product sale. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. Product liability expense is accrued based on the estimate of total future payments to settle product liability claims. The reserve is based upon two estimates. There is an appropriate case specific reserve and a third party actuarial analysis to determine the amount of additional reserve required to cover certain known claims and all incurred but not reported product liability issues.

Stock Based Compensation

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation" and Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation – Transition and Disclosure," encourage, but do not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The company has chosen to continue to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation cost has been recognized for fixed stock options because the exercise prices of the stock options equal the market value of the company's common stock at the date of grant. Further disclosure about the company's stock compensation plans can be found in Note 20. The following table illustrates the effect on the company's net income (loss) and earnings (loss) per share if the company had applied the fair value recognition provision of SFAS 123 in accordance with the disclosure provisions of SFAS 148.

Millions of dollars	2004	2003	2002
Net income (loss), as reported.....	\$ 247	\$ (21)	\$ (538)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(14)	(11)	(11)
Pro forma net income (loss)	<u>\$ 233</u>	<u>\$ (32)</u>	<u>\$ (549)</u>
Earnings (loss) per share:			
Basic – as reported	\$ 3.54	\$ (0.31)	\$ (8.92)
Basic – pro forma	\$ 3.34	\$ (0.47)	\$ (9.11)
Diluted – as reported	\$ 3.20	\$ (0.31)	\$ (8.92)
Diluted – pro forma	\$ 3.02	\$ (0.47)	\$ (9.11)

Foreign Currency

The financial statements of foreign subsidiaries are translated to U.S. dollars using the period-end exchange rate for assets and liabilities and a weighted-average exchange rate for each period for revenues and expenses. The functional currency for the majority of the company's foreign subsidiaries is the U.S. dollar. Translation adjustments for those subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive loss in shareowners' equity. Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in earnings as incurred, except for those transactions which hedge purchase commitments and for those intercompany balances which are designated as long-term investments. Net income (loss) included a foreign currency transaction gain of \$7 million in 2004 and \$11 million in 2003 and a foreign currency transaction loss of \$6 million in 2002.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

Derivative financial instruments are generally held for purposes other than trading. The company uses derivative financial instruments to reduce its exposure to interest rate volatility and to potentially increase the return on invested funds. The financial services operations may use forward contracts to hedge future interest payments on the notes and certificates related to an expected sale of receivables. The principal balance of receivables expected to be sold by NFC equals or exceeds the notional amount of open forward contracts. The financial services operations also use interest rate swaps and caps to reduce exposure to interest rate changes. All derivative instruments are recorded at fair value. For those instruments that do not qualify for hedge accounting, changes in fair value are recognized in income.

Sales of Receivables

NFC securitizes finance receivables through qualified special purpose entities (QSPE), which then issue securities to public and private investors. NFC sells receivables to the QSPEs with limited recourse. Gains or losses on sales of receivables are credited or charged to finance in the periods in which the sales occur. Retained interests, which include interest-only receivables, cash reserve accounts and subordinated certificates, are recorded at fair value in the periods in which the sales occur. The accretion of the discount related to the retained interests is recognized on an effective yield basis.

Management estimates the prepayment speed for the receivables sold, the discount rate used to determine the present value of the interest-only receivable and the anticipated net losses on the receivables in order to calculate the gain or loss. The method for calculating the gain or loss aggregates the receivables in a homogenous pool. Estimates are based on historical experience, anticipated future portfolio performance, market-based discount rates and other factors, and are made separately for each securitization transaction. In addition, NFC estimates the fair value of the retained interests on a quarterly basis. The fair value of the interest-only receivable is based on present value estimates of expected cash flows using management's key assumptions of prepayment speeds, discount rates and net losses.

Presentation of NFC's Receivables on Statement of Cash Flow

The company classifies NFC's wholesale notes and receivables from national accounts as cash flows from operations on its Statement of Cash Flow. These programs provide financing for the purchase of inventory directly from the company. NFC's retail notes and lease receivables, which provide financing to end customers primarily for the purchase of new and used trucks sold by the company's dealers, are classified as cash flows from investment programs on the Statement of Cash Flow.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities." This Interpretation addresses consolidation requirements of variable interest entities (VIEs). In December 2003, the FASB revised this Interpretation to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest for the entity to finance its activities without additional financial support. This Interpretation, as revised, is effective for periods ending after December 15, 2003. The company analyzed its minority investments and determined that it does not have an interest in a VIE, as defined within this Interpretation. Therefore, this Interpretation has no impact on the company's results of operations, financial condition, and cash flows.

In December 2003, the FASB issued a revision to SFAS No. 132 (SFAS 132), "Employers' Disclosure about Pensions and Other Postretirement Benefits." This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows, and net periodic benefit

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

1. SUMMARY OF ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The disclosures required by this Statement are included in Note 2.

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF 03-1 paragraph 21 requires specific disclosure for all investments in an unrealized loss position for which other than temporary impairments have not been recognized. The company does not have any investments in an unrealized loss position for which other-than-temporary impairments have not been recognized.

In May 2004, the FASB issued Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act) which provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. The company adopted this FSP as of May 1, 2004, retroactive to the effective date of the Act, December 8, 2003. See Note 2 for the required disclosures.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This Statement generally requires the recognition of the cost of employee services received in exchange for an award of equity instruments. This cost is based on the grant date fair value of the equity award and will be recognized over the period during which the employee is required to provide service in exchange for the award. The effective date for the company is the beginning of the fourth fiscal quarter of 2005. The company is evaluating the impact, if any, this Statement may have on its results of operations, financial condition or cash flows.

In December 2004, the FASB issued two FSP's that provide accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 (the Act) that was signed into law on October 22, 2004. The Act could affect how companies report their deferred income tax balances. The first FSP is FSP FAS 109-1 (FSP 109-1); the second is FSP FAS 109-2 (FSP 109-2). In FSP 109-1, the FASB concludes that the tax relief (special tax deduction for domestic manufacturing) from the Act should be accounted for as a "special deduction" instead of a tax rate reduction. FSP 109-2 gives a company additional time to evaluate the effects of the Act on any plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109, "Accounting for Income Taxes." However, a company must provide certain disclosures if it chooses to utilize the additional time granted by the FASB. The company is evaluating the impact, if any, these FSP's may have on its results of operations, financial condition or cash flows.

2. POSTRETIREMENT BENEFITS

The company provides postretirement benefits to a substantial portion of its employees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees and surviving spouses and dependents. In addition, as part of the 1993 restructured health care and life insurance plans, profit sharing payments to the Retiree Supplemental Benefit Trust (Trust) are required. The company utilizes an October 31 measurement date for all of its defined benefit plans.

Generally, the pension plans are non-contributory. The company's policy is to fund its pension plans in accordance with applicable U.S. and Canadian government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. At October 31, 2004, all legal funding requirements had been met. In 2005, the company expects to contribute approximately \$20 million to its pension plans to meet legal requirements.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

2. POSTRETIREMENT BENEFITS (continued)

The cost of postretirement benefits is segregated as a separate component on the Statement of Income and is as follows:

Millions of dollars	2004	2003	2002
Pension expense	\$ 64	\$ 113	\$ 77
Health/life insurance	139	184	151
Profit sharing provision to Trust	2	-	-
Total postretirement benefits expense	<u>\$ 205</u>	<u>\$ 297</u>	<u>\$ 228</u>

Net periodic postretirement benefits expense included on the Statement of Income is composed of the following:

Millions of dollars	Pension Benefits			Other Benefits		
	2004	2003	2002	2004	2003	2002
Service cost for benefits						
earned during the period.....	\$ 23	\$ 26	\$ 29	\$ 14	\$ 19	\$ 20
Interest on obligation	231	249	241	139	153	151
Amortization of cumulative losses	49	51	35	41	58	48
Amortization of prior service cost.....	6	3	39	-	-	-
Other	21	16	16	-	-	-
Less expected return on assets	(266)	(232)	(283)	(55)	(46)	(68)
Net postretirement benefits expense	<u>\$ 64</u>	<u>\$ 113</u>	<u>\$ 77</u>	<u>\$ 139</u>	<u>\$ 184</u>	<u>\$ 151</u>

“Other” includes the expense related to yearly lump-sum payments to retirees required by negotiated labor contracts, expense related to defined contribution plans, and other postretirement benefit costs. Plan amendments not arising from negotiated labor contracts and cumulative gains and losses for plans where approximately 90% or more of the plan participants are inactive are amortized over the average remaining life expectancy of the participants. For all remaining plans, costs are amortized over the average remaining service life of active employees. Plan amendments arising from negotiated labor contracts are amortized over the length of the contract.

The defined contribution plans cover a substantial portion of the salaried employees and certain represented employees of the company, who were first hired on or after January 1, 1996. Under the defined contribution plans, the company makes annual contributions to each participant’s retirement account based on an age-weighted percentage of the participant’s eligible compensation for the calendar year. The plans also contain a 401(k) feature and provide for a company match; currently 50% of the first 6% of pretax salary contributions are made on behalf of the participant.

Defined contribution expense pursuant to these plans was \$11 million, \$10 million and \$6 million in 2004, 2003, and 2002, respectively, which approximates the amount funded by the company.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

2. POSTRETIREMENT BENEFITS (continued)

The funded status of the company's plans as of October 31, 2004 and 2003, and reconciliation with amounts recognized on the Statement of Financial Condition are provided below.

Millions of dollars	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<u>Change in benefit obligation</u>				
Benefit obligation at beginning of year.....	\$ 3,982	\$ 3,566	\$ 2,442	\$ 2,238
Amendments.....	6	7	-	-
Service cost.....	23	26	14	19
Interest on obligation.....	231	249	139	153
Actuarial net loss.....	20	428	74	157
Currency rate conversion.....	19	38	12	15
Plan participants' contributions.....	-	-	30	27
Benefits paid.....	(331)	(305)	(207)	(187)
Restructuring.....	(2)	(27)	-	20
Benefit obligation at end of year.....	<u>\$ 3,948</u>	<u>\$ 3,982</u>	<u>\$ 2,504</u>	<u>\$ 2,442</u>
<u>Change in plan assets</u>				
Fair value of plan assets at beginning of year.....	\$ 2,988	\$ 2,578	\$ 632	\$ 535
Actual return on plan assets.....	230	514	45	139
Currency rate conversion.....	17	30	-	-
Employer contributions.....	231	164	10	10
Benefits paid.....	(323)	(298)	(63)	(52)
Fair value of plan assets at end of year.....	<u>\$ 3,143</u>	<u>\$ 2,988</u>	<u>\$ 624</u>	<u>\$ 632</u>
Funded status.....	\$ (805)	\$ (994)	\$ (1,880)	\$ (1,810)
Unrecognized actuarial net loss.....	1,293	1,283	1,070	1,025
Unrecognized prior service cost.....	27	23	-	-
Net amount recognized.....	<u>\$ 515</u>	<u>\$ 312</u>	<u>\$ (810)</u>	<u>\$ (785)</u>
<u>Amounts recognized on the Statement of Financial Condition consist of:</u>				
Prepaid benefit cost.....	\$ 49	\$ 45	\$ -	\$ -
Accrued benefit liability - current.....	(32)	(170)	(145)	(118)
- non-current.....	(717)	(766)	(665)	(667)
Intangible asset.....	24	21	-	-
Accumulated other comprehensive loss.....	1,191	1,182	-	-
Net amount recognized.....	<u>\$ 515</u>	<u>\$ 312</u>	<u>\$ (810)</u>	<u>\$ (785)</u>

The accumulated benefit obligation for pension benefits, a measure which excludes the effect of salary and wage increases, was \$3,892 million and \$3,940 million at October 1, 2004 and 2003, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$3,884 million, \$3,830 million and \$3,078 million, respectively, as of October 31, 2004, and \$3,928 million, \$3,872 million and \$2,928 million, respectively, as of October 31, 2003.

The minimum pension liability adjustment included in accumulated other comprehensive loss is recorded on the Statement of Financial Condition net of deferred income taxes of \$454 million and \$445 million at October 31, 2004 and 2003, respectively.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

2. POSTRETIREMENT BENEFITS (continued)

The weighted average rate assumptions used in determining benefit obligations were:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	2004	2003	2004	2003
Discount rate used to determine present value of benefit obligation at end of year	5.8%	6.2%	6.0%	6.6%
Expected rate of increase in future compensation levels.....	3.5%	3.5%	N/A	N/A

The weighted average rate assumptions used in determining net postretirement benefit expense were:

	<u>Pension Benefits</u>			<u>Other Benefits</u>		
	2004	2003	2002	2004	2003	2002
Discount rate.....	6.2%	7.2%	7.4%	6.5%	7.1%	7.4%
Expected long-term rate of return on plan assets	9.0%	9.0%	10.1%	9.0%	9.0%	11.0%
Expected rate of increase in future compensation levels.....	3.5%	3.5%	3.5%	N/A	N/A	N/A

The company determines its expected return on plan asset assumption by evaluating both historical returns as well as estimates of future returns. Specifically, the company analyzed the average historical broad market returns for various periods of time over the past 100 years for equities and over a 30 year period for fixed income securities, and adjusted the computed amount for any expected changes in the long-term outlook for both the equity and fixed income markets. The company considers its current asset mix as well as its targeted asset mix when establishing its expected return on plan assets.

The following table sets forth the weighted average percentage of plan assets by category at October 31:

Asset Category	Pension Benefits			Other Benefits		
	Target Range	2004	2003	Target Range	2004	2003
Equity securities						
Navistar common stock		7%	8%		9%	10%
Other equity securities		49%	48%		67%	67%
Hedge funds		7%	7%		9%	8%
Total equity securities	55-65%	<u>63%</u>	<u>63%</u>	75-85%	<u>85%</u>	<u>85%</u>
Debt securities						
		37%	35%		14%	13%
Other, including cash.....		-	2%		1%	2%
Total debt securities and other.....	35-45%	<u>37%</u>	<u>37%</u>	15-25%	<u>15%</u>	<u>15%</u>

The company's investment strategy is consistent with its policy to maximize returns while considering overall investment risk and the funded status of the plans relative to their benefit obligations. The company's investment strategy takes into account the long-term nature of the benefit obligations, the liquidity needs of the plans, and the expected risk/return tradeoffs of the asset classes in which the plans may choose to invest. Asset allocations are established through an investment policy, which is updated periodically and reviewed by a fiduciary committee and the board of directors. The company believes that returns on common stock over the long term will be higher than returns from fixed-income securities as the historical broad market indices have shown. Equity and fixed-income

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

2. POSTRETIREMENT BENEFITS (continued)

investments are made across a broad range of industries and companies to provide protection against the impact of volatility in any single industry or company. Under our policy, hedge funds are limited to no more than 15% of total assets. The long-term performance of our funds generally has outperformed our long-term return assumptions.

For 2005, the weighted average rate of increase in the per capita cost of covered health care benefits is projected to be 9.7%. The rate is projected to decrease to 5.0% by the year 2009 and remain at that level each year thereafter. The effect of changing the health care cost trend rate by one-percentage point for each future year is as follows, in millions:

	<u>One-Percentage Point Increase</u>	<u>One-Percentage Point Decrease</u>
Effect on total of service and interest cost components	\$ 19	\$ (16)
Effect on postretirement benefit obligation	249	(211)

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree healthcare plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. This subsidy covers a defined portion of an individual beneficiary's annual covered prescription drug costs, and is exempt from federal taxation.

In May 2004, the FASB issued FSP 106-2 which provides guidance on the accounting for the effects of the Act. The company adopted the provisions of FSP 106-2 in the third quarter of 2004, retroactive to December 8, 2003. The retroactive application of the Medicare subsidy reduced the company's 2004 postretirement benefit expense by \$32 million. The company's accumulated postretirement benefit obligation (APBO) was reduced by \$332 million at October 31, 2004, and \$271 million at December 8, 2003 for the subsidy related to benefits attributed to past service. The company used a 6.5% discount rate to value the related APBO at December 8, 2003, which was 0.1 percentage point lower than the discount rate used at October 31, 2003, and caused a \$23 million increase in the APBO as of that date.

The following estimated benefit payments are payable from the plans to participants:

<u>Millions of dollars</u>	<u>Estimated Benefit Payments</u>	
	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>
2005	\$ 349	\$ 205
2006	345	212
2007	338	197
2008	331	199
2009	323	199
2010 through 2014	1,472	954

The 2002 Plan of Restructuring, as described in Note 11, resulted in a curtailment loss of \$157 million related to the company's postretirement obligations. This loss was the result of an early retirement program for represented employees at the company's Springfield and Indianapolis plants and the planned closure of the Chatham facility. The decision to keep open the Chatham facility, the offer of an early retirement and voluntary severance program to certain employees at the Chatham facility, and the completion of the sign-up period for the early retirement window program offered to certain eligible, long serviced UAW employees, resulted in a net reduction to the previously

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

2. POSTRETIREMENT BENEFITS (continued)

recorded curtailment loss totaling \$2 million in 2004 and \$5 million in 2003. These adjustments are recorded as part of "Restructuring and other non-recurring charges" on the Statement of Income and are classified on the Statement of Financial Condition as Postretirement benefits liability.

3. INCOME TAXES

The domestic and foreign components of income (loss) from continuing operations before income taxes consist of the following:

Millions of dollars	2004	2003	2002
Domestic	\$ 244	\$ (100)	\$ (639)
Foreign	<u>67</u>	<u>51</u>	<u>(133)</u>
Total income (loss) before income taxes	<u>\$ 311</u>	<u>\$ (49)</u>	<u>\$ (772)</u>

The components of income tax expense (benefit) from continuing operations consist of the following:

Millions of dollars	2004	2003	2002
Current:			
Federal	\$ 6	\$ 1	\$ -
State and local.....	2	-	(2)
Foreign.....	<u>6</u>	<u>9</u>	<u>(2)</u>
Total current expense (benefit)	<u>14</u>	<u>10</u>	<u>(4)</u>
Deferred:			
Federal	63	(42)	(225)
State and local.....	5	(4)	(19)
Foreign.....	<u>(18)</u>	<u>4</u>	<u>(46)</u>
Total deferred expense (benefit)	<u>50</u>	<u>(42)</u>	<u>(290)</u>
Total income tax expense (benefit).....	<u>\$ 64</u>	<u>\$ (32)</u>	<u>\$ (294)</u>

The deferred tax expense (benefit) represents additional net operating losses, credits and future deductions that the company expects to utilize against future operating income. Consolidated net tax payments made during 2004, 2003 and 2002 were \$21 million, \$2 million and \$1 million, respectively.

A reconciliation of the statutory federal income tax rate to the effective income tax rate from continuing operations is as follows:

	2004	2003	2002
Statutory federal income tax rate	35%	(35)%	(35)%
State income taxes, net of federal income taxes	3	(8)	(3)
Research and development credits	(2)	(10)	(1)
Reversal of valuation reserve	(11)	-	-
Medicare reimbursement	(4)	-	-
International	1	(14)	2
Other	<u>(1)</u>	<u>1</u>	<u>(1)</u>
Effective income tax rate (benefit).....	<u>21%</u>	<u>(66)%</u>	<u>(38)%</u>

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

3. INCOME TAXES (continued)

Research and development tax credits of \$5 million, \$5 million and \$8 million were recorded for 2004, 2003 and 2002, respectively. The deferred tax asset valuation allowance was reduced in 2004 by \$34 million principally as a result of restructuring certain foreign operations. International tax benefits in 2003 relate principally to the favorable resolution of tax audits and strategic foreign tax planning, offset by additional tax related to foreign exchange rates.

Undistributed earnings of foreign subsidiaries were \$103 million, \$88 million and \$128 million at October 31, 2004, 2003, and 2002 respectively. Taxes have not been provided on these earnings because it is management's present intention to reinvest unremitted earnings in our foreign operations, and negligible withholding taxes are applicable upon repatriation of these earnings. Management is currently evaluating recent tax law changes under the American Jobs Creation Act of 2004, which create a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations as well as uncertainty as to how to interpret numerous provisions in the Act. As of this time, we have not concluded our analysis to determine whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S. Based on our analysis to date it is possible that we may repatriate funds of \$0 to \$50 million, with the respective tax liability ranging from \$0 to \$3 million. We expect to be able to finalize our assessment by the quarter ended July 31, 2005.

The components of the deferred tax asset (liability) at October 31 are as follows:

Millions of dollars	2004	2003
Deferred tax assets:		
NOL carryforwards	\$ 581	\$ 717
Alternative minimum tax and research and development credits	64	56
Postretirement benefits	530	505
Product liability and warranty	124	86
Restructuring and other non-recurring charges	52	76
Other liabilities	<u>171</u>	<u>152</u>
Gross deferred tax assets	1,522	1,592
Less valuation allowance	<u>(76)</u>	<u>(110)</u>
Net deferred tax asset	\$ 1,446	\$ 1,482
Deferred tax liabilities:		
Depreciation and other	\$ (33)	\$ (33)

The company performs extensive analysis to determine the amount of the net deferred tax asset. Such analysis is based on the premise that the company is, and will continue to be, a going concern and that it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Management reviews all available evidence, both positive and negative, to assess the long-term earnings potential of the company. The financial results are evaluated using a number of alternatives in economic cycles at various industry volume conditions. One significant factor considered is the company's role as a leading producer of heavy and medium trucks and school buses and mid-range diesel engines. Realization of the cumulative deferred tax asset, net of liabilities, is dependent on the generation of approximately \$3,700 million of future taxable income. Management believes that, with the combination of available tax planning strategies and the maintenance of significant truck and engine market share, sufficient earnings are achievable in order to realize the deferred tax asset, net of liabilities, of \$1,413 million.

Prepaid pension previously classified in deferred tax liabilities has been included in postretirement benefits deferred tax assets. Amounts recognized on the Statement of Financial Condition consist of:

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

3. INCOME TAXES (continued)

Millions of dollars	2004	2003
Deferred tax assets, current	\$ 207	\$ 183
Deferred tax assets, long term	<u>1,239</u>	<u>1,299</u>
Net deferred tax assets	<u>\$ 1,446</u>	<u>\$ 1,482</u>
Other long-term deferred tax liabilities.....	<u>\$ (33)</u>	<u>\$ (33)</u>

At October 31, 2004, the company had \$1,466 million of domestic and \$72 million of foreign NOL carryforwards and \$44 million of research and development credits and \$20 million of domestic and foreign alternative minimum tax available to offset future taxable income. Domestic and foreign NOL carryforwards will expire as follows, in millions of dollars:

	NOLs
2008	\$ 337
2009	14
2011	179
2013	6
2021	129
2022	399
2023	408
Indefinite	<u>66</u>
Total	<u>\$ 1,538</u>

Additionally, the reversal of net temporary differences of \$2,203 million as of October 31, 2004, will create net tax deductions, which, if not utilized previously, will expire subsequent to 2024.

4. MARKETABLE SECURITIES

The fair value of marketable securities is estimated based on quoted market prices, when available. If a quoted price is not available, fair value is estimated using quoted market prices for similar financial instruments.

Information related to the company's marketable securities at October 31 is as follows:

Millions of dollars	2004		2003	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Corporate securities.....	\$ 76	\$ 76	\$ 520	\$ 520
U.S. government securities	<u>179</u>	<u>179</u>	<u>75</u>	<u>75</u>
Total marketable securities	<u>\$ 255</u>	<u>\$ 255</u>	<u>\$ 595</u>	<u>\$ 595</u>

Contractual maturities of marketable securities at October 31 are as follows:

Millions of dollars	2004		2003	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 245	\$ 245	\$ 584	\$ 584
Due after one year through five years	<u>10</u>	<u>10</u>	<u>11</u>	<u>11</u>
Total marketable securities	<u>\$ 255</u>	<u>\$ 255</u>	<u>\$ 595</u>	<u>\$ 595</u>

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

4. MARKETABLE SECURITIES (continued)

Gross gains and losses realized on sales or maturities of marketable securities were not material for each of the three years ended October 31, 2004. The marketable securities balance at October 31, 2004 and 2003, includes \$63 million and \$506 million, respectively, of restricted marketable securities used as collateral in NFC's revolving retail warehouse facility. The entire portfolios are invested in short-term instruments, but due to liquidity restrictions, these short-term marketable securities are classified as long-term.

5. RECEIVABLES

Receivables at October 31 are summarized by major classification as follows:

Millions of dollars	2004	2003
Accounts receivable	\$ 753	\$ 618
Retail notes	888	587
Lease financing.....	181	191
Wholesale notes.....	263	128
Amounts due from sales of receivables	384	349
Allowance for losses	(32)	(50)
Total receivables, net.....	2,437	1,823
Less current portion.....	(1,215)	(932)
Finance and other receivables, net.....	<u>\$ 1,222</u>	<u>\$ 891</u>

The financial services segment purchases the majority of the wholesale notes receivable and some retail notes and accounts receivable arising from the company's manufacturing operations.

The current portion of finance and other receivables is computed based on contractual maturities. The actual cash collections may vary from the contractual cash flows because of sales, prepayments, extensions and renewals. The contractual maturities, therefore, should not be regarded as a forecast of future collections. Contractual maturities of accounts receivable, retail notes, lease financing and wholesale notes, including unearned finance income, at October 31, 2004, were: 2005 - \$1,245 million, 2006 - \$412 million, 2007 - \$200 million, 2008 - \$157 million, 2009 - \$122 million and 2010 and thereafter - \$40 million. Unearned finance income totaled \$91 million at October 31, 2004 and \$67 million at October 31, 2003.

6. SALES OF RECEIVABLES

NFC's primary business is to provide wholesale, retail and lease financing for new and used trucks sold by International and International's dealers and, as a result, NFC's finance receivables and leases have significant concentration in the trucking industry. On a geographic basis there is not a disproportionate concentration of credit risk in any area of the United States. NFC retains as collateral an ownership interest in the equipment associated with leases and a security interest in equipment associated with wholesale notes and retail notes.

NFC securitizes and sells receivables through Navistar Financial Retail Receivable Corp. (NFRRC), Navistar Financial Securities Corp. (NFSC), Truck Retail Accounts Corp. (TRAC) and Truck Engine Receivables Financing Co. (TERFCO), all special purpose, wholly owned subsidiaries (SPC's) of NFC. The sales of receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold receivables are removed from the company's consolidated balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities.

In fiscal 2004, NFC sold \$1,120 million of retail notes and finance leases receivables, net of unearned finance income, through NFRRC in three separate sales. NFC sold \$195 million of finance receivables during the quarter ended January 2004, \$600 million during the quarter ended April 2004, and \$325 million

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

6. SALES OF RECEIVABLES (continued)

during the quarter ended July 2004 to trusts and conduits which, in turn, issued asset-backed securities that were sold to investors. Pre-tax gains of \$26 million were recognized on the sales. In fiscal 2003, NFC sold \$1,750 million of finance receivables to trusts which, in turn, issued asset-backed securities. Aggregate gains of \$46 million were recognized on the sales. In fiscal 2002, NFC sold \$1,000 million of finance receivables to trusts which, in turn, issued asset-backed securities. Aggregate gains of \$16 million were recognized on the sales.

As of October 31, 2004, NFSC has in place a revolving wholesale note trust that provides for the funding of up to \$1,186 million of eligible wholesale notes. The trust is comprised of a \$200 million tranche of investor certificates maturing in 2008, three \$212 million tranches of investor certificates maturing in 2005, 2006, and 2007, variable funding certificates with a maximum capacity of \$200 million maturing in February 2005 and a seller certificate of \$150 million. As of October 31, 2004, NFC had utilized \$1,132 million of the revolving wholesale note trust.

During the second quarter of 2004, TRAC obtained financing for its retail accounts with a bank conduit that provides for the funding of up to \$100 million of eligible retail accounts. The revolving retail account facility expires in April 2005. The sales of retail accounts under TRAC constitute sales under generally accepted accounting principles in the United States of America, with the result that the sold accounts are removed from NFC's balance sheet and the investor's interests are not reflected as liabilities. TRAC is a separate corporate entity, and its assets will be available first and foremost to satisfy the claims of the creditors of TRAC. As of October 31, 2004, this facility was fully utilized.

As of October 31, 2004, TERFCO has in place a revolving trust that provides for the funding of up to \$100 million of eligible Ford Motor Company accounts receivables. This facility, which will expire in 2005, was fully utilized as of October 31, 2004.

The SPC's have limited recourse on the sold receivables. The SPC's assets are available to satisfy the creditors' claims prior to such assets becoming available for the SPC's own uses or to NFC or affiliated companies. The terms of receivable sales generally require NFC to provide credit enhancements in the form of overcollateralizations and/or cash reserves with the trusts and conduits. The use of such cash reserves by NFC is restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions as of October 31, 2004 was \$383 million.

NFC's management estimates the prepayment speed for the receivables sold, expected net credit losses and the discount rate used to determine the present value of the interest-only receivables in order to calculate the gain or loss. Estimates of prepayment speeds, expected credit losses, and discount rates are based on historical experience and other factors and are made separately for each securitization transaction. In addition, NFC estimates the fair value of the retained interests on a quarterly basis utilizing updated estimates of these factors.

Key economic assumptions used in measuring the retained interests at the date of the sale for sales of retail notes and finance leases completed during fiscal 2004 were a prepayment speed of 1.2 to 1.4, weighted average life of 43 months, expected credit losses of 0.55%, an interest-only receivable discount rate of 15.2% to 15.3% and a reserve account discount rate of 3.2% to 4.1%. For those sales completed during fiscal 2003 the assumptions used were a prepayment speed of 1.2 to 1.4, weighted average life of 43 months, expected credit losses of 0.76%, an interest-only receivable discount rate of 15.5% to 18.1% and a reserve account discount rate of 3.1% to 4.4%. For those sales completed during fiscal 2002 the assumptions used were a prepayment speed of 1.2 to 1.4, weighted average life of 41 months, expected credit losses of 0.68%, an interest-only receivable discount rate of 16.9% to 18.2% and a reserve account discount rate of 5.1% to 5.6%.

The impact of a hypothetical 10% adverse change in these assumptions would have no material effect on the fair value of the retained interests as of October 31, 2004. These sensitivities are hypothetical and should be used with caution. The effect of a variation of a particular assumption on the fair value of the retained interests is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

6. SALES OF RECEIVABLES (continued)

Serviced, sold and owned receivables balances are summarized below:

Millions of dollars	2004				2003			
	<u>Retail & Finance</u>	<u>Wholesale</u>	<u>Accounts</u>	<u>Total</u>	<u>Retail & Finance</u>	<u>Wholesale</u>	<u>Accounts</u>	<u>Total</u>
Service portfolio	\$ 2,758	\$ 1,305	\$ 488	\$ 4,551	\$ 2,506	\$ 861	\$ 401	\$ 3,768
Less sold receivables	<u>1,943</u>	<u>1,132</u>	<u>200</u>	<u>3,275</u>	<u>1,986</u>	<u>815</u>	<u>100</u>	<u>2,901</u>
Owened portfolio	<u>\$ 815</u>	<u>\$ 173</u>	<u>\$ 288</u>	<u>\$ 1,276</u>	<u>\$ 520</u>	<u>\$ 46</u>	<u>\$ 301</u>	<u>\$ 867</u>

Certain cash flows received from (paid to) securitization trusts/conduits were as follows for fiscal years:

Millions of dollars	2004	2003	2002
Proceeds from sales of finance receivables	\$ 1,119	\$ 1,701	\$ 999
Proceeds from sales of finance receivables into revolving facilities	6,372	4,938	4,883
Servicing fees received	30	28	27
Repurchase of receivables in breach of terms	(28)	(69)	(129)
Cash used in exercise of purchase option	(87)	(140)	(85)
Servicing advances, net of reimbursements.....	5	7	28
Cash received upon release from reserve accounts.....	91	83	125
All other cash received from trusts	90	104	94

7. INVENTORIES

Inventories at October 31 are as follows:

Millions of dollars	2004	2003
Finished products	\$ 505	\$ 377
Work in process.....	47	47
Raw materials and supplies	<u>238</u>	<u>168</u>
Total inventories	<u>\$ 790</u>	<u>\$ 592</u>

8. PROPERTY AND EQUIPMENT

At October 31, property and equipment includes the following:

Millions of dollars	2004	2003
Land	\$ 15	\$ 17
Buildings, machinery and equipment at cost:		
Plants	1,944	1,789
Distribution	89	97
Construction in progress	135	143
Net investment in equipment subject to operating leases	174	206
Other	<u>438</u>	<u>440</u>
Total property	2,795	2,692
Less accumulated depreciation and amortization.....	<u>(1,351)</u>	<u>(1,253)</u>
Total property and equipment, net	<u>\$ 1,444</u>	<u>\$ 1,439</u>

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

8. PROPERTY AND EQUIPMENT (continued)

Total property includes property under capitalized lease obligations of \$16 million at both October 31, 2004 and 2003. Future minimum rentals on net investments in operating leases are: 2005 - \$47 million, 2006 - \$33 million, 2007 - \$20 million, 2008 - \$14 million, 2009 - \$8 million and 2010 and thereafter - \$10 million. Capitalized interest for 2004, 2003 and 2002 was \$6 million, \$7 million and \$14 million, respectively.

In 2003, the company made a non-cash investment in the Blue Diamond Truck joint venture of \$133 million. This investment included the transfer of fixed assets totaling \$148 million and net deferred tax liabilities of \$15 million.

9. DEBT

Millions of dollars	2004	2003
Manufacturing operations		
Notes payable and other current maturities of long-term debt	\$ 10	\$ 33
Majority owned dealership debt	<u>61</u>	<u>40</u>
Total short-term debt	<u>71</u>	<u>73</u>
7.5% Senior Notes, due 2011, net of unamortized discount of \$2	248	-
8% Senior Subordinated Notes, due 2008	-	250
2.5% Senior Convertible Notes, due 2007	190	190
9 3/8% Senior Notes, due 2006	400	400
4.75% Subordinated Exchangeable Notes, due 2009	220	-
Bank term loans	-	8
9.95% Senior Notes, due 2011	13	15
Majority owned dealership debt	<u>187</u>	<u>130</u>
Total long-term debt	<u>1,258</u>	<u>993</u>
Manufacturing operations debt	<u>1,329</u>	<u>1,066</u>
Financial services operations		
Current maturities of long-term debt	571	88
Bank revolvers, variable rates	<u>181</u>	<u>93</u>
Total short-term debt	<u>752</u>	<u>181</u>
Bank revolvers, variable rates, due 2005	705	689
Revolving retail warehouse facility, variable rates, due 2005	-	500
4.75% Subordinated Exchangeable Notes, due 2009	-	220
Secured borrowings, 3.7% to 6.7%, due serially through 2010	<u>82</u>	<u>124</u>
Total long-term debt	<u>787</u>	<u>1,533</u>
Financial services operations debt	<u>1,539</u>	<u>1,714</u>
Total debt	<u>\$ 2,868</u>	<u>\$ 2,780</u>

In June 2004, the company assumed the \$220 million 4.75% Subordinated Exchangeable Notes due in 2009 from NFC and received approximately \$170 million in cash from NFC as compensation for assumption of the debt. The company previously received \$50 million from NFC as compensation for providing the shares in case the bonds convert.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

9. DEBT (continued)

In June 2004, the company issued \$250 million in Senior Notes due in 2011 and used the proceeds to finance its offer to purchase and redeem its outstanding 8% Senior Subordinated Notes due in 2008. The company obtained certain amendments from existing bondholders of its \$400 million 9 3/8% Senior Notes due in 2006 that permitted the refinancing and the amendment of other covenant limitations. The new Senior Notes were priced at a discount with a coupon rate of 7.50% to yield 7.625%.

The company's majority owned dealerships have debt to finance their inventory. This debt is typically settled within 6 months of issuance and has been properly classified as short-term.

The company arranged financing for \$342 million of funds denominated in U.S. dollars and Mexican pesos to be used for investment in the company's Mexican financial services operations. As of October 31, 2004, borrowings outstanding under these arrangements were \$215 million, of which 26% is denominated in dollars and 74% in pesos. The interest rates on the dollar-denominated debt are at a negotiated fixed rate or at a variable rate based on LIBOR. On peso-denominated debt, the interest rate is based on the Interbank Interest Equilibrium Rate. The effective interest rate for the combined dollar and peso denominated debt was 6.6% for 2004 and 8.1% for 2003.

The company has certain debt agreements that limit its ability to incur additional indebtedness, pay dividends, buy back stock and take other actions. The company and International are also obligated under certain agreements with public and private lenders of NFC to maintain that subsidiary's income before interest expense and income taxes at not less than 125% of its total expense. In addition, NFC has an \$820 million contractually committed bank revolving credit facility, maturing in November 2005, which requires NFC to maintain certain financial ratios. The company's three Mexican finance subsidiaries also have debt covenants, which require the maintenance of certain financial ratios.

The aggregate contractual annual maturities for debt for the years ended October 31 are as follows:

Millions of dollars	Manufacturing Operations	Financial Services Operations	Total
2005	\$ 71	\$ 752	\$ 823
2006	456	736	1,192
2007	50	34	84
2008	243	13	256
2009	245	4	249
2010 and thereafter	<u>266</u>	<u>-</u>	<u>266</u>
Total	<u>\$ 1,331</u>	<u>\$ 1,539</u>	<u>\$ 2,870</u>

The weighted average interest rate on total debt, including short-term, and the effect of discounts and related amortization is as follows for the years ended:

October 31, 2004	6.1%	3.8%	4.8%
October 31, 2003	6.9%	4.6%	5.5%

Consolidated interest payments were \$129 million, \$150 million and \$166 million in fiscal 2004, 2003 and 2002, respectively.

NFC enters into secured borrowing agreements involving vehicles subject to finance and operating leases with retail customers. The outstanding balances are classified under financial services operations debt as secured borrowings.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

9. DEBT (continued)

As part of outstanding long-term debt agreements with various lenders, the company is obligated to timely file, and/or deliver to the lender, a copy of its annual filings with the Securities and Exchange Commission (SEC). The delay in filing the company's Form 10-K, did not result in the automatic acceleration of maturity of any series of the company's debt. In addition, the trustees or the holders of the long-term debt of the company, excluding NFC, did not declare the company in default due to its non-compliance with the filing requirement. If a notice of default would have been brought against the company and the company was not able to cure the event of default within a specified time period, the principal amount and all accrued interest would have been due and payable. In addition, any acceleration in the maturity of the company's long-term debt could have led to the acceleration of the maturity of the indebtedness of the company's other indentures, an automatic default and termination of used commitments under NFC's revolving credit facility and default under certain other indebtedness of the company and NFC. NFC has similar annual filing obligations under its credit agreements with various lenders. NFC, after obtaining the necessary waivers from certain lenders, was not held in default under any of its obligations and did not incur other adverse actions with respect to its credit facilities as a result of its delay in filing. The company believes that the NFC defaults will be cured prior to the expiration of the related waivers through the delivery of NFC's Annual Reports on Form 10-K and the related information.

10. OTHER LIABILITIES

Major classifications of other liabilities at October 31 are as follows:

Millions of dollars	2004	2003
Product liability and warranty.....	\$ 358	\$ 253
Employee incentive programs.....	63	6
Payroll, commissions and employee-related benefits.....	71	71
Postretirement benefits liability	183	294
Dealer reserves	25	22
Taxes.....	51	76
Sales and marketing	46	56
Long-term disability and workers' compensation.....	48	52
Environmental	10	8
Interest	29	30
Restructuring and other non-recurring charges	97	157
Other	<u>368</u>	<u>286</u>
Total other liabilities	<u>1,349</u>	<u>1,311</u>
Less current portion.....	<u>(965)</u>	<u>(905)</u>
Other long-term liabilities	<u>\$ 384</u>	<u>\$ 406</u>

11. RESTRUCTURING AND OTHER NON-RECURRING CHARGES

Restructuring Charges

In 2000 and 2002, the company's board of directors approved separate plans to restructure its manufacturing and corporate operations. The company incurred charges for severance and other benefits, curtailment losses, lease terminations, asset and inventory write-downs and other exit costs relating to these plans. The following are the major restructuring, integration and cost reduction initiatives originally included in the 2000 and 2002 Plans of Restructuring (Plans of Restructuring):

- Replacement of steel cab trucks with a new line of High Performance Vehicles (HPV) and a concurrent realignment of the company's truck manufacturing facilities
- Launch of the next generation technology diesel engines (NGD)

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

11. RESTRUCTURING AND OTHER NON-RECURRING CHARGES (continued)

Restructuring Charges (continued)

- Consolidation of corporate operations
- Realignment of the bus and truck dealership network and termination of various dealerships' contracts
- Closure of certain facilities and operations and exit of certain activities including the Chatham, Ontario heavy truck assembly facility, the Springfield, Ohio body plant and a manufacturing production line within one of the company's plants
- Offer of early retirement and voluntary severance programs to certain union represented employees

The Plans of Restructuring originally called for a reduction in workforce of approximately 5,400 employees, primarily in North America, resulting in charges totaling \$169 million. The decision, in 2003, to keep open the Chatham facility along with changes in staffing requirements at other manufacturing facilities lowered the total number of employee reductions to 4,200. The change in expected employee reductions along with an evaluation of the severance reserves related to the HPV and NGD product programs resulted in a net reversal to the previously recorded severance and other benefits reserves totaling \$46 million in 2003. In 2004, the company recorded a net favorable adjustment of \$4 million to previously recorded charges. This adjustment was necessary to relieve excess reserves caused by employees returning to work due to increases in vehicle production and the timing of employee acceptance of the UAW window program and to record additional charges for those employees who accepted the early retirement and voluntary severance program at the Chatham facility since October 31, 2003.

A curtailment loss of \$157 million was recorded in 2002 relating to the company's postretirement plans. This loss was the result of an early retirement program for represented employees at the company's Springfield and Indianapolis plants and the planned closure of the Chatham facility. In 2003, the decision to keep open the Chatham facility, the offer of an early retirement and voluntary severance program to certain employees at the Chatham facility, and the completion of the sign-up period for the early retirement window program offered to certain eligible, long-serviced UAW employees, resulted in a net reduction to the previously recorded curtailment loss totaling \$5 million. A \$2 million adjustment in 2004 finalized the postretirement curtailment charge taken in 2003. The curtailment liability has been classified as a Postretirement benefits liability on the Statement of Financial Condition.

Lease termination charges include estimated lease costs, net of probable sublease income, under long-term non-cancelable lease agreements. These charges primarily relate to the lease at the company's previous corporate office in Chicago, Illinois, which expires in 2010. The company recorded a favorable adjustment of \$7 million in 2004 due to a change in estimate on sublease income.

Dealer termination costs include the termination of certain dealer contracts in connection with the realignment of the company's bus distribution network. Other exit costs include contractually obligated exit and closure costs associated with facility closures and an accrual for the loss on sale of Harco National Insurance Company (Harco). An adjustment of \$2 million was recorded in 2004 for additional costs associated with the realignment of our dealer network.

Other Non-Recurring Charges

In October 2002, Ford Motor Company (Ford) advised the company that its current business case for a V-6 diesel engine in the specified vehicles was not viable and discontinued its program for the use of these engines. Accordingly, the company recorded charges of \$170 million for the write-off of deferred pre-production costs, the write-down of fixed assets that were abandoned, lease obligations under non-cancelable operating leases and accruals for amounts contractually owed to suppliers. In 2003, the company recorded an adjustment of \$11 million for additional amounts contractually owed to suppliers related to the V-6 diesel engine program. In April 2003, the company reached a comprehensive agreement with Ford concerning the termination of its V-6 diesel engine

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

11. RESTRUCTURING AND OTHER NON-RECURRING CHARGES (continued)

Other Non-Recurring Charges (continued)

program. The terms of the agreement included compensation to neutralize certain current and future V-6 diesel engine program related costs not accrued for as part of the 2002 non-recurring charge, resolution of ongoing pricing related to the company's V-8 diesel engine program and a release by the parties of all of their obligations under the V-6 diesel engine contract. The company, under current agreements, will continue as Ford's exclusive supplier of V-8 diesel engines through 2012. The agreement with Ford does not have a material net impact on the Statement of Financial Condition or the Statement of Income for the periods covered in this report. In 2004, the company recorded an adjustment of \$6 million for additional amounts contractually owed to suppliers related to the V-6 diesel engine program.

Summary

Through October 31, 2004, the company recorded cumulative charges of \$818 million relating to the Plans of Restructuring and other non-recurring charges. The remaining liability of \$97 million is expected to be funded from existing cash balances and internally generated cash flows from operations. The total cash outlay for 2005 is expected to be \$18 million with the remaining obligation of \$79 million, primarily related to non-recurring charges and long-term non-cancelable lease agreements, to be settled in 2006 and beyond.

Components of the company's Plans of Restructuring and other non-recurring charges are shown in the following table.

Millions of dollars	Balance October 31 2002	Adjustments	Amount Incurred	Balance October 31 2003	Adjustments	Amount Incurred	Balance October 31 2004
Severance and other benefits	\$ 112	\$ (46)	\$ (45)	\$ 21	\$ (4)	\$ (17)	\$ -
Curtailment loss	-	(5)	5	-	2	(2)	-
Lease terminations	30	6	(3)	33	(7)	(5)	21
Inventory write-downs	-	9	(9)	-	-	-	-
Other asset write-downs	-	1	(1)	-	-	-	-
Dealer terminations and other charges ..	50	(8)	(13)	29	2	(19)	12
Other non-recurring charges	104	11	(41)	74	6	(16)	64
Total	<u>\$ 296</u>	<u>\$ (32)</u>	<u>\$ (107)</u>	<u>\$ 157</u>	<u>\$ (1)</u>	<u>\$ (59)</u>	<u>\$ 97</u>

The adjustments made in 2003 were primarily to record the reversal of severance and other benefit reserves related to the decision to keep the Chatham, Ontario plant open. Amounts incurred are, primarily, cash payments. The change in the restructuring liability between 2002 and 2003 includes foreign exchange gains of \$4 million. The fiscal 2004 adjustments are included in "Restructuring and other non-recurring charges" on the Statement of Income. The company is in the process of completing certain aspects of the Plans of Restructuring and will continue to evaluate the remaining restructuring reserves as the plans are executed. As a result, there may be additional adjustments to the reserves noted above. Since the company-wide restructuring plans are an aggregation of many individual components requiring judgments and estimates, actual costs have differed from estimated amounts.

12. DISCONTINUED OPERATIONS

In October 2002, the company announced its decision to discontinue the domestic truck business in Brazil (Brazil Truck) effective October 31, 2002. In connection with this discontinuance, the company recorded a loss on disposal of \$46 million. The loss relates to the write-down of assets to fair value, contractual settlement costs for the termination of the dealer contracts, severance and other benefits costs, and the write-off of Brazil Truck's cumulative translation adjustment due to the company's substantial liquidation of its investment in Brazil Truck.

The disposal of Brazil Truck has been accounted for as discontinued operations in accordance with SFAS 144. Accordingly, the operating results of Brazil Truck have been classified as "Discontinued operations" and prior periods have been restated.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

12. DISCONTINUED OPERATIONS (continued)

Net sales and loss from the discontinued operation for Brazil Truck for the years ended October 31, are as follows, in millions:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net Sales	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>
Loss from discontinued operations	-	-	(12)
Loss on disposal	-	(4)	(46)
Income tax expense	-	-	(2)
Net loss from discontinued operations	<u>\$ -</u>	<u>\$ (4)</u>	<u>\$ (60)</u>

Assets and liabilities of Brazil Truck as of October 31, are as follows, in millions:

	<u>2004</u>	<u>2003</u>
Current assets.....	\$ 1	\$ 3
Current liabilities	-	2
Long-term liabilities	13	14

13. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying amounts of financial instruments, as reported on the Statement of Financial Condition and described in various Notes to the Financial Statements, and their fair values at October 31 are as follows:

	<u>2004</u>		<u>2003</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Millions of dollars				
Total receivables, net.....	\$ 2,437	\$ 2,407	\$ 1,823	\$ 1,842
Long-term investments and other assets	542	544	465	474
Total debt.....	2,868	2,939	2,780	2,897

Cash and cash equivalents approximate fair value. The cost and fair value of marketable securities are disclosed in Note 4.

The fair values of receivables are estimated by discounting expected cash flows at estimated current market rates. Customer receivables, wholesale notes and retail and wholesale accounts approximate fair value as a result of the short-term nature of the receivables.

The fair value of long-term investments and other assets is estimated based on quoted market prices or by discounting future cash flows.

The short-term debt and variable-rate borrowings under NFC's bank revolving credit agreement, which are repriced frequently, approximate fair value. The fair value of long-term debt is estimated based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar financial instruments or discounting future cash flows.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

13. FINANCIAL INSTRUMENTS (continued)

Derivatives Held or Issued for Purposes Other Than Trading

The company uses derivative financial instruments as part of its overall interest rate and foreign currency risk management strategy to reduce its exposure to interest rate volatility, to potentially increase the return on invested funds and to reduce exposure to exchange rate risk related to purchases denominated in currencies other than the functional currency. In addition, the company has entered into derivative contracts which allow the company to minimize share dilution associated with convertible debt.

The financial services operations manage exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt. This is accomplished by selling fixed rate receivables on a fixed rate basis and by utilizing derivative financial instruments. These derivative financial instruments may include interest rate swaps, interest rate caps, forward contracts and cross currency swaps. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk as the instruments may become less valuable due to changes in market conditions or interest rates. NFC manages exposure to counterparty credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. NFC does not require collateral or other security to support derivative financial instruments with credit risk. NFC's credit exposure is limited to the positive fair value of contracts at the reporting date. Notional amounts of derivative financial instruments do not represent exposure to credit loss.

At October 31, 2004, the notional amounts and fair values of the company's derivatives are presented in the following table, in millions. The fair values of all derivatives are recorded in other assets or other liabilities on the Statement of Financial Condition.

Inception Date	Maturity Date	Derivative Type	Notional Amount	Fair Value
June 2004	June 2011	Interest rate swaps	\$ 250	\$ 9
August 2004 – July 2006	July 2006	Forward starting swaps	400	(1)
October 2000 – July 2004	April 2006 – September 2008	Interest rate swaps*	40	-
October 2000 – June 2004	November 2003 – November 2012	Interest rate caps	1,020	-
July 2004	August 2004	Cross currency swaps*	10	-

* Accounted for as non-hedging instruments

In June 2004, the company entered into fixed-for-floating interest rate swap agreements with several counterparties for its 7.5% \$250 million fixed-rate public notes. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk as the instruments may become more or less valuable due to changes in market conditions or interest rates. The company manages exposure to counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. These transactions are accounted for as cash flow hedges and consequently, to the extent that the hedge is effective, gains and losses on these derivatives are recorded in other comprehensive income.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

13. FINANCIAL INSTRUMENTS (continued)

Derivatives Held or Issued for Purposes Other Than Trading (continued)

In October 2000, NFC entered into a \$500 million retail revolving facility as a method to fund retail notes and finance leases prior to the sale of receivables. Under the terms of this facility, NFC sells fixed rate retail notes or finance leases to the conduit and pays investors a floating rate of interest. As required by the rating agencies, NFC purchased an interest rate cap to protect investors against rising interest rates. To offset the economic cost of this cap, NFC sold an identical interest rate cap. These transactions are accounted for as hedging derivative instruments.

In July 2001, NFC entered into an interest rate swap agreement to fix a portion of its floating rate revolving debt. This transaction is accounted for as a cash flow hedge and, consequently, to the extent that the hedge is effective, gains and losses on this derivative are recorded in other comprehensive income. There has been no ineffectiveness related to this derivative since inception.

In November 2002, NFC entered into an interest rate swap agreement in connection with a sale of retail notes and finance lease receivables. The purpose of the swap was to convert the floating rate portion of the asset-backed securities issued into fixed rate interest to match the interest basis of the receivables pool sold to the owner trust, and to protect NFC from interest rate volatility. The notional amount of this swap is calculated as the difference between the actual pool balances and the projected pool balances. The outcome of the swap results in NFC paying a fixed rate of interest on the projected balance of the pool. To the extent that actual pool balances differ from the projected balances, NFC has retained interest rate exposure on this difference. This transaction is accounted for as a non-hedging derivative instrument.

In October 2003, NFC entered into an interest rate swap agreement in connection with a sale of retail notes and finance leases receivables. The purpose and structure of this swap agreement is similar to the swap agreement entered into in November 2002. This transaction is accounted for as a non-hedging derivative instrument.

In August through October 2004, NFC, in connection with anticipated sale of retail notes receivables, entered into forward starting swap agreements with a total notional value of \$400 million. The purpose of these derivative instruments is to swap floating rate debt to a fixed rate to protect against sharp moves in interest rates between the date of the swap and the anticipated receivable sale date. These derivatives are accounted for as a non-hedging derivative instrument with changes in fair value recognized in income. These derivatives were closed on November 3, 2004.

On July 30, 2004, NFC entered into an agreement for the fast pay / slow pay differential with respect to an interest rate swap agreement. Under the terms of the agreement, NFC will make or receive payments based on the variance between the actual net principal balance and the amortizing notional schedule and on changes in interest rates. The purpose of the fast pay / slow pay agreement is to ensure adequate cash flows to the conduit. This transaction is accounted for as a non-hedging derivative instrument.

In fiscal 2004, NFC's forward starting swap losses were \$4 million, compared with \$9 million in 2003 and 2002.

As of October 31, 2004, the company's Mexican finance subsidiaries had outstanding interest rate swaps with aggregate notional amounts of \$25 million, interest rate caps with aggregate notional amounts of \$20 million, and cross currency swaps with notional amounts of \$10 million. These transactions are accounted for as cash flow hedges.

In addition to those instruments previously described, the company entered into two call option derivative contracts in connection with the issuance of the \$190 million senior convertible notes in December 2002. The purchased call option and written call option will allow the company to minimize share dilution associated with the convertible debt. In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments indexed to, and Potentially Settled in, a Company's Own Stock," the company has recorded these instruments in permanent equity, and will not recognize subsequent changes in fair value as long as the instruments remain classified as equity. In

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

13. FINANCIAL INSTRUMENTS (continued)

Derivatives Held or Issued for Purposes Other Than Trading (continued)

2004, the company amended its written call option derivative contracts to raise the effective conversion price from \$53.40/share to \$75.00/share. This action minimizes the share dilution associated with convertible debt from the conversion price of each note up to \$75.00 per share. The maturity and terms of the hedge match the maturity and certain terms of the notes. The net premiums paid for the call options were \$52 million.

14. COMMITMENTS, CONTINGENCIES, RESTRICTED ASSETS, CONCENTRATIONS AND LEASES

Commitments, Contingencies and Restricted Assets

At October 31, 2004, commitments for capital expenditures in progress were approximately \$60 million and contingent liabilities, primarily related to contract cancellation fees, were approximately \$8 million. At October 31, 2004, \$77 million of a Mexican subsidiary's receivables were pledged as collateral for bank borrowings. At October 31, 2004, the maximum amount of dividends that were available for distribution to the company from its subsidiaries under the most restrictive covenants was \$853 million.

Guarantees

The company and its subsidiaries occasionally provide guarantees that could obligate them to make future payments if the primary entity fails to perform under its contractual obligations. The company has not recorded a liability for these guarantees. The company has no recourse as guarantor in case of default.

International provides a full and unconditional guarantee on the \$400 million 9 3/8% Senior Notes due 2006, the \$250 million 7.5% Senior Notes due 2011 and the \$190 million 2.5% Senior Convertible Notes due 2007. NIC also provides a guarantee on the \$19 million 9.95% Senior Notes due 2011. As of October 31, 2004, the outstanding balance on the 9.95% Senior Notes was \$13 million.

NIC and International are obligated under certain agreements with public and private lenders of NFC to maintain the subsidiary's income before interest expense and income taxes at not less than 125% of its total interest expense. No income maintenance payments were required for any of the three years in the period ended October 31, 2004.

NIC guarantees lines of credit made available to its Mexican finance subsidiaries by third parties and NFC. NFC guarantees the borrowings of the Mexican finance subsidiaries. The following table summarizes the borrowings as of October 31, 2004, in millions of dollars.

<u>Entity</u>	<u>Amount of Guaranty</u>	<u>Outstanding Balance</u>	<u>Maturity dates extend to</u>
NIC	\$ 393	\$ 80	2009
NFC	\$ 118	\$ 109	2007
NIC and NFC	\$ 100	\$ 25	2005

The company also guarantees many of the operating leases of its subsidiaries. The leases have various expiration dates that extend through June 2014. The remaining maximum obligations under these leases as of October 31, 2004, totaled approximately \$606 million.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

**14. COMMITMENTS, CONTINGENCIES, RESTRICTED ASSETS, CONCENTRATIONS
AND LEASES (continued)**

Guarantees (continued)

The company and International also guarantee real estate operating leases of International and the subsidiaries of the company. The leases have various maturity dates extending out through 2019. As of October 31, 2004, the total remaining obligation under these leases is approximately \$45 million.

The company and NFC have issued residual value guarantees in connection with various operating leases. The amount of the guarantees is undeterminable because in some instances, neither the company nor NFC is responsible for the entire amount of the guaranteed lease residual. The company's and NFC's guarantees are contingent upon the fair value of the leased assets at the end of the lease term. The excess of the guaranteed lease residual value over the fair value of the residual represents the amount of the company's and NFC's exposure.

As of October 31, 2004, NFC had guaranteed derivative contracts for interest rate swaps and cross currency swaps related to two of the company's Mexican finance subsidiaries. NFC is liable up to the fair market value of these derivative contracts only in cases of default by the two Mexican finance subsidiaries. As of October 31, 2004, there was an outstanding notional balance of \$54 million related to interest rate swaps and cross currency swaps, and the fair market value of the outstanding balance was immaterial.

At October 31, 2004, the Canadian operating subsidiary was contingently liable for \$407 million of retail customers' contracts and \$41 million of retail leases that are financed by a third party. The Canadian operating subsidiary is responsible for the residual values of these financing arrangements. These contract amounts approximate the resale market value of the collateral underlying the note liabilities.

In addition, the company entered into various guarantees for purchase commitments, insurance loss reserves, credit guarantees and buyback programs with various expiration dates that total approximately \$84 million. In the ordinary course of business, the company also provides routine indemnifications and other guarantees whose terms range in duration and often are not explicitly defined. The company does not believe these will have a material impact on the results of operations or financial condition of the company.

Concentrations

At October 31, 2004, the company employed approximately 6,800 hourly workers and 5,700 salaried workers in the U.S. and Canada. Approximately 82% of the hourly employees and 15% of the salaried employees are represented by unions. Of these represented employees, approximately 90% of the hourly workers and 100% of the salaried workers are represented by the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW) or the National Automobile, Aerospace, and Agricultural Implement Workers of Canada (CAW). The company's current master contract with the UAW expires on September 30, 2007. On June 23, 2004, the company and the CAW reached an agreement on a new collective bargaining agreement which extended the original agreement to June 30, 2009.

Sales of mid-range diesel engines to Ford by the engine segment were 18% of consolidated sales and revenues in 2004, 21% in 2003 and 19% in 2002. In addition, Ford accounted for approximately 76%, 77% and 78% of our diesel engine unit volume in fiscal 2004, fiscal 2003 and fiscal 2002, respectively. The company has an agreement with Ford to be its exclusive supplier of V-8 diesel engines through 2012 for all of Ford's diesel-powered super-duty trucks and vans over 8,500 lbs gross vehicle weight in North America.

Leases

The company has long-term non-cancelable leases for use of various equipment and facilities. Lease terms are generally for five to 25 years and, in many cases, provide for renewal options. The company is generally obligated for the cost of property taxes, insurance and maintenance. The company leases office buildings, distribution centers, furniture and equipment, machinery and equipment and computer equipment.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

**14. COMMITMENTS, CONTINGENCIES, RESTRICTED ASSETS, CONCENTRATIONS
AND LEASES (continued)**

Leases (continued)

The majority of the company's lease payments are for operating leases. At October 31, 2004, future minimum lease payments under operating leases having lease terms in excess of one year, including the net lease payments accrued for in the restructuring and other non-recurring charges, are: 2005 - \$121 million, 2006 - \$80 million, 2007 - \$80 million, 2008 - \$127 million, 2009 - \$242 million and 2010 and thereafter - \$29 million. Total operating lease expense was \$181 million in 2004, \$137 million in 2003 and \$76 million in 2002. Income received from sublease rentals was \$3 million in 2004, \$1 million in 2003 and \$5 million in 2002.

The company's remaining lease payments are for capital leases. These leases are generally for equipment used in the company's manufacturing operations. At October 31, 2004, future minimum lease payments under capital leases having lease terms in excess of one year are: 2005 - \$20 million, 2006 - \$20 million, 2007 - \$20 million, 2008 - \$20 million, 2009 - \$20 million and 2010 and thereafter - \$94 million.

The company has obligations under its various operating leases which require the company to timely file, and/or deliver to the lessor a copy of its annual filings with the SEC. Failure to comply with this requirement, would give the lessor the right to declare a default under the lease and take other adverse actions. The company did not receive a notice of default or incur other adverse actions with respect to the operating leases as a result of the company's delay in filing its Form 10-K.

Product Warranty

Provisions for estimated expenses related to product warranty are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve vehicle quality and minimize warranty claims. Management believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

Changes in the product warranty accrual for the year ended October 31, 2004, were as follows:

Millions of dollars	
Balance, beginning of period	\$ 173
Change in liability for warranties issued during the period	238
Change in liability for preexisting warranties	73
Payments made.....	(198)
Balance, end of period.....	<u>\$ 286</u>

15. LEGAL PROCEEDINGS AND ENVIRONMENTAL MATTERS

The company and its subsidiaries are subject to various claims arising in the ordinary course of business, and are parties to various legal proceedings that constitute ordinary routine litigation incidental to the business of the company and its subsidiaries. The majority of these claims and proceedings relate to commercial, product liability and warranty matters. In the opinion of the company's management, the disposition of these proceedings and claims, including those discussed below, after taking into account established reserves and the availability and limits of the company's insurance coverage, will not have a material adverse affect on the business or the financial condition of the company.

The company has been named a potentially responsible party (PRP), in conjunction with other parties, in a number of cases arising under an environmental protection law, the Comprehensive Environmental Response, Compensation and Liability Act, popularly known as the Superfund law. These cases involve sites that allegedly

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

15. LEGAL PROCEEDINGS AND ENVIRONMENTAL MATTERS (continued)

received wastes from current or former company locations. Based on information available to the company which, in most cases, consists of data related to quantities and characteristics of material generated at current or former company locations, material allegedly shipped by the company to these disposal sites, as well as cost estimates from PRPs and/or federal or state regulatory agencies for the cleanup of these sites, a reasonable estimate is calculated of the company's share, if any, of the probable costs and is provided for in the financial statements. These obligations are generally recognized no later than completion of the remedial feasibility study and are not discounted to their present value. The company reviews all accruals on a regular basis and believes that, based on these calculations, its share of the potential additional costs for the cleanup of each site will not have a material effect on the company's financial results.

Two sites formerly owned by the company, Wisconsin Steel in Chicago, Illinois and Solar Turbines in San Diego, California, were identified as having soil and groundwater contamination. While investigations and cleanup activities continue at both sites, the company anticipates that all necessary costs to complete the cleanup have been adequately reserved.

Various claims and controversies have arisen between the company and its former fuel system supplier, Caterpillar Inc. (Caterpillar), regarding the ownership and validity of certain patents covering fuel system technology used in the company's new version of diesel engines that were introduced in February 2002. In June 1999, in Federal Court in Peoria, Illinois, Caterpillar sued Sturman Industries, Inc. (Sturman), the company's joint venture partner in developing fuel system technology, alleging that technology invented and patented by Sturman and licensed to the company, belongs to Caterpillar. After a trial, on July 18, 2002, the jury returned a verdict in favor of Caterpillar finding that this technology belongs to Caterpillar under a prior contract between Caterpillar and Sturman. Sturman appealed the adverse judgment, and the jury's verdict was reversed by the appellate court on October 28, 2004 and remanded to the district court for retrial. The company is cooperating with Sturman in this effort. In May 2003, in Federal Court in Columbia, South Carolina, Caterpillar sued the company, its supplier of fuel injectors and joint venture, Siemens Diesel Systems Technology, L.L.C., and Sturman for patent infringement alleging that the Sturman fuel system technology patents and certain Caterpillar patents are infringed in the company's new engines. The company believes that it has meritorious defenses to the claims of infringement of the Sturman patents as well as the Caterpillar patents and will vigorously defend such claims. In January 2002, Caterpillar sued the company in the Circuit Court in Peoria County, Illinois, alleging the company breached the purchase agreement pursuant to which Caterpillar supplied fuel systems for the company's prior version of diesel engines. Caterpillar's claims involve a 1990 agreement to reimburse Caterpillar for costs associated with the delayed launch of the company's V-8 diesel engine program. Reimbursement of the delay costs was made by a surcharge of \$8.08 on each injector purchased and the purchase of certain minimum quantities of spare parts. In 1999, the company concluded that, in accordance with the 1990 agreement, it had fully reimbursed Caterpillar for its delay costs and stopped paying the surcharge and purchasing the minimum quantities of spare parts. Caterpillar is asserting that the surcharge and the spare parts purchase requirements continue throughout the life of the contract and has sued the company to recover these amounts, plus interest. Caterpillar also asserts that the company failed to purchase all of its fuel injector requirements under the contract and, in collusion with Sturman, failed to pursue a future fuel systems supply relationship with Caterpillar. The company believes that it has meritorious defenses to Caterpillar's claims.

Along with other vehicle manufacturers, the company and certain of its subsidiaries have been subject to an increase in the number of asbestos-related claims in recent years. Management believes that such claims will not have a material adverse effect on the company's financial condition or results of operations. In general these claims relate to illnesses alleged to have resulted from asbestos exposure from component parts found in older vehicles, although some cases relate to the presence of asbestos in company facilities. In these claims the company is not the sole defendant, and the claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. Management has strongly disputed these claims, and it has been the company's policy to defend against them vigorously. Historically, the actual damages paid out to claimants have not been material to the company's financial condition. However, management believes the company and other vehicle manufacturers are being more aggressively targeted, largely as a result of bankruptcies of manufacturers of asbestos

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

15. LEGAL PROCEEDINGS AND ENVIRONMENTAL MATTERS (continued)

and products containing asbestos. It is possible that the number of these claims will continue to grow, and that the costs for resolving asbestos related claims could become significant in the future.

On October 13, 2004, the company received a request from the staff of the SEC to voluntarily produce certain documents and information related to the company's accounting practices with respect to defined benefit pension plans and other postretirement benefits. The company is fully cooperating with this request. Given the preliminary nature of this matter, the company is not able to predict what, if any, impact this inquiry will have on the company.

On January 31, 2005, the company announced that it would restate its financial results for fiscal years 2002 and 2003 and the first three quarters of fiscal 2004. The SEC notified the company on February 9, 2005, that it was conducting an informal inquiry into the company's restatement. The company intends to fully cooperate with the SEC on the informal inquiry. Given the preliminary nature of the matter, the company is not able to predict what impact, if any, this inquiry will have on the company.

16. SEGMENT DATA

Navistar has three reportable segments: truck, engine and financial services. The company's reportable segments are organized according to the products and the markets they each serve.

The company's truck segment manufactures and distributes a full line of diesel-powered trucks and school buses in the common carrier, private carrier, government/service, leasing, construction, energy/petroleum and student transportation markets. The truck segment also provides customers with proprietary products needed to support the International® truck and IC™ bus lines, together with a wide selection of standard truck and trailer aftermarket parts.

The company's engine segment designs and manufactures diesel engines for use in the company's Class 6 and 7 medium trucks and school buses and selected Class 8 heavy truck models, and for sale to OEMs primarily in the U.S., Mexico and Brazil. This segment also sells engines for industrial, agricultural and marine applications. In addition, the engine segment provides customers with proprietary products needed to support the International® engine lines, together with a wide selection of standard engine and aftermarket parts.

The company's financial services segment consists of NFC and the company's foreign finance subsidiaries. NFC's primary business is the retail, wholesale and lease financing of products sold by the truck segment and its dealers within the U.S. as well as the company's wholesale accounts and selected retail accounts receivable. The foreign finance subsidiaries' primary business is to provide wholesale, retail and lease financing to the Mexican operations' dealers and retail customers.

The company evaluates the performance of its operating segments based on operating profits, which exclude certain corporate items, including the restructuring and non-recurring charges, and retiree pension and medical expense. Additionally, the operating profits of the company's truck and engine segments exclude most interest revenue and expense items. Intersegment sales are transferred at prices established by an agreement between the buying and selling locations.

NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004

16. SEGMENT DATA (continued)

Reportable operating segment data follows:

Millions of dollars	Truck	Engine	Financial Services	Total
For the year ended October 31, 2004				
External revenues	\$ 7,256	\$ 2,212	\$ 249	\$ 9,717
Intersegment revenues.....	-	617	40	657
Total revenues.....	<u>\$ 7,256</u>	<u>\$ 2,829</u>	<u>\$ 289</u>	<u>\$ 10,374</u>
Interest expense	\$ -	\$ -	\$ 71	\$ 71
Depreciation and amortization expense.....	123	67	46	236
Segment profit (a).....	336	108	116	560
As of October 31, 2004				
Segment assets.....	\$ 1,714	\$ 1,191	\$ 2,247	\$ 5,152
Capital expenditures (proceeds) (b).....	128	94	(3)	219
For the year ended October 31, 2003				
External revenues	\$ 5,312	\$ 1,970	\$ 292	\$ 7,574
Intersegment revenues.....	-	499	33	532
Total revenues.....	<u>\$ 5,312</u>	<u>\$ 2,469</u>	<u>\$ 325</u>	<u>\$ 8,106</u>
Interest expense	\$ -	\$ -	\$ 77	\$ 77
Depreciation and amortization expense.....	80	54	53	187
Segment profit (loss) (a).....	(48)	85	123	160
As of October 31, 2003				
Segment assets.....	\$ 1,663	\$ 1,041	\$ 2,273	\$ 4,977
Capital expenditures (proceeds) (b).....	54	149	(19)	184
For the year ended October 31, 2002				
External revenues	\$ 4,936	\$ 1,789	\$ 285	\$ 7,010
Intersegment revenues.....	-	459	35	494
Total revenues.....	<u>\$ 4,936</u>	<u>\$ 2,248</u>	<u>\$ 320</u>	<u>\$ 7,504</u>
Interest expense	\$ -	\$ -	\$ 95	\$ 95
Depreciation and amortization expense.....	101	49	64	214
Segment profit (loss) (a).....	(303)	200	89	(14)
As of October 31, 2002				
Segment assets.....	\$ 1,775	\$ 876	\$ 2,469	\$ 5,120
Capital expenditures (b).....	86	156	26	268

(a) Before the impact of the restructuring and other non-recurring charges.

(b) Capital expenditures include the net increase (decrease) in property and equipment leased to others.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

16.SEGMENT DATA (continued)

Reconciliation to the consolidated financial statements as of and for the years ended October 31 was as follows:

Millions of dollars	2004	2003	2002
Segment sales and revenues	\$ 10,374	\$ 8,106	\$ 7,504
Other income	7	11	11
Intercompany	(657)	(532)	(494)
Consolidated sales and revenues	<u>\$ 9,724</u>	<u>\$ 7,585</u>	<u>\$ 7,021</u>
Segment profit (loss)	\$ 560	\$ 160	\$ (14)
Restructuring and other non-recurring charges...	1	32	(544)
Corporate items	(196)	(184)	(161)
Manufacturing net interest expense	(54)	(57)	(53)
Consolidated pre-tax income (loss) from continuing operations	<u>\$ 311</u>	<u>\$ (49)</u>	<u>\$ (772)</u>
Segment interest expense	\$ 71	\$ 77	\$ 95
Manufacturing expense and eliminations	56	65	64
Consolidated interest expense	<u>\$ 127</u>	<u>\$ 142</u>	<u>\$ 159</u>
Segment depreciation and amortization expense	\$ 236	\$ 187	\$ 214
Corporate expense	20	18	17
Consolidated depreciation and amortization expense	<u>\$ 256</u>	<u>\$ 205</u>	<u>\$ 231</u>
Segment assets	\$ 5,152	\$ 4,977	\$ 5,120
Cash and marketable securities	675	378	434
Deferred taxes	1,446	1,482	1,529
Corporate intangible pension assets	(4)	9	10
Other corporate and eliminations	323	83	26
Consolidated assets	<u>\$ 7,592</u>	<u>\$ 6,929</u>	<u>\$ 7,119</u>
Segment capital expenditures (a)	\$ 219	\$ 184	\$ 268
Corporate capital expenditures	6	6	5
Consolidated capital expenditures	<u>\$ 225</u>	<u>\$ 190</u>	<u>\$ 273</u>

(a) Capital expenditures include the net increase (decrease) in property and equipment leased to others.

Information concerning principal geographic areas for the years ended October 31 was as follows:

Millions of dollars	2004	2003	2002
Sales and Revenues			
United States	\$ 8,388	\$ 6,326	\$ 5,795
Foreign countries	1,336	1,259	1,226
Property and equipment			
United States	\$ 1,297	\$ 1,301	\$ 1,295
Foreign countries	147	138	258

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

17. PREFERRED AND PREFERENCE STOCKS

The UAW holds the Nonconvertible Junior Preference Stock Series B and is currently entitled to elect one member of the company's board of directors. At October 31, 2004, there was one share of Series B Preference stock authorized and outstanding. The value of the preference share is minimal.

At October 31, 2004, there were 153,000 shares of Series D Convertible Junior Preference Stock (Series D) issued and outstanding and 3 million authorized with an optional redemption price and liquidation preference of \$25 per share plus accrued dividends. The Series D converts into common stock (subject to adjustment in certain circumstances) at .3125 per share. The Series D ranks senior to common stock as to dividends and liquidation and receives dividends at a rate of 120% of the cash dividends on common stock as declared on an as-converted basis.

Under the General Corporation Law of the State of Delaware (DGCL), dividends may only be paid out of surplus or out of net profits for the fiscal year in which the dividend is declared or the preceding fiscal year, and no dividend may be paid on common stock at any time during which the capital of outstanding preferred stock or preference stock exceeds the net assets of the company. At October 31, 2004, the company had a surplus of \$524 million as defined under DGCL.

18. COMMON SHAREOWNERS' EQUITY

Changes in certain shareowners' equity accounts are as follows:

Millions of dollars	2004	2003	2002
Common Stock and Additional Paid in Capital			
Beginning of year	\$ 2,118	\$ 2,146	\$ 2,139
Tax benefit related to exercise of stock options	7	2	7
Net premium for call options	(27)	(25)	-
Amounts due from officers and directors	2	(5)	-
Other	(4)	-	-
End of year	<u>\$ 2,096</u>	<u>\$ 2,118</u>	<u>\$ 2,146</u>
Retained Earnings (Deficit)			
Beginning of year	\$ (833)	\$ (731)	\$ (190)
Net income (loss).....	247	(21)	(538)
Sale of treasury stock to pension funds	-	(73)	-
Other	(18)	(8)	(3)
End of year	<u>\$ (604)</u>	<u>\$ (833)</u>	<u>\$ (731)</u>
Common Stock Held in Treasury			
Beginning of year	\$ (219)	\$ (487)	\$ (507)
Issuance of common stock and other	63	271	34
Treasury stock adjustment	(20)	(3)	(14)
End of year	<u>\$ (176)</u>	<u>\$ (219)</u>	<u>\$ (487)</u>

Common Stock

The company has authorized 110 million shares of common stock with a par value of \$0.10 per share. There were 70.0 million and 68.8 million shares of common stock outstanding, net of common stock held in treasury, at October 31, 2004 and 2003, respectively.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

18. COMMON SHAREOWNERS' EQUITY (continued)

Common Stock (continued)

Loans to officers and directors are recorded as a reduction of shareowners' equity. These loans accrue interest at the applicable federal rate (as determined by Section 1274(d) of the Internal Revenue Code) on the purchase date for loans of stated maturity, compounded annually, are unsecured obligations and have a nine-year term. Principal and interest is due at maturity and the loan may be prepaid at any time at the participant's option. Loans to officers and directors, which were made primarily to finance the purchase of company shares, totaled \$5 million at October 31, 2003 and \$3 million at October 31, 2004. Effective July 31, 2002, the company no longer offers such loans.

Common stock held in treasury totaled 15,210,154 shares at October 31, 2002, 6,841,059 shares at October 31, 2003 and 5,495,580 shares at October 31, 2004. In November 2002, the company completed the sale of a total of 7,755,030 shares of its common stock held in treasury, par value \$0.10 per share, at a price of \$22.566 per share, for an aggregate purchase price of \$175 million to three employee benefit plan trusts of International. The securities were offered and sold in reliance upon the exemption from securities registration afforded by Section 4(2) of the Securities Act of 1933 and Rule 506 under Regulation D. The proceeds from the sale of the stock were used primarily to fund the company's retirement plans in 2003. In January 2003, the company filed a registration statement for the resale of the common stock by the employee benefit plan trusts. The remainder of the changes in treasury stock are primarily the result of the issuance of stock upon the exercise of options by employees.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive income (loss) as of October 31 are as follows, in millions:

	Minimum Pension Liability Adjustments	Foreign Currency Translation Adjustments and Other	Accumulated Other Comprehensive Loss
2004	\$ (737)	\$ (52)	\$ (789)
2003	(737)	(41)	(778)
2002	(681)	(16)	(697)

The minimum pension liability adjustment is recorded on the Statement of Financial Condition net of deferred income taxes of \$454 million and \$445 million at October 31, 2004 and 2003, respectively.

In the Statement of Comprehensive Income, the tax effects of foreign currency translation and other adjustments were not material for each of the years in the three year period ended October 31, 2004.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

19. EARNINGS PER SHARE

Earnings (loss) per share was computed as follows:

Millions of dollars, except share and per share data	2004	2003	2002
Income (loss) from continuing operations.....	\$ 247	\$ (17)	\$ (478)
Income (loss) from discontinued operations	-	(4)	(60)
Net income (loss).....	<u>\$ 247</u>	<u>\$ (21)</u>	<u>\$ (538)</u>
Average shares outstanding (millions)			
Basic.....	69.7	68.0	60.3
Dilutive effect of options outstanding and other dilutive securities	10.4	-	-
Diluted.....	<u>80.1</u>	<u>68.0</u>	<u>60.3</u>
Basic earnings (loss) per share			
Continuing operations	\$ 3.54	\$ (0.25)	\$ (7.92)
Discontinued operations	-	(0.06)	(1.00)
Net income (loss)	<u>\$ 3.54</u>	<u>\$ (0.31)</u>	<u>\$ (8.92)</u>
Diluted earnings (loss) per share			
Continuing operations	\$ 3.20	\$ (0.25)	\$ (7.92)
Discontinued operations	-	(0.06)	(1.00)
Net income (loss)	<u>\$ 3.20</u>	<u>\$ (0.31)</u>	<u>\$ (8.92)</u>

The computation of diluted shares outstanding for the years ended October 31, 2003 and 2002, excludes incremental shares of 9.1 million and 3.1 million, related to employee stock options, convertible debt and other securities. These shares are excluded due to their anti-dilutive effect as a result of the company's losses for the years ended October 31, 2003 and 2002.

20. STOCK COMPENSATION PLANS

The company has stock-based compensation plans, approved by the Committee on Compensation and Governance of the board of directors, which provide for granting of stock options to employees for purchase of common stock at the fair market value of the stock on the date of grant. The grants generally have a 10-year contractual life.

2004 Performance Incentive Plan. The company's 2004 Performance Incentive Plan (2004 Plan) was approved by the board of directors and subsequently by the shareowners of the company on February 17, 2004. The 2004 Plan replaces, on a prospective basis, the company's 1994 Performance Incentive Plan and 1998 Supplemental Stock Plan, both of which expired December 16, 2003, and the company's 1998 Non-Employee Director Stock Option Plan (the "Prior Plans"). No new grants are being made from the Prior Plans and any awards previously granted under the Prior Plans continue to vest and/or are exercisable in accordance with their original terms and conditions. In addition, after February 17, 2004 restoration stock options are granted under the 2004 Plan. Prior to February 17, 2004, restoration stock options were granted under the company's 1998 Supplemental Stock Plan (a non-shareowner approved plan), as supplemented by the Restoration Stock Option Program. For more information on the Restoration Stock Option Program see the description of the program contained under the 1998 Supplemental Stock Plan below. Stock options awarded under the 2004 Plan generally have a term of not more than 10 years and become exercisable one-third on the first anniversary of grant, one-third on the second anniversary and one-third on the third anniversary. Awards of restricted stock granted under the 2004 Plan, as well as other award grants, are established by the board of directors or committee thereof at the time of issuance. A total of 3,250,000 shares of

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

20. STOCK COMPENSATION PLANS (continued)

common stock were reserved for awards under the 2004 Plan. Shares subject to awards under the 2004 Plan, or any other Prior Plans after February 17, 2004, that are cancelled, expired, forfeited, settled in cash, tendered to satisfy the purchase price of an award, withheld to satisfy tax obligations or otherwise terminated without a delivery of shares to the participant again become available for awards. As of October 31, 2004, 13,037 awards remain outstanding for shares of common stock reserved for issuance under the 2004 Plan.

1994 Performance Incentive Plan. The company's 1994 Performance Incentive Plan (1994 Plan) was approved by the board of directors and subsequently by the shareowners of the company on March 16, 1994. For each fiscal year of the company during the term of the 1994 Plan, which expired on December 16, 2003, there was reserved for issuance under the 1994 Plan one percent of the outstanding shares of common stock of the company as determined by the number of shares outstanding as of the end of the immediately preceding fiscal year. Shares not issued in a year carried over to the subsequent year. Forfeited and lapsed shares could be reissued. As of October 31, 2004, awards have been made in respect of 2,720,374 shares of common stock reserved for issuance under the 1994 Plan.

The Non-Employee Directors Restricted Stock Plan. The plan requires that one-fourth of the annual retainer to non-employee directors be paid in the form of restricted shares of the company's common stock. This plan expires on December 31, 2005.

The following plans were not approved by the shareowners of the company: The 1998 Interim Stock Plan (the Interim Plan); The 1998 Supplemental Stock Plan as supplemented by the Restoration Stock Option Program (the Supplemental Plan); The Executive Stock Ownership Program (the Ownership Program); The 1998 Non-Employee Director Stock Option Plan (the Director Stock Option Plan) and The Non-Employee Directors Deferred Fee Plan (the Deferred Fee Plan). Below is a brief description of the material features of each plan, but in each case the information is qualified in its entirety by the text of such plans.

The Interim Plan. The Interim Plan was approved by the board of directors on April 14, 1998. A total of 500,000 shares of common stock were reserved for awards under the Interim Plan. The Interim Plan is separate from and intended to supplement the 1994 Performance Incentive Plan (the 1994 Plan), which was approved by the shareowners of the company. As of October 31, 2004, 15,520 awards remain outstanding for shares of common stock reserved for issuance under the Interim Plan. The Interim Plan was terminated on April 15, 1999.

The Supplemental Plan. The Supplemental Plan was approved by the board of directors on December 15, 1998. As of October 31, 2004, 3,195,888 awards remain outstanding for shares of common stock reserved for issuance under the Supplemental Plan. The Supplemental Plan expired December 16, 2003. The Supplemental Plan is separate from and intended to supplement the 1994 Plan. Stock options awarded under the Supplemental Plan generally have a term of not more than 10 years and become exercisable one-third on the first anniversary of grant, one-third on the second anniversary and one-third on the third anniversary. Awards of restricted stock granted under the Supplemental Plan are established by the board of directors or committee thereof at the time of issuance. In addition, prior to February 17, 2004, the Restoration Stock Option Program supplemented the Supplemental Plan. Under the program generally, one may exercise vested options by presenting shares that have been held for at least six months and have a total market value equal to the option price times the number of options. Restoration options are then granted at the market price in an amount equal to the number of mature shares that were used to exercise the original option, plus the number of shares that are withheld for the required tax liability.

The Ownership Program. On June 16, 1997, the board of directors approved the terms of the Ownership Program as amended from time to time by the board of directors. In general, the Ownership Program requires all officers and senior managers of the company to acquire, by direct purchase or through salary or annual bonus reduction, an ownership interest in the company by acquiring a designated amount of company common stock at specified timelines. Participants are required to hold such stock for the entire period in which they are employed by the company. Premium share units may also be awarded to participants who complete their ownership requirement ahead of the specified time period.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

20. STOCK COMPENSATION PLANS (continued)

The Director Stock Option Plan. The Director Stock Option Plan was approved by the board of directors on December 16, 1997, amended on December 11, 2001 and is the successor plan to the 1988 Non-Employee Director Stock Option Plan, which expired on December 17, 1997. The Director Stock Option Plan provided for an annual grant to each non-employee director of the company an option to purchase 4,000 shares of common stock. The option price in each case will be 100% of the fair market value of the common stock on the business day following the day of grant. As of October 31, 2004, 119,000 awards remain outstanding for shares of common stock reserved for issuance under the Director Stock Option Plan. Stock options awarded under the Director Stock Option Plan generally become exercisable in whole or in part after the commencement of the second year of the term of the option, which term is 10 years. The optionee is also required to remain in the service of the company for at least one year from the date of grant. The Director Stock Option Plan was terminated on February 17, 2004. All future grants to non-employee directors will be issued under the 2004 Plan.

The Deferred Fee Plan. Under the Deferred Fee Plan, directors may elect to receive all or a portion of their retainer fees and meeting fees in cash or restricted stock, or they may defer payment of those fees in cash (with interest) or in phantom stock units. Deferrals in the deferred stock account are valued as if each deferral was vested in company common stock as of the deferral date.

The weighted-average fair values at date of grant for options granted during 2004, 2003, and 2002 were \$12.60, \$9.02, and \$14.03, respectively, and were estimated using the Black-Scholes option-pricing model with the following assumptions:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Risk-free interest rate	2.5%	2.9%	4.1%
Dividend yield	0%	0%	0%
Expected volatility.....	39.1%	39.6%	39.1%
Expected life in years.....	3.5	4.5	4.0

The following summarizes stock option activity for the years ended October 31:

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding						
at beginning of year	6,122	\$ 32.03	5,253	\$ 32.89	4,832	\$ 27.98
Granted	1,208	42.98	2,080	27.53	1,814	38.82
Exercised	(1,165)	28.72	(801)	24.58	(1,325)	22.38
Canceled	(252)	37.39	(410)	34.65	(68)	47.27
Options outstanding						
at end of year	<u>5,913</u>	<u>\$ 34.69</u>	<u>6,122</u>	<u>\$ 32.03</u>	<u>5,253</u>	<u>\$ 32.89</u>
Options exercisable						
at end of year	<u>3,292</u>	<u>\$ 34.26</u>	<u>2,945</u>	<u>\$ 34.37</u>	<u>2,605</u>	<u>\$ 32.29</u>
Options available for						
grant at end of year	<u>3,352</u>		<u>845</u>		<u>1,621</u>	

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

20. STOCK COMPENSATION PLANS (continued)

The following table summarizes information about stock options outstanding and exercisable at October 31, 2004.

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
\$ 9.56 - \$13.75	39	2.3	\$ 11.03	39	\$ 11.03
17.41 - 26.66	2,134	8.1	25.19	1,041	24.07
27.95 - 37.72	139	6.4	33.77	136	33.79
37.93 - 51.75	3,601	8.4	40.62	2,076	39.83

**21. CONDENSED CONSOLIDATING GUARANTOR AND NON-GUARANTOR
FINANCIAL INFORMATION**

The following tables set forth the condensed consolidating Statements of Financial Condition as of October 31, 2004 and 2003, and the Statements of Income and Cash Flow for each of the three years in the period ended October 31, 2004. The following information is included as a result of International's guarantees, exclusive of its subsidiaries, of NIC's indebtedness under its 9 3/8% Senior Notes due 2006, 2.5% Senior Convertible Notes due 2007 and 7.5% Senior Notes due 2011. International is a direct wholly owned subsidiary of NIC. None of NIC's other subsidiaries guarantee any of these notes. Each of the guarantees is full and unconditional. Separate financial statements and other disclosures concerning International have not been presented because management believes that such information is not material to investors. NIC includes the consolidated financial results of the parent company only, with all of its wholly owned subsidiaries accounted for under the equity method. International, for purposes of this disclosure only, includes the consolidated financial results of its wholly owned subsidiaries accounted for under the equity method. "Non-Guarantor Companies and Eliminations" includes the consolidated financial results of all other non-guarantor subsidiaries including the elimination entries for all intercompany transactions. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries.

NIC files a consolidated U.S. federal income tax return that includes International and its U.S. subsidiaries. International has a tax allocation agreement (Tax Agreement) with NIC which requires International to compute its separate federal income tax expense based on its adjusted book income. Any resulting tax liability is paid to NIC. In addition, under the Tax Agreement, International is required to pay to NIC any tax payments received from its subsidiaries. The effect of the Tax Agreement is to allow the parent company, rather than International, to utilize U.S. operating income/losses and NIC operating loss carryforwards.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

21. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)

	<u>NIC</u>	<u>International</u>	<u>Non-Guarantor Companies and Eliminations</u>	<u>Consolidated</u>
<u>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THE YEAR ENDED OCTOBER 31, 2004</u>				
Sales and revenues	\$ 2	\$ 7,513	\$ 2,209	\$ 9,724
Cost of products and services sold	(28)	6,866	1,321	8,159
Restructuring and other non-recurring charges	-	(4)	3	(1)
All other operating expenses	(19)	980	294	1,255
Total costs and expenses	(47)	7,842	1,618	9,413
Equity in income (loss) of non-consolidated subsidiaries	262	430	(692)	-
Income (loss) from continuing operations before income taxes	311	101	(101)	311
Income tax expense (benefit)	64	145	(145)	64
Income (loss) from continuing operations	247	(44)	44	247
Loss from discontinued operations, net of taxes	-	-	-	-
Net income (loss)	\$ 247	\$ (44)	\$ 44	\$ 247

CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF OCTOBER 31, 2004

Assets				
Cash and marketable securities	\$ 577	\$ 22	\$ 261	\$ 860
Receivables, net	-	211	2,226	2,437
Inventories	-	395	395	790
Property and equipment, net	-	783	661	1,444
Investment in affiliates	(2,677)	1,084	1,593	-
Deferred tax asset and other assets	1,435	204	422	2,061
Total assets	\$ (665)	\$ 2,699	\$ 5,558	\$ 7,592
Liabilities and shareowners' equity				
Debt	\$ 1,058	\$ 15	\$ 1,795	\$ 2,868
Postretirement benefits liability	-	1,332	233	1,565
Amounts due to (from) affiliates	(2,378)	2,937	(559)	-
Other liabilities	124	1,605	899	2,628
Total liabilities	(1,196)	5,889	2,368	7,061
Shareowners' equity (deficit)	531	(3,190)	3,190	531
Total liabilities and shareowners' equity	\$ (665)	\$ 2,699	\$ 5,558	\$ 7,592

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE YEAR ENDED OCTOBER 31, 2004

Cash provided by operations	\$ 183	\$ 40	\$ (50)	\$ 173
Cash flow from investment programs				
Purchases, net of collections, of finance receivables	-	-	(198)	(198)
Net increase in marketable securities	(148)	-	491	343
Capital expenditures	-	(107)	(123)	(230)
Other investing activities	(23)	69	(74)	(28)
Cash provided by (used in) investment programs	(171)	(38)	96	(113)
Cash flow from financing activities				
Net borrowings (repayments) of debt	218	(2)	(139)	77
Other financing activities	(41)	1	41	1
Cash provided by (used in) financing activities	177	(1)	(98)	78
Cash and cash equivalents				
Increase (decrease) during the year	189	1	(52)	138
At beginning of the year	218	21	228	467
Cash and cash equivalents at end of the year	\$ 407	\$ 22	\$ 176	\$ 605

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

21. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)

	<u>NIC</u>	<u>International</u>	<u>Non-Guarantor Companies and Eliminations</u>	<u>Consolidated</u>
<u>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THE YEAR ENDED OCTOBER 31, 2003</u>				
Sales and revenues	\$ 2	\$ 5,671	\$ 1,912	\$ 7,585
Cost of products and services sold	56	5,175	1,130	6,361
Restructuring and other non-recurring charges	-	15	(47)	(32)
All other operating expenses	(21)	1,018	308	1,305
Total costs and expenses	35	6,208	1,391	7,634
Equity in income (loss) of non-consolidated subsidiaries	(20)	446	(426)	-
Income (loss) from continuing operations before income taxes	(53)	(91)	95	(49)
Income tax expense (benefit)	(32)	106	(106)	(32)
Income (loss) from continuing operations	(21)	(197)	201	(17)
Loss from discontinued operations, net of taxes	-	-	(4)	(4)
Net income (loss)	\$ (21)	\$ (197)	\$ 197	\$ (21)
<u>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF OCTOBER 31, 2003</u>				
Assets				
Cash and marketable securities	\$ 240	\$ 21	\$ 801	\$ 1,062
Receivables, net	-	173	1,650	1,823
Inventories	-	311	281	592
Property and equipment, net	-	821	618	1,439
Investment in affiliates	(2,777)	862	1,915	-
Deferred tax asset and other assets	1,487	156	370	2,013
Total assets	\$ (1,050)	\$ 2,344	\$ 5,635	\$ 6,929
Liabilities and shareowners' equity				
Debt	\$ 840	\$ 17	\$ 1,923	\$ 2,780
Postretirement benefits liability	-	1,535	192	1,727
Amounts due to (from) affiliates	(2,358)	2,424	(66)	-
Other liabilities	176	1,488	466	2,130
Total liabilities	(1,342)	5,464	2,515	6,637
Shareowners' equity (deficit)	292	(3,120)	3,120	292
Total liabilities and shareowners' equity	\$ (1,050)	\$ 2,344	\$ 5,635	\$ 6,929
<u>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE YEAR ENDED OCTOBER 31, 2003</u>				
Cash provided by (used in) operations	\$ (332)	\$ 160	\$ 120	\$ (52)
Cash flow from investment programs				
Purchases, net of collections, of finance receivables	-	-	568	568
Net increase in marketable securities	(22)	-	(457)	(479)
Capital expenditures	-	(167)	(43)	(210)
Other investing activities	(54)	24	4	(26)
Cash provided by (used in) investment programs	(76)	(143)	72	(147)
Cash flow from financing activities				
Net borrowings (repayments) of debt	53	(4)	(177)	(128)
Other financing activities	158	-	1	159
Cash provided by (used in) financing activities	211	(4)	(176)	31
Cash and cash equivalents				
Increase (decrease) during the year	(197)	13	16	(168)
At beginning of the year	415	8	212	635
Cash and cash equivalents at end of the year	\$ 218	\$ 21	\$ 228	\$ 467

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

21. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)

	<u>NIC</u>	<u>International</u>	<u>Non-Guarantor Companies and Eliminations</u>	<u>Consolidated</u>
<u>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR YEAR ENDED OCTOBER 31, 2002</u>				
Sales and revenues	\$ 6	\$ 5,371	\$ 1,644	\$ 7,021
Cost of products and services sold	(35)	4,903	1,081	5,949
Restructuring and other non-recurring charges	-	324	220	544
All other operating expenses	(24)	966	358	1,300
Total costs and expenses	<u>(59)</u>	<u>6,193</u>	<u>1,659</u>	<u>7,793</u>
Equity in income (loss) of non-consolidated subsidiaries	(897)	(118)	1,015	-
Income (loss) from continuing operations before income taxes	(832)	(940)	1,000	(772)
Income tax expense (benefit)	(294)	14	(14)	(294)
Income (loss) from continuing operations	<u>(538)</u>	<u>(954)</u>	<u>1,014</u>	<u>(478)</u>
Loss from discontinued operations	<u>-</u>	<u>-</u>	<u>(60)</u>	<u>(60)</u>
Net income (loss)	<u>\$ (538)</u>	<u>\$ (954)</u>	<u>\$ 954</u>	<u>\$ (538)</u>
<u>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW AS OF OCTOBER 31, 2002</u>				
Cash provided by (used in) operations	\$ (180)	\$ (14)	\$ (17)	\$ (211)
Cash flow from investment programs				
Purchases, net of collections, of finance receivables	-	-	(114)	(114)
Net (increase) decrease in marketable securities	40	-	107	147
Capital expenditures	-	(191)	(61)	(252)
Other investing activities	(160)	207	132	179
Cash provided by (used in) investment programs	<u>(120)</u>	<u>16</u>	<u>64</u>	<u>(40)</u>
Cash flow from financing activities				
Net borrowings (repayments) of debt	(34)	-	80	46
Purchase of common stock and other	91	-	(73)	18
Cash provided by (used in) financing activities	<u>57</u>	<u>-</u>	<u>7</u>	<u>64</u>
Cash and cash equivalents				
Increase (decrease) during the year	(243)	\$ 2	54	(187)
At the beginning of the year	658	6	158	822
Cash and cash equivalents at the end of the year	<u>\$ 415</u>	<u>\$ 8</u>	<u>\$ 212</u>	<u>\$ 635</u>

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

22. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	<u>1st Quarter</u>				<u>2nd Quarter</u>			
	<u>2004 [1]</u>		<u>2003</u>		<u>2004 [1]</u>		<u>2003</u>	
Millions of dollars, except per share data	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
Sales and revenues.....	\$ 1,859	\$ 1,943	\$ 1,578	\$ 1,661	\$ 2,331	\$ 2,354	\$ 1,864	\$ 1,914
Manufacturing gross margin.....	12.0%	12.2%	5.3%	5.4%	12.9%	13.1%	12.9%	13.2%
Income (loss) from continuing operations.....	\$ (18)	\$ (15)	\$ (98)	\$ (58)	\$ 50	\$ 54	\$ (12)	\$ (4)
Loss from discontinued operations...	-	-	(1)	(1)	-	-	(2)	(2)
Net income (loss).....	<u>\$ (18)</u>	<u>\$ (15)</u>	<u>\$ (99)</u>	<u>\$ (59)</u>	<u>\$ 50</u>	<u>\$ 54</u>	<u>\$ (14)</u>	<u>\$ (6)</u>
Basic earnings (loss) per share:								
Continuing operations.....	\$ (0.27)	\$ (0.22)	\$ (1.47)	\$ (0.86)	\$ 0.72	\$ 0.77	\$ (0.18)	\$ (0.06)
Discontinued operations.....	-	-	(0.02)	(0.02)	-	-	(0.03)	(0.03)
Net income (loss).....	<u>\$ (0.27)</u>	<u>\$ (0.22)</u>	<u>\$ (1.49)</u>	<u>\$ (0.88)</u>	<u>\$ 0.72</u>	<u>\$ 0.77</u>	<u>\$ (0.21)</u>	<u>\$ (0.09)</u>
Diluted earnings (loss) per share:								
Continuing operations.....	\$ (0.27)	\$ (0.22)	\$ (1.47)	\$ (0.86)	\$ 0.65	\$ 0.70	\$ (0.18)	\$ (0.06)
Discontinued operations.....	-	-	(0.02)	(0.02)	-	-	(0.03)	(0.03)
Net income (loss).....	<u>\$ (0.27)</u>	<u>\$ (0.22)</u>	<u>\$ (1.49)</u>	<u>\$ (0.88)</u>	<u>\$ 0.65</u>	<u>\$ 0.70</u>	<u>\$ (0.21)</u>	<u>\$ (0.09)</u>
Market price range-common stock								
High.....	\$ 52.95	\$ 52.95	\$ 31.50	\$ 31.50	\$ 49.95	\$ 49.95	\$ 29.20	\$ 29.20
Low.....	\$ 39.64	\$ 39.64	\$ 22.11	\$ 22.11	\$ 42.72	\$ 42.72	\$ 20.52	\$ 20.52

	<u>3rd Quarter</u>				<u>4th Quarter</u>			
	<u>2004</u>		<u>2003</u>		<u>2004</u>		<u>2003</u>	
Millions of dollars, except per share data	As Previously Reported	As Restated	As Previously Reported	As Restated	As Reported	As Previously Reported	As Restated	
Sales and revenues.....	\$ 2,360	\$ 2,348	\$ 1,894	\$ 1,921	\$ 3,079	\$ 2,004	\$ 2,089	
Manufacturing gross margin	14.3%	14.7%	13.5%	13.8%	14.7%	15.3%	16.3%	
Income (loss) from continuing operations	\$ 56	\$ 49	\$ 19	\$ 9	\$ 159	\$ 77	\$ 36	
Loss from discontinued operations ..	-	-	(1)	(1)	-	-	-	
Net income (loss).....	<u>\$ 56</u>	<u>\$ 49</u>	<u>\$ 18</u>	<u>\$ 8</u>	<u>\$ 159</u>	<u>\$ 77</u>	<u>\$ 36</u>	
Basic earnings (loss) per share:								
Continuing operations.....	\$ 0.80	\$ 0.70	\$ 0.27	\$ 0.12	\$ 2.27	\$ 1.12	\$ 0.53	
Discontinued operations	-	-	(0.01)	(0.01)	-	-	-	
Net income (loss).....	<u>\$ 0.80</u>	<u>\$ 0.70</u>	<u>\$ 0.26</u>	<u>\$ 0.11</u>	<u>\$ 2.27</u>	<u>\$ 1.12</u>	<u>\$ 0.53</u>	
Diluted earnings (loss) per share:								
Continuing operations.....	\$ 0.73	\$ 0.64	\$ 0.26	\$ 0.12	\$ 2.02	\$ 1.00	\$ 0.49	
Discontinued operations	-	-	(0.01)	(0.01)	-	-	-	
Net income (loss).....	<u>\$ 0.73</u>	<u>\$ 0.64</u>	<u>\$ 0.25</u>	<u>\$ 0.11</u>	<u>\$ 2.02</u>	<u>\$ 1.00</u>	<u>\$ 0.49</u>	
Market price range-common stock								
High	\$ 46.74	\$ 46.74	\$ 39.84	\$ 39.84	\$ 38.66	\$ 45.11	\$ 45.11	
Low	\$ 33.25	\$ 33.25	\$ 25.00	\$ 25.00	\$ 32.72	\$ 35.89	\$ 35.89	

[1] In addition to the adjustments in Note 23, first and second quarter results for 2004 were restated to reflect the retroactive impact of adopting FSP 106-2, regarding accounting for the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, in the third quarter of fiscal 2004.

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

23. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

In December 2004, NFC determined that it would restate its consolidated financial statements for the first three quarters of fiscal 2004 and the fiscal years ended October 31, 2003 and 2002 due to certain misapplications of GAAP. The primary area where it was determined that GAAP was incorrectly applied was in the accounting for retail note securitizations. As a result of NFC's restatement, the company concluded that it was necessary to restate its financial statements for the same periods. In the course of preparing the restatement of its consolidated financial statements, the company determined that it was appropriate to make other adjustments as well. The following sections describe the restatement matters in more detail.

NFC Securitization of Assets

In December 2004, NFC determined that it would restate its consolidated financial statements for the first three quarters of fiscal 2004 and the fiscal years ended October 31, 2003 and 2002 for (i) the accounting for the securitization of its retail notes and finance lease receivables and its retained interests in such securitizations, (ii) deferred taxes related to retail note and finance lease securitization transactions and secured borrowings to fund operating leases and (iii) an agreement to repurchase equipment.

The restatement recognizes income from interest-only strips on an effective yield basis and incorporates anticipated credit losses into the interest-only strip. The retained interest assets are recorded at fair value where the estimates of future cash flows take into effect current business and market conditions. Allowance for credit losses is recorded solely for owned notes. Also, as a part of its re-evaluation of securitization accounting, NFC corrected its tax treatment and deferred tax assets related to these securitizations, as well as, its secured borrowings related to operating leases.

NFC also made an additional adjustment to recognize on its statement of financial condition certain assets and liabilities relating to agreements to repurchase equipment.

As part of the restatement, the company recorded, as of the beginning of fiscal 2002, a cumulative charge of \$22 million to retained deficit and a \$8 million reduction to beginning other comprehensive loss reflecting the impact of the change in accounting for retail note securitizations originating in prior periods. Also, the restatement resulted in additional net loss of \$2 million and net income of \$4 million for fiscal 2003 and 2002 respectively.

Other

In addition to the adjustments described above, certain other adjustments, previously deemed immaterial, were also recorded for the years ended October 31, 2003 and 2002. These adjustments are necessary to conform prior periods financial statements with GAAP. For amounts recorded prior to 2002, the company identified that it had understated the amount of its trade payables at its Mexican truck assembly facility by approximately \$22 million and that certain accruals relating to employee plans were overstated by approximately \$27 million. These two adjustments resulted in a \$5 million net increase to retained loss as of the beginning of fiscal 2002.

In addition, accounting standards relating to the consolidation of majority owned truck dealerships were not previously applied appropriately. In fiscal 2002, such dealerships were accounted for under the equity method of accounting whereas consolidating these dealerships was the appropriate treatment. The company has reviewed the timing of when it obtained a controlling interest of such dealerships and has incorporated their financial information within the company's restated consolidated financial statements for the appropriate periods. The consolidation of such dealership information had no impact on the company's overall results of operations or equity for any period. However, it did significantly increase sales and revenues, costs of products and services sold and selling, general and administrative expense on the company's Statement of Income, while also increasing inventory and manufacturing debt on the company's Statement of Financial Condition. These increases are included in the restated financial information for the fiscal years ended October 31, 2003 and 2002.

NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004

23. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (continued)

In addition, the company recorded adjustments to the 2002 and 2003 financial statements to properly reflect revenue and expenses related to certain transactions. These adjustments do not have a significant impact on net income for either period.

The significant effects of the restatement on the company's consolidated financial statements for the years ended October 31, 2003 and 2002 are included below:

	Navistar International Corporation and Consolidated Subsidiaries			
	2003 As Previously Reported	2003 As Restated	2002 As Previously Reported	2002 As Restated
Condensed Statement of Income Millions of dollars				
Sales and Revenues				
Sales of manufactured products	7,033	7,282	6,493	6,725
Finance Revenue	287	283	271	276
Total sales and revenues	7,340	7,585	6,784	7,021
Costs and expenses				
Total costs of products and services sold	6,238	6,370	5,840	5,972
Selling, general and administrative expense	487	597	521	624
Interest expense	136	142	154	159
Other expense	26	27	29	29
Total costs and expenses	7,385	7,634	7,553	7,793
Loss from continuing operations before taxes	(45)	(49)	(769)	(772)
Income tax benefit	<u>(31)</u>	<u>(32)</u>	<u>(293)</u>	<u>(294)</u>
Loss from continuing operations	(14)	(17)	(476)	(478)
Net loss	\$ (18)	\$ (21)	\$ (536)	\$ (538)
Basic earnings (loss) per share				
Continuing operations	\$ (0.21)	\$ (0.25)	\$ (7.88)	\$ (7.92)
Net income (loss)	\$ (0.27)	\$ (0.31)	\$ (8.88)	\$ (8.92)
Diluted earnings (loss) per share				
Continuing operations	\$ (0.21)	\$ (0.25)	\$ (7.88)	\$ (7.92)
Net income (loss)	\$ (0.27)	\$ (0.31)	\$ (8.88)	\$ (8.92)
Average shares outstanding (millions)				
Basic	68.0	68.0	60.3	60.3
Diluted	68.0	68.0	60.3	60.3

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

23. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (continued)

	Navistar International Corporation and Consolidated Subsidiaries	
STATEMENT OF FINANCIAL CONDITION		
Millions of dollars	2003 As Previously Reported	2003 As Restated
ASSETS		
Current assets		
Cash and cash equivalents	\$ 447	\$ 467
Marketable securities	78	80
Receivables, net	869	932
Inventories.....	494	592
Deferred tax asset, net	176	183
Other assets	<u>146</u>	<u>165</u>
Total current assets.....	2,210	2,419
Marketable securities	517	515
Finance and other receivables, net.....	955	891
Property and equipment, net	1,350	1,439
Investments and other assets.....	339	300
Prepaid and intangible pension assets.....	66	66
Deferred tax asset, net	<u>1,463</u>	<u>1,299</u>
Total assets	<u>\$ 6,900</u>	<u>\$ 6,929</u>
LIABILITIES AND SHAREOWNERS' EQUITY		
Liabilities		
Current liabilities		
Notes payable and current maturities of long-term debt	\$ 214	\$ 254
Accounts payable, principally trade.....	1,079	1,113
Other liabilities.....	<u>911</u>	<u>905</u>
Total current liabilities.....	2,204	2,272
Debt:Manufacturing operations	863	993
Financial services operations	1,533	1,533
Postretirement benefits liability	1,435	1,433
Other liabilities	<u>555</u>	<u>406</u>
Total liabilities	<u>6,590</u>	<u>6,637</u>
Commitments and contingencies		
Shareowners' equity		
Series D convertible junior preference stock.....	4	4
Common stock and additional paid in capital (par value \$0.10 per share, 75.3 million shares issued) ..	2,118	2,118
Retained earnings (deficit).....	(824)	(833)
Accumulated other comprehensive loss.....	(786)	(778)
Common stock held in treasury, at cost		
(5.3 million and 6.5 million shares held).....	<u>(202)</u>	<u>(219)</u>
Total shareowners' equity	<u>310</u>	<u>292</u>
Total liabilities and shareowners' equity	<u>\$ 6,900</u>	<u>\$ 6,929</u>

**NOTES TO FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED OCTOBER 31, 2004**

24. SUBSEQUENT EVENTS

Servicios Financieros Navistar, S. A. de C. V., Sociedad Financiera de Objeto Limitado, a wholly owned subsidiary of the company, entered into a trust agreement with Banco J.P. Morgan, S.A., Institución de Banca Múltiple, J. P. Morgan Grupo Financiero, División Fiduciaria as trustee (the Trustee), for purposes of creating irrevocable trust No. F/00098 (the Trust). On December 3, 2004, the Trust issued and placed in the Mexican Stock Exchange, Certificados Bursátiles, Serie A (Notes), having an aggregate original principal amount of 516,000,000 Mexican Pesos, under the revolving securitization program authorized by the Mexican National Banking and Securities Commission in an aggregate amount of 1,100,000 Mexican Pesos.

On December 6, 2004, the company announced that its operating company, International Truck and Engine Corporation, signed a collaboration pact with truck and engine manufacturer, MAN Nutzfahrzeuge AG of Munich, Germany. As part of the agreement, the companies plan to collaborate on the design, development, sourcing and manufacturing of components and systems for commercial trucks, including a range of diesel engines.

The failure of the company and its affiliates to timely complete their respective Annual Reports on Form 10-K and deliver those reports to their respective lenders resulted in a default under such agreements. However, the company and its affiliates did not receive a notice of default and no adverse action was taken by those lenders or lessors against the company or its affiliates. NFC obtained the necessary waivers from its various lenders to prevent a notice of default.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL AND STATISTICAL DATA (Unaudited)

As of and for the Years Ended October 31

(Millions of dollars, except share data,

units shipped and percentages)

	2004	2003	2002	2001	2000
		As Restated *	As Restated *	As Restated *	As Restated *
<u>RESULTS OF OPERATIONS</u>					
Sales and revenues	\$ 9,724	\$ 7,585	\$ 7,021	\$ 6,679	\$ 8,436
Income (loss) from continuing operations	\$ 247	\$ (17)	\$ (478)	\$ (10)	\$ 161
Loss from discontinued operations	-	(4)	(60)	(14)	(15)
Net income (loss)	<u>\$ 247</u>	<u>\$ (21)</u>	<u>\$ (538)</u>	<u>\$ (24)</u>	<u>\$ 146</u>
Basic earnings (loss) per share:					
Continuing operations.....	\$ 3.54	\$ (0.25)	\$ (7.92)	\$ (0.17)	\$ 2.65
Discontinued operations	-	(0.06)	(1.00)	(0.24)	(0.25)
Net income (loss).....	<u>\$ 3.54</u>	<u>\$ (0.31)</u>	<u>\$ (8.92)</u>	<u>\$ (0.41)</u>	<u>\$ 2.40</u>
Diluted earnings (loss) per share:					
Continuing operations.....	\$ 3.20	\$ (0.25)	\$ (7.92)	\$ (0.17)	\$ 2.62
Discontinued operations	-	(0.06)	(1.00)	(0.24)	(0.25)
Net income (loss).....	<u>\$ 3.20</u>	<u>\$ (0.31)</u>	<u>\$ (8.92)</u>	<u>\$ (0.41)</u>	<u>\$ 2.37</u>
Average number of shares outstanding (millions)					
Basic	69.7	68.0	60.3	59.5	60.7
Diluted	80.1	68.0	60.3	59.5	61.5

FINANCIAL DATA

Total assets	\$ 7,592	\$ 6,929	\$ 7,119	\$ 7,151	\$ 6,939
Long-term debt					
Manufacturing operations.....	\$ 1,258	\$ 993	\$ 861	\$ 908	\$ 437
Financial services operations	787	1,533	1,651	1,560	1,711
Total long-term debt.....	<u>\$ 2,045</u>	<u>\$ 2,526</u>	<u>\$ 2,512</u>	<u>\$ 2,468</u>	<u>\$ 2,148</u>
Shareowners' equity.....	\$ 531	\$ 292	\$ 235	\$ 1,105	\$ 1,290
Total manufacturing operations' long-term debt as a percent of total manufacturing capitalization.....	67.6%	73.1%	68.1%	43.8%	23.5%
Return on equity	46.3%	(7.2)%	(228.9)%	(2.2)%	11.3%

SUPPLEMENTAL DATA

Capital expenditures	\$ 230	\$ 210	\$ 252	\$ 326	\$ 553
Engineering and research expense	245	242	260	253	280

OPERATING DATA

Manufacturing gross margin	14.3%	13.5%	12.1%	13.5%	16.9%
U.S. and Canadian market share (a).....	28.1%	28.8%	28.1%	28.6%	28.0%
Unit shipments worldwide					
Trucks.....	112,200	84,700	84,100	89,600	124,900
OEM engines (b).....	357,900	332,400	315,100	324,900	304,400

a) Based on shipments of medium trucks (Classes 6 and 7), including school buses, and heavy trucks (Class 8).

b) Includes OEM engine shipments from International Engines South America.

* Restated for the effects of the matters discussed in Note 23 to financial statements.

ADDITIONAL FINANCIAL INFORMATION (Unaudited)

The following additional financial information is provided based upon the continuing interest of certain shareowners and creditors to assist them in understanding our core manufacturing business.

		Navistar International Corporation (with financial services operations on an equity basis)		
Condensed Statement of Income For the Years Ended October 31 Millions of dollars		2004	2003 As Restated *	2002 As Restated *
Sales of manufactured products		\$ 9,467	\$ 7,283	\$ 6,725
Other income		7	11	11
Total sales and revenues		9,474	7,294	6,736
Cost of products sold.....		8,111	6,294	5,885
Cost of products sold related to restructuring.....		-	9	23
Total cost of products sold		8,111	6,303	5,908
Restructuring and other non-recurring charges		(1)	(45)	519
Postretirement benefits expense.....		202	293	226
Engineering and research expense.....		245	242	260
Selling, general and administrative expense.....		601	541	553
Other expense		129	128	129
Total costs and expenses		9,287	7,462	7,595
Income (loss) from continuing operations before income taxes				
Manufacturing operations.....		187	(168)	(859)
Financial services operations.....		124	119	87
Income (loss) from continuing operations before income taxes		311	(49)	(772)
Income tax expense (benefit)		64	(32)	(294)
Income (loss) from continuing operations		247	(17)	(478)
Discontinued operations:				
Loss from discontinued operations (less applicable income taxes of \$0, \$0, and \$2, respectively)		-	-	(14)
Loss on disposal		-	(4)	(46)
Loss from discontinued operations		-	(4)	(60)
Net income (loss).....		\$ 247	\$ (21)	\$ (538)

Condensed Statement of Financial Condition As of October 31

Millions of dollars		2004	2003 As Restated *
Cash, cash equivalents and marketable securities	\$	737	\$ 522
Inventories		779	584
Property and equipment, net		1,283	1,233
Equity in non-consolidated subsidiaries		549	458
Other assets.....		1,129	830
Deferred tax asset, net		1,445	1,482
Total assets.....	\$	5,922	\$ 5,109
Accounts payable, principally trade.....	\$	1,436	\$ 1,071
Postretirement benefits liability		1,544	1,707
Debt		1,329	1,066
Other liabilities		1,082	973
Shareowners' equity.....		531	292
Total liabilities and shareowners' equity	\$	5,922	\$ 5,109

ADDITIONAL FINANCIAL INFORMATION (Unaudited) (continued)

Navistar International Corporation (with financial services operations on an equity basis) in millions of dollars

For the Years Ended October 31

Condensed Statement of Cash Flow	2004	2003	2002
		As Restated *	As Restated *
Cash flow from operations			
Net income (loss)	\$ 247	\$ (21)	\$ (538)
Adjustments to reconcile net income (loss)			
to cash used in operations:			
Depreciation and amortization	210	152	167
Deferred income taxes	29	(54)	(270)
Postretirement benefits funding			
less than (in excess of) expense	(158)	(11)	15
Postretirement benefits curtailment	(2)	(5)	157
Equity in earnings of investees, net of			
dividends received	(80)	(30)	(48)
Non-cash restructuring and other non-recurring charges	-	6	157
Non-cash charge related to discontinued operations	-	-	28
Other, net	(103)	(30)	9
Change in operating assets and liabilities	172	(54)	100
Cash provided by (used in) operations	315	(47)	(223)
Cash flow from investment programs			
Purchases of marketable securities	(417)	(406)	(29)
Sales or maturities of marketable securities	313	328	69
Capital expenditures	(229)	(208)	(247)
Proceeds from sale-leasebacks	-	-	164
Receivable from financial services operations	(51)	67	(69)
Investment in affiliates	(23)	1	45
Other investment programs	(9)	(31)	(69)
Cash used in investment programs	(416)	(249)	(136)
Cash provided by financing activities	213	176	157
Cash and cash equivalents			
Increase (decrease) during the year	112	(120)	(202)
At beginning of year	444	564	766
Cash and cash equivalents at end of the year	\$ 556	\$ 444	\$ 564

* Restated for the effects of the matters discussed in Note 23 to financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The company's principal executive officer and principal financial officer, along with other management of the company, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of October 31, 2004. Based on that evaluation, the principal executive officer and principal financial officer of the company concluded that, as of October 31, 2004, there were weaknesses in the disclosure controls and procedures within the company's finance subsidiary. The weaknesses resulted in a misapplication of GAAP related to securitization accounting. The company's finance subsidiary restated its previously issued financial statements to correct the misapplication. Because of the weakness noted within the finance subsidiary, the principal executive officer and principal financial officer of the company concluded that the disclosure controls and procedures in place at the company were not effective. Management has strengthened, as of October 31, 2004, its controls and procedures over the application of these accounting standards and believes that the circumstances resulting in the misapplication of GAAP will not reoccur.

Changes in internal controls over financial reporting

The company has not made any changes to its internal control over financial reporting (as defined in rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal year ended October 31, 2004 that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting except for:

- (1) the actions taken by the company's financial services subsidiary to correct the accounting associated with its retail note securitization program;
- (2) a reemphasis of reconciliation controls, relative to accounts payable, at the company's Mexican truck assembly facility;
- (3) the commencement of the consolidation of majority owned dealerships.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by Item 10 of this Form is incorporated herein by reference from the company's definitive Proxy Statement for the March 23, 2005, Annual Meeting of Shareowners under the captions "Election of Directors", "Board Meetings and Committees-Audit Committee", "Audit Committee Report" and "Section 16(a) Beneficial Ownership Reporting Compliance"; and in Part I, Item 1, of this Form 10-K under the caption "Executive Officers of the Registrant."

The company has adopted a Code of Ethics applicable to all employees, directors and officers, including the chief executive officer and chief financial officer. The company, in accordance with Item 406 of Regulation S-K, has posted this Code of Ethics on its website at www.internationaldelivers.com. The company intends to disclose on its website any amendments to, or waivers from, its Code of Ethics that are required to be publicly disclosed pursuant to the rules of the Securities and Exchange Commission.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 11 of this Form is incorporated herein by reference from the company's definitive Proxy Statement for the March 23, 2005, Annual Meeting of Shareowners under the captions "Executive Compensation" and "Directors' Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by Item 12 of this Form is incorporated herein by reference from the company's definitive Proxy Statement for the March 23, 2005, Annual Meeting of Shareowners under the captions "Navistar Common Stock Ownership by Directors and Officers", "Persons Owning More Than 5% of Navistar Common Stock" and "Equity Compensation Plan Information."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 13 of this Form is incorporated herein by reference from the company's definitive Proxy Statement for the March 23, 2005, Annual Meeting of Shareowners under the caption "Certain Related Transactions."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by Item 14 of this Form and the audit committee's pre-approval policies and procedures regarding the engagement of the principle accountant are incorporated herein by reference from the company's definitive Proxy Statement for the March 23, 2005, Annual Meeting of Shareowners under the caption "Audit Committee Report-Independent Auditor Fees".

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements

See Item 8 – Financial Statements and Supplementary Data

Schedule

Page

II Valuation and Qualifying Accounts and Reserves.....	F-1
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This consolidated financial statement schedule of the company is filed as part of this Form 10-K and should be read in conjunction with the Consolidated Financial Statements, and related notes thereto, of the company. All other schedules are omitted because of the absence of the conditions under which they are required or because information called for is shown in the consolidated financial statements and notes thereto.

Finance Subsidiaries:

The consolidated financial statements of Navistar Financial Corporation for the years ended October 31, 2004, 2003 and 2002, appearing on pages 13 through 40 in the Annual Report on Form 10-K for Navistar Financial Corporation for the fiscal year ended October 31, 2004, Commission File No. 1-4146-1, are incorporated herein by reference and filed as Exhibit 99 to this Form 10-K.

<u>Exhibits</u>	<u>Page</u>
(3) Articles of Incorporation and By-Laws	E-1
(4) Instruments Defining the Rights of Security Holders, Including Indentures.....	E-2
(10) Material Contracts	E-11
(11) Computation of Earnings per Share (incorporated by reference from Note 19 to the Financial Statements)	71
(12) Computation of Ratio of Earnings to Fixed Charges	E-94
(21) Subsidiaries of the Registrant.....	E-95
(23) Consent of Independent Registered Public Accounting Firm.....	92
(24) Power of Attorney	90
(31.1) CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.....	E-96
(31.2) CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.....	E-97
(32.1) CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.....	E-98
(32.2) CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.....	E-99
(99) Navistar Financial Corporation's Annual Report on Form 10-K for the fiscal year ended October 31, 2004	*
(99.1) Forward Looking Statements, Risks and Factors	E-100
(99.2) Annual CEO Certification to the New York Stock Exchange	E-103

*Filed electronically with the Securities and Exchange Commission.

All exhibits other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information called for is shown in the financial statements and notes thereto in the 2004 Annual Report on Form 10-K.

Exhibits, other than those incorporated by reference, have been included in copies of this report filed with the Securities and Exchange Commission. Shareowners of the company will be provided with copies of these exhibits upon written request to the Corporate Secretary at the address given on the cover page of this Form 10-K.

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NAVISTAR INTERNATIONAL CORPORATION
(Registrant)

/s/ Mark T. Schwetschenau
Mark T. Schwetschenau
Senior Vice President and Controller
(Principal Accounting Officer)

February 14, 2005

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below does hereby make, constitute and appoint Daniel C. Ustian, Robert C. Lannert and Mark T. Schwetschenau, and each of them acting individually, his or her true and lawful attorneys-in-fact and agents, with full power of substitution, for them and in their name, place and stead, in any and all capacities, to sign Navistar International Corporation's Annual Report on Form 10-K for the fiscal year ended October 31, 2004, and any amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents may lawfully do or cause to be done by virtue hereof.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ Daniel C. Ustian</u> Daniel C. Ustian	Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2005
<u>/s/ Robert C. Lannert</u> Robert C. Lannert	Vice Chairman and Chief Financial Officer and Director (Principal Financial Officer)	February 14, 2005
<u>/s/ Mark T. Schwetschenau</u> Mark T. Schwetschenau	Senior Vice President and Controller (Principal Accounting Officer)	February 14, 2005

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

SIGNATURES (continued)

Signature	Title	Date
<u>/s/ Y. Marc Belton</u> Y. Marc Belton	Director	February 14, 2005
<u>/s/ Eugenio Clariond</u> Eugenio Clariond	Director	February 14, 2005
<u>/s/ John D. Correnti</u> John D. Correnti	Director	February 14, 2005
<u>/s/ Dr. Abbie J. Griffin</u> Dr. Abbie J. Griffin	Director	February 14, 2005
<u>/s/ Michael N. Hammes</u> Michael N. Hammes	Director	February 14, 2005
<u>/s/ James H. Keyes</u> James H. Keyes	Director	February 14, 2005
<u>/s/ David McAllister</u> David McAllister	Director	February 14, 2005
<u>/s/ Southwood J. Morcott</u> Southwood J. Morcott	Director	February 14, 2005
<u>/s/ William F. Patient</u> William F. Patient	Director	February 14, 2005

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Navistar International Corporation,
Its Directors and Shareowners:

We have audited the consolidated financial statements of Navistar International Corporation and Consolidated Subsidiaries as of October 31, 2004 and 2003, and for each of the three years in the period ended October 31, 2004, and have issued our report thereon dated February 14, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement described in Note 23). Such consolidated financial statements and report are included in this Annual Report on Form 10-K of Navistar International Corporation and Consolidated Subsidiaries for the year ended October 31, 2004. Our audits also included the consolidated financial statement schedule for the company, listed in Item 15. The financial statement schedule is the responsibility of the company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP
February 14, 2005
Chicago, Illinois

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Navistar International Corporation:

We consent to the incorporation by reference in the Registration Statements, including post-effective amendments, No. 2-70979, No. 33-26847, No. 333-25783, No. 333-29735, No. 333-29739, No. 333-29301, No. 333-77781, No. 333-73392, No. 333-86756, No. 333-86754 and No. 333-113896, all on Form S-8; No. 333-87716, No. 333-52375, No. 333-48125, No. 333-101684 and No. 333-103437 all on Form S-3; and No. 333-64626 on Form S-4, of Navistar International Corporation and Consolidated Subsidiaries of our reports dated February 14, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement described in Note 23), relating to the consolidated financial statements and financial statement schedule of Navistar International Corporation and of our report dated February 14, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement described in Note 2), relating to the consolidated financial statements of Navistar Financial Corporation, appearing in and incorporated by reference in this Annual Report on Form 10-K of Navistar International Corporation and Consolidated Subsidiaries for the year ended October 31, 2004.

Deloitte & Touche LLP
February 14, 2005
Chicago, Illinois

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

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**VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED OCTOBER 31, 2004, 2003 AND 2002
(MILLIONS OF DOLLARS)**

<u>COLUMN A</u>		<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>		<u>COLUMN E</u>
DESCRIPTION				DEDUCTIONS FROM RESERVES		
<u>DESCRIPTION OF RESERVES</u>	<u>DEDUCTED FROM</u>	<u>BALANCE AT BEGINNING OF YEAR</u>	<u>ADDITIONS CHARGED TO INCOME</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>BALANCE AT END OF YEAR</u>
Reserves deducted from assets to which they apply:						
<u>2004</u>						
Allowance for losses on receivables.....	Notes and accounts receivable	\$ 50	\$ 13	Uncollectible notes and accounts written off and reserve adjustment, less recoveries.....	\$ 31	\$ 32
<u>2003</u>						
Allowance for losses on receivables.....	Notes and accounts receivable	\$ 50	\$ 43	Uncollectible notes and accounts written off and reserve adjustment, less recoveries.....	\$ 43	\$ 50
<u>2002</u>						
Allowance for losses on receivables.....	Notes and accounts receivable	\$ 40	\$ 67	Uncollectible notes and accounts written off and reserve adjustment, less recoveries.....	\$ 57	\$ 50

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

ARTICLES OF INCORPORATION AND BY-LAWS

The following documents of Navistar International Corporation are incorporated herein by reference:

- 3.1 Restated Certificate of Incorporation of Navistar International Corporation effective July 1, 1993, filed as Exhibit 3.2 to Annual Report on Form 10-K dated October 31, 1993, which was filed on January 27, 1994, Commission File No. 1-9618, and amended as of May 4, 1998.
- 3.2 Certificate of Retirement of Stock filed with the Secretary of State for the State of Delaware effective July 30, 2003 retiring the Class B common stock of Navistar International Corporation in accordance with the Restated Certificate of Incorporation of Navistar International Corporation, filed as Exhibit 3.2 to Quarterly Report on Form 10-Q dated September 12, 2003, which was filed on September 12, 2003 on Commission File No. 001-09618.
- 3.3 The Amended and Restated By-Laws of Navistar International Corporation effective October 21, 2003, filed as Exhibit 3.3 to Annual Report on Form 10-K dated October 31, 2003, which was filed on December 19, 2003, Commission No. 001-09618.

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

The following instruments of Navistar International Corporation and its principal subsidiary International Truck and Engine Corporation, and its principal subsidiary Navistar Financial Corporation defining the rights of security holders are incorporated herein by reference.

- 4.1 Credit Agreement for \$820,000,000 Revolving Credit and Competitive Advance Facility dated as of December 8, 2000, between Navistar Financial Corporation, Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., as borrowers, lenders party hereto, The Chase Manhattan Bank as Administrative Agent, Bank of America as Syndication Agent and Bank of Nova Scotia as Documentation Agent. Filed as Exhibit 10.05 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 4.2 Guarantee, dated as of December 8, 2000, made by Navistar International Corporation, in favor of The Chase Manhattan Bank, as Administrative Agent, for the lenders parties to the Credit Agreement, dated as of December 8, 2000, among Navistar Financial Corporation and Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., the Lenders, Bank of America, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the Administrative Agent. Filed as Exhibit 10.07 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 4.3 Indenture, dated as of May 31, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 9 3/8% Senior Notes due 2006 for \$400,000,000. Filed on Registration No. 333-64626 as Exhibit 4.3.
- 4.4 Note Purchase Agreement, dated as of June 15, 2001, as amended from time to time, between International Truck and Engine Corporation and the State of Wisconsin Investment Board for 9.95% Senior Notes due 2011 for \$19,000,000. The Registrant agrees to furnish to the Commission upon request a copy of such agreement, which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.5 555,000,000 Mexican Peso Credit Agreement dated as of July 25, 2001, as restructured as of May 14, 2004, by and among Servicios Financieros Navistar, S.A. de C.V., Arrendadora Financiera Navistar, S.A. de C.V., Navistar Comercial, S.A. de C.V. and Banco Nacional de Obras y Servicios Publicos, S.N.C. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.6 First Supplement to Indenture, dated as of August 22, 2001, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 9 3/8% Senior Notes due 2006 for \$400,000,000. Filed as Exhibit 4.19 to Annual Report on Form 10-K dated December 18, 2001. Commission File No. 1-9618.
- 4.7 \$40,000,000 Revolving Credit Agreement dated as of August 26, 2004, by and among Arrendadora Financiera Navistar, S.A. de C.V. and Servicios Financieros Navistar, S.A. de C.V. and Export Development Canada. The Registrant agrees to furnish to the Commission upon request a copy of such agreement, which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

- 4.8 500,000,000 Mexican Peso Medium Term Promissory Notes Program issued November 22, 2001, by Servicios Financieros Navistar, S.A. de C.V. and placed in the market by the intermediate underwriter Casa de Bolsa Citibank, S.A. de C.V. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.9 100,000,000 Mexican Peso Revolving Credit Agreement dated as of August 10, 2004, by and among Arrendadora Financiera Navistar, S.A. de C.V. and Servicios Financieros Navistar, S.A. de C.V. and Comerica Bank Mexico, S.A. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.10 120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, by and between Arrendadora Financiera Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.11 120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, by and between Servicios Financieros Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.12 Navistar International Corporation Restated Stock Certificate filed as Exhibit 4.20 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- 4.13 Indenture, dated as of March 25, 2002, by and among Navistar Financial Corporation, Navistar International Corporation and BNY Midwest Trust Company, as Trustee, for Navistar Financial Corporation's 4.75% Subordinated Exchangeable Notes due 2009 for \$220,000,000. Filed as Exhibit 4.1 to Form S-3 dated May 7, 2002. Registration No. 333-87716.
- 4.14 Registration Rights Agreement, dated as of March 25, 2002, by and among Navistar Financial Corporation, Navistar International Corporation, Salomon Smith Barney, Inc. and Banc of America Securities, LLC. Filed as Exhibit 4.2 to Form S-3 dated May 7, 2002. Registration No. 333-87716.
- 4.15 170,000,000 Mexican Peso Revolving Credit Agreement dated as of May 12, 2004, by and among Servicios Financieros Navistar, S.A. de C.V., as borrower and Ixe Banco, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).
- 4.16 \$7,000,000 Revolving Credit Agreement dated as of September 29, 2003, by and between Servicios Financieros Navistar, S.A. de C.V, as borrower and HSBC Mexico, S.A. (f/k/a Banco Internacional, S.A.), as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).
- 4.17 80,000,000 Mexican Peso Revolving Credit Agreement dated as of August 30, 2004, by and between Servicios Financieros Navistar, S.A. de C.V., as borrower and Banco Invex, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
INCLUDING INDENTURES**

- 4.18 200,000,000 Mexican Peso Revolving Credit Agreement dated as of October 16, 2002, and ratified on October 29, 2003, by and among Servicios Financieros Navistar, S.A. de C.V. and Arrendadora Financiera Navistar, S.A. de C.V., as borrowers and Scotiabank Inverlat, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).
- 4.19 Registration Rights Agreement, dated as of November 8, 2002, by and between Navistar International Corporation and the Investors party thereto. Filed as Exhibit 4.3 to Form S-3 dated December 6, 2002. Registration No. 333-101684.
- 4.20 Indenture, dated as of December 16, 2002, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for Navistar International Corporation's 2.50% Senior Convertible Notes due 2007 for \$190,000,000. Filed as Exhibit 4.3 to Form S-3 dated February 25, 2003. Registration No. 333-103437.
- 4.21 Registration Rights Agreement, dated as of December 16, 2002, by and between Navistar International Corporation and Credit Suisse First Boston Corporation. Filed as Exhibit 4.2 to Form S-3 dated February 25, 2003. Registration No. 333-103437.
- 4.22 \$3,000,000 Revolving Credit Agreement dated as of September 29, 2003, by and between Arrendadora Financiera Navistar, S.A. de C.V., as borrower and HSBC Mexico S.A. (f/k/a Banco Internacional, S.A.), as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).
- 4.23 100,000,000 Mexican Peso Revolving Credit Agreement dated as of December 11, 2003, by and between Arrendadora Financiera Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).
- 4.24 100,000,000 Mexican Peso Revolving Credit Agreement dated as of December 11, 2003, by and between Servicios Financieros Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).
- 4.25 First Amendment to the Credit Agreement for \$820,000,000 Revolving Credit and Competitive Advance Facility dated as of December 8, 2000, between Navistar Financial Corporation, Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., as borrowers, lenders party thereto, The Chase Manhattan Bank as Administrative Agent, Bank of America as Syndication Agent and Bank of Nova Scotia as Documentation Agent. Filed as Exhibit 3.2 to Navistar Financial Corporation's Form 10-Q dated and filed March 8, 2004. Commission File No. 001-04146.
- 4.26 \$50,000,000 Mexican Peso Revolving Credit Agreement dated as of May 18, 2004, between Servicios Financieros Navistar, S.A. de C.V., as borrower and Banco Mercantil del Norte, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).

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**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,
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- 4.27 \$50,000,000 Mexican Peso Revolving Credit Agreement dated as of June 3, 2004, between Servicios Financieros Navistar, S.A. de C.V., as borrower and Banco del Bajio, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).

- 4.28 \$25,000,000 Mexican Peso Revolving Credit Agreement dated as of June 3, 2004, between Arrendadora Financiera Navistar, S.A. de C.V., as borrower and Banco del Bajio, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).

- 4.29 \$50,000,000 Mexican Peso Revolving Credit Agreements dated as of June 11, 2004, between Servicios Financieros Navistar, S.A. de C.V., and Arrendadora Financiera Navistar, S.A. de C.V. as borrowers and Banco Ve por Más, S.A., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreements which it has elected not to file under the provisions of Regulation 601 (b)(4)(iii).

- 4.30 Indenture, dated as of June 2, 2004, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 7 1/2% Senior Notes due 2011 for \$250,000,000. Filed as Exhibit 4.1 to Current Report on Form 8-K dated June 4, 2004. Commission File No. 1-9618.

- 4.31 First Supplement to Indenture, dated as of June 2, 2004, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 7 1/2% Senior Notes due 2011 for \$250,000,000. Filed as Exhibit 4.2 to Current Report on Form 8-K dated June 4, 2004. Commission File No. 1-9618.

- 4.32 Second Supplement to Indenture, dated as of June 2, 2004, by and among Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 9 3/8% Senior Notes due 2006 for \$400,000,000. Filed as Exhibit 4.3 to Current Report on Form 8-K dated June 4, 2004. Commission File No. 1-9618.

- 4.33 First Supplement to Indenture, dated as of June 11, 2004, by and among Navistar Financial Corporation, Navistar International Corporation and BNY Midwest Trust Company, as Trustee, for Navistar Financial Corporation's 4.75% Subordinated Exchangeable Notes due 2009 for \$220,000,000. Filed as Exhibit 4.6 to Navistar Financial Corporation's Form 10-Q dated and filed September 10, 2004. Commission File No. 1-9618.

Instruments defining the rights of holders of other unregistered long-term debt of Navistar and its subsidiaries have been omitted from this exhibit index because the amount of debt authorized under any such instrument does not exceed 10% of the total assets of the Registrant and its consolidated subsidiaries. The Registrant agrees to furnish a copy of any such instrument to the Commission upon request.

**NAVISTAR INTERNATIONAL CORPORATION
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MATERIAL CONTRACTS

The following documents of Navistar International Corporation and its affiliate Navistar Financial Corporation are incorporated herein by reference.

- *10.1 Navistar International Corporation 1984 Stock Option Plan. Filed as Exhibit A to Proxy Statement dated February 6, 1984. Commission File No. 1-5236.
- 10.2 Pooling and Servicing Agreement dated as of June 8, 1995, among Navistar Financial Corporation, as Servicer, Navistar Financial Securities Corporation, as Seller, JP Morgan Chase Bank (survivor in the merger between JP Morgan and The Chase Manhattan Bank), as 1990 Trust Trustee, and The Bank of New York, as Master Trust Trustee. Filed on Registration No. 033-87374.
- 10.3 Series 1995-1 Supplement to the Pooling and Servicing Agreement dated as of June 8, 1995, among Navistar Financial Corporation, as Servicer, Navistar Financial Securities Corporation, as Seller, and The Bank of New York, as Master Trust Trustee on behalf of the Series 1995-1 Certificate holders. Filed on Registration No. 033-87374.
- *10.4 Navistar 1988 Non-Employee Director Stock Option Plan amended as of March 20, 1996. Filed as Exhibit 10.19 to Form 10-K dated December 22, 1997. Commission File No. 1-9618.
- *10.5 Form of Executive Severance Agreement which is executed with all executive officers dated June 16, 1997. Filed as Exhibit 10.5 to Form 10-Q dated September 12, 1997. Commission File No. 1-9618.
- *10.6 Executive Severance Agreement between J.R. Horne and the company dated June 16, 1997. Filed as Exhibit 10.35 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- 10.7 Series 1998-1 Supplement to the Pooling and Servicing Agreement dated as of July 17, 1998, among Navistar Financial Corporation, as Servicer, Navistar Financial Securities Corporation, as Seller, and the Bank of New York, as Master Trust Trustee on behalf of the Series 1998-1 certificate holders. Filed on Registration No. 333-30737.
- *10.8 Navistar International Corporation 1998 Interim Stock Plan. Filed as Exhibit 10.21 to Form 10-Q dated June 12, 1998. Commission File No. 1-9618.
- 10.9 Certificate Purchase Agreement dated as of January 28, 2000, between Navistar Financial Securities Corporation, as seller, Navistar Financial Corporation, as Servicer, Receivable Capital Corporation, as the Conduit Purchaser, Bank of America, National Association, as administrative Agent for the Purchasers, and Bank of America, National Association, as a Committed Purchaser filed on Form 8-K dated February 24, 2000. Commission File No. 033-87374.
- 10.10 Series 2000-1 Supplement to the Pooling and Servicing Agreement dated as of July 13, 2000, among Navistar Financial Corporation, as Servicer, Navistar Financial Securities Corporation, as Seller, and the Bank of New York, as Master Trust Trustee on behalf of the Series 2000-1 Certificate holders. Filed as Exhibit 4.1 to Navistar Financial Securities Corporation's Form 8-K dated July 14, 2000. Filed on Registration No. 333-32960.
- 10.11 Servicing Agreement dated as of October 16, 2000, between Navistar Financial Corporation, as Servicer, and Navistar Leasing Corporation, Harco Leasing Company, Inc., Truck Retail Instalment Paper Corp., The Bank of New York as Collateral Agent, and Bank One National Association, as Portfolio Trustee. Filed as Exhibit 10.01 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.

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MATERIAL CONTRACTS

- 10.12 Indenture Agreement dated as of October 16, 2000, between Truck Retail Instalment Paper Corp., as Issuer, and The Bank of New York, as Indenture Trustee. Filed as Exhibit 10.03 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 10.13 Series 2000-1 Supplement dated as of October 16, 2000, to the Indenture also dated October 16, 2000, between Truck Retail Instalment Paper Corp., as Issuer, and The Bank of New York, as Indenture Trustee. Filed as Exhibit 10.04 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 10.14 Indenture dated as of April 27, 2001, between Navistar Financial 2001-A Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2001-A Owner Trust. Filed as Exhibit 4.2 to Navistar Financial Retail Receivables Corporation's Form 8-K dated May 3, 2001. Filed on Registration No. 033-50291.
- 10.15 Supplement No. 1, dated as of July 24, 2001, to Indenture agreement dated October 16, 2000, among Truck Retail Instalment Paper Corp. and The Bank of New York, filed on Form 8-K dated August 6, 2001. Commission File No. 1-4146-1.
- *10.16 Form of Executive Severance Agreement Amendment which is executed with all executive officers. Filed as Exhibit 10.30 to Form 10-Q dated September 13, 2001. Commission File No. 1-9618.
- 10.17 Indenture dated as of November 1, 2001, between Navistar Financial 2001-B Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2001-B Owner Trust. Filed as Exhibit 4.2 to Navistar Financial Retail Receivables Corporation's Form 8-K dated November 6, 2001. Filed on Registration No. 033-50291.
- *10.18 Navistar 1994 Performance Incentive Plan, as amended. Filed as Exhibit 10.31 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- *10.19 Navistar 1998 Supplemental Stock Plan, as amended and supplemented by the Restoration Stock Option Program. Filed as Exhibit 10.32 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- *10.20 Board of Directors resolution regarding director's annual retainer. Filed as Exhibit 10.33 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- *10.21 Navistar Non-Employee Director's Deferred Fee Plan. Filed as Exhibit 10.34 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- *10.22 Navistar 1998 Non-Employee Director Stock Option Plan, as amended. Filed as Exhibit 10.1 to Form S-8 dated April 23, 2002. Registration No. 333-86754.
- 10.23 Indenture dated as of April 30, 2002, between Navistar Financial 2002-A Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2002-A Owner Trust. Filed as Exhibit 4.2 to Navistar Financial Retail Receivables Corporation's Form 8-K dated May 3, 2002. Filed on Registration Nos. 333-62445 and 333-67112.
- 10.24 Supplement No. 2, dated as of July 31, 2002, to Indenture agreement dated October 16, 2000, among Truck Retail Instalment Paper Corp. and The Bank of New York, filed on Form 8-K dated November 27, 2002. Commission File No. 1-4146-1.

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MATERIAL CONTRACTS

- *10.26 Employment Agreement between Navistar International Corporation, International Truck and Engine Corporation and Robert C. Lannert. Filed as Exhibit 10.40 to Form 10-Q dated September 13, 2002. Commission File No. 1-9618.

- *10.27 Indenture dated as of November 19, 2002, between Navistar Financial 2002-B Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2002-B Owner Trust. Filed as Exhibit 4.2 to Navistar Financial Retail Receivables Corporation's Form 8-K dated November 25, 2002. Filed on Registration No. 333-67112.

- *10.28 Board of Directors resolution approving an increase in the additional retainer paid to the audit committee members and to the chairs of the committees. Filed as Exhibit 10.35 to Form 10-Q dated June 13, 2003. Commission File No. 1-9618.

- 10.29 Indenture dated as of June 5, 2003, between Navistar Financial 2003-A Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2003-A Owner Trust. Filed as Exhibit 4.2 to Navistar Financial Retail Receivables Corporation's Form 8-K dated June 11, 2003. Registration No. 333-67112.

- 10.30 Series 2003-1 Supplement to the Pooling and Service Agreement dated as of July 13, 2003, among Navistar Financial Corporation, as Servicer, Navistar Financial Securities Corporation, as Seller, and the Bank of New York, as Master Trust Trustee on behalf of the Series 2003-1 Certificateholders. Filed as Exhibit 4.1 to Navistar Financial Securities Corporation's Form 8-K dated July 11, 2003. Registration No. 333-102345-01.

- 10.31 Indenture dated as of October 31, 2003, between Navistar Financial 2003-B Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2003-B Owner Trust. Filed as Exhibit 4.2 to Navistar Financial Retail Receivables Corporation's Form 8-K dated November 5, 2003. Registration No. 333-67112.

- *10.32 Board of Directors resolution (1) approving an increase in the annual retainer paid to non-employee directors and (2) amending the director's restricted stock Plan to expire on December 31, 2005. Filed as Exhibit 10.35 to Form 10-K dated December 18, 2003. Commission File No. 1-9618.

- *10.33 Board of Directors resolution amending the 1994 Performance Incentive Plan, the 1998 Supplemental Stock Plan and the 1998 Non-Employee Director Stock Option Plan to prohibit the repricing and discounting of options. Filed as Exhibit 10.36 to Form 10-K dated December 18, 2003. Commission File No. 1-9618.

- *10.34 Navistar International Corporation 2004 Performance Incentive Plan. Filed as Appendix A to Proxy Statement dated and filed on January 15, 2004. Commission File No. 001-09618.

- 10.35 Indenture dated as of April 1, 2004, between Navistar Financial 2004-A Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2004-A Owner Trust. Filed as Exhibit 4.2 to Navistar Financial Retail Receivables Corporation Navistar Financial 2004-A Owner Trust's Form 8-K dated April 5, 2004. Filed on Registration No. 333-67112-01.

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- *10.36 Board of Directors resolution terminating the 1998 Non-Employee Directors Plan. Filed as Exhibit 10.39 to Form 10-Q dated June 9, 2004. Commission File No. 1-9618.
- *10.37 Amendment No. 1 to the Navistar International Corporation 2004 Performance Incentive Plan effective April 21, 2004. Filed as Exhibit 10.40 to Form 10-Q dated June 9, 2004. Commission File No. 1-9618.
- 10.38 Indenture dated as of June 10, 2004, between Navistar Financial Dealer Note Master Owner Trust, as Issuer, and The Bank of New York, as Indenture Trustee. Filed as Exhibit 4.2 to Navistar Financial Dealer Note Master Owner Trust's Current Report on Form 8-K dated June 10, 2004. Filed on File No. 333-104639.
- 10.39 Series 2004-1 Indenture Supplement, dated as of June 10, 2004, between Navistar Financial Dealer Note Master Owner Trust, as Issuer, and The Bank of New York, as Indenture Trustee. Filed as Exhibit 4.3 to Navistar Financial Dealer Note Master Owner Trust's Current Report on Form 8-K dated June 10, 2004. Commission File No. 333-104639.
- 10.40 Indenture, dated as of November 21, 2000, between Truck Engine Receivables Master Trust and The Bank of New York, as Indenture Trustee. Filed as Exhibit 10.63 to Navistar Financial Corporation's Quarterly Report on Form 10-Q dated September 10, 2004. Commission File No. 001-04146.
- 10.41 Series 2000-1 Indenture Supplement, dated as of November 21, 2000, between Truck Engine Receivables Master Trust and the Bank of New York, as Indenture Trustee. Filed as Exhibit 10.67 to Navistar Financial Corporation's Quarterly Report on Form 10-Q dated September 10, 2004. Commission File No. 001-04146.
- *10.42 Navistar International Corporation Amended and Restated Executive Stock Ownership Program dated September 1, 2004. Filed as Exhibit 99.1 to Form 8-K dated August 31, 2004. Commission File No. 1-9618.

The following documents of Navistar International Corporation and its affiliates are filed herewith:

- *10.43 Offer Letter to Deepak T. Kapur dated August 13, 2003
- 10.44 Trust Agreement between Servicios Financieros Navistar, S. A. de C. V., Sociedad Financiera de Objeto Limitado, a wholly owned subsidiary of the Registrant, and Banco J.P. Morgan, S.A., Institucion de Banca Multiple, J. P. Morgan Grupo Financiero, Division Fiduciaria as trustee (the "Trustee") creating irrevocable trust No. F/00098 (the "Trust") dated December, 2004 under which the Trust issued and placed in the Mexican Stock Exchange, Certificados Bursatiles, Serie A ("Notes"), having an aggregate original principal amount of \$516,000,000.00 Mexican Pesos, under the revolving securitization program authorized by the Mexican National Banking and Securities Commission in an aggregate amount of \$1,100,000.00 Mexican Pesos. This document is an English translation of the Mexican language original. The Registrant agrees to furnish to the Commission upon request a copy of the Mexican language original.
- *10.45 Form of Incentive Stock Option Award Agreement.
- *10.46 Form of Supplement to Incentive Stock Option Award Agreement.
- *10.47 Form of Non-Qualified Incentive Stock Option Award Agreement.

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MATERIAL CONTRACTS

- *10.48 Form of Supplement to Non-Qualified Stock Option Award Agreement.
- *10.49 Form of Restoration Stock Option Award Agreement.
- *10.50 Form of Supplement to Restoration Stock Option Award Agreement.
- *10.51 Form of Non-Employee Director Award Agreement.
- *10.52 Form of Supplement to Non-Employee Director Award Agreement.
- *10.53 Form of Restricted Stock Award Agreement.
- *10.54 Form of Premium Share Unit Award Agreement.
- *10.55 Form of Deferred Share Unit Award Agreement.
- *10.56 Board of Directors resolution approved an increase in the meeting fees payable to Directors for board and committee meetings.

* Indicates a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c).

[International Truck and Engine letterhead graphics omitted]

August 13, 2003

Mr. Deepak T. Kapur
1125 Arlington Blvd.
Ann Arbor, Michigan 48104

Dear Dee,

On behalf of all of us who have had the pleasure to meet with you, I would like to extend this opportunity to join the International Truck and Engine Corporation team. We are confident that your experience and commitment to excellence will be a tremendous asset to our company's leadership and to the Truck Group.

This letter will confirm the details of our offer to you for accepting the position of President, Truck Group, Organization Level 12, reporting to Dan Ustian, President and CEO. We have attained approval for your election as President, Truck Group of International Truck and Engine Corporation at our Board of Director's meeting pending acceptance of this offer. Our offer includes a very competitive salary and benefit plan, as well as career opportunity and professional growth. Our offer includes:

Salary:	Your base salary of \$500,000 a year will be paid at the end of each month.
Sign-on Bonus:	A guaranteed sign-on bonus of \$150,000 upon employment; \$150,000 payable in December, 2003; \$200,000 payable in December, 2004.
Annual Bonus Opportunity:	Eligibility to participate in International's 2003 Performance Incentive Plan. The ("Plan") begins on your first day of employment. Your 2003 award eligibility will be pro-rated based on the number of months of plan participation. The 2003 target award for Organization Level 12 is 75% of base salary. Annual incentive awards are determined in accordance with the achievement of corporate, business unit and individual performance objectives.
Stock Options:	As President, Truck Group, you will be eligible for the Company stock option program. The number of stock options you would receive based on a hire date of September 1, 2003, is 12,233 options. The Company will grant you stock options, exercisable over a three-year period and with a ten-year term, at the market price, from the date of grant. One-third is exercisable after one year, one-third after two years; and one-third after three years from the date of issuance.
Additional Long Term Incentive:	You will receive as part of this offer an additional one-time offering of 54,000 restricted shares.
Vacation:	You are eligible for four weeks of vacation in calendar year 2003.
Holidays:	In 2003, there are fourteen paid holidays, including Holiday shutdown.
Defined Contribution Plan:	You will be eligible to participate in the International Retirement Accumulation Plan ("NRAP") for employees first hired on or after January 1, 1996. This plan features a discretionary Company contribution, a 401(k) option and a Company match on 401(k) deferrals. As part of the Company contribution, International makes annual contributions to your account on a scale that increases according to age as follows:

YOUR AGE	% of SALARY
Under 30	2.0%
30 to 39	3.5%
40 to 49	5.0%
50 and over	6.5%

The vesting schedule is as follows:

Full Years Service	Vested %
Less than One	0
One	20
Two	40
Three	60
Four	80
Five	100

You may begin participating in the 401(k) Retirement Savings Plan immediately. You may contribute from 1 to 15% of your salary or (up to the maximum as designated by the IRS). Additionally, the Company will contribute up to a 3% match on 401(k) Plan contributions after one year.

Life Insurance: Basic term life insurance equal to five times base salary will be provided at the Company's cost. Accidental death and dismemberment insurance equal to one times your salary will be provided at the Company's cost. Additional optional life and accident insurance coverage is available at your cost. This insurance is effective the first day of employment.

Health Coverage: You are eligible to participate in the Company's Medical Programs starting on your first day of employment. There are several options that will be available to you with various amounts of coverage and differing premiums. The plan options are an indemnity plan, PPO Plus (with preventive coverage) and an HMO option. Family premiums range from \$63 to \$75 monthly. Dental coverage is available separately, with a monthly premium of \$15. An annual executive physical will also be provided by a physician selected by the Company.

Disability: A Disability Income Protection Program provides continuation of 26 weeks full salary in the event of your inability to work due to illness or injury. Additional coverage is provided by the Company's Long-Term Disability Plan.

Relocation Provisions: International's relocation policy provides you with the financial and administrative assistance you will need to relocate to Chicago, Illinois. Following are highlights of this policy:

- Closing Costs
- Two house hunting trips with up to seven days temporary living expenses.
- Mutually agreed upon temporary living arrangements for a three/four bedroom home or apartment for up to 12 months at an agreed upon location.
- Movement of household goods through the use of the Company designated moving company consistent with Company Moving Expense Policy #140.
- Storage of household goods for a maximum period of 60 days.
- Mortgage differential.

Executive Severance Agreement: The Company will enter into an Executive Severance Agreement ("ESA") upon commencement of employment. This agreement provides that in the event your employment is terminated for any reason other than cause, the Company will provide a lump sum payment to you, equal to 250% of your annual salary plus Target Incentive, until you reach age 55. After reaching age 55 this amount would revert to 200%. The ESA also provides at this time, a Change of Control provision; (1) 300% of your annual salary and Target Incentive, with no cap, (2) a gross-up to cover potential excise tax, (3) accelerated vesting of stock options, and (4) health and life insurance extended for two years, after the date of involuntary termination, at no cost to you.

Supplemental Executive Retirement Plan: You will be eligible for the Company's Supplemental Executive Retirement Plan ("SERP"). A copy of SERP will be forwarded to you. It provides a maximum

benefit of 50% of your final average pay. A participant earns ½% for each year of age to age 55, and ½% for each year of service prior to age 55 and 1% for each year of age after age 55. There is a reduction of 0.25% for each month that benefits commence prior to age 62.

- Stock Ownership: We believe that building the stock ownership interest of the senior leadership team will incent us to act as owners. We have adopted share ownership guidelines, which for your level is 225% of your base salary, computed on your date of hire. One-fifth of this requirement is due within 60 days of your hire. Until the full guideline is attained, shares of Company Common Stock may not be sold without the consent of the CEO.
- Personal Liability: The Company will provide you with an umbrella personal liability insurance policy of \$10,000,000 and the Company will pay the premium. Under current IRS rules, this is not included as income to you. This coverage requires that you provide the first \$300,000 coverage.
- Executive Flexible Perquisite Program: Your Flexible Perquisite allowance is \$37,000 annually for level 12. The allowance will be prorated and paid at the next scheduled semi-annual disbursement date, which is in November of 2003.
- Contingency Clause: This offer also is contingent on (1) verification of your references and educational credentials and (2) completion of a drug test prior to employment. Please call Andrea Osterkorn, Director Organizational Capabilities and Corporate HR, at 630-753-3144 who will assist you with scheduling your pre-employment drug test and physical. She will also be forwarding you an International Application for Employment, which we ask that you complete, sign and return to us as soon as possible.
- First Day of Work: Within the first three days of employment with the Company, you will be required to show evidence of your ability to work within the United States. This can also be handled with Andrea.

International has had record success in the past several years, largely due to the significant effort of our people. We continue to invest heavily in future growth, as well as in the leadership of our company. Therefore, we hire people who will help us build a culture that is based on respect for people, accountability and high performance. We are confident that you are one of those people who will go “beyond the expected” to make a contribution to our team.

If you have any questions regarding this offer, please call Andrea Osterkorn, Director, Organizational Capabilities and Corporate HR at (630) 753-3144 or me at (630) 753-3107.

Please acknowledge acceptance of our offer by signing below, keeping a copy for yourself, and returning by August 15, 2003.

Sincerely,

/s/ Pam
Pamela J. Turbeville
Senior Vice President Human Resources
And Administration

ACCEPTED:

/s/Deepak Kapur
Deepak T. Kapur

Dated: 8/14/03

Irrevocable Trust Agreement Number F/00098

between

**Servicios Financieros Navistar, S.A. de C.V.,
Sociedad Financiera de Objeto Limitado**

as the Trustor

and

**Banco J.P. Morgan S.A., Institucion de Banca Multiple,
J.P. Morgan Grupo Financiero, Division Fiduciaria**

as the Trustee

November 30, 2004

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IRREVOCABLE TRUST AGREEMENT NUMBER F/00098 EXECUTED BY AND BETWEEN SERVICIOS FINANCIEROS NAVISTAR, S.A. DE C.V., SOCIEDAD FINANCIERA DE OBJETO LIMITADO, AS THE TRUSTOR, (THE “TRUSTOR”) REPRESENTED BY JANET LYNN FILIPIAK AND JOSÉ ALFREDO CHACON PEREZ, AND BANCO J.P. MORGAN S.A., INSTITUCION DE BANCA MULTIPLE, J.P. MORGAN GRUPO FINANCIERO, DIVISION FIDUCIARIA, AS THE TRUSTEE (THE “TRUSTEE”), REPRESENTED BY HECTOR LOYO URRETA, PURSUANT TO THE FOLLOWING BACKGROUND, DECLARATIONS AND CLAUSES.

BACKGROUND

- I. The parties wish to implement a securitization mechanism for Loans (as said item is defined below), by a fiduciary assignment by the Trustor in favor of the Trustee of the rights and obligations under the corresponding Loan Agreements and, if applicable, Insurance Policies (as defined below) and the endorsement of the respective Notes (as defined below) subject to the terms and conditions established in this Agreement and in the respective Trust Transfer Agreements (as defined below).
- II. The principal purpose of the Trust (as defined below) will be, following an acquisition by the Trustee of Loan Packages (as defined below), (i) to issue Securities (as defined below) with the characteristics indicated in this Agreement, and which will be indicated in the respective Characteristics Letters (as defined below) in one or various issues (as defined below), (ii) to deliver to the Trustor all or part of the proceeds from the placement of the Securities and/or any other consideration agreed on in exchange for the Loan Package assigned by the Trustor to the Trustee, (iii) in the event that the respective Characteristics Letter so stipulates, the acquisition of Additional Loans (as defined below) during the respective Revolving Period (as defined below), and (iv) to pay with any funds that form part of the Trust Assets (as defined below) and that correspond to the Securitization Transaction (as defined below) the interest and principal and any other amounts payable under the Securities issued.
- III. This Trust may carry out one or more Securitization Transactions, that is, it may acquire one or more Loan Packages and on the basis of each one of said Loan Packages, may issue Securities in one or several issues. For this purpose the Trust Assets will be divided in as many Common Funds (as defined below) as Loan Packages are pledged in Trust. With respect to the foregoing, a Common Fund as specified below will correspond to each Issue.

DECLARATIONS

- I. The Trustor, through its representative, declares that:
 - (a) It is a variable capital stock company legally incorporated under the laws of the United Mexican States (“Mexico”) and empowered to enter into this Agreement. Copies of the official document containing the articles of incorporation of the Trustor and its current by-laws are attached to this Agreement as Annex “A”;
 - (b) It has been authorized by the Ministry of Finance and Public Credit to incorporate and operate as a limited purpose financial company. A copy of the official action, which evidences said authorization is attached to this Agreement as Annex “B”;
 - (c) It wishes to constitute this Trust in order to implement a securitization mechanism for Loans;
 - (d) In addition to executing this Trust Agreement, and in order to implement the above-mentioned securitization mechanism, to carry out each Securitization Transaction under this Trust it will execute with the Trustee, (i) one or more Trust Transfer Agreements, according to which it will pledge a Loan Package to the Trust and (ii) in the event that in accordance with the terms of said Securitization Transaction it will take on the administration of the corresponding Loans, an Administration Agreement, (as defined below) according to the terms of which it will assume the Administration of the Loans corresponding to said Securitization Transaction. Said agreements will be executed substantially in the same terms and with the

same background data, declarations and clauses as contained in the samples of a Trust Transfer Agreement and Administration Agreement which are attached hereto as Annex "C" and Annex "D" respectively.

- (e) Each Securitization Transaction and the respective Issue of Securities effected under this Trust will have the characteristics established in this Trust, as well as those described in a Characteristics Letter in which the Trustor, with the support of an Underwriter (as defined below) establish the respective terms and conditions. Said document will contain such information and will be drawn up in accordance with the sample which is attached hereto as Annex "E", without prejudice, in such case, to including additional information or omitting certain information required in said Annex when so required by the particular Securitization Transaction;
- (f) The signing of this Agreement and fulfillment of the obligations hereunder do not constitute a default on the part of the Trustor, nor do they contravene the terms of (i) its by-laws, (ii) any agreement, contract, instrument, security or certificate executed or subscribed by the Trustor, including obligations to forbear contained in credit agreements to which it is a party, (iii) any law, regulation, circular or rule applicable to the Trustor or to its assets; or (iv) any judicial, arbitration or administrative resolution applicable to the Trustor.
- (g) It has obtained and they continue in force, all the consents, permits and authorizations, both from the government and of any other type, that are required according to applicable laws, in order to execute this Agreement and comply with the obligations hereunder, and it agrees to participate as the Trustor and Beneficiary under the terms of this Agreement;
- (h) This Agreement constitutes a valid and demandable obligation against the Trustor, in accordance with its terms; and
- (i) Its representative has sufficient powers to execute this Agreement on its behalf and in its representation, and said powers have not been modified, revoked or limited in any manner, and he is fully qualified in accordance with the laws to undertake it under the terms of this Agreement. A copy of the official document that contains the powers granted to its representative is attached hereto as Annex "F".

II. The Trustee through its representative declares that:

- (a) It is a full-service banking institution legally incorporated under the laws of Mexico, empowered to execute this Agreement and assume obligations in accordance with Agreement terms. A copy of the official document that contains the articles of incorporation of the Trustee and its current by-laws are attached hereto as Annex "G"
- (b) It has been authorized by the Ministry of Finance and Public Credit to incorporate and operate as a multiple banking institution and to execute trust transactions as Trustee;
- (c) It wishes to enter into this Agreement and accept its designation as trustee to carry out each and every one of the acts necessary or appropriate to accomplish the purposes of this Trust and fulfill its obligations under its terms; and
- (d) The signing of this Agreement and fulfillment of the obligations hereunder do not constitute a default on the part of the Trustee to comply with nor do they contravene the terms of (i) its by-laws, (ii) any agreement, contract, instrument, security or certificate executed or subscribed by the Trustee, (iii) any law, regulation, circular or rule applicable to the Trustee; or (iv) any judicial, arbitration or administrative resolution applicable to the Trustee.
- (e) It has obtained all the agreements, permits and authorizations, be they governmental or of any other kind, required by the terms of applicable laws to sign this Agreement and to fulfill its obligations hereunder;
- (f) This Agreement constitutes a valid and demandable obligation against the Trustee, in accordance with its terms;

- (g) Without detriment to the provisions of the preceding declaration, it has obtained authorization from Banco de Mexico in the terms of Circular 2019/95 of said institution for the signing of this Agreement, as recorded in the official letter attached to this Agreement as Annex “H”; and
- (h) Its representative has sufficient powers to enter into this Agreement on its behalf and in its representation, and said powers have not been modified, revoked or limited in any way, and he has full legal capacity to undertake it under the terms of this Agreement. A copy of the official document containing the powers granted to its representative is attached to this Agreement as Annex “I”.

III. Through their representatives, the parties declare that pursuant to the provisions of Article 106, Section XIX, subparagraph b) of the LIC, (as defined below), the Trustee unequivocally explained to the Trustor, and the Trustor acknowledges that the value and legal consequences of said precept were explained; said Article reads as follows:

Article 106.- Credit Institutions shall be prohibited from...XIX.- In carrying out the transactions referred to in Section XV of Article 46 of this Law....

(b) Being responsible to trustors, mandate principals or commission principals for a default of debtors in relation to the loans granted, or of issuers in relation to the securities acquired, unless the credit institutions are at fault, as stipulated in the last part of Article 391 of the General Law of Negotiable Instruments and Credit Transactions, or they guarantee a yield from the funds which they have been requested to invest.

If at the conclusion of the Trust, mandate or commission constituted for the granting of loans, the loans have not been paid in full by the debtors, the institution shall transfer them to the Trustor or beneficiary, as the case may be, or to the principal, and shall refrain from paying them.

Trust, mandate or commission agreements shall include the provisions of this subparagraph, as well as a statement from the Trustee to the effect that it unequivocally informed the persons from whom it received assets or rights for contributions to the Trust of the content of said paragraphs.

On the basis of the above Background Data and Declarations, the parties hereto agree to be subject to the provisions to which they have mutually agreed, contained in the following:

CLAUSES

FIRST. Defined Terms.

As used herein, the terms set forth below will have the following meanings, (which will equally apply to the singular and plural of said terms):

“Administrator”

The company to which the administration of the Loans corresponding to a specific Securitization Transaction under the terms of an Administration Agreement is assigned, provided that unless something different is determined for a particular Securitization Transaction or so long as it is not substituted under the terms of an Administration Agreement, the Administrator of all the Securitization Transactions carried out under this Trust will be SFN.

“Substitute Administrator”

The company that assumes the administration of the Loans corresponding to a particular Securitization Transaction under the terms of the Administration Agreement corresponding to said Securitization Transaction, in the event that a Substitution Event has taken place (as defined below).

“Rating Agencies”

Standard & Poor’s S. A. de C. V. and/or Fitch Mexico S. A. de C. V. and/or Moody’s de Mexico, S. A. de C. V., their affiliates, successors or assigns, or any others that substitute for them.

<u>“Advances”</u>	Amounts in cash that SFN may, but is not required, to pay on account of any Borrower under the respective Loan Agreement, which will be credited with respect to amounts owed by said Borrower (only for purposes of the respective Securitization Transaction and without affecting or reducing the Borrower’s obligations), and which SFN may recover once the respective Borrower makes the payment previously paid in advance by SFN.
<u>“Attorney-in-Fact”</u>	Any third party to whom the Trustee grants a power of attorney to represent it, under the terms of clause 29 of this Agreement.
<u>“External Credit Backing”</u>	Regarding any Securitization Transaction, any real or personal guarantee, insurance policy, letter of credit or any similar obligation indicated in the Characteristics Letter and in the corresponding Issue Documents, contracted for the purpose of guaranteeing, assuring or increasing the probabilities of payment of interest, principal and any other amounts payable under the Securities Certificates.
<u>“Internal Credit Support”</u>	With regard to any Securitization Transaction, any characteristic of said Securitization Transaction intended to increase the probabilities of payment of interest, principal and any other amounts payable under the Securities Certificates, including the establishment of reserves, maintenance of income and subordinate series of Securities Certificates.
<u>“Insurance Companies”</u>	The insurance institutions with which the Borrower or the Trustor, as applicable, has contracted Insurance for a Loan.
<u>“Auditor”</u>	Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte & Touche), their successors, assignees or grantees, or any other firm of independent accountants that replaces them.
<u>“Notice of Placement”</u>	The notice of placement (or other similar notice) published in connection with the Securities Certificates issued under the Program.
<u>“BMV”</u>	La Bolsa Mexicana de Valores, S.A. de C.V. [The Mexican Stock Exchange]
<u>“Characteristics Letter”</u>	The document that contains, with respect to a Securitization Transaction, the terms and conditions of the Securitization Transaction and the issue of Securities Certificates effected thereunder in accordance with the provisions contained in the Seventh and Tenth Clauses, among others, hereof.
<u>“Certification of Loans”</u>	The certification that must accompany each notice of a transaction and which will contain the information mentioned in the Eighth Clause of this Agreement.
<u>“Securities Certificates”</u>	The Credit Instruments called Securities Certificates contemplated by the LMV which the Trustee will issue singly or in series as the case may be, according to each Issue, for Placement in compliance with the purposes of this Agreement.
<u>“Ordinary Securities Certificates”</u>	In the event that an issue contemplates an ordinary series or class and a subordinate series of Securities Certificates (irrespective of the denomination given to said series), the Securities Certificates pertaining to the ordinary series of said Issue, which shall have preference as regards payment of interest, principal and any other amount payable under same over the Securities Certificates that compose the subordinate series.

<u>“Subordinate Securities Certificates”</u>	In the event that an Issue contemplates an ordinary series of Securities Certificates (regardless of the denomination that is given to said series) and a subordinate series of title deeds or Certificates (whether or not they qualify as Securities Certificates and irrespective of the denomination that is given to said series), the title deeds or Certificates that make up the subordinate series of said Issue, which shall be subordinate as regards payment of interest, principal and any other amount payable under same to the Ordinary Securities Certificates.
<u>“CNBV”</u>	The National Banking and Securities Commission or any competent authority or authorities that may replace it.
<u>“Underwriting”</u>	The placement among public investors of the Securities Certificates issued by the Trustee under each Securitization Transaction .
<u>“Technical Committee”</u>	The technical committee that shall be established for each Securitization Transaction under the terms and conditions contained in the Thirty-Third Clause of this Agreement.
<u>“Voucher”</u>	The non-negotiable instrument which the Trustee will issue if so requested in writing by the Trustor, in favor of the Trustor, and which represents of Trustor’s rights (as the beneficiary) under the respective Securitization Transaction.
<u>“Administration Agreement”</u>	With respect to a Securitization Transaction, the Collection and Administration Services Agreement whereby the Trustee will request the Administrator to administer the Loans corresponding to the respective Securitization Transaction
<u>“Underwriting Agreement”</u>	With regard to Securities Certificates issued under a Securitization Transaction, the underwriting agreement to be executed between the Trustee, the Underwriter and the Trustor, in order for the Underwriter to place the Securities Certificates.
<u>“Loan Agreement”</u>	The agreement for opening a fixed asset loan or any other loan agreement with similar collateral under the terms of which SFN has extended a Loan and which contemplates posting the corresponding Guarantee.
<u>“Trust Contribution Agreement”</u>	In relation to a Securitization Operation, the Trust Contribution Agreement whereby the Trustor shall transfer to the Trustee its rights derived from the Loans, the Additional Loans (if applicable), the Special Loans (if applicable), the Notes and the respective Insurance Policies (if applicable).
<u>“Loans”</u>	Any existing or future loans granted by the Trustor under Loan Agreements to natural persons who engage in business activity in Mexican territory or to corporate entities who operate in Mexican territory, for the acquisition of Transportation Equipment and any accessory rights of any kind related to said loans (including, if applicable) the respective insurance policies) which the Trustor pledges to the Trust in connection with a Securitization Transaction.
<u>“Additional Loans”</u>	In the event that a Securitization Transaction contemplates the existence of a Revolving Period, the Loans that are contributed by the Trustor during the Revolving Period.
<u>“Special Loans”</u>	The Loans contributed by the Trustor to the Trust in connection with a Securitization Transaction, in accordance with the provisions of subparagraph (i)(3) of the Eighth Clause.

<u>“Eligibility Criteria”</u>	Will have the meaning, with respect to the Loans pledged to this Trust in connection with a Securitization Transaction, given to such term in the respective “Trust Contribution Agreements.
<u>“Deposit Accounts”</u>	The account which, in relation to each Securitization Transaction, will be opened by the Trustee and which will be used, among others, to (i) receive from the Trustor the funds corresponding to each Loan that forms part of the respective Loan Package as a “guarantee deposit”, and (ii) apply said funds to make payments owed under the respective Loans (pursuant to instructions from the Administrator) or to complete the funds that are to be kept in other Operating Accounts pursuant to the Twenty-seventh Clause of this Agreement.
<u>“Issue Maintenance Expense Account”</u>	The account which, in relation to each Securitization Transaction, the Trustee will open and which will be used, among others, to (i) receive funds from the General Account and (ii) apply said funds to the payment of Issue Maintenance Expenses as described in the Nineteenth and Twentieth Clauses of this Agreement.
<u>“Interest Payment Account”</u>	The account which, in relation to each Securitization Transaction, the Trustee will open and which will be used, among others, to (i) receive funds from the General Account, and in certain cases, other Operating Accounts and (ii) apply said funds to pay Interest due under the Securities Certificates, as described in the Nineteenth and Twenty-first Clauses of this Agreement.
<u>“Principal Payment Account”</u>	The account which, in relation to each Securitization Transaction, the Trustee will open and which will be used, among others, to (i) receive funds from the General Account, and in certain cases, from other Operating Accounts and (ii) apply said funds to payments of principal due under the Securities Certificates, as described in the Nineteenth and Twenty-Second Clauses of this Agreement
<u>“Subordinate Payment Account”</u>	The account which, in relation to each Securitization Transaction that contemplates Ordinary Security Certificates and Subordinate Certificates, the Trustee will open and which will be used, among others, to (i) receive funds from the General Account and (ii) apply said funds to payments due under the Subordinate Certificates and, if applicable, fund other Operating Accounts, as described in the Nineteenth and Twenty-Fifth Clauses of this Agreement
<u>Reserve Account “A”</u>	The account which, in relation to each Securitization Transaction, the Trustee will open and which will be used, among others, to (i) receive funds from the General Account and (ii) keep said funds so that, if necessary, they may be applied to complete the funds that should be maintained in other Operating Accounts, as described in the Nineteenth and Twenty-Third Clauses of this Agreement.
<u>“Reserve Account “B”</u>	The account which, in relation to each Securitization Transaction, the Trustee will open and which will be used, among others, to (i) receive, if said account must be funded (according to the terms of the corresponding Securitization Transaction), funds from the General Account and (ii) keep said funds so that, if necessary, they may be applied to complete the funds that must be maintained in other Operating Accounts, as described in the Nineteenth and Twenty-Fourth Clauses of this Agreement.
<u>“Revolving Account”</u>	The account which, in relation to each Securitization Transaction that contemplates a Revolving Period, the Trustee will open and which will be used, among others, to (i) receive funds from the General Account, and (ii) apply said

funds to pay the Trustor the price (which may be determined by an Appraiser) in relation to the contribution of Additional Loans during the Revolving Period, as described in the Twenty-sixth Clause of this Agreement.

“General Account”

The account which, in relation to each Securitization Transaction, the Trustee will open and which will be used, among others, to (i) receive, whether by transfer from Collection Accounts or directly, payments made under the Loans, payments made by the Insurance Companies under the Insurance Policies, advances made by SFN, payments made by the respective counterpart under any swap, option or other derived financial instrument and any other payments that must be made to said account and (ii) distribute funds to other Operating Accounts, as described in the Eighteenth and Nineteenth Clauses of this Agreement.

“Collection Accounts”

With respect to all Securitization Transactions carried out hereunder, the accounts opened by the Trustee and which will be used, among other things,, to i) receive payments made under the Loans and, if applicable, payments made by Insurance Companies under insurance policies, and (ii) distribute funds to the General Accounts of each Securitization Transaction, as described in the Thirteenth and Fourteenth Clauses hereof.

“Operating Accounts”

With respect to each Securitization Transaction, the General Account, the Issue Maintenance Expense Account, the Interest Payment Account, the Principal Payment Account, the Reserve “A” Account, the Reserve “B” Account, the Deposit Account and, if applicable, the respective Subordinate Payment Account and the Revolving Account, and such other accounts which, in the terms of each Securitization Transaction are necessary, whether in addition to or in substitution of the above mentioned accounts.

“Complaints”

Has the meaning given to it in the Thirty-seventh Clause hereof.

“Borrower”

Any borrower, whether a natural or corporate person of any kind constituted under the laws of any jurisdiction (if such be the case) under a Loan.

“Business Day”

Any day other than a Saturday, Sunday or a legal holiday, when the principal offices of banks in Mexico City, Federal District are open to the public for banking transactions and are not legally required or authorized to close.

“Credit Documents”

The Loan Agreements, the Notes, the Insurance policies (if applicable) and all other documents related to the Loans that are to be included in the respective file in accordance with sound financial and commercial practices.

“Issue Documents”

Documents that must be subscribed in connection with each Issue, including the one or more Certificates, any document that evidences External Credit Backing, the Notice of Placement, Program Prospectus and the respective Supplement, the Placement Agreement the one or more Trust Contribution Agreements and the Administration Agreement, and any swap, option or other derived financial instrument contracted in this respect.

“Issue”

Each issue of Securities Certificates effected by the Trustee under a Securitization Transaction, in accordance with the terms and conditions hereof, of the respective Characteristics Letter and the other Issue Documents.

“Transportation Equipment”

Trucks, tractor trucks, buses, chassis, bodywork and related equipment, whether new or used, (including, among others, satellite tracking equipment, trailer casings and dollies) and excluding spare parts.

<u>“Event of Substitution”</u>	Those cases described in an Administration Agreement in which the respective Administrator may be replaced by the respective Substitute Administrator.
<u>“Special Contribution Date”</u>	Has the meaning given to it in the Eighth Clause of this Agreement.
<u>“Transaction Date”</u>	The date when the registration transaction (exchange) of Securities Certificates issued under a BMV Securitization Transaction is effected.
<u>“Revolving Date”</u>	Has the meaning given to it in the Eighth Clause of this Agreement
<u>“Transfer Date”</u>	For each Securitization Transaction, the day (or, if that day is not a Business Day, the Business Day immediately following) indicated in the respective Characteristics Letter for transferring funds from the General Account to the other Operating Accounts, as described in the Nineteenth Clause hereof.
<u>“Fourth Beneficiary”</u>	<p>In regard to each Issue, if said Security Transaction has External Credit Backing, and according to the terms of said Securitization Transaction the Guarantor is a beneficiary of the Trust and the Securitization Transaction contemplates the issue of Subordinate Certificates whose holders are the Third Beneficiaries, the Trustor.</p> <p>If the Trustor is a Second or Third Beneficiary, there will be no fourth Beneficiary.</p>
<u>“First Beneficiaries”</u>	In regard to each Securitization Transaction and each one of the Holders of Securities Certificates if there are Ordinary Securities Certificates and Subordinate Certificates (that qualify as Securities Certificates) the First Beneficiaries will be the holders of Ordinary Securities Certificates, as indicated in the respective Characteristics Letter.
<u>“Second Beneficiaries”</u>	With respect to each Securitization Transaction, in the event that said Securitization Transaction (i) has External Credit Backing, and in accordance with the terms of said Securitization Transaction the Guarantor is a beneficiary of the Trust, the Guarantor, or (ii) does not have External Credit Backing, or having such External Credit Backing, the terms of the Securitization Transaction do not provide for the Guarantor being a beneficiary of the Trust, each one of the Holders of Subordinate Certificates, or, in the event that the Securitization Transaction does not contemplate the issue of Subordinate Certificates, the Trustor, as stipulated in the respective Characteristics Letter.
<u>“Third Beneficiaries”</u>	<p>With respect to each Issue, in the event that said Securitization Transaction (i) has External Credit Backing and in keeping with the terms of said Securitization Transaction the Guarantor is a beneficiary of the Trust, each one of the Holders of Subordinate Certificates, or in the event that the Securitization Transaction does not contemplate the issue of Subordinate Certificates, the Trustor (ii) does not have External Credit Backing, or having such External Credit Backing, the terms of the Securitization Transaction do not provide for the Guarantor being a beneficiary of the Trust and the Securitization Transaction contemplates the issue of Subordinate Certificates whose Holders are Second Beneficiaries, the Trustor.</p> <p>If the Trustor is a Second Beneficiary, there will be no Third Beneficiary.</p>
<u>“Trust”</u>	This Trust Agreement.
<u>“Trustor”</u>	Has the meaning given to it in the preamble to this Agreement.

<u>“Trustee”</u>	Has the meaning given to it in the preamble to this Agreement.
<u>“Common Fund”</u>	The fund which, with respect to each Securitization Transaction, is to be constituted by the Trustee and which will be composed of (i) the rights stemming from the Loans corresponding to the Loan Package covered by said Securitization Transaction and its accessories (including Insurance Policies, if applicable), and (ii) the funds derived from them and which will serve as a backing and source of payment for the Securities issued under said Securitization Transaction. Each Common Fund will be composed of the Operating Accounts corresponding to said Securitization Transaction.
<u>“Guarantor”</u>	The person, company or entity that grants any type of External Credit Backing in connection with a Securitization Transaction effected under the Program.
<u>“Issue Expenses”</u>	<p>For each Issue, the sum of the following items, as specified in the Underwriting Agreement or in the Characteristics Letter of each Issue or in any Issue Document or other related document (plus, if applicable, the respective taxes):</p> <ul style="list-style-type: none"> (i) the fees and expenses of the Underwriter for having structured the Securitization Transaction; (ii) the commission and reasonable expenses of the Underwriter for the Placement; (iii) the fees of the Common Representative and of the Trustee for acceptance of their respective designations; (iv) the Appraiser’s fees charged for appraising the Loans initially transferred to the Trust, if applicable; (v) the duties, fees and reasonable expenses derived from the respective Issue and Underwriting including, but not limited to, duties and reasonable expenses incurred in the registration of Securities Certificates in the National Securities Registry and their listing in the BMV, the deposit of the Instrument or Instruments with Indeval and, in such case, the printing of the Underwriting Prospectus or final supplement, and the publication of the Notice of Placement or any publication and/or advertising related to the Issue; (vi) any commission or initial fee paid to the Guarantor, if applicable; (vii) any commission or initial fee paid to the counterpart of any swap, option or other derived financial instrument contracted by the Trustee, if applicable; (viii) the fees of the Rating Agencies for the granting of ratings for the Securities Certificates Issue; (ix) the expenses and fees of lawyers, consultants and external auditors incurred in connection with the respective Issue and Placement; (x) the sums advanced by the Trustor for opening the corresponding Operating Accounts in accordance with the Second and Sixteenth Clauses; (xi) any other expense related to an Issue as previously agreed upon by the parties and established in the Underwriting Agreement, the Characteristics Letter or any Issue Document or related document.

“Maintenance Expenses of the Issue”

For each Issue, means the sum of (plus, if applicable, taxes):

- (i) the fees of the Trustee;
- (ii) the fees of the Administrator, which will include in such case, in accordance with the Administration Agreement, Collection Expenses, as this term is defined in the Administration Agreement, and/or of the Substitute Administrator;
- (iii) the fees of the Common Representative;
- (iv) the Appraiser’s fees, if applicable;
- (v) the Auditor’s fees, including fees for any revision conducted under Clause Thirty-first hereof;
- (vi) the cost of maintaining on deposit with Indeval the Instrument or Instruments that document the Securities Certificates of each Issue;
- (vii) fees of the Rating Agencies for maintaining the rating of the Securities Certificates;
- (viii) the direct, indispensable and necessary expenses to comply with applicable legal provisions, in order to maintain the registration of the Securities Certificates in the National Securities Registry under the CNBV and their listing on the BMV, and those derived from any publication related to each Issue is required under applicable laws;
- (ix) any commission or fee paid to the Guarantor, if applicable;
- (x) any commission, premium or other consideration or payment owed to counterpart of any swap, option or other derived financial instrument contracted by the Trustee, if applicable, including any settlement or payment required according to the terms of said swap, option or other derived financial instrument;
- (xi) any duly documented expense derived from the modification of the Issue Documents.
- (xii) any reasonable and duly documented expense stemming from the supervisory activities of the Administrator incurred by the Trustee, the Common Representative or the Members of the Technical Committee under the Administration Agreement;
with the understanding that expenses corresponding to this subparagraph (xii) may not represent for any particular month more than 15% of the sum of all other Maintenance Expenses of the Issue unless any excess is approved by an assembly of holders of Securities Certificates;
and
- (xiii) any other expense related to a Securitization Transaction that must be paid in order to provide the proper functioning of same as established in the Characteristics Letter or in any Issue Document or other related document, as determined by the Technical Committee of the Securitization Transaction.

Maintenance Expenses of the Issue will never include Issue Expenses.

<u>“Indeval”</u>	S.D. Indeval, S.A. de C.V., Institucion para el Deposito de Valores (an Institution for the Deposit of Securities).
<u>“Authorized Institutions”</u>	Credit institutions, brokerage firms and/or any other financial institution listed in Annex “J” of this Agreement, their assigns or successors in which the Collection Accounts and Operating and other Accounts which the Trustee is to open in the terms hereof, may be opened.
<u>“Underwriter”</u>	The brokerage firm contracted to perform structuring and brokerage functions in the Securitization Transaction and the Underwriting of the Securities Certificates under any Issue in accordance with the terms of an Underwriting Agreement, with the understanding that for any Issue, more than one brokerage firm may be contracted as an Underwriter.
<u>“Permitted Investments”</u>	Securities issued or guaranteed by the Mexican Federal government or securities issued or guaranteed by a Mexican multiple banking institution with a minimum rating of mxAAA or Aaa.mx or AAA(mex) or the equivalent and in repo transactions that involve any of said securities with an expiration date no less than 28 days.
<u>“LGTOC”</u>	The General Law of Credit Instruments and Transactions in force (or any substitute law then in force).
<u>“LIC”</u>	The Law of Credit Institutions in force (or any substitute law then in force).
<u>“LMV”</u>	The Securities Market Law in force (or any substitute law then in force).
<u>“Member”</u>	Any Permanent or Alternate Member of the Technical Committee.
<u>“Permanent Member”</u>	Any person designated as such to act as a member of a Technical Committee in accordance with the Thirty-third Clause hereof.
<u>“Alternate Member”</u>	Any person designated as such to act as a member of a Technical Committee in accordance with the Thirty-third Clause hereof.
<u>“Reported Month”</u>	Has the meaning given to it in the Thirtieth Clause of this Contract.
<u>“Mexico”</u>	Has the meaning given to it in Declaration I (a) of this Agreement.
<u>“Transaction Notice”</u>	The notice to be made by the Trustor to the Trustee related to a Securitization Transaction under this Trust and which will contain the information and be accompanied by the documents indicated in this Agreement.
<u>“Securitization Transaction”</u>	A securitization transaction of Loans effected pursuant to the terms of this Trust and the respective Issue Documents, with the understanding that the term “Securitization Transaction” shall include all acts necessary to implement it, including the Contribution of Loans, the Issue of Securities and the execution of transactions related to the administration of the Loans.
<u>“Notes”</u>	The promissory notes or similar credit instruments subscribed by the Borrowers under the Loan Agreements.
<u>“Loan Packages”</u>	The composite of Loans and, if applicable, Additional Loans and Special Loans that are pledged to the Trust by the Trustor, in connection with a Securitization

Transaction in particular, and which will serve to back up and will be a payment source for the Securities issued under said Securitization Transaction.

<u>“Fiscal Liabilities”</u>	Has the meaning given to it in the Forty-fifth Clause of this Agreement.
<u>“Trust Assets”</u>	The equity of this Trust, which will be composed of the properties described in the Sixth Clause hereof.
<u>“Revolving Period”</u>	If applicable, the period during which the Trustor will have the right to transfer Additional Loans to the Trust in connection with a specific Securitization Transaction, in accordance with the terms of that particular transaction and subject of the guidelines established in the Eighth Clause of this Agreement.
<u>“Indemnified Persons”</u>	Has the meaning given to it in the Thirty-seventh Clause hereof.
<u>“Program”</u>	The program for the issuance of Securities Certificates of the Trustee authorized by the CNBV.
<u>“Regulations”</u>	The Bylaws of the BMV in force, or any other provision that replaces it.
<u>“Common Representative”</u>	For each Issue, the company contracted to perform the duties of the common representative of Holders of Securities Certificates corresponding to said Issue, which the Trustor designates and which is to subscribe the respective Instrument, with the understanding that one and the same common representative may represent the Holders of one or more Issues and any successor or assign thereof.
<u>“Required Balance in Reserve Account “A”</u>	In relation to each Securitization Transaction, the amount that must be maintained in Reserve Account “A” as indicated in the Characteristics Letter and in the corresponding Issue Documents.
<u>“Required Balance in Reserve Account “B”</u>	In relation to each Securitization Transaction, the amount that must be maintained in Reserve Account “B”, if applicable, as indicated in the Characteristics Letter and in the corresponding Issue Documents.
<u>“Insurance Policies”</u>	Automobile insurance policies for a full or partial coverage that may be purchased for the unit, and Life-Borrower insurance policies that may be purchased for natural person Borrowers, by the Borrower or the Trustor, in the terms of any Loan Agreement.
<u>“SFN”</u>	Servicios Financieros Navistar, S.A. de C.V., Sociedad Financiera de Objeto Limitado.
<u>“Request for Special Contribution”</u>	Has the meaning given it in the Eighth Clause hereof.
<u>“Request for Revolving Period”</u>	Has the meaning given it in the Eighth Clause of this Agreement.
<u>“Supplement”</u>	The supplement corresponding to each Issue of Securities Certificates that establishes the terms and conditions thereof.
<u>“Holder”</u>	A corporate entity of any kind or a natural person who, at any time, is the legitimate owner or holder of one or more Securities.
<u>“Instrument”</u>	The document which, under the terms of Article 14 Bis 7 of the LMV, will cover one or more Securities Certificates of the same series and class.
<u>“Unit”</u>	The Transportation Equipment financed under a Loan Agreement.

“Securities”

The Securities Certificates and, if applicable, Subordinate Certificates issued by the Trustee in relation to a Securitization Transaction.

“Appraiser”

The person, company or entity that may be contracted to provide appraisal services in relation to the Loans, their successors, assigns or grantees.

SECOND. Constitution.

The Trustor hereby constitutes an irrevocable management trust with the Trustee through a \$25,000.00 (Twenty-five thousand pesos 00/100 Mx.Cy.) contribution to the Trust, as per the terms and conditions of this Agreement.

The above sum shall be applied, as necessary, for the opening of Collection Accounts to be used in connection with the Securitization Operations and the Operating Accounts to be employed in connection with the first Securitization Operation carried out under this Trust. The funds applied towards the opening of the Operating Accounts mentioned hereinabove will be reimbursed to the Trustor in accordance with the contents of the Eleventh Clause hereinafter. Any surplus funds remaining after opening the accounts referred to above will be returned to the Trustor by the Trustee.

The execution of this Agreement by the Trustee shall constitute proof of receipt by the Trustee of the cash mentioned hereinabove, as per the terms hereof.

THIRD. Parties and Beneficiaries of the Trust.

The following persons are parties to or beneficiaries of this Agreement, as per the terms set out in front of their respective names:

TRUSTOR: Servicios Financieros Navistar, S.A. de C.V., Sociedad Financiera de Objeto Limitado.

TRUSTEE: Banco J.P. Morgan, S.A., Institucion de Banca Multiple, J.P. Morgan Grupo Financiero, Division Fiduciaria.

FIRST BENEFICIARIES: All the Securities Certificate Holders of each Issue and, should there be any Ordinary Securities Certificates and Subordinate Certificates (that may qualify as securities certificates), the First Beneficiaries shall be the Holders of Ordinary Securities Certificates.

Holders of Securities Certificates (Ordinary Securities Certificates, if applicable) of each Issue will be First Beneficiaries regarding the right to receive payment of any amounts owed in connection with said Securities Certificates (including interest and principal) and, if applicable, regarding any other rights they may have in connection with the corresponding Issue.

Should an Issue provide for the issuing of Ordinary Securities Certificates and Subordinate Certificates (that may qualify as Securities Certificates), only the Holders of Ordinary Securities Certificates shall be First Beneficiaries, provided that the Holders of Subordinate Certificates shall be beneficiaries as per the provisions hereinafter.

SECOND BENEFICIARIES: (ii) Should the Securitization Operation have External Credit Backing and, as per the terms of said Securitization Operation, the Guarantor is a beneficiary of the Trust, the Guarantor

Will have the status of Second Beneficiary, if applicable, regarding its right to

receive payment of any amounts, paid under the Securities, of the funds that constitute the corresponding Common Fund. Said right shall be subject to the condition that the Operating Accounts corresponding to the relevant Securitization Operation must have been duly integrated as per the terms of this Agreement's Nineteenth Clause.

(ii) Should the Securitization Operation not have an External Credit Backing or, having such External Credit Backing, the terms of the Securitization Operation do not provide for the Guarantor to be a beneficiary of the Trust and the Securitization Operation does not provide for the issuing of Subordinate Certificates, each of the Holders of Subordinate Certificates

of each Issue will be Second Beneficiaries regarding the right to receive payment of any amounts due under said Subordinate Certificates (including interest and principal) and, if applicable, regarding any other right granted as per the terms of the corresponding Issue

(iii) Should the Securitization Operation not have an External Credit Backing or, having such External Credit Backing, the terms of the Securitization Operation do not provide for the Guarantor to be a beneficiary of the Trust and the Securitization Operation does not provide for the issuing of Subordinate Certificates, the Trustor

will be Second Beneficiary regarding (a) the right to receive any surpluses corresponding to a Securitization Operation once the corresponding Operating Accounts have been integrated and (b) the right granted to it as per this Agreement's Forty-First Clause for the reacquisition of the Loans corresponding to a Securitization Operation, once the corresponding Securities have been fully paid and, in the case of premature amortization of the Securities and, if applicable, regarding any other rights granted to it as per the terms of the corresponding Issue.

THIRD BENEFICIARIES:

- (ii) Should the Securitization Operation have External Credit Backing and, as per the terms of said Securitization Operation, the Guarantor is a beneficiary of the Trust and the Securitization Operation provides for the issuing of Subordinate Certificates.

Each of Holder of the Subordinate Certificates will be Third Beneficiaries regarding the rights mentioned hereinabove supposing they were Second Beneficiaries.

(ii) Should the Securitization Operation (1) have External Credit Backing and, as per the terms of said Securitization Operation, the Guarantor is a beneficiary of the Trust and the Securitization Operation does not provide for the issuing of Subordinate Certificates or (2) not have an External Credit Backing or, having such External Credit Backing, the terms of the Securitization Operation do not provide for the Guarantor to be a beneficiary of the Trust and the Securitization Operation provides for the issuing of Subordinate Certificates the Holders of which shall be Second Beneficiaries, the Trustor

Will be Third Beneficiary regarding the rights mentioned hereinabove provided they were Second Beneficiaries.

Were the Trustor Second Beneficiary, there would be no Third Beneficiary.

FOURTH BENEFICIARY Should the Securitization Operation (1) have External Credit Backing and, as per the terms of said Securitization Operation, the Guarantor is a beneficiary of the Trust and the Securitization Operation provides for the issuing of Subordinate Certificates the Holders of which are Third Beneficiaries, the Trustor

Will be Fourth Beneficiary regarding the rights mentioned hereinabove provided they were Second Beneficiaries.

In the event that the Trustor were to be Second or Third Beneficiary, there shall be no Fourth Beneficiary.

The rights of the Trustor as beneficiary of the Trust may be represented by Certifying Documents issued by the Trustee. The Trustor may not transfer said Certifying Documents to any third parties.

FOURTH. Purposes of the Trust.

The purpose of this Trust is for the Trustee to carry out Securitization Transactions under it by means of the acquisition of Loan Packages, the Issue and Underwriting (if applicable) of Securities and the administration of the respective Loans and Common Funds, in each case, in accordance with the terms of the present Trust and the corresponding Issue Documents. For the above purposes, the Trustee shall be empowered to take the following actions:

- (a) Acquire Loans from the Trustor in accordance with the provisions of this Agreement and of the corresponding Trust Contribution Agreement;
- (b) Establish a Common Fund for each Securitization Transaction carried out under the present Trust and administer the Operative Accounts corresponding to each Common Fund in accordance with the provisions of this Agreement and keep individual records in relation to each of said Common Funds;
- (c) Issue, based on the Loan Packages that make up a Common Fund, Securities for the amounts, series and other terms and conditions specified by the Trustor with the assistance of an Underwriting Intermediary and indicated in the corresponding Characteristics Letter, to be placed or delivered to the Trustor, in unflinching compliance with the corresponding government authorizations;
- (d) Place, through the Underwriting Intermediary, the Securities Certificates it issues and, if applicable, deliver any Subordinate Certificates (that do not qualify as Securities Certificates) to the Trustor;
- (e) Apply the proceeds from the placement of the Securities of each Issue, or part of said proceeds, after paying Issue Expenses and, if applicable, funding the corresponding Operative Accounts, to paying the Trustor for the contribution of the Loans, in accordance with the provisions in the Characteristics Letter and in the corresponding Trust Contribution Agreement;
- (f) Administer the Loans corresponding to each Securitization Transaction through the Administrator, in accordance with the provisions of this Agreement and the corresponding Administration Agreement and open the Collection Accounts in order to provide proper collection of the Loans and, if applicable, the Insurance Policies, and carry out all the provisions established in the respective Administration Agreement;
- (g) Pay the Holders, out of the resources that form part of the assets of the Common Fund corresponding to each Issue, the interests accrued from the Securities as well as the principal of same and, if applicable, any other amount due on the basis of same, in accordance with the terms and conditions of the Securities corresponding to each Issue, which shall be established in the Characteristics Letter and in the corresponding Instrument or Instruments or certificates;

- (h) In the event that, in relation to a particular Securitization Transaction that has External Credit Support, it is determined that the Guarantor shall be the Second Beneficiary, reimburse the Guarantor out of the resources that make up the corresponding Common Fund and as long as the Operative Accounts of said Common Fund have been properly constituted (as stipulated in the Nineteenth Clause), for any amount that the Guarantor has paid in relation to the Securities Certificates, under the terms and conditions established in the Characteristics Letter and the corresponding Issue Documents;
- (i) If so provided for in relation to a Securitization Transaction, deliver to the Trustor any funds remaining after the Operative Accounts of said Common Fund have been duly constituted (as specified in the Nineteenth Clause) and any amounts due to the Guarantor have been paid, if applicable, as previously indicated;
- (j) If so provided for in the corresponding Characteristics Letter and in the Instrument or Instruments or certificates, retire the Securities early in accordance with the terms and conditions corresponding to each Issue of Securities;
- (k) Invest the resources that form part of the Operative Accounts corresponding to the Securitization Transactions carried out under the present Trust in the Permitted Investments, in accordance with the investment rules described in this Agreement and, if applicable, the special investment rules provided for in the corresponding Characteristics Letter (in the understanding that all said investments must fall within the investments permitted by the applicable legislation);
- (l) If so provided for in the corresponding Characteristics Letter, transfer the titles of the Loans that make up a particular Loan Package to the Holders of the Securities of the corresponding Issue;
- (m) Transfer the title of any Loan that forms part of a particular Loan Package to the Trustor or to the Administrator in the case of substitutions, repurchases or purchases effected under this Agreement, the Trust Contribution Agreements or Administration Agreements, as applicable.
- (n) If so provided for in the corresponding Characteristics Letter, contract or serve as the assignee of the swaps, options or other derived financial instruments necessary to cover risks derived from interest rates or other risks of any Issue;
- (o) Sign any agreements, contracts, instruments or documents that are necessary or advisable in order to comply with the above-mentioned purposes of the Trust, including, in an illustrating but not limiting manner, Trust Contribution Agreements, Administration Agreements, Underwriting Agreements or any other kind required for proper compliance with the purposes of this Trust, as reasonably requested by the Trustor or the Technical Committee, freeing it hereby from any liability in that regard, except liability arising from its negligence, deceit or bad faith;
- (p) Prepare any reports and information (including the corresponding quarterly and annual financial information) that may be necessary, in accordance with the provisions of this Agreement and of applicable laws and regulations;
- (q) Revert, if applicable, and in accordance with the terms of this Agreement, the title of the Trust Assets to the Trustor.
- (r) Grant the general or special powers that are required for fulfilling the purposes of the Trust or for the defense of the Assets of the Trust in accordance with the provisions of this Agreement; and
- (s) Carry out any actions that may be necessary or advisable in order to comply with the above-mentioned purposes of the Trust, as reasonably requested by the Trustor or the Technical Committee, freeing it hereby from any liability in that regard, except that arising from its negligence, deceit or bad faith.

FIFTH. Acceptance.

The Trustee hereby accepts its charge, and declares that it will perform it faithfully and loyally.

SIXTH. Trust Assets.

The Trust Assets shall be composed of the items described below:

- (a) The amount initially contributed by the Trustor under the terms of the Second Clause of this Agreement and used by the Trustee in the terms of this Clause;
- (b) The Loans transferred in relation to each Securitization Transaction, the rights derived from same and any documents related with same (including the related Loan Documents), under the terms of the corresponding Trust Contribution Agreements;
- (c) Any resources derived from collection of the Loans, including Units or other goods given in payment or recovered in relation to same, the net proceeds of liquidation (which shall exclude liquidation and sales expenses) or sale of said Units or goods and any advance made by SFN in relation to same;
- (d) Any resources derived from indemnity paid under the Insurance Policies;
- (e) Any resources derived from payments made by the counterpart of any swap, option or other derived financial instrument contracted by the Trustee;
- (f) The proceeds from the placement of Securities Certificates issued in accordance with the present Trust;
- (g) Any instrument resulting from the investment of liquid resources that this Trust may have, as well as the returns and any amounts collected under said instruments;
- (h) If granted through the Trust, any External Credit Support;
- (i) Any amount in cash or other assets or rights maintained at any time in the Operative Accounts and the Collection Accounts; and
- (j) Any amount in cash or other assets or rights that the Trustee receives in relation to this Trust.

The Trust Assets shall be divided into as many Common Funds as Securitization Transactions carried out under this Trust.

The assets that make up each of said Common Funds may only be applied to the payment of the Securities corresponding to the Issue and to payment of other items payable in relation to said Securitization Transaction without the Holders of the Securities, if applicable, having any right to any other asset or right that forms part of other Common Funds maintained by the Trustee in accordance with this Agreement.

SEVENTH. Operation of the Trust

- (a) The parties recognize that, in accordance with the present Trust, one or more Securitization Transactions may be carried out.
- (b) The Trustor, with the assistance of some Underwriting Intermediary, shall establish the characteristics of the Securitization Transactions to be carried out under this Trust.
- (c) Each time the Trustor wishes to carry out a Securitization Transaction under this Trust, it must present to the Trustee, as early as it considers necessary but no later than 20 (twenty) Business Days prior to the estimated date for the Date of the Operation, the documentation which, in accordance with the applicable legal provisions, must be presented to the competent authorities or institutions (including CNBV, BMV and Indeval) in order to obtain the necessary authorizations to carry out the Securitization Transaction. The

Trustee shall review said documentation and, with the Trustor, shall contribute to initiating the corresponding procedures sufficiently in advance, in accordance with market practices, to reach the Date of Operation, in accordance with the provisions in the following paragraphs. The cooperation of the Trustee shall include, but not be limited to, signing the corresponding requests, as well as receiving and responding to the corresponding requirements of the respective authorities. Without detriment to the provisions in this paragraph, the Trustee shall not be responsible for obtaining the corresponding government authorizations.

All the expenses incurred in relation to said proceedings shall be paid in advance by the Trustor and shall be reimbursed in accordance with the provisions of the Eleventh Clause below.

- (d) The Trustor must deliver to the Trustee a Notice of Operation at least 2 (two) Business Days prior to the Date of Operation. The Notice of Operation should be accompanied by a Characteristics Letter that must contain the characteristics of the Securitization Transaction. Likewise, said Notice of Operation should be accompanied by the finalized Issue Documents, and if required, duly signed by all the parties to same other than the Trustee, as described in the following Clauses.
- (e) No later than 12 (twelve) hours before the Date of the Operation, the Trustor must turn over to the Trustee a copy of all the government authorizations necessary to carry out said Securitization Transaction, including the authorization of the CNBV and the approval of the BMV. If the necessary government authorizations are not delivered to the Trustee as far in advance as indicated in this paragraph, the Trustee shall not be obliged to continue with the procedure established in this Clause, and the Date of Operation shall be postponed as necessary.
- (f) Once the documentation indicated in paragraphs (d) and (e) above has been received, the Trustee must sign the corresponding documentation and, through the Trustor and the Underwriting Intermediary, take any actions necessary or advisable to carry out the Issue (including the publication of the Notice of Placement, the printing and publication of the Supplement and the deposit of the Instrument or Instruments in Indeval).
- (g) Should the characteristics of the Securitization Transaction change between the date on which the Notification of the Transaction was delivered and the Date of the Transaction, the Trustor, unless otherwise agreed with the Trustee, must send a new Notification of Transaction in compliance with the timeframes in the rules established in this Agreement.
- (h) The Trustee must keep each of the Securitization Transactions and each of the respective Common Funds fully identified and separate; and should also establish individual files and manage separate systems or modules for each of them in order to correctly and efficiently administer each Securitization Transaction and avoid confusion among them. In addition, the Trustee shall keep individual accounting books for each Common Fund. The Trustee must also carry out all the acts that the Trustor or the Technical Committee reasonably requests for this purpose.
- (i) This Trust establishes, in each of the Clauses that regulate the diverse stages or phases of the Securitization Transactions, the procedure whereby said stages or phases shall be implemented, in the understanding that any supposition not expressly provided for shall be resolved by the parties in accordance with sound banking and stock market practices and customs or, if applicable, by the Technical Committee.

Should the terms and conditions of a Securitization Transaction require clarification of some kind subsequent to the Transaction Date, said clarification may be made through the respective Technical Committee, considering the powers that correspond to the general meeting of Holders in accordance with the LGTOC and the terms of the respective Instruments that correspond to the Common Representative and the General Assemblies of Securities Certificate Holders.

- (j) Should the periods and terms provided for in this Clause not be complied with, the Trustee may, but shall not be obliged to, continue with the corresponding procedures and steps, always in keeping with sound commercial and stock market uses and practices.

In the case of the first Securitization Transaction carried out under the present Trust, the Trustee should make every effort, in conformity with sound commercial and stock market uses and practices, to assist the

Trustor in carrying out said Securitization Transaction, even if all the periods and terms provided for in the Clause have not been complied with.

EIGHTH. Transfers of Loans.

- (a) In relation to each Securitization Transaction, the Trustor shall contribute a Loan Package that shall form a Common Fund.

For each Securitization Transaction, the Trustor shall initially transfer to the Trust specific Loans that shall be identified in the respective Trust Contribution Agreement. Likewise, if the Characteristics Letter and the Issue Documents so indicate, the Trustor shall have the right to contribute Additional Loans during the Revolving Period.

In addition to the provisions in the preceding paragraph, the Trustor may, at any time during a Securitization Transaction, contribute the Special Loans it deems advisable at its discretion.

- (b) Transfers of Loan Packages shall be documented through one or more Trust Contribution Agreements, substantially under the terms of Annex "C" to this Agreement. The signatures of the persons who have signed said Trust Contribution Agreement should be ratified before a notary public.
- (c) The Loans contributed in accordance with the terms of a Trust Contribution Agreement must comply with all the corresponding Trust Eligibility Criteria.
- (d) In addition, and in accordance with the terms of the respective Trust Contribution Agreements, the Trustor must endorse the Promissory Notes corresponding to the Loans in favor of the Trustee.
- (e) The Trustor shall notify each of the Borrowers of the contribution to this Trust of the respective Loans, in accordance with the procedure established in the corresponding Trust Contribution Agreement.
- (f) The Trustor shall notify the Insurance Companies of the contribution of their rights under the Insurance Policies on this Trust.
- (g) In addition to the acts described previously, each Trust Contribution Agreement must be registered in the mercantile folio of the Trustor in the corresponding Public Register of Commerce.
- (h) Should the legislation applicable to the Loans and to the Insurance Policies demand acts additional to those described previously for purposes of transferring them to the Trust, the Trustee may only acquire said Loans if said additional acts have been carried out.
- (i) The contribution process of the Loans, Additional Loans and Special Loans shall be conducted as follows:
- (1) As regards the initial contribution of Loans, the Trustor must send to the Trustee, together with the Notification of Transaction, (A) a Certification of Loans substantially in keeping with the terms of the certification model attached to this Agreement as Annex "K", which shall contain at least (i) the total unpaid balance of the Loans to be initially transferred to the Trustee in relation to said Securitization Transaction, (ii) certification (signed by the General Director, Director of Finances or Director of Operations of the Trustor) that said Loans comply with the corresponding Eligibility Criteria, and (iii) should the Securitization Transaction so provide, the results of the appraisal of said Loans by an Appraiser (attaching a copy of the corresponding appraisal), and (B) in case it has been conducted, a copy of the report prepared by the Auditors in relation to said Loans and their fulfillment of the Eligibility Criteria. Likewise, together with said Certification of Loans, the Trustor must deliver to the Trustee a certified copy of the public documents attesting to the powers of the Trustor's representatives, who will sign the respective Trust Contribution Agreement (unless said copies have previously been delivered to the Trustee).

Additionally, together with the Notification of Transaction, the Trustor must deliver to the Trustee 2 (two) signed copies of the Trust Contribution Agreement, which should be substantially the same as the model

attached to this Agreement as Annex “C” (except for the terms that are particular to the Securitization Transaction in question).

Having received copies of the authorizations described in paragraph (e) of the preceding Clause, the Trustee shall proceed to sign the copies presented on the Transaction Date and the Trustee and the Trustor shall appear on that same date before a notary public for the purpose of having their representatives’ signatures ratified. Upon signing the respective Trust Contribution Agreement, the Trustee shall acquire title to the corresponding Loans under the terms indicated in the aforementioned Trust Contribution Agreement.

- (2) With regard to the transfer of Additional Loans during the Revolving Period, the Trustor must send the Trustee a written request (said request, the “Application for Revolving Transfer”) at least 4 (four) Business Days before the date on which it wishes to make the transfer of Additional Loans (said date, the “Revolving Transfer Date”). Said Application for Revolving Transfer must be accompanied by a Certification of Additional Loans substantially the same as the model certification attached to this Agreement as Annex “K”, which will contain at least: (i) the total outstanding balance of the Additional Loans to be transferred to the Trustee in relation to said Securitization Transaction, (ii) certification (signed by the General Director, Director of Finances or Director of Operations, or another official of equal or greater rank of the Trustor) that said Additional Loans comply with the corresponding Eligibility Criteria, and (iii) should the Securitization Transaction so provide, the results of an appraisal of said Additional Loans carried out by the Appraiser (attaching a copy of the corresponding appraisal). No later than the second Business Day immediately prior to the Revolving Transfer Date, the Trustee must notify the Trustor if, in accordance with the provisions set forth for the Securitization Transaction, and especially in the corresponding Issue Documents, said contribution of Additional Loans is in order, in the understanding that the Trustee shall only be responsible for verifying (A) that the Revolving Period continues in effect, and (B) that it has sufficient funds in the Revolving Account to carry out said acquisition.

If the Trustee accepts said transfer, the Trustor must deliver to the Trustee no later than the business day immediately prior to the specific Revolving Transfer Date 2 (two) copies of the corresponding Trust Contribution Agreement, which shall be substantially the same as the model attached to this document as Annex “C” (except for those terms that are specific to the Securitization Transaction in question). By the same token, together with these two copies, the Trustor must deliver to the Trustee a copy of the official papers that document the powers of the representatives of the Trustor who signed the respective Trust Contribution Agreement (unless said copies have previously been delivered to the Trustee).

The Trustee shall proceed to sign said Trust Contribution Agreements on the Revolving Transfer Date, and the Trustee and the Trustor shall appear before a notary public for the purpose of having their representatives’ signatures ratified. Upon signing of the respective Trust Contribution Agreement, the Trustee shall acquire title to the corresponding Additional Loans under the terms indicated in the above-mentioned Trust Contribution Agreement.

- (3) In the case of the contribution of Special Loans that the Trustor decides to make at any time during the period of the Securitization Transaction, the Trustor must send to the Trustee a written request (said request, the “Request for Special Contribution”) at least 4 (four) Business Days in advance of the date on which it requests making the contribution of said Special Loans (said date, a “Date of Special Contribution”). Said Request for Special Contribution should be accompanied by a Loan Certification substantially in the terms of the model certification attached to this Agreement as Annex “K”, which shall contain at least, (i) the total unpaid balance of the Loans to be transferred to the Trustee in relation to said Securitization Transaction, (ii) certification (signed by the General Director, Director of Finances, Director of Operations or another official of the Trustor of equal or higher rank) that said Loans were extended to natural persons with business activities or to corporate persons, for the acquisition of Transportation Equipment (in the understanding that said Loans do not necessarily have to comply with the corresponding Eligibility Criteria) and (iii) should the Securitization Transaction so provide, the results of the appraisal of said Loans carried out by the Appraiser (attaching a copy of the corresponding appraisal).

In this case, the Trustor must deliver to the Trustee no later than the Business Day immediately preceding the specific Date of Special Contribution, 2 (two) copies of the corresponding Trust Contribution Agreement, which should be substantially the same as the model attached hereto as Annex “C” (except for

the terms specific to the Securitization Transaction in question, the terms that deal with the corresponding consideration and the declarations relative to the Eligibility Criteria that the Trustor will not have to comply with). Likewise, together with said copies, the Trustor must deliver to the Trustee a copy of the public documents testifying to the powers of the representatives of the Trustor who signed the respective Trust Contribution Agreement (unless said copies were previously delivered to the Trustee).

The Trustee shall proceed to sign said Trust Contribution Agreements on the Date of Special Contribution and the Trustee and the Trustor shall appear on that same date before a notary public in order to ratify their representatives' signatures. Upon signing the respective Trust Contribution Agreement, the Trustee shall acquire title to the corresponding Special Loans in the terms set forth in the above-mentioned Trust Contribution Agreement.

The parties recognize that the Trustor shall make the contribution to the Special Loans; taking into account the benefits obtained from the respective Securitization Transaction, but shall not receive any additional consideration whatsoever.

Similarly, the parties recognize that the Special Loans will not need to comply with the Eligibility Criteria related to the specific Securitization Transaction.

- (j) The Trustor pledges to carry out all the acts reasonably requested by the Trustee that are necessary or advisable in relation to the transfer of the rights derived from the Loans, the Insurance Policies (if applicable) and other accessories of the Trust, so that the Trust at all times maintains full title to said rights.
- (k) If the contribution procedure for the Loans, Additional Loans and Special Loans is not carried out in compliance with the provisions in paragraph (i) of this Clause, the Trustee may, but shall not be obliged to, continue with the corresponding procedures and steps, always in keeping with sound commercial and stock market uses and practices.

Additionally, in the case of the first Securitization Transaction carried out under the present Trust, the Trustee should make every effort, in conformity with sound commercial and stock market uses and practices, to assist the Trustor in carrying out said Securitization Transaction even if all the period and terms provided for in paragraph (i) of this Clause have not been complied with.

NINTH. Substitution, Repurchase or Purchase of Loans.

- (a) In the event that a Loan does not fulfill the corresponding Eligibility Criteria on the dates indicated in the respective Trust Contribution Agreement, the Trustor must, within 5 (five) Business Days following the date on which it is notified or the date on which the Trustee or the Administrator, as applicable, notifies it of the respective event:
 - (1) Substitute said Loan with a loan that complies with the Eligibility Criteria and that meets the additional requirements described in the Trust Contribution Agreement; or
 - (2) Repurchase the corresponding Loan through payment to the Trustee of an amount in cash equivalent to 100% (one hundred percent) of the unpaid balance and the interest accrued under the Loan to be repurchased on said date of repurchase. Any payment which the Trustor makes under this paragraph (a)(2) shall be made directly to the General Account corresponding to the respective Securitization Transaction.

In order to document the substitution of a Loan, the Trustor shall deliver to the Trustee a Loans Certificate related to the Loan that will be transferred to the Trust (containing the same information indicated in paragraph (i)(1) of the preceding Eighth Clause), and the Trustor and the Trustee shall enter into a Trust Contribution Agreement and the Trustor and the Trustee shall carry out any other applicable acts described in the preceding Eighth Clause in relation to the loan that substitutes the previously contributed Loan. Likewise, the Trustor and the Trustee must sign the necessary documentation that SFN reasonably requests

from the Trustee so that the Trustee re-transfers the substituted Loan to the Trustor and shall carry out, if applicable, the corresponding notifications.

All expenses incurred as a result of the substitution or repurchase of Loans in accordance with the provisions of this paragraph (a) of this Clause, shall be paid by the Trustor.

- (b) (i) If the Administrator makes changes to a Loan that are not permitted under the corresponding Administration Agreement and if the terms of said Contract allow the acquisition of said Loan by the Administrator, the Administrator must purchase the corresponding Loan within 5 (five) business days following the date on which the Technical Committee delivers the respective notification in the terms of the Administration Agreement by means of a payment to the Trustee of an amount in cash equivalent to 100% (one hundred percent) of the outstanding balance of the principal, plus the interest accrued under the Loan to be purchased on said purchase date; any payment made by the Administrator under this paragraph (b) (i), must be made directly to the General Account corresponding to the respective Securitization Transaction.

(ii) If, in accordance with the terms of the corresponding Administration Agreement, the Administrator considers it necessary to restructure the terms of a Loan and the necessary modifications are not permitted in conformity with the terms of the Administration Agreement, the Administrator, following the delivery to the Trustee of a copy of the resolution adopted by the credit committee of the Administrator in which said restructuring is approved, may purchase the corresponding Loan by means of a payment to the Trustee of an amount in cash equivalent to 100% (one hundred percent) of the outstanding balance of the principal, plus the interest accrued under the Loan to be purchased on said purchase date; any payment made by the Administrator under this paragraph (b) (ii), must be made directly to the General Account corresponding to the respective Securitization Transaction.

In order to document the acquisition of a Loan, the Administrator and the Trustee must sign any documentation necessary for the Trustee to transfer the Loan acquired to the Administrator and, if applicable, complete the corresponding notifications.

All expenses incurred as a result of an acquisition of Loans in accordance with the provisions of this paragraph (b) of this Clause, shall be paid by the Administrator.

- (c) In the supposition that the Insurance Policies in relation to a Loan have not been taken out or renewed and an event arises that in accordance with the terms of the Administration Agreement should be paid by the Administrator and the Administrator chooses to acquire the corresponding Loan, the Administrator must, within 5 (five) Business Days following the date of said event, acquire the corresponding Loan by means of a payment to the Trustee of an amount in cash equivalent to 100% (one hundred percent) of the unpaid balance and the interests accrued under the Loan to be acquired on said date of acquisition; any payment made by the Administrator under this paragraph (c) should be made directly to the General Account corresponding to the respective Securitization Transaction.

In order to document the acquisition of a Loan, the Administrator and the Trustee must sign the necessary documentation so that the Trustee transfers the Loan acquired to the Administrator and shall carry out, if applicable, the corresponding notifications.

All the expenses incurred as a consequence of an acquisition of Loans in accordance with the provisions of this paragraph (c) of this Clause shall be paid by the Administrator.

- (d) Any Securitization Transaction carried out under the terms of this Agreement may envisage the power of the Trustor to acquire overdue Loans (with the characteristics determined for the respective Securitization Transaction) by means of payment to the Trustee of an amount in cash equivalent to 100% (one hundred percent) of the unpaid balance of the principal and of the interests accrued under the Loan to be acquired on said date of acquisition; any payment made by the Administrator under this paragraph (c) should be made directly to the General Account corresponding to the respective Securitization Transaction. Said power to acquire may be granted as long as the resources payable for said acquisition are allocated to the payment of principal of the Securities Certificates.

- (e) In the event that a substitution, repurchase or acquisition is carried out in accordance with the terms of this Clause, the Trustee, in addition to transferring the corresponding Loan to the Trustor or the Administrator, as applicable, should deliver to them the part corresponding to the “deposit in guarantee” relative to the Loan substituted, repurchased or acquired that is maintained in the Deposit Account. For such purposes, the Trustee may request the corresponding amount to the Administrator.

TENTH. Issuance and Placement of Securities.

- (a) For the duration of this Agreement, the Trustee shall carry out one or more Issues under the terms and conditions the Trustor may specify with the assistance of an Underwriter and indicated in the corresponding Features Letter, always in compliance with the corresponding government authorizations.
- (b) Without affecting the Trustor’s specification of the terms and conditions of the Securities as assisted by an Underwriter and indicated in the corresponding Features Letter, all Securities shall have the following common features:
 - (1) Source of Payment: Without affecting any means of applicable External Credit Backing, the sole and exclusive source of payment of the Securities shall be the corresponding Securitization Operation’s Common Fund’s total sum.
 - (2) Payments: All Securities shall provide for the payment of the interest and principal covered by them. Subordinate Certificates shall be subordinate, regarding the payment of interest and principal, to the Securities Certificates, as per the terms provided for in the Features Letter and in the corresponding Issue Documents.
 - (3) Payment Responsibility of the Trustee and the Trustor: Save for its obligation to make payments using the resources in the Common Funds, in no case shall the Trustee have any payment responsibility whatsoever regarding the Securities, and it is hereby freed of all and any responsibility in this respect, unless the Trustee displays negligence, wrongful intent or bad faith in managing the Trust Assets. In no case shall the Trustee guarantee returns on any of the Securities. The Trustor shall not be bound by nor will it have any payment responsibility whatsoever regarding the Securities.
 - (4) Credit Backing: The Securitization Operation may have External and/or Internal Credit Backing and this shall be indicated for each Securitization Operation in its corresponding Features Letter.
- (c) Documentation: Each series or class of Securities Certificates will be backed by a sole overall Title Certificate covering all of the Securities Certificates of such series or class. The corresponding Title Certificates shall contain all the information relative to the Issue, series or class in question, as well as the requirements set forth in Article 14 Bis 7 of the Securities Markets Act and further shall be issued under the terms of Article 74 of the Securities Markets Act. Subordinate Certificates shall be documented in an overall certificate or title signed by the Trustee, which must set forth all of their features.

On the Operation Date, the Trustor will deposit before Indeval the Title Certificates backing each of the Issues, series or classes of Securities Certificates.

- (d) Along with the Notification of Operation, the Trustor shall give the Trustee (i) the Features Letter which shall contain all of the terms and conditions of the corresponding Securities, (ii) 1 (one) copy, printed on security paper, of the Title Certificate or Titles and certificates documenting the Securities which, if applicable shall be executed by the Guarantor as endorser (thereto attaching copies of the official certificates setting forth the powers of attorney granted to the representatives of said Guarantor, unless these documents would have already been delivered), (iii) in the case any External Credit Backing signed by the Guarantor’s representative is not set forth in the Title Certificates and, if applicable, in the certificates, 2 (two) copies of the document setting forth the External Credit Support signed by the Guarantor’s representative (thereto attaching copies of the official certificates in which the powers of

attorney granted to the representatives of the Guarantor are set forth, unless these documents would have already been delivered) (iv) the final draft of the Notification of Placement corresponding to the Securities Certificates, (v) copies or originals of all necessary Issue Documents regarding the specific Securitization Operation (for example, underwriting prospectus, supplement, etc.), and (vi) 3 (three) copies of the Securitization Operation's Underwriting Agreement, duly executed by authorized representatives of both the Underwriter and the Trustor (thereto attaching copies of the official certificates setting forth the powers of attorney granted to said representatives, unless these documents would have already been delivered).

Once the Trustee will have received copies of the authorizations described in paragraph (e) of Clause Seven above, it shall execute the Title Certificates, certificates, Underwriting Agreements and any other necessary instruments (including any instruments setting forth External Credit Backing) on the Operation Date. At 10:00 AM (Mexico City time) at the latest, on the Operation Date, the Trustee will have executed all necessary instruments regarding the Securities Issue, including the Title Certificate or Certificates, the certificates and the corresponding Underwriting Agreements. The Trustee shall be responsible for depositing the Certificates before Indeval and delivering the Underwriting Agreement to the corresponding authorities. The Trustee shall deliver the certificates that document the Subordinate Certificates to the Trustor.

The Trustor, assisted by the Trustee, shall carry out any and all actions necessary or advisable for issuing the Securities. The Trustor will anticipate any expenses incurred in connection with any such actions and shall be reimbursed for them as provided by the Eleventh Clause hereof.

The Issuing of Securities related to a Securitization Operation shall be considered carried out at 12:00 PM (Mexico City time) on the Operation Date.

- (e) The Trustee shall carry out any and all actions necessary or advisable for upholding the registration of the corresponding Securities Certificates before the National Registry of Securities maintained by the National Banking and Securities Commission (CNBV) as well as on the securities listing of the Mexican Stock Exchange (BMV) and to keep current all other entries or authorizations legally necessary for enabling the Trustee to comply with the goals of this Trust.
- (f) In the case the Issuing of Securities is not carried out as provided by in this Clause's section (d), the Trustee may, although it will not be bound to, continue the necessary procedures to ensure this, always following approved commercial and securities exchange practices.

Additionally, in dealing with the first Securitization Operation to be carried out under this Trust, the Trustee shall endeavor to, always following approved commercial and securities exchange practices, assist the Trustor to carry out said Securitization Operation, despite the non-compliance of the schedule and terms provided for in this Clause's section (i).

ELEVENTH. Proceeds from Securities Certificates Placements.

The proceeds from the placement of Securities Certificates on the Mexican Stock Exchange (BMV) shall be initially deposited in the General Account the Trustee will have opened for said Securitization Operation. The proceeds of said Placement will be applied to the following categories, in the order they are numbered, provided said proceeds will not be distributed as per the rules set forth in the Nineteenth Clause hereof:

- (1) Proceeds shall first be applied to the covering of any Issue Expenses incurred in connection with each Issue.

Issue Expenses that have been anticipated by the Trustor shall be reimbursed to said Trustor no later than two Business Days after the Operation Date, provided the Trustor has submitted to the Trustee the corresponding documentation of proof, which documentation shall be in accordance to the applicable laws. Any payment to be made to the Trustor shall be made by electronic transfer to the account that the Trustor

may designate in writing to the Trustee or, if the Trustor were to so request in writing, by certified check.

Any Issue Expenses not paid by the Trustor shall be paid directly by the Trustee through a prior written direction by the Trustor to this effect; said direction shall set forth the amount, heading and justification related thereto. The Trustee shall be able to make such payments through an electronic transfer to the account designated by the Trustor or through certified check from the General Account.

- (2) In second place, should it be so indicated in the corresponding Features Letter, part of the proceeds from the Placement of Securities Certificates may be used to fund the Operating Accounts that correspond to the Securitization Operation in the amounts set forth in the corresponding Features Letter.

Transfers from the General Account to the other Operating Accounts shall be made as per the procedure for transfers set forth in the Nineteenth Clause hereinafter.

- (3) In third place, once the items mentioned in sections (1) and (2) above have been covered, the proceeds shall be applied to pay the Trustor the corresponding compensation in consideration of the Loans.

The amount of said compensation shall be the amount remaining after coverage of the items mentioned in sections (1) and (2). Said compensation shall be specified in the corresponding Trust Contribution Agreement. In addition to the cash proceeds of the Placement, the Trustor may also receive other assets as compensation (including Subordinate Certificates) if the Trustor has so established in the Features Letter. Any payment to be made to the Trustor shall be done by electronic transfer to the account said Trustor will designate in writing to the Trustee, or, if so requested in writing, by means of a certified check.

The Trustee shall be free of any and all responsibility upon making the payments (either through cash delivery, Subordinate Certificates or a combination of them) as per the terms set forth in the Trust Contribution Agreement and, if applicable, in the Features Letter.

If, as per the terms of the Trust Contribution Agreement, the corresponding resources can only be delivered to the Trustor once said Trustor has complied with certain obligations and these are not complied with within the time allotted in the terms, the corresponding resources shall be used by the Trustee to retire the Securities in advance, as set forth in the corresponding Features Letter and Issuance Instruments.

TWELFTH. Administration of Loans; Deposit of Loan Documents.

- (a) As set forth in this Agreement, the Trustee shall have all powers necessary to carry out the goals of this Trust, including the powers necessary to manage the Loans corresponding to each Securitization Operation.

The Trustee shall manage the Loans corresponding to a Loan Package through the Administrator, who shall act in compliance with the terms and conditions established in the Management Agreement corresponding to the relevant Securitization Operation. As described below, on the Operation Date, the Trustee shall execute with the Administrator and the Substitute Administrator a Management Agreement in accordance with the terms of which the Trustee shall entrust the Administrator with the management of the Loans corresponding to said Securitization Operation.

As per the terms of the Management Agreement, should a Substitution Event occur and were the Technical Committee to so previously decide, the Substitute Administrator shall replace the Administrator automatically and with no need for further formalities and shall be considered as such for the purposes of said Management Agreement.

Management Agreements shall be executed substantially as per the terms of Exhibit "D" of this Agreement and shall comply with all the requirements set forth in such a Management Agreement.

The Trustee shall grant the Administrator, as per the terms of the aforementioned Management

Agreements, any powers necessary (in the form of a mercantile commission) for it to carry out the management of the Loans on its behalf.

The Trustee, were it to prove necessary for the purposes of executing any Loans, may sign in procurement any IOUs in favor of the Administrator or in favor of any other parties said Administrator may designate.

- (b) The Trustor shall delivery to the Trustee, together with the Notification of Operation, the Features Letter which, regarding the management of the Loans, shall contain at least, (i) the name of the Administrator and (ii) the name of the Substitute Administrator. Similarly, together with the aforementioned Features Letter, the Trustor shall deliver to the Trustee a copy of the official instruments setting forth the powers granted to the representatives of the Administrator and the Substitute Administrator who are to execute the corresponding Management Agreement on the Operation Date (unless such copies would have been previously delivered to the Trustee).
- (c) Additionally, together with the Notification of Transaction, the Trustor shall deliver to the Trustee 3 (three) copies of the Management Agreement, duly executed by a representative of the Administrator and the Substitute Administrator, which shall be substantially like the model of the Management Agreement attached hereto as Exhibit "D" (save for those terms that are specific to the relevant Securitization Operation).

Having received copies of the authorizations described in section (e) of the preceding Seventh Clause, the Trustee shall proceed to execute the copies presented on the relevant Operation Date, and the Trustee, the Administrator and the Substitute Administrator (should this be necessary in compliance with applicable law in consideration of any powers granted in the Management Agreement) shall appear before a notary public to have their representatives' signatures ratified.

Expenses deriving from the granting of any instruments shall be anticipated by the Trustor and will be reimbursed as per the provisions of the preceding Eleventh Clause.

- (d) As per the terms of the Management Agreement, the Administrator shall act as receiver of the Loan Documents corresponding to the Loans under management, of any amounts derived from the Loans, Insurance Policies and other accessories of the Loans, Insurance and any and all Loan accessories it may receive directly and of any Units or other assets it may receive in kind as payment, adjudication or any other form relating to the Loans and the Administrator shall take on the responsibilities established in this connection in the Management Agreement and in any applicable laws.
- (e) Substitution of SFN as Administrator in connection with any Securitization Operation carried out under this Trust shall in no way affect its rights as Trustor and as beneficiary as set forth in this Trust Agreement.

THIRTEENTH. Opening of Collection Accounts.

In connection with all the Securitization Operations carried out under the Trust, the Trustee shall open the number of Collection Accounts necessary for receiving collection of the Loans and of the indemnities pertaining to the Insurance Policies, as determined by the Administrator's management policies.

Collection Accounts will be denominated in pesos. The Collection Accounts will be established by the Trustee before the Authorized Institutions indicated in Exhibit "K".

Likewise, the Trustee must carry out all actions and execute all necessary instruments to ensure the Administrator is authorized to have, and effectively has, access to the Collection Accounts. Such access will be limited to observing all movements in the Collection Accounts and to using the corresponding information and will not include the power to make withdrawals or transfers nor any other similar movements in the Collection Accounts.

FOURTEENTH. Collection Accounts.

- (a) The Trustee shall receive, through the Collection Accounts, the collection proceeds from all the Loans, as well as the indemnities paid under the Insurance Policies which are contributed to this Trust as part of a Securitization Operation.

Such payments or indemnities may be directly deposited to the Collection Accounts by Debtors or Insurers or the Administrator may deposit them in such Collection Accounts if the Administrator were to directly receive such payments or indemnities. When dealing with indemnities which should be destined for the repairing of Units, said indemnities may be used by the Administrator or directly destined by the Insurers for the purpose of repairing the Units, without the need to deposit them in the Collection Accounts.

The amounts corresponding to the sale of any Units or any other assets received in payment of or recovered in connection with the Loans by the Administrator, as well as any Advance made by SFN will be deposited directly in the Trust through the corresponding General Account, as set forth in the Eighteenth Clause hereinafter.

- (b) As per the terms of the Management Agreement, the Administrator shall deliver to the Trustee, on every Business Day and at 12:00 PM (Mexico City time) at the latest, a report indicating as a minimum and in connection with each Collection Account (i) the amounts deposited at the close of the immediately preceding Business Day that correspond to each Securitization Operation (as they correspond to the collection of the Loans in connection with each such Securitization Operations or to indemnities received from the corresponding Insurance Policies), (ii) the amounts deposited at the close of the preceding Business Day that correspond to payments received under loans that have not been allocated to the Trust and that were erroneously made to the Collection Accounts (whether because the corresponding loans were substituted, repurchased or acquired, or for any other reason), (iii) the amounts derived from indemnities paid under the Insurance Policies which would have been deposited in the Collection Accounts and that should be allocated to repairing the corresponding Unit or should be returned to the corresponding Debtor as surpluses (those amounts received in excess of the unpaid balance of the corresponding Loan), (iv) the amounts corresponding to payments due under the Loans that were previously anticipated by SFN as Advances (and, as the case may be, any late interest incurred and paid in connection with such anticipated amounts), (v) the amounts deposited at the close of the preceding Business Day, the source of which the Administrator has been unable to identify, (vi) the amounts deposited at the close of the preceding Business Day which may have been received from any Debtor in excess of the payable amounts under the corresponding Loan the correct application of which the Administrator may be in the process of determining and (vii) any amounts paid by Debtors as reimbursement of any "guarantee deposit" that the Administrator may have applied to the corresponding Loan.

Regarding the provisions of this section (b), it is understood that the Administrator shall include in the aforementioned report those amounts deposited at 12:00 AM (Mexico City time) at the latest on the immediately preceding Working Day and, if those deposits would have been made through check "pending due collection", those amounts that would have been liberated on the same Working Day on which the report mentioned in this section (b) is to be delivered.

- (c) The Trustee must, at the latest by 5:00 PM (Mexico City time) on each Business Day, (1) transfer from the Collection Accounts to the General Account corresponding to each such Securitization Operation, the amounts corresponding to each Securitization Operation the Administrator has notified as provided for in subsection (i) of section (b) above, (2) with charge to the Collection Accounts, deliver to the Trustor or the Administrator, as the case may be, the amounts that correspond to them that the Administrator has notified as provided for in subsection (ii) of section (b) above, (3) deliver to the Administrator the amounts that should be used for the repair of Units or for the reimbursement of Debtors which the Administrator has notified as provided for in subsection (iii) of section (b) and that the Administrator has notified in accordance with subsection (iii) of section (b) above, and (4) deliver to SFN the amounts recovered and previously anticipated by SFN as Advances that the Administrator would have notified to it as provided for by subsection (iv) of section (b) above and (5) transfer to the Deposit Accounts corresponding to

Securitization Operation the reimbursements the Administrator may have notified as provided for in subsection (vii) of section (b) above. Payments to SFN or to the Administrator will be made by electronic transfer to the account that either SFN or the Administrator may have designated in writing to the Trustee or, if they were to so request it in writing, by means of a certified check.

Those amounts the Administrator may have notified as unidentified as provided for in subsection (v) and (vi) of section (b) above will be kept in the Collection Accounts until the Administrator is able to identify them and give instructions pertaining to their application to the Trustee, as provided for in said section (b).

If, on any Working Day, the Trustee were to not receive the report described in section (b) above, the Trustee will not be obliged to make transfers or any other movements as provided for hereinabove, until the date on which it effectively were to receive such report.

The parties hereto acknowledge that reimbursement to SFN of the amounts recovered and anticipated as Advances by SFN will be the only compensation payable to SFN for having realized such Advances.

FIFTEENTH. Establishment of Common Funds.

For each Securitization Operation to be carried out under this Trust, the Trustee will establish a Common Fund as per the following principles:

- (1) Only the assets and rights that are the subject matter of each Common Fund will back the payment of the Securities that are the subject matter of the corresponding Securitization Operation as well as the payment of any other items payable in connection with such Securitization Operation; therefore Securities Holders will not have the right to claim any other assets or rights that are the subject matter of the Common Fund of any other Securitization Operation as provided for by this Agreement;
- (2) The Common Fund for each Issue will be formed by (i) the total collective amount of the Loans granted to the Trustee for each Securitization Operation, as provided for by the Eighth Clause of this Agreement, (ii) any amount derived from the Loans that are the subject matter of each Securitization Operation, (iii) any amount kept in the Operating Accounts that correspond to such Securitization Operation and (iv) were any External Credit Backup be provided through this Trust, any amount deriving from same. The Common Fund will always be identified with the same name and number corresponding to the Securitization Operation in question; and
- (3) The Securities shall be backed by the Common Fund corresponding to them, which Fund will not be used to pay Securities from another Securitization Operation.

In the Issue Documents that correspond to each Securitization Operation, the Trustee shall have to identify the corresponding Common Fund. Similarly, in the Management Agreements executed in connection with a specific Loan Package, the Common Fund corresponding to said Loan Package shall be designated.

SIXTEENTH. Opening of Operating Accounts.

For every Securitization Operation carried out under this Trust, the Trustee will open the following Operating Accounts:

- (1) General Account;
- (2) Issue Maintenance Expense Account;
- (3) Interest Payment Account;
- (4) Principal Payment Account;

- (5) Reserve Account "A";
- (6) Reserve Account "B";
- (7) Subordinate Payment Account (in case the corresponding Securitization Operation provides for the existence of Subordinate Certificates);
- (8) Deposit Account; and
- (9) Revolving Account (in case the corresponding Securitization Operation provides for a Revolving Period).

Besides or in place of the Operating Accounts hereinabove described, the Trustee may open those other Operating Accounts that may be necessary as provided for by the terms of a Securitization Operation and as designated in the corresponding Features Letter and Issue Documents.

The Operating Accounts will be denominated in pesos and will produce market interest rates. The Trustee shall establish the Operating Accounts before Authorized Institutions. If, as per the Trustee's management system, it would not be necessary to open accounts regarding one or more Operating Accounts and these can be established based on records in its systems, the above limitations shall not apply, provided said records will assure adequate control of the different Operating Accounts as provided for by this Agreement.

Together with the Notification of Operation, the Trustor must give the Trustee (save in connection with the first Securitization Operation carried out under this Trust), a certified check or shall carry out a transfer for \$25,000.00 (twenty-five thousand pesos 00/100 Mx. Cy.), which the Trustee shall apply to the opening of the Operating Accounts. This amount, which shall be anticipated by the Trustor, will be reimbursed as per the provisions of the Eleventh Clause hereinabove.

The Trustee shall carry out all actions and execute all instruments necessary to ensure the Operating Accounts corresponding to every Securitization Operation are duly established open and operating at least 12 (twelve) hours before the relevant Operation Date.

If the terms of a Securitization Operation were to require modification of the Operating Accounts arrangement as outlined for in the following Clauses, any such modification shall be clearly set forth in the Features Letter, as well as in the corresponding Issue Documents.

SEVENTEENTH. Initial Funding of the Operative Accounts.

As described in the Eleventh Clause hereinabove, if it were so set forth in the Features Letter, the Trustee shall be able to fund the Operating Accounts with portions of the proceeds from the sale of the Security Certificates corresponding to the Securitization Operation in question.

EIGHTEENTH. General Account.

- (a) The Trustee will receive, through the General Account corresponding to each Securitization Operation, (i) the proceeds from the sale of the corresponding Security Certificates, (ii) through transfers from the Collection Accounts, the proceeds from collection of the Loans that constitute the corresponding Loan Package, as well as the sums corresponding to the indemnities generated as per the Insurance Policies (which have not been returned to the Administrator for the purpose of applying them to the repair of Units), (iii) any sums received by the Administrator deriving from the sale of Units or other assets received as payment in kind, distribution or by any other reason, (iv) any sums paid by the Trustor or the Administrator for the price of a reacquired or acquired Loan as per the terms of this Agreement, the Fiduciary Contribution Agreement and the corresponding Management Agreement, (v) any Advance made by SFN, (vi) any amounts paid by the counterpart of a swap, option or any other financial derivative instrument signed or acquired by the Trustee, (vii) any other amount that, as per the terms of the Issue

Documents, would have to be paid through the General Account and (viii) any other amount the Trustee may contribute freely in connection with every Securitization Operation.

- (b) The Trustee shall only be able to make withdrawals from the General Account for the purpose of (i) giving the Administrator those amounts received in payment of financing granted in connection with the payment of the Insurance Policy premiums (provided the Administrator has already paid the corresponding premiums), (ii) carrying out the transfers indicated in section (c) hereinafter and (iii) carrying out the transfers indicated in the Eleventh Clause hereinabove. Any payments to the Trustor or the Administrator will be carried out through electronic transfer to the account the Trustor or the Administrator, as the case may be, designate in writing to the Trustee or, if this were so requested in writing, by way of a certified check.
- (c) The Trustee shall carry out transfers from the General Account to the other Operating Accounts that correspond to each Securitization Operation as per the terms of the Nineteenth Clause hereinafter.
- (d) The Trustee shall keep the General Account records that correspond to each Securitization Operation set forth in the Thirtieth Clause hereinafter.

NINETEENTH. Administration of Operative Accounts.

- (a) The structure and functioning of the Operating Accounts that correspond to each Securitization Operation may vary, depending on the specific features pertaining to each such Securitization Operation.
- (b) In dealing with Securitization Operations that provide for a Revolving Period, the Features Letter shall set forth the manner in which the Revolving Account will be funded, provided such resources will be used as per the terms stipulated in the Twenty-Sixth Clause hereinafter.
- (c) As set forth above, the retirement outline for the Securities issued under a Securitization Operation may vary with each Securitization Operation carried out under this Trust. The Securitization Operations carried out under this Trust and the corresponding Securities may provide for programmed payments of both interest and principal, they may also provide for interest and principal payments representing the flow effectively available for retiring the Securities after having covered certain preferential items or may provide for payment of interest and principal that differ from all of the above. In any case, the Operating Accounts to be established and the functioning of said accounts will be specified in the corresponding Features Letter and Issue Documents.
- (d) Unless the Features Letter and the Issue Documents corresponding to a Securitization Operation provide for a structure or functioning of the Operating Accounts that is different from that which is set forth in section (e) hereinafter, such structure and functioning shall apply in connection with all the Securitization Operations carried out under this Trust.
- (e) In each Transfer Date, the Trustee shall have to transfer from the corresponding General Account to each Operating Account (that is different from the Deposit Account), the amounts that are mentioned hereinafter, in the order in which they appear:
 - (i) First, to the Issue's Maintenance Expense Account, an amount determined by the Trustee as necessary to cover the Issue's Maintenance Expenses that are to be paid during the period starting on the Working Day immediately after said Transfer Date and ending on the immediately following Transfer Date, provided that, in dealing with an Issue's Maintenance Expenses that are not payable on a monthly basis, the Trustee shall determine an amount that is equivalent to the corresponding payment divided between the number of Transfer Dates that will elapse before such payment is made.

In order to be able to determine the amount to be transferred to the Issue's Maintenance Expenses, the Trustee will take into consideration the documentation and information available to it and may consult with the Trustor.

- (ii) Second, once the transfer described in the above section (i) is carried out, to the Interest Payment Account, an amount equal to the sum the Common Representative of said Issue notifies in writing to the Trustee as necessary to enable the Interest Payment Account to have resources sufficient for covering the next interest payment due under the Security Certificates (if there are Ordinary Security Certificates and Subordinate Certificates backed by the Ordinary Security Certificates). If the sums in the General Account available for transfer to the Interest Payments Account were not sufficient to reach the level of resources mentioned above, the Trustee shall transfer to the Interest Payments Account all available sums in said General Account, once it has carried out the transfer described in section (i) hereinabove.

Notification of the sums mentioned in the above paragraph shall be made by the Common Representative at least 2 (two) Working Days before the Transfer Date.

If the Common Representative were to fail in timely making the notification referred to hereinabove, the Trustee shall, based on the Title Certificates, the Supplement and all the other Issue Documents, carry out its best faith effort to determine, assisted by the Trustor, the amount to be transferred to the Interest Payments Account.

- (iii) Third, once the transfers described in items (i) and (ii) hereinabove have been made to the Principal Payment Account, a sum determined by the Trustee as necessary to enable the Principal Payment Account to cover the amount of the next principal payment payable under the Security Certificates (if there are Ordinary Security Certificates and Subordinate Certificates under the Ordinary Security Certificates). In case the amounts available in the General Account for transfer to the Principal Payment Account are not sufficient for the aforementioned purpose, the Trustee shall transfer all amounts available in said General Account, once the transfers described in items (i) and (ii) above have been made to the Principal Payment Account.

In order to determine the amount to be transferred to the Principal Payment Account, the Trustee shall take into consideration the Title Certificates, the Supplement and all the Issue Documents and may consult with the Trustor.

- (iv) Fourth, once the transfers described in items (i), (ii) and (iii) above have been made, transfer is to be made to Reserve Account "A" for a sum determined by the Trustee to be necessary to maintain the Required Balance in said Reserve Account "A". In case the amounts available in the General Account for transfer to Reserve Account "A" are not sufficient to reach the level of resources mentioned hereinabove, the Trustee shall transfer all amounts available in said General Account to Reserve Account "A", once the transfers described in items (i), (ii) and (iii) hereinabove have been carried out.

In order to determine the amount to be transferred to Reserve Account "A", the Trustee shall take into consideration the Title Certificates, the Supplement and all the Issue Documents and may consult with the Trustor.

- (v) Fifth, once the transfers described in items (i), (ii), (iii) and (iv) above have been made, transfer is to be made to Reserve Account "B" for a sum determined by the Trustee to be necessary to maintain the Required Balance in said Reserve Account "B". In case the amounts available in the General Account for transfer to Reserve Account "B" are not sufficient to reach the level of resources mentioned hereinabove, the Trustee shall transfer all amounts available in said General Account to Reserve Account "B", once the transfers described in items (i), (ii), (iii) and (iv) hereinabove have been carried out.

In order to determine the amount to be transferred to Reserve Account "B", the Trustee shall take into consideration the Title Certificates, the Supplement and all the Issue Documents and may consult with the Trustor.

- (vi) Sixth,
 (1) once the transfers described in items (i), (ii), (iii), (iv) and (v) hereinabove have been made and for as long as the Ordinary Security Certificates have not been retired to the Subordinate Payment Account (in case there are Subordinate Certificates), an amount determined by the Trustee to be sufficient for enabling the Subordinate Payment Account to have sufficient resources to cover the next payment of interests payable under the Subordinate Certificates. In case the amounts available in the General Account for their transfer to the Subordinate Payment Account are not sufficient to reach the level of resources considered hereinabove, the Trustee shall transfer all amounts available in said General Account to the Subordinate Payment Account, once the transfers described in items (i), (ii), (iii), (iv) and (v) have been made.

(2) Once the Ordinary Security Certificates have been retired and once the transfers described in items (i), (ii), (iii), (iv) and (v) hereinabove have been made to the Subordinate Payment Account, all amounts available in the General Account for transfer to the Subordinate Payment Account until the principal payable under the Subordinate Certificates is retired fully.

In order to determine the amount to be transferred to the Subordinate Payment Account, the Trustee shall take into consideration the Title Certificates, the Supplement, all the Issue Documents and the Features Letter and may consult with the Trustor.

- (vii) Seventh, once the transfers described in items (i), (ii), (iii), (iv), (v) and (vi) (1) hereinabove and for as long as the Ordinary Security Certificates have not been fully retired, all resources then available in the General Account shall be transferred to the Trustor.

Once all Ordinary Security Certificates have been retired, in consideration that all resources shall be used for redeeming Subordinate Certificates while they have not been redeemed, the Trustor will not receive resources under this item (vii), provided that, once such Subordinate Certificates have been retired, the transfers contained in the Forty-First Clause hereof shall apply.

- (f) In case that, due to force majeure or any unforeseeable events, it were not possible to determine the amounts to be transferred to any of the Operating Accounts, the corresponding resources will be maintained in the General Account, to be applied as per the determination of the Technical Committee, provided the Technical Committee shall comply with the provisions of this Agreement when determining the manner in which said resources are to be applied.
- (g) In case any Common Fund has cash available that does not have a specific designated account as per the provisions of this Clause and the other Clauses in this Agreement, said amounts shall be maintained in the General Account until the next Transfer Date, at which time they will be used as provided for in this Clause.
- (h) As provided for in the corresponding Features Letter and in the Issue Documents, in case an Issue of Security Certificates were to be retired in advance, for any cause, all amounts deposited in the Operating Accounts shall be used for payment of the Security Certificates, the Ordinary Security Certificates receiving priority.
- (i) The Trustee deliver to the Trustor and to the Common Representative the reports mentioned in the Thirtieth Clause hereinafter, regarding the Operating Accounts.

TWENTIETH. Issue Maintenance Expense Account.

- (a) The amounts maintained by the Trustee in the Issue Maintenance Expense Account shall be applied by the Trustee exclusively for the purpose of making those payments concerning the Issue Maintenance Expense determined by the Trustee as provided for in section (e) (i) of the previous Clause.

The Trustee shall determine the beneficiaries of each of the corresponding payments taking into

consideration the documentation and information it may have at its disposal and may consult with the Trustor.

Said payments shall be carried out through electronic transfer to the accounts of the beneficiaries of said payments or through the delivery of a certified check drawn against said Issue Maintenance Expense Account. The Trustee shall obtain and maintain, from each beneficiary of said payments, the corresponding payment receipts and shall keep a detailed record of every one of said payments, as well as the corresponding receipts.

- (b) If the amounts maintained in the Issue Maintenance Expense Account were not to be sufficient to pay the Issue Maintenance Expenses, the Trustee shall transfer to the Issue Maintenance Expense Account, on the second Working Day immediately preceding the date on which the corresponding payments are to be made at the latest, from Reserve Account "A", from Reserve Account "B", from the Deposit Account or from the Subordinate Payment Account (in this order), the amounts necessary to cover the relevant payments.
- (c) Once all amounts payable under the Securities have been fully paid, the amounts the Trustee maintains in the Issue Maintenance Expense Account will be turned over to the Trustor.
- (d) The Trustee will invest the resources that constitute the Issue Maintenance Expense Account in Allowed Investments.

Such resources shall be invested in Allowed Investments at the terms the Trustee may determine which, based on its calculations, will allow the maintenance of sufficient liquidity in order to cover the corresponding payments of the Issue's Maintenance Expenses.

Any returns generated by the investment of the resources that constitute the Issue Maintenance Expense Account shall be transferred by the Trustee on each Transfer Date to the General Account, that they may be used as provided for in the Nineteenth Clause hereinabove.

TWENTY-FIRST. Interest Payment Account.

- (a) Amounts maintained by the Trustee in the Interest Payment Account shall be applied by the Trustee exclusively for the purpose of making the interest payments payable under the Security Certificates.

The Common Representative shall notify the Trustee, at least 5 (five) Working Days in advance of each interest payment date, the amount corresponding to said payment date.

If such notification were not delivered, the Trustee shall carry out its best faith efforts to determine the amounts corresponding to such payments. In any case, the Trustee shall base its payments on the terms of the corresponding Title Certificates, the corresponding Supplement and all other relevant Issue Documents.

The Trustee shall carry out the payments on their maturity date through electronic transfer, at Indeval's address or, if such were the case, at the offices of the Trustee, as designated in the Issue Documents.

The Trustee will keep a detailed record of each such payment and of their corresponding support documentation.

- (b) If the amounts maintained in the Interest Payment Account were not sufficient to carry out the interest payment payable under the Security Certificates, the Trustee shall transfer to the Interest Payment Account, not less than two Working Days immediately before such payment date, from Reserve Account "A", Reserve Account "B", the Deposit Account or the Subordinate Payment Account (in this order), the amounts necessary to carry out the corresponding payment.

- (c) If the amounts deposited in Reserve Account “A”, Reserve Account “B”, in the Deposit Account and in the Subordinate Payment Account were to prove insufficient to cover the payments described hereinabove, the Trustee, if this were necessary and through the Common Representative shall, no later than the third Working Day immediately preceding the relevant payment date, make use of any External Credit Backing which, if applicable, may have been granted to the corresponding Securitization Operation if, as per the terms of such External Credit Backing, it is the Common Representative who is to use such credit backing.
- (d) If, on any Transfer Dates, the Trustee would determine the amounts maintained by the Trustee in the Interest Payment Account are larger than the balance to be maintained in said Interest Payment Account on such a date, any surplus shall be transferred on such a Transfer Date to the General Account, so that it may be used as provided for in the Nineteenth Clause hereinabove.
- (e) Once any amounts payable under the Security Certificates have been fully paid (in the case there are Ordinary Security Certificates and Subordinate Certificates under the Ordinary Security Certificates), any amounts the Trustee may maintain in the Interest Payment Account shall be turned over to the Trustor.
- (f) The Trustee shall invest the resources that constitute the Interest Payment Account in Allowed Investments.

Said resources shall be invested in Allowed Investments at terms maturing at least 3 (three) Working Days before the following interest payment date as provided for in the Security Certificates. After such term, the corresponding resources shall be invested in instruments maturing overnight.

Any returns generated by the investment of the resources constituting the Interest Payment Account shall be transferred by the Trustee on each Transfer Date to the General Account, that they may be used as provided for in the Nineteenth Clause hereinabove.

TWENTY-SECOND. Principal Payment Account.

- (a) Amounts maintained by the Trustee in the Principal Payment Account will be applicable by the Trustee exclusively for the purpose of carrying out the principal payments payable under the Security Certificates.

The Trustee shall determine the amount of payment corresponding to each payment date as provided for in the documentation and information it may have at its disposal and may consult with the Trustor. In any case, the Trustee shall base its payments on the terms of the corresponding Title Certificates, the corresponding Supplement and the other Issue Documents.

The Trustee shall make payments on the date of their maturity through electronic transfer, at Indeval’s address or, as the case may be, at the Trustee’s offices, as provided for in the Issue Documents.

The Trustee shall keep a detailed record of each such payment and of the corresponding supporting documentations.
- (b) If the amounts maintained in the Principal Payment Account were to prove insufficient for covering the principal payments payable under the Security Certificates, the Trustee will transfer to the Principal Payment Account, on the second Working Day immediately preceding the relevant payment date, from Reserve Account “A”, Reserve Account “B”, the Deposit Account or the Subordinate Payment Account (in this order), the amounts necessary to carry out the corresponding payment.
- (c) In case the amounts deposited in Reserve Account “A”, Reserve Account “B”, the Deposit Account and the Subordinate Payment Account were to prove insufficient to carry out the payments hereinabove described, the Trustee, if necessary, through the Common Representative shall, no later than the third

Working Day immediately preceding the relevant payment date, make use of any External Credit Backing that may have been granted to the corresponding Securitization Operation if, as provided for in the terms of such an External Credit Backing, such resources are to be used by the Common Representative.

- (d) If, on any Transfer Date, the Trustee were to determine that the amounts maintained by the Trustee in the Principal Payment Account are larger than the balance that must be maintained on such Principal Payment Account on such a date, any surplus shall be transferred on such Transfer Date to the General Account, so that it may be used as provided for in the Nineteenth Clause hereinabove.
- (e) Once any amounts payable under the Security Certificates (in case there are Ordinary Security Certificates and Subordinate Certificates under the Ordinary Security Certificates) would have been fully paid, the amounts maintained by the Trustee in the Principal Payment Account will be turned over to the Trustor.
- (f) The Trustee shall invest the resources that constitute the Principal Payment Account in Allowed Investments.

Said resources shall be invested in Allowed Investments at terms maturing at least 3 (three) Working Days before the next payment date as provided for in the Security Certificates. After such maturity, the corresponding resources will be invested in instruments maturing overnight.

Any returns generated by the investment of the resources that constitute the Principal Payment Account are to be transferred by the Trustee on each Transfer Date to the General Account, that they may be used as provided for in the Nineteenth Clause hereinabove.

TWENTY-THIRD. Reserve Account "A".

- (a) The amounts maintained by the Trustee in Reserve Account "A" will be used by the Trustee exclusively for the purpose of supplementing the amounts necessary to carry out Issue Maintenance Expenses payments and payments payable under the Security Certificates, as described in section (b) of the Twentieth Clause, section (b) of the Twenty-First Clause and section (b) of the Twenty-Second Clause.

The Trustee shall keep a detailed record of each of the transfers carried out from said Reserve Account "A" to the Issue Maintenance Expense Account, to the Interest Payment Account, to the Principal Payment Account and of all the corresponding supporting documentation.

- (b) In the case that, on any Transfer Date, the Trustee would determine that the amounts maintained by the Trustee in Reserve Account "A" are larger than the Required Balance for Reserve Account "A" on such a date, any surplus will be transferred on said Transfer Date to the General Account, that it may be used as provided for in the Nineteenth Clause hereinabove.
- (c) Once any amounts payable under the Security Certificates (in case there are Ordinary Security Certificates and Subordinate Certificates under the Ordinary Security Certificates) have been fully paid, the amounts the Trustee maintains in Reserve Account "A" will be turned over to the Trustor.
- (d) The Trustee shall invest the resources that constitute Reserve Account "A" in Allowed Investments.

Such resources shall be invested in Allowed Investments at a term maturing at least 3 (three) Working Days before the next interest and/or principal payment date as provided by the Security Certificates. After such maturity, the corresponding resources will be invested in instruments maturing overnight.

Any returns generated through the investment of the resources that constitute Reserve Account "A" will be transferred by the Trustee on each Transfer Date to the General Account, that it may be used as provided for in the Nineteenth Clause hereinabove.

TWENTY-FOURTH. Reserve Account “B”.

- (a) The amounts maintained by the Trustee in Reserve Account “B” will be used by the Trustee exclusively for the purpose of supplementing the amounts necessary to carry out Issue Maintenance Expenses payments and payments payable under the Security Certificates, as described in section (b) of the Twentieth Clause, section (b) of the Twenty-First Clause and section (b) of the Twenty-Second Clause.

The Trustee shall keep a detailed record of each of the transfers carried out from said Reserve Account “B” to the Issue Maintenance Expense Account, to the Interest Payment Account, to the Principal Payment Account and of all the corresponding supporting documentation.

- (b) In the case that, on any Transfer Date, the Trustee would determine that the amounts maintained by the Trustee in Reserve Account “B” are larger than the Required Balance for Reserve Account “B” on such a date, any surplus will be transferred on said Transfer Date to the General Account, that it may be used as provided for in the Nineteenth Clause hereinabove.
- (c) Once any amounts payable under the Security Certificates (in case there are Ordinary Security Certificates and Subordinate Certificates under the Ordinary Security Certificates) have been fully paid, the amounts the Trustee maintains in Reserve Account “B” will be delivered to the Trustor.
- (d) The Trustee shall invest the resources that constitute Reserve Account “B” in Allowed Investments.

Such resources shall be invested in Allowed Investments at a term maturing at least 3 (three) Working Days before the next interest and/or principal payment date as provided by the Security Certificates. After such maturity, the corresponding resources will be invested in instruments maturing overnight.

Any returns generated through the investment of the resources that constitute Reserve Account “B” will be transferred by the Trustee on each Transfer Date to the General Account, that it may be used as provided for in the Nineteenth Clause hereinabove.

TWENTY-FIFTH. Subordinate Payment Account.

- (a) The amounts maintained by the Trustee in the Subordinate Payment Account will be applicable by the Trustee (i) to carry out the interest and principal payments payable under the Subordinate Certificates and (ii) to supplement the amounts needed to carry out payments of the Issue Maintenance Expenses and payments under the Security Certificates as described in section (b) of the Twentieth Clause, section (b) of the Twenty-First Clause and section (b) of the Twenty-Second Clause.

The Trustee shall determine the amount of the payment corresponding to such payment date as provided for in the documentation and information it may have at its disposal and may consult with the Trustor. In any case, the Trustee shall base its payments as provided for in the certificates representing the Subordinate Certificates.

The Trustee shall carry out the payments on their maturity date through electronic transfer at Indeval’s address or, as the case may be, at the Trustee’s offices, as provided for in the Issue Documents.

The Trustee shall keep a detailed record of any such payment and of their corresponding supporting documentation.

- (b) If the amounts maintained in the Payment Account or in the Subordinate Account were to prove insufficient to cover interest or principal payments payable under the Subordinate Certificates, the Holders of Subordinate Certificates will receive only the amounts available in the Subordinate Payment Account, provided that any amounts payable but unpaid shall accumulate and will be payable on the next corresponding payment date.

- (c) In the case that, on any Transfer Date, the Trustee were to determine that the amounts maintained by the Trustee in the Subordinate Payment Account are larger than the balance that should be maintained in such Subordinate Payment Account on that date, any surplus will be transferred on said Transfer Date to the General Account, that it may be used as provided for in the Nineteenth Clause hereinabove.
- (d) Once any amounts payable under the Securities have been fully paid, the amounts the Trustee maintains in the Subordinate Payment Account will be turned over to the Trustor.
- (e) The Trustee shall invest the resources that constitute the Subordinate Payment Account in Allowed Investments.

Said resources shall be invested in Allowed Investments at maturities at least 3 (three) Working Days before the following interest payment date as provided for in the Subordinate Certificates. After such maturity, the corresponding resources shall be invested in instruments maturing overnight.

Any returns generated by the investment of the resources that constitute the Subordinate Payment Account will be transferred by the Trustee on each Transfer Date to the General Account, that they may be used as provided for in the Nineteenth Clause hereinabove.

TWENTY-SIXTH. Revolving Account.

- (a) The amounts maintained by the Trustee in the Revolving Account will be applied by the Trustee to pay the Trustor its compensation for contributing to the Additional Credits, as determined by the Appraiser (as applicable) and as specified in the corresponding Credit Certificate.

Such payments shall be carried out through electronic transfer to the account of the Trustor or through delivery of a certified check drawn against such Revolving Account. The Trustee shall obtain and maintain from the Trustor the corresponding payment receipts and shall keep a detailed record of any such payments and of their corresponding receipts.

- (b) In case that, on any Transfer Date, the Trustee were to determine that the amounts maintained by the Trustee in the Revolving Account are larger than the balance that should be maintained in such Revolving Account on such a date, any surplus should be transferred on such Transfer Date to the General Account, that it may be used as provided for in the Nineteenth Clause hereinabove.
- (c) Once any amounts payable under the Securities have been fully paid, the amounts the Trustee may maintain in the Revolving Account will be turned over to the Trustor.
- (d) The Trustee shall invest the resources that constitute part of the Revolving Account in Allowed Investments.

Such resources shall be invested in Allowed Investments maturing at least 3 (three) Working Days before the next date on which, as provided for in the corresponding Securitization Operation, Additional Credits may be acquired or, were it possible to acquire Additional Credits on any date, in instruments maturing overnight.

Any returns generated by the investment of the resources that constitute the Revolving Account will be transferred by the Trustee on each Transfer Date to the General Account, that they may be used as provided for in the Nineteenth Clause hereinabove.

TWENTY-SEVENTH. Deposit Account.

- (a) The Deposit Account that corresponds to each Securitization Operation may be initially funded either with resources the Trustor contribute to the Trust or through the application of resources deriving from the Placement of Security Certificates as provided for in the Eleventh Clause hereinabove. The manner in which the Deposit Account is to be funded will be detailed, for every Securitization Operation, in the Features Letter and in the other Issue Documents.
- (b) The amounts maintained by the Trustee in the Deposit Account will be applied by the Trustee (i) to carry out any payable payments or the last payable payment as provided for in the terms of any Loan, as per the instructions received by the Trustee from the Administrator and (ii) to supplement the amounts necessary to cover payments of an Issue's Maintenance Expenses and payments under the Security Certificates, as described in section (b) of the Twentieth Clause, section (b) of the Twenty-First Clause and section (b) of the Twenty-Second Clause.

Said amounts may also be returned by the Trustee to the Trustor (for their further return to their corresponding Debtor) if the Administrator were to notify the Trustee that all payments payable under the corresponding Loans have been made or the Trustor or the Administrator in case of a Loan substitution, reacquisition or acquisition as provided for in the Ninth Clause hereof, provided that, in case of a substitution, the Trustor shall give the Trustee an amount equivalent to the guarantee deposit of the Substitute Loans.

Said payments shall be carried out through electronic transfers to the General Account or through electronic transfer to the Trustor's or to the Administrator's account, as the case may be, or through the delivery of a certified check drawn against said Deposit Account. The Trustee shall obtain and maintain from the Trustor or the Administrator, the corresponding payment receipts and shall keep a detailed record of any such payments and of their corresponding receipts.

- (c) In the case that, on any Transfer Date, the Trustee were to determine that the amounts maintained by the Trustee in the Deposit Account are larger than the balance that should be kept on said Deposit Account on such a date, any surplus shall be transferred on the Transfer Date to the General Account, that it may be used as provided for in the Nineteenth Clause hereinabove.
- (d) Once any amounts payable under the Securities have been fully paid, the amounts maintained by the Trustee in the Deposit Account will be turned over to the Trustor.
- (e) The Trustee shall invest the resources that constitute the Deposit Account in Allowed Investments.

Said resources shall be invested in Allowed Investments maturing on the date the Trustee may determine, based upon the number of Loans constituting the Loan Package and the reports the Administrator may receive, so as to maintain liquidity sufficient to carry out the payments that should be made as provided for in this Clause.

Any returns generated by the investment of the resources that constitute the Revolving Account will be transferred by the Trustee on each Transfer Date to the General Account, that they may be used as provided for in the Nineteenth Clause hereinabove.

- (f) The Trustee and the Trustor acknowledge that, in case the amounts maintained in the Deposit Account are used as provided for in section (b) above, each corresponding Debtor shall be credited with the making of the corresponding payments as provided for in the corresponding Loan Agreements.
- (g) As provided for in the Thirtieth Clause of this Agreement, the financial statements prepared and maintained in connection with the Trust's Assets shall include a section identifying the Trust's liabilities towards the Debtors that may derive from the "guarantee deposits" received in connection with the Loans.

TWENTY-EIGHTH. Holders of Securities; Guarantor.

- (a) The Security Holders, in sole consideration of their acquisition of said Securities, shall be subject to this Agreement's and of the corresponding Title Certificate's or certificate's provisions, expressly including the jurisdictional submission contained in the Forty-Seventh Clause hereof.

It is also understood that they have taken into account the features of the Loan Package backing the corresponding Securitization Operation, taking on the risk that, if collection of same is not sufficient to cover the payments payable under the Securities, such payments will be carried out, regardless of any External Credit Backing the Guarantor may grant and/or any Internal Credit Backing implemented, partly with the cash available in the corresponding Common Fund and the rest through donation in kind for the payment of the existing Loans in the corresponding Common Fund, either through the Common Representative or directly to the corresponding Holders, as may have been previously resolved in the general assembly of corresponding Security Holders.

- (b) The Guarantor, in sole consideration of the External Credit Backing granting, shall be subjected to this Agreement's stipulations, expressly including (as applicable) the jurisdictional submission contained in the Forty-Seventh Clause hereof.

TWENTY-NINTH. Powers and Obligations of the Trustee; Defense of the Trust Assets.

- (a) The Trustee shall have all the powers necessary for it to carry out the objectives of this Trust, as provided for in article 391 of the Securities and Credit Operations General Law (LGTOC) and shall conduct itself as per the terms of this Agreement in following the instructions given to it by those authorized for such purpose in the terms of this Agreement and its Exhibits, as would a good family head.
- (b) The Trustee will not be held accountable for: (i) deeds or omissions by the other parties hereto, or by third parties or authorities that may prevent or make difficult the compliance of the objectives of this Trust; (ii) any delays or non-compliance of payment due to insufficient resources in the Collection Accounts or in the Operating Accounts or in the Trust's Assets in general; or (iii) any notification relating to preventing or non-compliance events that may surge in connection with the provisions of this Trust.
- (c) Were the Trustee to acquire knowledge about the existence of any non-compliance of this Agreement or of any of the documents contemplated hereby or were it to receive a notification of a judicial or administrative nature or of any other nature regarding this Trust or for any other reason that may make it necessary to defend the Trust's Assets, it shall notify the Technical Committee, the Trustor and the Common Representative of each Issue or of the corresponding Issue (were such an event or circumstance to affect only an individual Securitization Operation) immediately after it acquires knowledge of such event or circumstance or on the date on which it might receive the relevant notification.
- (d) In the case described in section (c) above, the Trustee shall grant the Representatives a general or special power of attorney, in the terms and conditions so indicated by the Common Representative (as per the powers given to it in the Title or Titles Certificate for each Issue). All fees and any other expenses and costs incurred by reason of such a conflict or defense shall be covered by resources from the corresponding Issue's Common Fund and neither the Trustee nor the Common Representative will incur any liabilities, save for negligence or bad faith on the part of the Trustee.

The Trustee will not be liable for the actions of the Representatives, unless the appointing of any such Representative would have been done negligently, with wrongful intent or in bad faith or if such a Representative's actions would have been the result of the Trustee's negligence, wrongful intent or bad faith.

- (e) In case of emergency the lack of immediate attention to which might importantly damage the Trust's Assets, the Trustee shall carry out all necessary actions to preserve the Trust's Patrimony, without thereby limiting the obligations of the Common Representative of each Issue to designate in as timely a way as possible the corresponding Representative; the above provided that if, for any reason, a Representative is not designated within 5 (five) Business Days following the emergence of the relevant emergency, the Trustee shall designate the Representative it may deem satisfactory without incurring any liabilities and such designation shall remain in effect for as long as the corresponding Issue's Common Representative might continue not to designate a Representative as provided for in this Clause.
- (f) Were the Trust or the Trustee to lose any corresponding trials, payment of costs and expenses shall be covered with the Trust's Assets, save for negligence, wrongful intent or bad faith on the part of the Trustee. This provision will be transcribed in all powers-of-attorney granted, with no liabilities incurred by the Trustee if the Trust's Assets were to prove insufficient to cover such costs and expenses.
- (g) The Trustee will not be under any obligations to pay for any expenses from its own assets nor to incur any financial obligations that are different from those it takes on as Trustee; therefore, for the purpose of any expenses it should make for furthering the objectives of the Trust, these shall be covered by the Trust's Assets, with no liabilities incurred by the Trustee were it not to receive sufficient funds in a timely fashion.
- (h) The Trustee will be free of any liabilities when acting as provided for in this Agreement following instructions from parties authorized to give such instructions, as per the terms of this Agreement and its Exhibits,
- (i) Unless otherwise provided for in this Agreement, the Trustee will not be obliged to confirm or verify the authenticity of any reports or certificates delivered as provided for by this Agreement or by the Management Agreement.
- (j) Unless otherwise provided for in this Agreement, the Trustee shall not be liable for any declarations made by any parties hereto, either in this Agreement or in any other document related to it.
- (k) If any relevant situations were to arise in connection with any Securitization Operation that may affect the price of the Securities or the rights of their Holders, the Trustee shall notify the Holders' Common Representative, the members of the Technical Committee and the Trustor as soon as possible. Save for its obligations under the rest of the sections of this Clause and of the rest of this Agreement's Clauses, the Trustee shall have no further obligations regarding any such situations.
- (l) Without limiting the above and unless otherwise set forth in this Agreement, the Trustee, its officials, delegate officials, employees and agents:
 - (1) shall not incur any obligation or responsibility save for those expressly set forth in this Agreement and in any other documents relating to it and those that may derive from applicable laws;
 - (2) may, in case this Agreement does not provide for a specific situation or does not stipulate who is empowered to give it instructions regarding any specific situation or affair, abstain from acting in connection with such a situation or affair, provided the Trustee may request instructions from the Technical Committee regarding the manner in which it should conduct itself in connection therewith and will incur no liabilities in following directions received from such Technical Committee in connection thereto;
 - (3) shall only be liable for their actions if such actions were to contradict the provisions of this Agreement, the instructions given by parties authorized to give such instructions in the terms of this Agreement, applicable legal provisions or if such actions were to constitute negligence, wrongful intent or bad faith;

- (4) may, were it to be required as per the provisions of this Agreement, consult with any legal or fiscal expert or with experts in any other field, at its sole discretion; and
 - (5) shall not be responsible for determining or investigating compliance with parts of this Agreement or with any provisions, conditions or obligations taken on by any of them as provided by this Agreement or by any other document relating to it, provided that, if they were to have knowledge of any such non-compliance on the part of the Trustor or the Administrator, they shall notify the Technical Committee, in writing, as soon as possible, the existence of such non-compliance.
- (m) The parties hereto acknowledge and accept that the Trustee's actions will be carried out only as Trustee of this Trust and in compliance with its provisions.

THIRTIETH. Trustee's Obligations to Report; Access to Information.

- (a) The Trustee shall have the obligation to give the corresponding Common Representative, the Trustor and the Technical Committee, on a monthly basis and within the first 15 (fifteen) calendar days of each month, the reports or information provided for hereinafter in connection with the Common Fund and the Operating Accounts corresponding to every Securitization Operation:
 - (1) A report reflecting the status of the corresponding Common Fund. Such report shall contain, as a minimum, (i) the Loans attached to the corresponding Common Fund, identified by its corresponding identification number or code and (ii) the balance of each of the corresponding Operating Accounts as of the last month of the month immediately preceding the month on which the relevant report is delivered.
 - (2) A statement reflecting all the movements that have taken place in the Collection Accounts (save for the detailing of the deposits carried out in such accounts) during the calendar month immediately preceding the month on which the statement is delivered (for the purposes of this Clause, said calendar month, the "Reported Month") including, at a minimum, (i) the balance of each of the Collection Accounts as of the start of the Reported Month, (ii) the balance of each of the Collection Accounts as of the close of the Reported Month, (iii) the dates and amounts of the transfers carried out from the Collection Accounts to the General Account or to the Trustor and to the Administrator during the Reported Month and (iv) the returns generated by the resources corresponding to such Collection Accounts during the Reported Month, as the case may be.
 - (3) A statement reflecting all the movements that may have taken place in the General Account during the Reported Month including, at a minimum, (i) the balance of the General Account as of the start of the Reported Month, (ii) the balance of the General Account as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to the General Account during the Reported Month, (iv) the dates and amounts of transfers made from the General Account to the other Operating Accounts (identifying such Operating Accounts) during the Reported Month and (v) the returns generated by the resources corresponding to such General Account during the Reported Month.
 - (4) A statement reflecting all the movements carried out in the Issue Maintenance Expense Account during the Reported Month including, at a minimum, (i) the balance of the Issue Maintenance Expense Account as of the start of the Reported Month, (ii) the balance of the Issue Maintenance Expense Account as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to the Issue Maintenance Expense Account during the Reported Month, (iv) the dates and amounts of the payments made, drawn against the Issue Maintenance Expense Account, identifying therein the name of the beneficiaries of such payments and the items paid during the Reported Month and (v) the returns generated by the resources corresponding to such Issue Maintenance Expense Account during the Reported Month.

- (5) A statement reflecting all the movements that may have taken place in the Interest Payment Account during the Reported Month including, at a minimum, (i) the balance of the Interest Payment Account as of the start of the Reported Month, (ii) the balance of the Interest Payment Account as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to the Interest Payment Account during the Reported Month, (iv) the dates and amounts of the payments made, drawn against the Interest Payment Account, identifying therein the items paid during the Reported Month and (v) the returns generated by the resources corresponding to such Interest Payment Account during the Reported Month.
- (6) A statement reflecting all the movements that may have taken place in the Principal Payment Account during the Reported Month including, at a minimum, (i) the balance of the Principal Payment Account as of the start of the Reported Month, (ii) the balance of the Principal Payment Account as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to the Principal Payment Account during the Reported Month, (iv) the dates and amounts of the payments made, drawn against the Principal Payment Account, identifying therein the items paid during the Reported Month and (v) the returns generated by the resources corresponding to such Principal Payment Account during the Reported Month.
- (7) A statement reflecting all the movements that may have taken place in Reserve Account "A" during the Reported Month including, at a minimum, (i) the balance of Reserve Account "A" as of the start of the Reported Month, (ii) the balance of Reserve Account "A" as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to Reserve Account "A" during the Reported Month, (iv) the dates and amounts of the payments made from Reserve Account "A" to the Issue Maintenance Expense Account, the Interest Payment Account and the Principal Payment Account during the Reported Month and (v) the returns generated by the resources corresponding to such Reserve Account "A" during the Reported Month.
- (8) A statement reflecting all the movements that may have taken place in Reserve Account "B" during the Reported Month including, at a minimum, (i) the balance of Reserve Account "B" as of the start of the Reported Month, (ii) the balance of Reserve Account "B" as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to Reserve Account "B" during the Reported Month, (iv) the dates and amounts of the payments made from Reserve Account "B" to the Issue Maintenance Expense Account, the Interest Payment Account and the Principal Payment Account during the Reported Month and (v) the returns generated by the resources corresponding to such Reserve Account "B" during the Reported Month.
- (9) A statement reflecting all the movements that may have taken place in Subordinate Payment Account during the Reported Month including, at a minimum, (i) the balance of Subordinate Payment Account as of the start of the Reported Month, (ii) the balance of Subordinate Payment Account as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to Subordinate Payment Account during the Reported Month, (iv) the dates and amounts of the payments made from resources from Subordinate Payment Account, identifying therein the items paid during the Reported Month and, if applicable, the dates and amounts of transfers made from Subordinate Payment Account to the Issue Maintenance Expense Account, the Interest Payment Account and the Principal Payment Account during the Reported Month and (v) the returns generated by the resources corresponding to such Subordinate Payment Account during the Reported Month.
- (10) A statement reflecting all the movements that may have taken place in the Revolving Account during the Reported Month including, at a minimum, (i) the balance of the Revolving Account as of the start of the Reported Month, (ii) the balance of the Revolving Account as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to the Revolving Account during the Reported Month, (iv) the dates and amounts of the payments made from resources belonging to the Revolving Account, identifying therein the Additional Loans acquired during the Reported Month and, if applicable, the dates and amounts of transfers made

from Subordinate Payment Account to the Issue Maintenance Expense Account, the Interest Payment Account and the Principal Payment Account during the Reported Month and (v) the returns generated by the resources corresponding to such Revolving Account during the Reported Month.

- (11) A statement reflecting all the movements that may have taken place in the Deposit Account during the Reported Month including, at a minimum, (i) the balance of the Deposit Account as of the start of the Reported Month, (ii) the balance of the Deposit Account as of the close of the Reported Month, (iii) the dates and amounts of the deposits made to the Deposit Account during the Reported Month, (iv) the dates and amounts of transfers made from the Deposit Account, to the General Account, the Issue Maintenance Expense Account, the Interest Payment Account and to the Principal Payment Account during the Reported Month and (v) the returns generated by the resources corresponding to such Deposit Account during the Reported Month.
- (b) Within 15 (fifteen) days following the date on which it may receive a written request to this end, the Trustee shall give each Issue's Common Representative, the Trustor (unless the Trustor is the same person as the Administrator) and the Technical Committee for each Securitization Operation the information it may receive from the Administrator during the Reported Month, as per the terms of the Management Agreement corresponding to the relevant Securitization Operation. In every case, it shall maintain such information at the disposal of the aforementioned parties, as provided for in section (c) hereinafter.
- (c) If presented with a written request at least 24 (twenty-four) hours in advance, the Trustee shall allow the any Issue's Common Representative, the Trustor, the Appraiser and their duly appointed representatives, full access during working hours and without disrupting the Trustee's operations to the registers, files and correspondence the Trustee may have regarding the relevant Securitization Operation and Common Fund. The Common Representative, the Trustor, the Appraiser and their duly appointed representatives shall have the right to and may review solely those records, files and correspondence belonging to the Trustee that relate to the Trust, as well as to take notes and make copies of them. The Trustee will also lend the Common Representative, the Appraiser or their duly appointed representatives any assistance they may reasonably require for the purposes of this section (c).
- (d) As per the provisions of fraction IV of stipulation 4.005.00 of the Generalities, First Section, Chapter Two of the Regulations, the Trustee shall give the Mexican Stock Exchange (BMV) all information provided for in stipulation 4.033.00 and in the Second Section of Chapter Five of Title Four of the Regulations, concerning the Trust's Assets and the corresponding Common Fund and, in case of non-compliance, it may be liable to the penalties provided for in Title Eleven of the Regulations, as applied through the relevant disciplinary organisms and procedures.

Also, the Trustee, the Guarantor and any other party that may have an obligation in connection with the Security Certificates issued under any of the Issues provided for by the Trust shall give the Mexican Stock Exchange (BMV) all information provided for in stipulation 4.033.00 and in the Second Section of Chapter Five of Title Four of the Regulations, concerning the Security Certificates; furthermore, in case of non-compliance, they may be liable to the penalties provided for in Title Eleven of the Regulations, as applied through the relevant disciplinary organisms and procedures.

- (e) The Trustee shall also be obliged to comply with all the requirements for the delivery or divulging of information that a Trustee might be liable for in terms of the LMV (Mexican Securities Law) and any other applicable regulations, provided that the Trustee shall have to give the Common Representative of each Issue any report, financial statements or communications connected with the Issue that it might give the CNBV or the BMV within 15 (fifteen) calendar days following such a delivery.

Specifically, the Trustee shall prepare yearly and quarterly financial statements regarding the Trust's Assets, therein itemizing each of the Common Funds that may correspond to the Operations carried out

under this Trust. The yearly financial statements shall be audited by the Auditor. Such yearly and quarterly financial statements will be delivered to the relevant authorities and to the Common Representative of each Issue as provided for in the above paragraph.

Aside from any mandatory accounts or items, financial statements prepared in connection with the Trust's Assets shall include an item identifying the Trust's liabilities regarding Debtors that may derive from the "guarantee deposits" received in connection with the Loans.

- (f) The Trustee shall inform in writing the Common Representative of each Issue, within 3 (three) Working Days after the Trustee acquires such knowledge, of any event that has a substantial adverse effect or may have one on the financial situation of the relevant Common Fund.

THIRTY-FIRST. Loan Reviews.

As provided for in each Securitization Operation, in the corresponding Features Letter and in the Issue Documents, if the Common Representative may so request, it may be agreed that the Auditor carries out revisions of the Loan Package corresponding to the relevant Securitization Operation.

Revision criteria and policies, as well as other requirements will be established for every individual Securitization Operation.

THIRTY-SECOND. Powers and Obligations of the Common Representative.

The parties hereto agree that the Common Representative for the Security Certificates Holders of each issue shall be appointed by the Trustor and its appointment shall be reflected in the corresponding Features Letter and in the Title Certificates. The Common Representative for the Security Certificates Holders, aside from the powers and obligations that are inherent to its position as provided for by applicable laws and by the provisions hereof, shall have the powers and obligations stipulated in the Title Certificates corresponding to every issue of Security Certificates.

THIRTY-THIRD. The Technical Committee.

- (a) Technical Committees. As per the provisions of article 80 of the LIC (Credit Institutions Law), the parties hereto agree that every Securitization Operation carried out under this Agreement shall have a Technical Committee constituted by 3 (three) or 4 (four) Full Members and their corresponding Substitute Members.
- (b) Appointment and Removal of Members.
 - (i) In dealing with Securitization Operations that do not have External Credit Backing, the Technical Committees shall be formed by 3 (three) Full Members and their corresponding Substitute Members of which 1 (one) Full Member and his/her corresponding Substitute Member shall be appointed by the Trustor and 2 (two) Full Members and their corresponding Substitute Members shall be appointed by the Common Representative.
 - (ii) In dealing with Securitization Operations with External Credit Backing, unless the entity granting such backing is the Trustor or an entity affiliated with it (in which case the Technical Committee shall be integrated as provided for in the preceding section (i)), the Technical Committees shall have 4 (four) Full Members and their corresponding Substitute Members, of which 1 (one) Full Member and his/her corresponding Substitute Member shall be appointed by the Trustor, 2 (two) Full Members and their corresponding Substitute Members shall be appointed by the Common Representative and 1 (one) Full Member and his/her corresponding Substitute Member shall be appointed by the Guarantor.

Technical Committee Members shall be appointed by each of the parties mentioned

hereinabove through written notification addressed to the Trustee as per the provisions of the Thirty-Ninth Clause hereinafter.

The Trustor and the Common Representative may freely remove and substitute, at any time, any of the Members they may have each designated, by giving written notice to the Trustee as provided for in the Thirty-Ninth Clause hereinafter.

Any Member of the Technical Committee may resign by giving the Trustee written notification, in which case the party that may have appointed such Member will be able to appoint a substitute Member.

The Members of a Technical Committee will receive no compensation for their participation in such a Technical Committee.

Each Member shall have the right to be heard and to vote in the Technical Committee's sessions, provided any Substitute Member will only be able to vote in Technical Committee sessions in the absence of the corresponding Full Member.

A Member of the Technical Committee that may have been appointed by the Common Representative shall be the president of said Technical Committee and shall have the deciding vote in case of a tie.

Members of the Technical Committee will abstain from participating and voting in connection with affairs in which the party that may have appointed them has a conflict of interest.

Every 6 (six) months, as counted from the Date of Operation, the Trustee shall advise the Rating Agencies that may have rated the corresponding Security Certificates, of the integration of the corresponding Technical Committee.

I Powers of the Technical Committee. The Technical Committee shall have the following powers:

- (i) If a Substitution Event were to arise in connection with the corresponding Management Agreement, to confirm the happening of such a Substitution Event and to resolve on the removal of the Administrator, provided that the Technical Committee shall adhere to the conditions and procedures established therefore in the Management Agreement;
- (ii) To receive from the Trustee and the Administrator all reports and information mentioned in this Agreement's Thirtieth Clause and in the Management Agreement, as the case may be;
- (iii) To resolve everything that is not provided for in this Agreement; and
- (iv) Any others deriving from the provisions of this Agreement, from the Management Agreement or from the Trust Contribution Agreements, as well as any others that were necessary to comply with the objectives of this Trust.

(d) Technical Committee Session. Each Technical Committee shall hold sessions as per the following rules:

- (i) Sessions will be carried out in Mexico City, Federal District, at any time and as often as may be necessary to ensure the Trust's objectives and as required by the specific Securitization Operation through a summons made by any of its Members as per the provisions in section (d) (iii) hereinafter;
- (ii) A record will be generated for very session of the Technical Committee, therein describing a description of the items considered and recording each and every resolution adopted by the Technical Committee in the relevant session. Such a record will be signed by all Members present in the session. Such record shall be accompanied by a copy of the summons given to each of the Members, as well as a copy of any other documents presented at the session.

- (iii) Every summons for a session of the Technical Committee will have to be made in writing and signed by the summoning party; it shall also include the agenda for the session, as well as the date, time and place for it, which, in every case, shall be in Mexico City, Federal District. Every summons shall be delivered physically or via facsimile to the address or facsimile number of every Member as per the stipulations of the Thirty-Ninth Clause hereinafter or in the corresponding appointment notification; the summons delivery shall be receipt-acknowledged or confirmed and should be sent at least 3 (three) Working Days before the date proposed for the session convened. For the purposes of this section, the addresses of the Members shall be deemed as the same of the party that may have appointed each such Member, as provided for in the Thirty-Ninth Clause, or such address that may have been designated in the Members appointment notification mentioned in section (b) above. No summons will be necessary when, at the time of a Technical Committee vote, all Full Members or their corresponding Substitute Members of such a Committee are present.
- (iv) In order for the Technical Committee to hold a valid session a majority of Full or Substitute members will have to be present. The Members of the Technical Committee may invite other parties to the Technical Committee's sessions including, without limitation, any Placement Agent or Rating Agency, provided such invited parties may be heard but will not have the right to vote. The Trustee may assist to all the sessions of the Technical Committee and shall have the right to be heard, but not to vote.
- (v) In order for the resolutions of the Technical Committee to be valid, they should be adopted by a majority of voting Members present in a session validly convened, provided that the Member appointed by the Common Representative who shall preside the Technical Committee's session shall have a deciding vote in case of a tie.
- (e) Notifications to the Trustee. The Technical Committee's resolutions shall be notified in writing to the Trustee through delivery of a copy of the record made in connection with the relevant session, which record shall be duly signed by the session's attendants; such notifications shall be delivered to the Trustee no later than 5 (five) Working Days immediately after the date on which a session was held. The Trustee will not be liable for the execution of any instructions from the Technical Committee that may violate the contents of this Agreement or the provisions of any Title Certificate.
- (f) Duration of the Technical Committee. Each Technical Committee will continue to be validly constituted as long as the Issue for which it may have been appointed continues to be in force and effect.

THIRTY-FOURTH. Appraisal.

Subject to the provisions of every specific Securitization Operation, the Appraiser may appraise any Loans contributed to the Trust at the moment the Securitization Operation in question is carried out, as well as any Additional Loans, loans contributed in substitution of previously contributed Loans and Extraordinary Loans.

Appraisals made by the Appraiser shall be based upon information it may receive from the Trustor (in dealing with contributions made at the moment the corresponding Securitization Operation is carried out) and, additionally, upon information given by the Trustee (in dealing with the contribution of Additional Loans, Loan substitutions and contributions of Extraordinary Loans).

The criteria the Appraiser shall use for carrying out the appraisals described above shall be those designated in the Issue Documents corresponding to each Securitization Operation.

THIRTY-FIFTH. Fees.

The Trustee will collect a fee in connection with every Issue carried out under this Trust, in the amounts described in Exhibit "L" hereto.

Fees payable to the Trustee as per this Clause shall be considered Issue Maintenance Expenses and will be paid with funds drawn from the resources maintained in the Issue Maintenance Expense Account that corresponds to every Securitization Operation.

The Trustee acknowledges that the fees corresponding to a Securitization Operation shall only be payable with the resources of the Issue Maintenance Expense Account that may correspond to such operation and that it shall have no right over the Operating Accounts of the other Securitization Operations carried out under this Trust, with regards to the mentioned fees.

The Trustee's fees shall generate the corresponding Value Added Tax.

THIRTY-SIXTH. Expenses.

- (a) The Trustor shall anticipate the Issue Expenses corresponding to any Securitization Operation carried out under this Trust, as set forth in this Agreement's Eleventh Clause, provided that it will be reimbursed for any such Issue Expenses from the Placement proceeds of the corresponding Security Certificates. Such reimbursement shall be carried out according to the provisions of the Eleventh Clause hereinabove.
- (b) Issue Maintenance Expenses will be paid from the funds that correspond to each Issue's Issue Maintenance Expense Account.
- (c) Any taxes not related to the Issue or Securitization Operation shall be paid by the Trustor as provided for in section (d) hereinafter. Any taxes that may be generated in connection with the Securitization Operation and which, by their nature, are not payable by the Trustor, may be charged to the Issue Maintenance Expense Account, requiring the previous agreement of the Technical Committee therefore.
- (d) The Trustor agrees to pay, for every Securitization Operation carried out under this Trust, all costs, expenses, taxes and rights, as applicable, incurred by the Trustee which may not be payable from the resources of the corresponding Common Fund as provided for in this Agreement.
- (e) All costs and expenses resulting from the substitution or reacquisition of Loans by the Trustor, including those incurred by the Trustee for the subscription of any documents necessary to this end, shall be covered by the Trustor.

THIRTY-SEVENTH. Indemnity.

- (a) The Trustor hereby takes it upon itself to defend and hold the Trustee harmless and to defend and hold the Trustee's delegate representatives, officials, counselors, directors and employees (collectively, the "Indemnified Parties"), from any damages that may result from the Trustor's non-compliance with its obligations deriving from this Agreement, as well as from any damages that may be related with or that may derive from this Agreement (including the Agreement's execution and ensuring it is maintained in full force and effect) or that may derive from or be related with any transaction deriving from this Contract, as well as any damages that may arise from any suit, procedure, sentence or complaint of any nature which might be presented against any of the Indemnified Parties in connection with this Agreement and with the operation it provides for (collectively, the "Suits"). The Trustor also takes it upon itself to defend and hold the Indemnified Parties harmless from any and all damages that may derive from Suits related to the validity and legality of this Agreement or of any actions carried out by the Trustor in adherence to instructions received from parties authorized to give such instructions as provided for in this Agreement and its Exhibits.

- (b) The Trustor hereby takes it upon itself to reimburse the Indemnified Parties any expenses of any nature (including legal fees and expenses) they may have incurred, provided such expenses are reasonable and duly documented and also to repair any damages any Indemnified Party may have suffered as a consequence of their participation in any of the operations provided for in this Agreement.
- (c) The Trustor's obligations provided for in section (a) hereinabove shall not apply in case of any Suits that may result from wrongful intent, bad faith or negligence on the part of the Indemnified Party in question.

THIRTY-EIGHTH. Amendments.

- (a) Any amendments hereto shall be done in writing and would have to either be executed or have a written consent from the parties hereto and from the third parties mentioned in section (c) hereinafter.
- (b) This Agreement may be modified through an agreement between the Trustor and the Trustee without the need for consent from the Common Representative, from the assembly of Security Certificate Holders of any Issue carried out under the Trust or from any other Holder of Subordinate Certificates, provided any such modification has as a goal (i) to eliminate inconsistencies or clarify the terms in this Agreement, (ii) to foresee any situations not foreseen originally in this Agreement and (iii) to grant more rights to the Holders or to the Common Representative. None of the modifications described in sections (i) and (ii) above may have an adverse effect on the Securities Holders (save for the Trustor as Holder of the Subordinate Certificates) and the Trustee may act based upon a legal opinion issued by an external law practice chosen by the Trustee and hired by the Trustor that states such a modification does not have an adverse effect on the rights of the Holders.
- (c) Save for those cases foreseen in section (b) above, any other modification to this Agreement will require consent from the Common Representative of each Issue. Said consent may be registered in the modifying agreement or on a separate instrument. Additionally, for those cases in which, as per applicable law, approval of an assembly of Security Certificate Holders is required, the Common Representative shall be responsible for obtaining such consent.
- (d) The Trust Contribution Agreements may deviate from the forms attached hereto for such documents only if the Technical Committee approves.
- (e) Modification of or exemption from the terms and conditions of the Issue Documents corresponding to any Operation shall be made as provided for in such Issue Documents.
- (f) Any modification to this Agreement shall be notified by the Administrator in writing to the Rating Agencies.

THIRTY-NINTH. Notices.

Any notices or any other communications regarding this Agreement shall have to be in writing and may be delivered personally, via facsimile or through specialized prepaid courier service, to the addresses at the addresses designated hereinafter or to any other addresses which any of the parties hereto may notify its counterparts 10 (ten) days in advance, as provided for in this Clause. As long as no address change has been received by any of the parties as provided for above, any notifications delivered to the addresses designated in this Contract shall be considered valid.

Notifications and/or communications regarding this Agreement that are made personally or through specialized courier service shall be deemed valid when delivered by the party carrying out the notification or communication in question or when received via facsimile, provided the delivering party shall maintain a delivery receipt or confirmation.

THE TRUSTEE

Paseo de las Palmas No. 405, Piso 14
Col. Lomas de Chapultepec
C.P. 11000, Mexico, D.F.
Tel: 5540-9522
Fax: 5283-1620
To the attention of: Hector Loyo Urreta

THE TRUSTOR

Ejercito Nacional No. 904, Piso 11
Col. Palmas Polanco
C.P. 11510, Mexico, D.F.
Tel: 5262-6660
Fax: 5140-7730 (buzon 6660 y 6678)
To the attention of: Direccion General

THE RATING AGENCIES

Standard & Poor's, S.A. de C.V.

Prolongacion Paseo de la Reforma 1015, Torre A, Piso 15
Col. Santa Fe
C.P. 01376, Mexico, D.F.
Tel: 5081-4400
Fax: 5081-4401
To the attention of: Victor Herrera/Guillermo Valle

Fitch Mexico, S.A. de C.V.

Boulevard Manuel Avila Camacho N° 88, 1er. Piso,
Col. Lomas de Chapultepec
C.P. 11000 Mexico, D.F.
Tel: (81) 8335-7179
Fax: (81) 8378-4406
To the attention of: Aurelio Cavazos Cardenas

Moody's Investors Service, Inc. (Moody's de Mexico, S.A. de C.V.)
99 Church Street,
New York, New York 10007
United States of America
Tel: (212) 553-4309
Fax: (212) 553-4392
e-mails: Brigitte.Posch@moodys.com/Tony.Kim@moodys.com
To the attention of: Latin America Monitoring

The parties to this Agreement, aware of the risks inherent in the delivery of notifications or communications via facsimile (such as errors, insecurity and lack of confidentiality), as well as of the possibility that fraudulent activities may derive from the use thereof, have hereby agreed that, aside from personal delivery or delivery through a specialized courier service, any notification or communication required or allowed to be delivered in the terms of this Agreement may be so delivered via facsimile. In consideration of which, the parties hereto hereby authorize the Trustee to proceed in accordance with any notifications or communications it may receive via facsimile and hereby free it from any liabilities that may derive from such delivery.

The Trustee will not be obliged to verify the authenticity of any such notifications or communications, nor to establish the identity of the sender or confirming party and it is hereby understood that the Trustee will only be obliged to verify that the party signing any such notification or communication is a person authorized thereto by the Trustor or the Common Representative. For this purposes, the parties shall designate parties authorized for signing notifications and communicating them to the Trustee. Said authorization shall be made using the notification forms the Trustee will deliver at the time this Agreement is executed.

The above notwithstanding, the Trustee shall have full discretionary, provided there is reasonable motive or suspicion, to require confirmation of any transmissions received as per the terms of this Clause, understanding that the Trustee must request such confirmation as soon as possible, so as not to negatively affect the rights of the parties hereto. Said confirmation may be requested via telephone or through any other means the Trustee may deem appropriate.

If any notification or communication delivered as per the terms of this Agreement were not signed by an authorized party or if the confirmation alluded to in the above paragraph cannot be obtained, the Trustee may abstain from acting upon such notification or communication, provided it complies with its obligations deriving from applicable law.

FORTIETH. Duration, Irrevocability and Termination.

- (a) Duration of this Trust will be indefinite, without exceeding the maximum legal limit. The Trust shall be in force and effect from the moment of its execution and will be terminated when any of the situations described in section (c) hereinafter may occur.
- (b) This Trust and the asset contribution by the Trustor to the Trust are irrevocable and the Trustor hereby expressly waives any right it might have to revoke this Trust or any such contributions.
- (c) This Trust will be extinguished through any of the causes provided for in article 392 of the LGTOC (Securities and Credit Operations General Law), save for what is provided for in fraction VI of said article.

FORTY-FIRST. Loan Repurchase and Reversion.

- (a) Any Securitization Operation carried out under this Trust shall provide for the right of the Trustor, through previous notification to the Trustee and the corresponding Common Representative, to reacquire the ownership of the Loans that constitute the Loan Package, as the case may be, through advanced retirement with proceeds from the payment made by the Trustor for such reacquisition of the corresponding Securities.
- (b) Without affecting the fact that the specific features of each Securitization Operation will be determined in the corresponding documents, in connection with all Securitization Operations made under this Trust, when full payment of the corresponding Securities is made, ownership of the Loans corresponding to each Securitization Operation will automatically revert to the Trustor and any amounts maintained in the corresponding Operating Accounts and in the Collection Accounts deriving from the collection of the corresponding Loans (as notified by the Administrator to the Trustee) shall be returned to the Trustor.

FORTY-SECOND. Assignment.

This Trust is binding to the parties hereto and their corresponding assignees and successors, it being understood that the Trustor may not assign its rights nor delegate its obligations under this Agreement without previous written consent from the Trustee and the Common Representative for every Issue.

FORTY-THIRD. Dismissal and Resignation of the Trustee.

- (a) Subjected to sections (c) and (d) hereinafter, the Trustee may resign its position as trustee of this Trust through written notification delivered to the Trustor and the Common Representative of every Issue given at least 90 (ninety) Working Days in advance, but only in the cases provided for in article 391 of the LGTOC. Subject to section (c) hereinafter, the Trustee may be removed from its position through written instrument delivered at least 15 (fifteen) Working Days in advance by the Common Representative of every Issue
- (b) If the Trustee were to leave its position as trustee of this Agreement due to advanced termination of its obligations as per section (a) above, the Trustee shall prepare statements and balances in connection with the Trust's Assets (including those reports described in the Thirtieth Clause hereof) for the purpose of delivering them on the effective date of such resignation or substitution. The Common Representative of each Issue and the Trustor shall have 15 (fifteen) calendar days to examine such reports, statements and all other relevant documents and to make observations or request explanations relating thereto and the Trustee shall heed such observations or requirements and, as the case may be, formulate new reports, statements or other documents. Once the fifteen-day period is elapsed and if no observations have been made, such documents will be deemed approved.
- (c) The Common Representatives of the Security Certificates of all Securitization Operations shall convene to appoint the substitute Trustee; provided that the Trustor shall have to give its written consent to such appointment within 15 (fifteen) calendar days after the date on which the Trustor may have received notification of such an appointment by said Common Representatives, consent which cannot be withheld unreasonably and which will be deemed granted if the Trustor does not object such appointment within the period mentioned hereinabove.
- (d) The Trustee shall continue to perform its obligations as trustee in the terms provide for by this Agreement until a substitute trustee has been appointed, has accepted its appointment and has taken office and the Trustee shall continue in its position in case no substitute is found.
- (e) Any substitute trustee shall have the same rights and obligations of the Trustee as per the terms of this Agreement and will be considered to be the "Trustee" for all purposes provided for herein.
- (f) The Trustee shall be bound to carry out any action and execute any document as may be reasonably required by the Common Representatives, the Trustor or the substitute trustee which were necessary or convenient with a view to carrying out the substitution provided for in this Clause.

FORTY-FORTH. Fiscal Responsibility.

- (a) Taxes, rights or contributions generated in connection with each Issue carried out under this Agreement or related to such Issue will be covered with resources from the Issue Maintenance Expense Account or, were the resources in such an account to be insufficient, with resources from the Trustor.
- (b) Any tax, right or contribution, be it present or future, that may be payable or which may be deemed payable regarding the execution, delivery, compliance with and cancellation of this Trust and of the other documents to be delivered as provided for herein, save for what is provided for in section (a) above, shall be paid by the Trustor.
- (c) All other fiscal obligations deriving from this Agreement will be the sole responsibility of the party deemed responsible therefore as per applicable law.
- (d) The Trustor hereby binds itself to defend and hold the Trustee harmless from any fiscal responsibility or liability ("Fiscal Liability") brought against it in connection herewith. In consideration of the above, the Trustor hereby binds itself to reimburse the Trustee any expenses it may incur as a result of any

Fiscal Liability (including reasonable legal fees and expenses), provided these are reasonable and properly documented and also to repair any damages the Trustee might suffer as a consequence of its participation in any of the operations herein provided for, unless such damages were the result of wrongful intent, bad faith or negligence on the part of the Trustee.

- (e) The Trustor hereby binds itself to defend and hold the Trustee harmless from any responsibilities and damages related to the payment of taxes (including fees and expenses of fiscal and legal advisors) deriving from the execution of or compliance with this Agreement, unless such damages are a consequence of wrongful intent, bad faith or negligence on the part of the Trustee.

FORTY-FIFTH. Nature of the Trust.

The parties hereto express their will that this Trust may not be a guarantee trust and is therefore exempt from the provisions of articles 395 to 407 of the LGTOC.

FORTY-SIXTH. Clause Titles.

The titles appearing before each Clause of this instrument are there only for the sake of the parties' convenience and shall not affect the construance hereof.

FORTY-SEVENTH. Applicable Law; Jurisdiction.

This Agreement, each Securitization Operation and all related documents to be executed as provided for in this Agreement or in any such Securitization Operation shall be construed according to the applicable laws of the Mexican United States.

Regarding the construance and compliance with the terms of this Trust and of any instruments to be delivered under it, the parties hereto expressly and irrevocably submit themselves to the jurisdiction of the competent courts of Mexico City, Federal District and hereby expressly and irrevocably waive any other jurisdiction they may be entitled to by reason of their present or future addresses or by virtue of any other reasons.

NOW, THEREFORE, the parties hereto execute this Trust Agreement through their duly authorized representatives on November 30th, 2004.

THE TRUSTEE

**BANCO J.P. MORGAN, S.A., INSTITUCION DE BANCA MULTIPLE,
J.P. MORGAN GRUPO FINANCIERO, DIVISION FIDUCIARIA**

/s/ Hector Loyo Urreta

By: Hector Loyo Urreta

Capacity: Fiduciary Delegate

THE TRUSTOR

**SERVICIOS FINANCIEROS NAVISTAR, S.A. DE C.V., SOCIEDAD FINANCIERA DE OBJETO
LIMITADO**

/s/ Janet Lynn Filipiak

By: Janet Lynn Filipiak

Capacity: Legal Representative

/s/ Jose Alfredo Chacon Perez

By: Jose Alfredo Chacon Perez

Capacity: Legal Representative

ANNEXES

Trustor's incorporation certificate and current charter	Exhibit "A"
Certificate issued by the Ministry of Finance allowing the incorporation and operation of the Trustor as a limited object financial society	Exhibit "B"
Trust Contribution Agreement Form	Exhibit "C"
Management Agreement Form	Exhibit "D"
Features Letter Form	Exhibit "E"
Powers of the Trustor's representative	Exhibit "F"
Trustee's incorporation certificate and current charter	Exhibit "G"
Certificate issued by Banco de Mexico – Letter 2019	Exhibit "H"
Powers of the Trustee's representative	Exhibit "I"
List of Authorized Institutions	Exhibit "J"
Loan Certification	Exhibit "K"
Description of Fees for each Issue	Exhibit "L"

NAVISTAR INTERNATIONAL CORPORATION

**INCENTIVE STOCK OPTION AWARD AGREEMENT
NAVISTAR INTERNATIONAL CORPORATION
2004 PERFORMANCE INCENTIVE PLAN**

OPTIONEE:

ADDRESS:

SOCIAL SECURITY NUMBER:

NUMBER OF SHARES:

EXERCISE PRICE PER SHARE:

DATE OF GRANT:

NUMBER OF SHARES:

EXERCISABLE ON OR AFTER [one year]

NUMBER OF SHARES:

EXERCISABLE ON OR AFTER [after two years]

NUMBER OF SHARES:

EXERCISABLE ON OR AFTER [three years]

EXPIRATION DATE: [ten years]

This is an award agreement (the "Award Agreement") between Navistar International Corporation, a Delaware corporation (the "Corporation"), and the individual named above (the "Employee" or "Optionee"). The Corporation hereby grants to the Employee the right and option (this "Option") to purchase all or any part of an aggregate of the above-stated number of shares of Common Stock of the Corporation on the terms and conditions contained in the Corporation's 2004 Performance Incentive Plan approved by the shareholders February 17, 2004, as amended from time to time, (the "Plan") and, further subject to the Incentive Stock Option Agreement Supplement which is attached hereto (the "Supplement").

Subject to the terms and conditions of this Award Agreement, this Option is exercisable on or after the date set forth above; provided, however, that this Option shall expire on the Expiration Date set forth above and must be exercised, if at all, on or before the Expiration Date except as otherwise provided in the Supplement.

The Corporation and the Employee hereby agree to the terms and conditions of this Award Agreement and have executed it as of the Date of Grant set forth above.

NAVISTAR INTERNATIONAL CORPORATION

By: _____

Daniel C. Ustian

Chairman, President and Chief

Executive Officer

Attest:

Assistant Secretary_____
Employee

NAVISTAR INTERNATIONAL CORPORATION

INCENTIVE STOCK OPTION AGREEMENT SUPPLEMENT

1. This option shall be treated as an Incentive Stock Option. The option is granted under the terms of the Navistar International Corporation 2004 Performance Incentive Plan (the "Plan"), as indicated in the Incentive Stock Option Award Agreement (the "Award Agreement"). The term of the option shall be for a period of ten (10) years from the date of grant, or such shorter period as is prescribed in paragraphs 3, 4, and 5 hereof; provided, however, that in the event of a Qualified Retirement in connection with which an employee receives a termination payment under an Executive Severance Agreement entered into between the employee and the Corporation or any of its subsidiaries (other than in connection with a Change in Control of the Corporation), the term of the option shall expire three (3) months after such termination of employment, but not after ten (10) years from the date hereof. The option shall be exercisable to the extent of the number of shares specified in the Award Agreement as exercisable one year after the date of grant, to the extent of the number of shares specified in the Award Agreement as exercisable two years after the date of grant, and to the extent of the number of shares specified in the Award Agreement as exercisable three years after the date of grant. The option may be exercised, at any time or from time to time during said term, as to all full shares that have become so purchasable. Except as provided in paragraphs 3, 4, and 6 hereof, the option may not be exercised unless the optionee shall, at the time of exercise, be an employee of the Navistar International Corporation (the "Corporation") or a subsidiary thereof. The optionee shall have none of the rights of a shareowner with respect to any of the shares of Common Stock subject to the option until such shares shall be issued upon the exercise of the option.
2. The option shall not be transferable otherwise than by will or the laws of descent and distribution, and the option shall be exercisable, during the lifetime of the optionee, only by the optionee. Without limiting the generality of the foregoing, the option may not be assigned, transferred (except as aforesaid), pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the option contrary to the provisions hereof, and the levy of any execution, attachment, or similar process upon the option shall be null and void and without effect.
3. In the event of the termination of the employment of the optionee otherwise than by reason of death, total and permanent disability or a Qualified Retirement as set forth in paragraph 4 hereof, the optionee may (subject to the provisions of paragraph 5 hereof) exercise the option to the extent that the optionee was entitled to do so pursuant to the provisions of paragraph 1 hereof at the time of such termination, at any time within three (3) months after such termination, but not after ten (10) years from the date hereof. The option shall not be affected by any change of employment so long as the optionee continues to be an employee of the Corporation or of a subsidiary thereof or by any temporary leave of absence approved, if for a period of not more than ninety (90) days, by an officer of the Corporation or the subsidiary thereof, as the case may be, by which the optionee is employed or, if for a period longer than ninety (90) days, approved by the Committee on Compensation and Governance of the Board of Directors of the Corporation (the "Committee"); provided, however, if the optionee is terminated for cause as defined in the International Truck and Engine Corporation Income Protection Plan, or if the optionee is covered by a different severance plan or agreement, then as defined in such plan or agreement, the three-month period provided by this subsection shall not apply and the option shall cease to be exercisable and shall lapse as of the effective date of the termination of the optionee. Nothing herein contained shall confer on the optionee any right to continue in the employ of the Corporation or any subsidiary or interfere in any way with the right of the Corporation or any subsidiary thereof to terminate the employment of the optionee at any time.

4. Except as provided in the last two sentences of this Section 4, in the event of a Qualified Retirement, which means with respect to an employee a termination from employment from the Corporation or any of its subsidiaries that occurs after the employee attains age 55 and at the time of the termination the employee has either: (i) 10 or more years of continuous service, or (ii) 10 or more years of service that would constitute credited service under the definition contained in the International Truck and Engine Corporation Retirement Plan for Salaried Employees (the "RPSE") (a "Qualified Retirement"), the optionee may exercise the option to the extent the option is exercisable or becomes exercisable under its terms at any time during the term of the option grant. In the event of termination for total and permanent disability as defined in the Corporation's long term disability programs, the optionee may exercise the option, to the extent the option is exercisable or becomes exercisable under its terms, at any time within three (3) years after termination for total and permanent disability, or, if later, within three (3) years after the date on which the option becomes exercisable with respect to such shares, but not after the term of the option. In the event of the death of the optionee while the option is outstanding, the option may be exercised by a legatee or legatees of the optionee under the optionee's last Will, or by the personal representatives or distributees of the optionee, at any time within a period of two (2) years after the death of the optionee, but not after the term of the grant. If death occurs while employed by the Corporation or a subsidiary thereof, or after a Qualified Retirement, or during the three-year period following termination for total and permanent disability, the option may be exercised to the extent of the remaining shares covered by option whether or not such shares were exercisable at the date of death. If death occurs during the three-month period provided by Paragraph 3 following termination for other than death, total and permanent disability or Qualified Retirement, the option subject to such three-month period may be exercised to the extent of the number of shares that were exercisable at the date of death. Notwithstanding the other provisions of this Paragraph 4, no option which is not exercisable at the time of a Qualified Retirement shall become exercisable after such Qualified Retirement if, without the written consent of the Corporation, the optionee engages in a business, whether as owner, partner, officer, employee or otherwise, which is in competition with the Corporation or one of its affiliates, and if the optionee's participation in such business is deemed by the Corporation to be detrimental to the best interests of the Corporation. The determination as to whether such business is in competition with the Corporation or any of its affiliates, and whether such participation by such person is detrimental to the best interests of the Corporation, shall be made by the Corporation in its absolute discretion, and the decision of the Corporation with respect thereto, including its determination as to when the participation in such competitive business commenced, shall be conclusive.

5. Any option which did not become exercisable and which cannot become exercisable under the terms of the option, and any option that ceased to be exercisable and cannot again become exercisable under the terms of the option shall terminate.

6. In the event of a Change in Control, all outstanding options will immediately become exercisable and shall be exercisable for a period of three (3) years from the date of Change in Control regardless of the original term or employment status, except the term of option that is an Incentive Stock Option as defined in the Plan shall not extend beyond ten (10) years from the date of grant. A Change in Control shall be deemed to have occurred if (i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934), other than employee or retiree benefit plans or trusts sponsored or established by the Corporation or International Truck and Engine Corporation, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation's then outstanding securities, (ii) the following individuals cease for any reason to constitute more than three-fourths of the number of directors then serving on the Board of Directors of the Corporation: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Corporation) whose appointment or election by the Board or nomination for election by the Corporation's stockholders was approved by the vote of at least two-thirds (2/3) of the directors then

still in office or whose appointment, election or nomination was previously so approved or recommended; (iii) any dissolution or liquidation of the Corporation or International Truck and Engine Corporation or sale or disposition of all or substantially all (more than 50%) of the assets of the Corporation or of International Truck and Engine Corporation occurs; or (iv) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (each, a "Control Transaction"), the members of the Board of Directors of the Corporation immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or within two (2) years, cease to constitute a majority of the Board of Directors of the Corporation. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.

7. If all or any portion of the option is exercised subsequent to any stock dividend, stock split, recapitalization, combination or exchange of shares, reorganization (including, but not limited to, merger or consolidation), liquidation or other event occurring after the date hereof, as a result of which any shares or other securities of the Corporation or any other entity (including, but not limited to, any subsidiary of the Corporation) shall be issued in respect of the outstanding shares of Common Stock, or shares of Common Stock shall be changed into the same or a different number of shares or other securities of the same or any other class or classes, the person or persons so exercising the option shall receive, for the aggregate price paid upon such exercise, the class and aggregate number of shares or other securities which, if shares of Common Stock (as authorized at the date hereof) had been purchased on the date hereof for the same aggregate price (on the basis of the price per share) and had not been disposed of, such person or persons would be holding at the time of such exercise as a result of such purchase any and all such stock dividends, stock splits, recapitalizations, combinations or exchanges of shares, reorganizations, liquidations or other events. In the event of any corporate reorganization, separation or division (including, but not limited to, split-up, split off, spin-off or sale of assets) as a result of which any cash or shares or other securities of any entity other than the Corporation (including, but not limited to, any subsidiary of the Corporation), shall be distributed in respect of the outstanding shares of Common Stock, a committee of the Board shall make such adjustments in the terms of the option (including, but not limited to, the number of shares covered and the purchase price of such shares) as it may deem appropriate to provide equitably for the optionee's interest in the option. Upon any adjustment as aforesaid, the minimum number of full shares that may be purchased upon any exercise of the option as specified in paragraph 1 shall be adjusted proportionately. No fractional shares shall be issued upon any exercise of the option, and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued.
8. Subject to the terms and conditions contained herein, in the Award Agreement and the Plan, the option may be exercised by giving notice as provided in instructions issued by the Secretary for the exercise of options generally, which instructions may provide for the use of agents, including stock brokers, to effect exercise of options, or in the absence of such instructions, by written notice to the Secretary of the Corporation at the location of its principal office at the time of exercise, which is currently located at 4201 Winfield Road, Warrenville, Illinois 60555. Such notice shall state the election to exercise the option and the number of shares in respect of which it is being exercised, shall be signed by the person or persons so exercising the option and shall be accompanied by a check payable to the order of the Corporation for any amount required pursuant to the Secretary's instructions, or, if not covered by such instructions, for payment of the full purchase price of said shares or by delivery of Common Stock already owned by the optionee, for six months or more if acquired from the Corporation, at fair market value determined under the Plan, or by any combination of cash and Common Stock, and in either case, by payment to the Corporation of any withholding tax. Shares which otherwise would be delivered to the holder of an option may be delivered, at the election of the holder, to the Corporation in payment of Federal, state and/or local withholding taxes due in connection with an exercise. In no event may successive simultaneous pyramiding be used to exercise an option. A certificate or certificates representing said shares shall be delivered as soon as practicable after the notice shall be received by the Corporation. The certificate or certificates for the shares as to which the option shall have been so exercised shall be registered in the name of the person or persons so exercising the

option and shall be delivered as aforesaid to or upon the written order of the person or persons exercising the option. In the event that the option shall be exercised, pursuant to paragraph 4 hereof, by any person or persons other than the optionee, such notice shall be accompanied by appropriate proof of the right of such person or the persons to exercise the option. The date of exercise of the exercising the option. In the event that the option shall be exercised, pursuant to paragraph 4 hereof, by any person or persons other than the optionee, such notice shall be accompanied by appropriate proof of the right of such person or the persons to exercise the option. The date of exercise of the option shall be the date on which the aforesaid written notice, properly executed and accompanied as aforesaid, is received under the Secretary's instructions or by the Secretary. All shares that shall be purchased upon the exercise of the option as provided herein shall be fully paid and non-assessable.

9. [Reserved]
10. The Corporation shall at all times during the term of the option reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements contained herein, in the Award Agreement and in the Plan, shall pay all original issue and/or transfer taxes with respect to the issue and/or transfer of shares pursuant hereto and all other fees and expenses necessarily incurred by the Corporation in connection therewith and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Corporation, shall be applicable thereto. If the Plan pursuant to which the option is exercised provides that only treasury stock will be used to satisfy the requirements of options, only treasury stock that has been listed on the exchange will be used.
11. As used herein, the term "subsidiary" shall mean any present and future subsidiary of the Corporation, and the term "Common Stock" shall mean the class of stock designated "Common Stock" in the Restated Certificate of Incorporation of the Corporation.
12. The terms and conditions contained herein and in the Award Agreement shall be subject to and governed by the terms of the Plan, a copy of which is being delivered herewith to the optionee.

NAVISTAR INTERNATIONAL CORPORATION
NON-QUALIFIED STOCK OPTION AWARD AGREEMENT
NAVISTAR INTERNATIONAL CORPORATION
2004 PERFORMANCE INCENTIVE PLAN

OPTIONEE:

ADDRESS:

SOCIAL SECURITY NUMBER:
 NUMBER OF SHARES:
 EXERCISE PRICE PER SHARE:
 DATE OF GRANT:

NUMBER OF SHARES: [1/3 rd]	EXERCISABLE ON OR AFTER [one year]
NUMBER OF SHARES: [1/3 rd]	EXERCISABLE ON OR AFTER [two
years]	
NUMBER OF SHARES: [1/3 rd]	EXERCISABLE ON OR AFTER [three
years]	

EXPIRATION DATE: [ten years]

This is an award agreement (the "Award Agreement") between Navistar International Corporation, a Delaware corporation (the "Corporation"), and the individual named above (the "Optionee"). The Corporation hereby grants to the Optionee the right and option (this "Option") to purchase all or any part of an aggregate of the above-stated number of shares of Common Stock of the Corporation on the terms and conditions of the Corporation's 2004 Performance Incentive Plan approved by the shareholder February 17, 2004, as amended from time to time, (the "Plan") and, further subject to the Non-Qualified Stock Option Agreement Supplement which is attached hereto (the "Supplement").

Subject to the terms and conditions of this Award Agreement, this Option is exercisable on or after the date set forth above; provided, however, that this Option shall expire on the Expiration Date set forth above and must be exercised, if at all, on or before the Expiration Date except as otherwise provided in the Supplement.

The Corporation and the Optionee hereby agree to the terms and conditions of this Award Agreement and have executed it as of the Date of Grant set forth above.

NAVISTAR INTERNATIONAL CORPORATION

By: _____
 Daniel C. Ustian
 Chairman, President and Chief
 Executive Officer

Attest:

 Assistant Secretary

 Optionee

NAVISTAR INTERNATIONAL CORPORATION

NON-QUALIFIED STOCK OPTION AGREEMENT SUPPLEMENT

1. This option shall not be treated as a Nonqualified Stock Option. The option is granted under the terms of the Navistar International Corporation 2004 Performance Incentive Plan (the "Plan"), as indicated in the Non-Qualified Stock Option Award Agreement (the "Award Agreement"). The term of the option shall be for a period of ten (10) years from the date of grant, or such shorter period as is prescribed in paragraphs 3, 4, and 5 hereof; provided, however, that in the event of a Qualified Retirement in connection with which an employee receives a termination payment under an Executive Severance Agreement entered into between the employee and the Corporation or any of its subsidiaries (other than in connection with a Change in Control of the Corporation), the term of the option shall expire three (3) months after such termination of employment, but not after ten (10) years from the date hereof. The option shall be exercisable to the extent of the number of shares specified in the Award Agreement as exercisable one year after the date of grant, to the extent of the number of shares specified in the Award Agreement as exercisable two years after the date of grant, and to the extent of the number of shares specified in the Award Agreement as exercisable three years after the date of grant. The option may be exercised, at any time or from time to time during said term, as to all full shares that have become so purchasable. Except as provided in paragraphs 3, 4, and 6 hereof, the option may not be exercised unless the optionee is, at the time of exercise, an employee, consultant, or non-employee director (as appropriate) of Navistar International Corporation (the "Corporation") or a subsidiary thereof. The optionee shall have none of the rights of a shareowner with respect to any of the shares of Common Stock subject to the option until such shares shall be issued upon the exercise of the option.
2. The option shall not be transferable otherwise than by will or the laws of descent and distribution, and the option shall be exercisable, during the lifetime of the optionee, only by the optionee. Without limiting the generality of the foregoing, the option may not be assigned, transferred (except as aforesaid), pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the option contrary to the provisions hereof, and the levy of any execution, attachment, or similar process upon the option shall be null and void and without effect.
3. In the event of the termination of the employment or service of the optionee otherwise than by reason of death, total and permanent disability or a Qualified Retirement as set forth in paragraph 4 hereof, the optionee may (subject to the provisions of paragraph 5 hereof) exercise the option to the extent that the optionee was entitled to do so pursuant to the provisions of paragraph 1 hereof at the time of such termination, at any time within three (3) months after such termination, but not after ten (10) years from the date hereof. The option shall not be affected by any change of an employee's employment so long as the optionee continues to be an employee of the Corporation or of a subsidiary thereof or by any temporary leave of absence approved, if for a period of not more than ninety (90) days, by an officer of the Corporation or the subsidiary, as the case may be, by which the optionee is employed or, if for a period longer than ninety (90) days, approved by the Committee on Compensation and Governance of the Board of Directors of the Corporation (the "Committee"); provided, however, that if the optionee is terminated for cause as defined in the International Truck and Engine Corporation Income Protection Plan, or if the optionee is covered by a different severance plan or agreement, then as defined in such plan or agreement, the three-month period provided by this subsection shall not apply and the option shall cease to be exercisable and shall lapse as of the effective date of the termination of the optionee. Nothing herein contained shall confer on the optionee any right to continue in the employ of the Corporation or any subsidiary thereof or interfere in any way with the right of the Corporation or any subsidiary thereof to terminate the employment or service of the optionee at any time.
4. Except as provided in the last two sentences of this Section 4, in the event of a Qualified Retirement, which means with respect to an employee a termination from employment from the Corporation or any of its subsidiaries that occurs after the employee attains age 55 and at the time of the termination the employee has either: (i) 10 or more years of continuous service, or (ii) 10 or more years of service that would constitute credited service under the definition contained in the International Truck and Engine

Corporation Retirement Plan for Salaried Employees (the “RPSE”) (a “Qualified Retirement”), the optionee may exercise the option to the extent the option is exercisable or becomes exercisable under its terms at any time during the term of the option grant. In the event of termination for total and permanent disability as defined in the Corporation’s long term disability programs, the optionee may exercise the option, to the extent the option is exercisable or becomes exercisable under its terms, at any time within three (3) years after termination for total and permanent disability, or, if later, within three (3) years after the date on which the option becomes exercisable with respect to such shares, but not after the term of the option. In the event of the death of the optionee while the option is outstanding, the option may be exercised by a legatee or legatees of the optionee under the optionee's last Will, or by the personal representatives or distributees of the optionee, at any time within a period of two (2) years after the death of the optionee, but not after the term of the grant. If death occurs while employed by or performing services for the Corporation or a subsidiary thereof, or after a Qualified Retirement, or during the three-year period following termination for total and permanent disability, the option may be exercised to the extent of the remaining shares covered by the option, whether or not such shares were exercisable at the date of death. If death occurs during the three-month period provided by Paragraph 3 following termination for other than death, total and permanent disability or Qualified Retirement, the option subject to such three-month period may be exercised to the extent of the number of shares that were exercisable at the date of death. Notwithstanding the other provisions of this Paragraph 4, no option which is not exercisable at the time of a Qualified Retirement shall become exercisable after such Qualified Retirement if, without the written consent of the Corporation, the optionee engages in a business, whether as owner, partner, officer, employee or otherwise, which is in competition with the Corporation or one of its affiliates, and if the optionee’s participation in such business is deemed by the Corporation to be detrimental to the best interests of the Corporation. The determination as to whether such business is in competition with the Corporation or any of its affiliates, and whether such participation by such person is detrimental to the best interests of the Corporation, shall be made by the Corporation in its absolute discretion, and the decision of the Corporation with respect thereto, including its determination as to when the participation in such competitive business commenced, shall be conclusive.

5. Any option which did not become exercisable and which cannot become exercisable under the terms of the option, and any option that ceased to be exercisable and cannot again become exercisable under the terms of the option shall terminate.
6. In the event of a Change in Control, all outstanding options will immediately become exercisable and shall be exercisable for a period of three (3) years from the date of Change in Control regardless of the original term or employment status, except the term of option that is an Incentive Stock Option as defined in the Plan shall not extend beyond ten (10) years from the date of grant. A Change in Control shall be deemed to have occurred if (i) any “person” or “group” (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934), other than employee or retiree benefit plans or trusts sponsored or established by the Corporation or International Truck and Engine Corporation, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation's then outstanding securities, (ii) the following individuals cease for any reason to constitute more than three-fourths of the number of directors then serving on the Board of Directors of the Corporation: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Corporation) whose appointment or election by the Board or nomination for election by the Corporation's stockholders was approved by the vote of at least two-thirds (2/3) of the directors then still in office or whose appointment, election or nomination was previously so approved or recommended; (iii) any dissolution or liquidation of the Corporation or International Truck and Engine Corporation or sale or disposition of all or substantially all (more than 50%) of the assets of the Corporation or of International Truck and Engine Corporation occurs; or (iv) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (each, a “Control Transaction”), the members of the Board of Directors of

the Corporation immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or within two (2) years, cease to constitute a majority of the Board of Directors of the Corporation. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.

7. If all or any portion of the option is exercised subsequent to any stock dividend, stock split, recapitalization, combination or exchange of shares, reorganization (including, but not limited to, merger or consolidation), liquidation or other event occurring after the date hereof, as a result of which any shares or other securities of the Corporation or any other entity (including, but not limited to, any subsidiary of the Corporation) shall be issued in respect of the outstanding shares of Common Stock, or shares of Common Stock shall be changed into the same or a different number of shares or other securities of the same or any other class or classes, the person or persons so exercising the option shall receive, for the aggregate price paid upon such exercise, the class and aggregate number of shares or other securities which, if shares of Common Stock (as authorized at the date hereof) had been purchased on the date hereof for the same aggregate price (on the basis of the price per share) and had not been disposed of, such person or persons would be holding at the time of such exercise as a result of such purchase any and all such stock dividends, stock splits, recapitalizations, combinations or exchanges of shares, reorganizations, liquidations or other events. In the event of any corporate reorganization, separation or division (including, but not limited to, split-up, split off, spin-off or sale of assets) as a result of which any cash or shares or other securities of any entity other than the Corporation (including, but not limited to, any subsidiary of the Corporation), shall be distributed in respect of the outstanding shares of Common Stock, a committee of the Board shall make such adjustments in the terms of the option (including, but not limited to, the number of shares covered and the purchase price of such shares) as it may deem appropriate to provide equitably for the optionee's interest in the option. Upon any adjustment as aforesaid, the minimum number of full shares that may be purchased upon any exercise of the option as specified in paragraph 1 shall be adjusted proportionately. No fractional shares shall be issued upon any exercise of the option, and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued.

8. Subject to the terms and conditions contained herein, in the Award Agreement and the Plan, the option may be exercised by giving notice as provided in instructions issued by the Secretary of the Corporation for the exercise of options generally, which instructions may provide for the use of agents, including stock brokers, to effect exercise of options, or in the absence of such instructions, by written notice to the Secretary of the Corporation at the location of its principal office at the time of exercise, which is currently located at 4201 Winfield Road, Warrenville, Illinois 60555. Such notice shall state the election to exercise the option and the number of shares in respect of which it is being exercised, shall be signed by the person or persons so exercising the option and shall be accompanied by a check payable to the order of the Corporation for any amount required pursuant to the Secretary's instructions, or, if not covered by such instructions, for payment of the full purchase price of said shares or by delivery of Common Stock already owned by the optionee, for six months or more if acquired from the Corporation, at fair market value determined under the Plan, or by any combination of cash and Common Stock, and in either case, by payment to the Corporation of any withholding tax. Shares which otherwise would be delivered to the holder of an option may be delivered, at the election of the holder, to the Corporation in payment of Federal, state and/or local withholding taxes due in connection with an exercise. In no event may successive simultaneous pyramiding be used to exercise an option. A certificate or certificates representing said shares shall be delivered as soon as practicable after the notice shall be received by the Corporation. The certificate or certificates for the shares as to which the option shall have been so exercised shall be registered in the name of the person or persons so exercising the option and shall be delivered as aforesaid to or upon the written order of the person or persons exercising the option. In the event the option shall be exercised, pursuant to paragraph 4 hereof, by any person or persons other than the optionee, such notice shall be accompanied by appropriate proof of the right of such person or the persons to exercise the option. The date of exercise of the option shall be the date on which the aforesaid written notice, properly executed and accompanied as aforesaid, is received under the Secretary's instructions or by the Secretary. All shares that shall be purchased upon the exercise of the option as provided herein shall be fully paid and non-assessable.

9. [Reserved]
10. The Corporation shall at all times during the term of the option reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements contained herein, in the Award Agreement and in the Plan, shall pay all original issue and/or transfer taxes with respect to the issue and/or transfer of shares pursuant hereto and all other fees and expenses necessarily incurred by the Corporation in connection therewith and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Corporation, shall be applicable thereto. If the Plan pursuant to which the Option is exercised provides that only treasury stock will be used to satisfy the requirements of options, only treasury stock that has been listed on the exchange will be used.
11. As used herein, the term “subsidiary” shall mean any present and future subsidiary of the Corporation, and the term “Common Stock” shall mean the class of stock designated “Common Stock” in the Restated Certificate of Incorporation of the Corporation.
12. The terms and conditions contained herein and in the Award Agreement shall be subject to and governed by the terms of the Plan, a copy of which is being delivered herewith to the optionee.

NAVISTAR INTERNATIONAL CORPORATION

**RESTORATION STOCK OPTION AWARD AGREEMENT
NAVISTAR INTERNATIONAL CORPORATION
2004 PERFORMANCE INCENTIVE PLAN**

OPTIONEE:

ADDRESS:

SOCIAL SECURITY NUMBER:

ORIGINAL OPTION

GRANT DATE:

SHARES EXERCISED:

SHARES RESTRICTED:

RESTRICTION ENDS:

RESTORATION OPTION

EXERCISE PRICE PER SHARE:

DATE OF GRANT:

NUMBER OF OPTIONS:

EXERCISABLE ON: [six months or if sooner one month before expiration of original term]

EXPIRATION DATE: [term of original option]

This is an award agreement (the "Award Agreement") between Navistar International Corporation, a Delaware corporation (the "Corporation"), and the individual named above (the "Optionee"). The Corporation hereby grants to the Optionee the right and option (this "Option") to purchase all or any part of an aggregate of the above-stated number of shares of Common Stock of the Corporation on the terms and conditions of the Corporation's 2004 Performance Incentive Plan approved by the shareholders February 17, 2004, as amended from time to time, (the "Plan") and, further subject to the Restoration Stock Option Agreement Supplement which is attached to hereto (the "Supplement").

Subject to the terms and conditions of this Award Agreement, this Option is exercisable on or after the date set forth above; provided, however, that this Option shall expire on the Expiration Date set forth above and must be exercised, if at all, on or before the Expiration Date except as otherwise provided in the Supplement.

The Corporation and the Optionee hereby agree to the terms and conditions of this Award Agreement and have executed it as of the Date of Grant set forth above.

NAVISTAR INTERNATIONAL CORPORATION

By: _____

Daniel C. Ustian

Chairman, President and Chief

Executive Officer

Attest:

Assistant Secretary

Optionee

NAVISTAR INTERNATIONAL CORPORATION**RESTORATION STOCK OPTION AGREEMENT SUPPLEMENT**

1. This option shall not be treated as a Nonqualified Stock Option. The option is granted under the terms of the Navistar International Corporation 2004 Performance Incentive Plan (the "Plan"), as indicated in the Restoration Stock Option Award Agreement (the "Award Agreement"). This restoration option is granted with respect to the exercise of another option held by the optionee that was previously granted under the Plan (other than an option that is a restoration option granted with respect to a non-restoration option granted before June 21, 2000 or an option that is an Incentive Stock Option), or granted under another plan of Navistar International Corporation (the "Corporation"), for which the optionee has agreed to make a restoration exercise (the "Original Option"). This restoration option relates to the number of shares for which the Original Option was exercised that represent: i) the purchase price paid on exercise of the option, and, ii) the amount of withholding tax (at the minimum applicable rates) for all taxes other than the Social Security (OASDI) portion of FICA (including withholding tax that will be due on a deferred exercise). The optionee will make such an agreement to make a restoration option exercise by notifying the Secretary of his intention to make a restoration option exercise of a designated option, paying the option price by the transfer of shares of common stock of the Corporation as provided by the Secretary, and paying the withholding tax by cash, by the Corporation withholding shares, or by the transfer of shares of common stock of the Corporation as provided by the Secretary, providing such additional information as requested by the Secretary, and by executing the Award Agreement.

The term of the option shall be the remaining term of the Original Option, or such shorter period as is prescribed in paragraphs 3, 4, and 5 hereof; provided, however, that in the event of a Qualified Retirement in connection with which an employee receives a termination payment under an Executive Severance Agreement entered into between the employee and the Corporation or any of its subsidiaries (other than in connection with a Change in Control of the Corporation), the term of the option shall expire three (3) months after such termination of employment, but not after the remaining term of the Original Option. The Option shall be exercisable at the earlier of: i) six months from the date of grant, or, ii) one month prior to the expiration of the Original Option. The option may be exercised, at any time or from time to time during said term, as to all full shares that have become so purchasable. Except as provided in paragraphs 3, 4, and 6 hereof, the option may not be exercised unless the optionee shall, at the time of exercise, be an employee or consultant (as appropriate) of the Corporation or a subsidiary thereof. The optionee shall have none of the rights of a shareowner with respect to any of the shares of Common Stock subject to the option until such shares shall be issued upon the exercise of the option and delivered to the optionee.

2. The option shall not be transferable otherwise than by will or the laws of descent and distribution, and the option shall be exercisable, during the lifetime of the optionee, only by the optionee. Without limiting the generality of the foregoing, the option may not be assigned, transferred (except as aforesaid), pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the option contrary to the provisions hereof, and the levy of any execution, attachment, or similar process upon the option shall be null and void and without effect.
3. In the event of the termination of the employment or service of the optionee otherwise than by reason of death, total and permanent disability or a Qualified Retirement as set forth in paragraph 4 hereof, the optionee may (subject to the provisions of paragraph 5 hereof) exercise the option to the extent that the optionee was entitled to do so pursuant to the provisions of paragraph 1 hereof at the time of such termination, at any time within three (3) months after such termination, but not after ten (10) years from the date hereof. The option shall not be affected by any change of an employee's employment so long as the optionee continues to be an employee of the Corporation or of a subsidiary thereof or by any temporary leave of absence approved, if for a period of not more than ninety (90) days, by an officer of the Corporation or the subsidiary, as the case may be, by which the optionee is employed or, if for a period longer than ninety (90) days, approved by the Committee on Compensation and Governance of the Board of Directors of the Corporation (the "Committee"); provided, however, that if the optionee is terminated for cause as defined in the International Truck and Engine Corporation Income Protection Plan, or if the optionee is covered by a different severance plan or agreement, then as defined in such plan or agreement,

the three-month period provided by this subsection shall not apply and the option shall cease to be exercisable and shall lapse as of the effective date of the termination of the optionee. Nothing herein contained shall confer on the optionee any right to continue in the employ of the Corporation or any subsidiary or interfere in any way with the right of the Corporation or any subsidiary thereof to terminate the employment or service of the optionee at any time.

4. Except as provided in the last two sentences of this Section 4, in the event of a Qualified Retirement, which means with respect to an employee a termination from employment from the Corporation or any of its subsidiaries that occurs after the employee attains age 55 and at the time of the termination the employee has either: (i) 10 or more years of continuous service, or (ii) 10 or more years of service that would constitute credited service under the definition contained in the International Truck and Engine Corporation Retirement Plan for Salaried Employees (the "RPSE") (a "Qualified Retirement"), the optionee may exercise the option to the extent the option is exercisable or becomes exercisable under its terms at any time during the term of the option grant. In the event of termination for total and permanent disability as defined in the Corporation's long term disability programs, the optionee may exercise the option, to the extent the option is exercisable or becomes exercisable under its terms, at any time within three (3) years after termination for total and permanent disability, or, if later, within three (3) years after the date on which the option becomes exercisable with respect to such shares, but not after the term of the option. In the event of the death of the optionee while the option is outstanding, the option may be exercised by a legatee or legatees of the optionee under the optionee's last Will, or by the personal representatives or distributees of the optionee, at any time within a period of two (2) years after the death of the optionee, but not after the term of the grant. If death occurs while employed by the Corporation or a subsidiary thereof, or after a Qualified Retirement, or during the three-year period following termination for total and permanent disability, the option may be exercised to the extent of the remaining shares covered by the option whether or not such shares were exercisable at the date of death. If death occurs during the three-month period provided by Paragraph 3 following termination for other than death, total and permanent disability or Qualified Retirement, the option subject to such three-month period may be exercised to the extent of the number of shares that were exercisable at the date of death. Notwithstanding the other provisions of this Paragraph 4, no option which is not exercisable at the time of a Qualified Retirement shall become exercisable after such Qualified Retirement if, without the written consent of the Corporation, the optionee engages in a business, whether as owner, partner, officer, employee or otherwise, which is in competition with the Corporation or one of its affiliates, and if the optionee's participation in such business is deemed by the Corporation to be detrimental to the best interests of the Corporation. The determination as to whether such business is in competition with the Corporation or any of its affiliates, and whether such participation by such person is detrimental to the best interests of the Corporation, shall be made by the Corporation in its absolute discretion, and the decision of the Corporation with respect thereto, including its determination as to when the participation in such competitive business commenced, shall be conclusive.

5. The optionee agrees that he will not transfer the profit shares received on exercise of the Original Option for a period of three (3) years from date of exercise of the Original Option. However, this restriction on transfer will terminate if the optionee terminates employment or service by reason of death, total and permanent disability, or a Qualified Retirement. The optionee acknowledges and agrees that as additional means to enforce this transfer restriction the Corporation may legend such stock to advise holders of this restriction, hold the stock in the Corporation's offices, or otherwise take action it deems appropriate to enforce the transfer restriction. The transfer restriction established by this paragraph shall not prevent the transfer of the shares to the Corporation after being held for six months in payment of the option price on another option, if such transfer is permissible under the other option. The transfer restriction shall not prevent the restricted shares obtained through a restoration option exercise from being considered toward fulfillment of any stock ownership requirement under the Corporation's Executive Stock Ownership Program as permitted by the Corporation. Subject to the provisions of paragraph 3, the option will terminate if the optionee terminates employment or service with the Corporation, including its subsidiaries, otherwise than by reason of death, total and permanent disability or a Qualified Retirement. Any option which did not become exercisable and which cannot become exercisable under the terms of the option, and any option that ceased to be exercisable and cannot again become exercisable under the terms of the option shall terminate.

6. In the event of a Change in Control, all outstanding options will immediately become exercisable and shall be exercisable for a period of three (3) years from the date of Change in Control regardless of the original term or employment status, except the term of option that is an Incentive Stock Option as defined in the Plan shall not extend beyond ten (10) years from the date of grant. A Change in Control shall be deemed to have occurred if (i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934), other than employee or retiree benefit plans or trusts sponsored or established by the Corporation or International Truck and Engine Corporation, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation's then outstanding securities, (ii) the following individuals cease for any reason to constitute more than three-fourths of the number of directors then serving on the Board of Directors of the Corporation: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Corporation) whose appointment or election by the Board or nomination for election by the Corporation's stockholders was approved by the vote of at least two-thirds (2/3) of the directors then still in office or whose appointment, election or nomination was previously so approved or recommended; (iii) any dissolution or liquidation of the Corporation or International Truck and Engine Corporation or sale or disposition of all or substantially all (more than 50%) of the assets of the Corporation or of International Truck and Engine Corporation occurs; or (iv) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (each, a "Control Transaction"), the members of the Board of Directors of the Corporation immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or within two (2) years, cease to constitute a majority of the Board of Directors of the Corporation. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.

7. If all or any portion of the option is exercised subsequent to any stock dividend, stock split, recapitalization, combination or exchange of shares, reorganization (including, but not limited to, merger or consolidation), liquidation or other event occurring after the date hereof, as a result of which any shares or other securities of the Corporation or any other entity (including, but not limited to, any subsidiary of the Corporation) shall be issued in respect of the outstanding shares of Common Stock, or shares of Common Stock shall be changed into the same or a different number of shares or other securities of the same or any other class or classes, the person or persons so exercising the option shall receive, for the aggregate price paid upon such exercise, the class and aggregate number of shares or other securities which, if shares of Common Stock (as authorized at the date hereof) had been purchased on the date hereof for the same aggregate price (on the basis of the price per share) and had not been disposed of, such person or persons would be holding at the time of such exercise as a result of such purchase any and all such stock dividends, stock splits, recapitalizations, combinations or exchanges of shares, reorganizations, liquidations or other events. In the event of any corporate reorganization, separation or division (including, but not limited to, split-up, split off, spin-off or sale of assets) as a result of which any cash or shares or other securities of any entity other than the Corporation (including, but not limited to, any subsidiary of the Corporation), shall be distributed in respect of the outstanding shares of Common Stock, a committee of the Board shall make such adjustments in the terms of the option (including, but not limited to, the number of shares covered and the purchase price of such shares) as it may deem appropriate to provide equitably for the optionee's interest in the option. Upon any adjustment as aforesaid, the minimum number of full shares that may be purchased upon any exercise of the option as specified in paragraph 1 shall be adjusted proportionately. No fractional shares shall be issued upon any exercise of the option, and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued.

8. Subject to the terms and conditions contained herein, in the Award Agreement and the Plan, the option may be exercised by giving notice as provided in instructions issued by the Secretary for the exercise of options generally, which instructions may provide for the use of agents, including stock brokers, to effect exercise of options, or in the absence of such instructions, by written notice to the Secretary of the Corporation at the location of its principal office at the time of exercise, which is currently located at 4201 Winfield Road, Warrenville, Illinois 60555. Such notice shall state the election to exercise the option and

the number of shares in respect of which it is being exercised, shall be signed by the person or persons so exercising the option and shall be accompanied by a check payable to the order of the Corporation for any amount required pursuant to the Secretary's instructions, or, if not covered by such instructions, for payment of the full purchase price of said shares or by delivery of Common Stock already owned by the optionee, for six months or more if acquired from the Corporation, at fair market value determined under the Plan, or by any combination of cash and Common Stock, and in either case, by payment to the Corporation of any withholding tax. Shares which otherwise would be delivered to the holder of an option may be delivered, at the election of the holder, to the Corporation in payment of Federal, state and/or local withholding taxes due in connection with an exercise. In no event may successive simultaneous pyramiding be used to exercise an option. A certificate or certificates representing said shares shall be delivered as soon as practicable after the notice shall be received by the Corporation. The certificate or certificates for the shares as to which the option shall have been so exercised shall be registered in the name of the person or persons so exercising the option and shall be delivered as aforesaid to or upon the written order of the person or persons exercising the option. In the event the option shall be exercised, pursuant to paragraph 4 hereof, by any person or persons other than the optionee, such notice shall be accompanied by appropriate proof of the right of such person or the persons to exercise the option. The date of exercise of the option shall be the date on which the aforesaid written notice, properly executed and accompanied as aforesaid, is received under the Secretary's instructions or by the Secretary. All shares that shall be purchased upon the exercise of the option as provided herein shall be fully paid and non-assessable.

9. [Reserved]
10. The Corporation shall at all times during the term of the option reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements contained herein, in the Award Agreement and in the Plan, shall pay all original issue and/or transfer taxes with respect to the issue and/or transfer of shares pursuant hereto and all other fees and expenses necessarily incurred by the Corporation in connection therewith and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Corporation, shall be applicable thereto. If the Plan pursuant to which the option is exercised provides that only treasury stock will be used to satisfy the requirements of the option, only treasury stock that has been listed on the exchange will be used.
11. As used herein, the term "subsidiary" shall mean any present and future subsidiary of the Corporation, and the term "Common Stock" shall mean the class of stock designated "Common Stock" in the Certificate of Incorporation of the Corporation.
12. The terms and conditions contained herein and in the Award Agreement shall be subject to and governed by the terms of the Plan, a copy of which is being delivered herewith to the optionee.

NAVISTAR INTERNATIONAL CORPORATION
NON-EMPLOYEE DIRECTOR STOCK OPTION AWARD AGREEMENT
NAVISTAR INTERNATIONAL CORPORATION
2004 PERFORMANCE INCENTIVE PLAN

OPTIONEE:

ADDRESS:

SOCIAL SECURITY NUMBER:

NUMBER OF SHARES:

EXERCISE PRICE PER SHARE:

DATE OF GRANT:

NUMBER OF SHARES: [1/3rd]

EXERCISABLE ON OR AFTER [one year]

NUMBER OF SHARES: [1/3rd]

EXERCISABLE ON OR AFTER [two years]

NUMBER OF SHARES: [1/3rd]

EXERCISABLE ON OR AFTER [three years]

EXPIRATION DATE: [ten years]

This is an award agreement (the "Award Agreement") between Navistar International Corporation, a Delaware corporation (the "Corporation"), and the Non-Employee Director named above (the "Director" or "Optionee"). The Corporation hereby grants to the Director the right and option (this "Option") to purchase all or any part of an aggregate of the above-stated number of shares of Common Stock of the Corporation on the terms and conditions of the Corporation's 2004 Performance Incentive Plan approved by the shareholders February 17, 2004, as amended from time to time, (the "Plan") and, further subject to the Non-Employee Director Stock Option Agreement Supplement which is attached hereto (the "Supplement").

Subject to the terms and conditions of this Award Agreement, this Option is exercisable on or after the date set forth above; provided, however, that this Option shall expire on the Expiration Date set forth above and must be exercised, if at all, on or before the Expiration Date except as otherwise provided in the Supplement.

The Corporation and the Director hereby agree to the terms and conditions of this Award Agreement and have executed it as of the Date of Grant set forth above.

NAVISTAR INTERNATIONAL CORPORATION

By: _____

Daniel C. Ustian
Chairman, President and Chief
Executive Officer

Attest:

Assistant Secretary

Director

NAVISTAR INTERNATIONAL CORPORATION

NON-EMPLOYEE DIRECTOR STOCK OPTION AGREEMENT SUPPLEMENT

1. This option is granted under the terms of the Navistar International Corporation 2004 Performance Incentive Plan (the "Plan"), as indicated in the Non-Employee Director Stock Option Award Agreement (the "Award Agreement"). The term of the option shall be for a period of ten years from the date of grant, or such shorter period as is prescribed in paragraphs 3, 4, and 5 hereof. The option shall be exercisable to the extent of the number of shares specified in the Award Agreement as exercisable one year after the date of grant, to the extent of the number of shares specified in the Award Agreement as exercisable two years after the date of grant, and to the extent of the number of shares specified in the Award Agreement as exercisable three years after the date of grant. The option may be exercised, at any time or from time to time during said term, as to all full shares that have become so purchasable. Except as provided in paragraphs 3, 4, and 6 hereof, the option may not be exercised unless the optionee shall, at the time of exercise, be a Non-Employee Director (the "Director" or "Optionee") of the Corporation or a subsidiary. The Director shall have none of the rights of a shareowner with respect to any of the shares of Common Stock subject to the option until such shares shall be issued upon the exercise of the option.
2. The option shall not be transferable otherwise than by will or the laws of descent and distribution, and the option shall be exercisable, during the lifetime of the Director, only by the Director. Without limiting the generality of the foregoing, the option may not be assigned, transferred (except as aforesaid), pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the option contrary to the provisions hereof, and the levy of any execution, attachment, or similar process upon the option shall be null and void and without effect.
3. In the event of the termination of service of the Director otherwise than by reason of death, total and permanent disability or a Qualified Retirement as set forth in paragraph 4 hereof, the Director may (subject to the provisions of paragraph 5 hereof) exercise the option to the extent that the Director was entitled to do so pursuant to the provisions of paragraph 1 hereof at the time of such termination, at any time within three (3) months after such termination, but not after ten (10) years from the date hereof.
4. Except as provided in the last two sentences of this paragraph, in the event of a Qualified Retirement, which means a retirement under a retirement policy of the Board for Non-Employee Directors (a "Qualified Retirement"), the Director may exercise the option to the extent the option is exercisable or becomes exercisable under its terms at any time during the term of the option grant. In the event of termination for total and permanent disability as defined in Navistar International Corporation's (the "Corporation") long term disability programs, the Optionee may exercise the option, to the extent the option is exercisable or becomes exercisable under its terms, at any time within three (3) years after termination for total and permanent disability, or, if later, within three (3) years after the date on which the option becomes exercisable with respect to such shares, but not after the term of the option. In the event of the death of the Director while the option is outstanding, the option may be exercised by a legatee or legatees of the Optionee under the Director's last Will, or by the personal representatives or distributees of the Director, at any time within a period of two (2) years after the death of the Director, but not after the term of the grant. If death occurs while the Director is performing services for the Corporation, or after a Qualified Retirement, or during the three-year period following termination for total and permanent disability, the option may be exercised to the extent of the remaining shares covered by the option, whether or not such shares were exercisable at the date of death. If death occurs during the three-month period provided by paragraph 3 following termination for other than death, total and permanent disability or Qualified Retirement, the option subject to such three-month period may be exercised to the extent of the number of shares that were exercisable at the date of death. Notwithstanding the other provisions of this paragraph 4, no option which is not exercisable at the time of a Qualified Retirement shall become exercisable after such Qualified Retirement if, without the written consent of the Corporation, the Optionee engages in a business, whether as owner, partner, officer, employee or otherwise, which is in

competition with the Corporation or one of its affiliates, and if the Optionee's participation in such business is deemed by the Corporation to be detrimental to the best interests of the Corporation. The determination as to whether such business is in competition with the Corporation or any of its affiliates, and whether such participation by such person is detrimental to the best interests of the Corporation, shall be made by the Corporation in its absolute discretion, and the decision of the Corporation with respect thereto, including its determination as to when the participation in such competitive business commenced, shall be conclusive.

5. Any option which did not become exercisable and which cannot become exercisable under the terms of the option, and any option that ceased to be exercisable and cannot again become exercisable under the terms of the option shall terminate.
6. In the event of a Change in Control, all outstanding options will immediately become exercisable and shall be exercisable for a period of three (3) years from the date of Change in Control regardless of the original term or service status or the Director. Change in Control shall be deemed to have occurred if (i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934), other than employee or retiree benefit plans or trusts sponsored or established by the Corporation or International Truck and Engine Corporation, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation's then outstanding securities, (ii) the following individuals cease for any reason to constitute more than three-fourths of the number of directors then serving on the Board of Directors of the Corporation: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Corporation) whose appointment or election by the Board or nomination for election by the Corporation's stockholders was approved by the vote of at least two-thirds (2/3) of the directors then still in office or whose appointment, election or nomination was previously so approved or recommended; (iii) any dissolution or liquidation of the Corporation or International Truck and Engine Corporation or sale or disposition of all or substantially all (more than 50%) of the assets of the Corporation or of International Truck and Engine Corporation occurs; or (iv) as the result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets, proxy or consent solicitation, contested election or substantial stock accumulation (each a "Control Transaction"), the members of the Board of Directors of the Corporation immediately prior to the first public announcement relating to such Control Transaction shall immediately thereafter, or within two (2) years, cease to constitute a majority of the Board of Directors of the Corporation. Notwithstanding the foregoing, the sale or disposition of any or all of the assets or stock of Navistar Financial Corporation shall not be deemed a Change in Control.
7. If all or any portion of the option is exercised subsequent to any stock dividend, stock split, recapitalization, combination or exchange of shares, reorganization (including, but not limited to, merger or consolidation), liquidation or other event occurring after the date hereof, as a result of which any shares or other securities of the Corporation or any other entity (including, but not limited to, any subsidiary of the Corporation) shall be issued in respect of the outstanding shares of Common Stock, or shares of Common Stock shall be changed into the same or a different number of shares or other securities of the same or any other class or classes, the person or persons so exercising the option shall receive, for the aggregate price paid upon such exercise, the class and aggregate number of shares or other securities which, if shares of Common Stock (as authorized at the date hereof) had been purchased on the date hereof for the same aggregate price (on the basis of the price per share) and had not been disposed of, such person or persons would be holding at the time of such exercise as a result of such purchase any and all such stock dividends, stock splits, recapitalizations, combinations or exchanges of shares, reorganizations, liquidations or other events. In the event of any corporate reorganization, separation or division (including, but not limited to, split-up, split off, spin-off or sale of assets) as a result of which any cash or shares or other securities of any entity other than the Corporation (including, but not limited to, any subsidiary of the Corporation), shall be distributed in respect of the outstanding shares of Common Stock,

a committee of the Board shall make such adjustments in the terms of the option (including, but not limited to, the number of shares covered and the purchase price of such shares) as it may deem appropriate to provide equitably for the Director's interest in the option. Upon any adjustment as aforesaid, the minimum number of full shares that may be purchased upon any exercise of the option as specified in paragraph 1 shall be adjusted proportionately. No fractional shares shall be issued upon any exercise of the option, and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued.

8. Subject to the terms and conditions contained herein, in the Award Agreement and the Plan, the option may be exercised by giving notice as provided in instructions issued by the Secretary for the exercise of options, which instructions may provide for the use of agents, including stock brokers, to effect exercise of options, or in the absence of such instructions, by written notice to the Secretary of the Corporation at the location of its principal office at the time of exercise, which is currently located at 4201 Winfield Road, Warrenville, Illinois 60555. Such notice shall state the election to exercise the option and the number of shares in respect of which it is being exercised, shall be signed by the person or persons so exercising the option and shall be accompanied by a check payable to the order of the Corporation for any amount required pursuant to the Secretary's instructions, or, if not covered by such instructions, for payment of the full purchase price of said shares or by delivery of Common Stock already owned by the Director, for six months or more if acquired from the Corporation, at fair market value determined under the Plan, or by any combination of cash and Common Stock, and in either case, by payment to the Corporation of any withholding tax due with respect to any Director who is a citizen or resident of a foreign country or is otherwise then imposed effective as of the date of exercise by then applicable law. Shares which otherwise would be delivered to the holder of an option may be delivered, at the election of the holder, to the Corporation in payment of any such withholding taxes due in connection with an exercise. In no event may successive simultaneous pyramiding be used to exercise an option. A certificate or certificates representing said shares shall be delivered as soon as practicable after the notice shall be received by the Corporation. The certificate or certificates for the shares as to which the option shall have been so exercised shall be registered in the name of the person or persons so exercising the option and shall be delivered as aforesaid to or upon the written order of the person or persons exercising the option. In the event the option shall be exercised, pursuant to paragraph 4 hereof, by any person or persons other than the Director, such notice shall be accompanied by appropriate proof of the right of such person or the persons to exercise the option. The date of exercise of the option shall be the date on which the aforesaid written notice, properly executed and accompanied as aforesaid, is received under the Secretary's instructions or by the Secretary. All shares that shall be purchased upon the exercise of the option as provided herein shall be fully paid and non-assessable.
9. [Reserved]
10. The Corporation shall at all times during the term of the option reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements contained herein, in the Award Agreement and in the Plan, shall pay all original issue and/or transfer taxes with respect to the issue and/or transfer of shares pursuant hereto and all other fees and expenses necessarily incurred by the Corporation in connection therewith and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Corporation, shall be applicable thereto. If the Plan pursuant to which the option is exercised provides that only treasury stock will be used to satisfy the requirements of the option, only treasury stock that has been listed on the exchange will be used.
11. As used herein, the term "Common Stock" shall mean the class of stock designated "Common Stock" in the Restated Certificate of Incorporation of the Corporation.
12. The terms and conditions contained herein and in the Award Agreement shall be subject to and governed by the terms of the Plan, a copy of which is being delivered herewith to the Director.

NAVISTAR INTERNATIONAL CORPORATION

**RESTRICTED STOCK AWARD AGREEMENT
NAVISTAR INTERNATIONAL CORPORATION
2004 PERFORMANCE INCENTIVE PLAN**

GRANTEE:

ADDRESS:

SOCIAL SECURITY NUMBER:

NUMBER OF SHARES OF RESTRICTED STOCK:

DATE OF GRANT:

This is an award agreement (the "Award Agreement") between Navistar International Corporation, a Delaware corporation (the "Corporation") and the individual named above (the "Grantee"). The Corporation hereby grants to the Grantee an aggregate of the above-stated number of shares of Common Stock of the Corporation on the terms and conditions contained herein and in the Corporation's 2004 Performance Incentive Plan approved by the shareholders February 17, 2004, as amended from time to time (the "Plan"). Capitalized terms used but not otherwise defined herein shall have the meaning ascribed to them in the Plan.

1. Vesting of Restricted Stock. Subject to the terms and conditions of this Award Agreement and the Plan, the Restricted Stock shall vest as follows:

[ENTER EITHER SPECIFIC VESTING REQUIREMENTS WHICH MUST BE OVER NO LESS THAN A THREE YEAR PERIOD OR A STRICT THREE YEAR PERIOD VESTING SCHEDULE AS FOLLOWS:

NUMBER OF SHARES:	VESTED ON OR AFTER [one year]
NUMBER OF SHARES:	VESTED ON OR AFTER [after two years]
NUMBER OF SHARES:	VESTED ON OR AFTER [three years]]

2. Stock Certificates. Certificates for the Restricted Stock shall be issued by the Corporation in the name of the Grantee and delivered to the Grantee at the time of grant. The certificate bear the following legend evidencing its restrictive nature as follows:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER, FORFEITURE AND VESTING AS SET FORTH IN THE RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SECURITIES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER.

3. Effect of Termination of Employment. If the Grantee (i) quits, is involuntarily separated from the Corporation or otherwise terminates employment, then any Restricted Stock not vested as of such date will be forfeited to the Corporation, (ii) becomes totally and permanently disabled or retires from the Corporation pursuant to a Qualified Retirement, such Restricted Stock will continue to vest according to the terms of grant, or (iii) dies while serving the Corporation or following a total and permanent disabled or Qualified Retirement, any such previously granted Restricted Stock shall vest as of the date of such Grantee's death and all restrictions thereon shall lapse and the Restricted Stock shall be immediately transferable to the name beneficiary or to such Grantee's estate.

4. Tax Withholding Obligations. The Grantee shall be required to deposit with the Corporation either (i) an amount of cash equal to the amount determined by the Corporation to be required with respect to any withholding taxes, FICA contributions, or the like under any federal, state or local statute, ordinance, rule or regulation in connection with the grant or vesting of the Restricted Stock or (ii) a number of shares of the Corporation's Common Stock otherwise deliverable having a Fair Market Value sufficient to satisfy the statutory minimum of all or part of the

Grantee's estimated total federal, state and local tax obligations associated with the grant or vesting of the Restricted Stock. The Corporation shall not deliver any of the shares of the Corporation's Common Stock until and unless the Grantee has made the deposit required herein or proper provision for required withholding has been made.

5. Rights as Shareholder. The Grantee shall have all rights of a shareholder prior to the vesting of the Restricted Stock, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

6. Transferability. The Restricted Stock may not be transferred, assigned or made subject to any encumbrance, pledge or charge until such Restricted Stock has vested and any other restrictions or conditions on such Restricted Stock are removed, have been satisfied or expire.

7. No Employment Rights. Nothing in this Agreement will confer upon the Grantee any right to continue in the employ or service of the Corporation or any of its subsidiaries or affect the right of the Corporation to terminate the employment of the Grantee at any time with or without cause.

Change in Control of the Corporation. In the event of a Change in Control, all awarded Restricted Stock will immediately be free of all restrictions and performance contingencies and will be deemed fully earned and not subject to forfeiture.

9. Amendment. This Award Agreement may be amended only by a writing executed by the Corporation and the Grantee that specifically states that it is amending this Award Agreement. Notwithstanding the foregoing, this Award Agreement may be amended solely by the Committee by a writing which specifically states that it is amending this Award Agreement, so long as a copy of such amendment is delivered to the Grantee, and provided that no such amendment adversely affecting the rights of the Grantee hereunder may be made without the Grantee's written consent. Without limiting the foregoing, the Committee reserves the right to change, by written notice to the Grantee, the provisions of the Restricted Stock or this Award Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling or judicial decisions, provided that any such change shall be applicable only to shares of Restricted Stock which are then subject to restrictions as provided herein.

10. Severability. If all or any part of this Award Agreement is declared by any court or government authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Award Agreement not declared to be unlawful or invalid. Any Section of this Award Agreement so declared to be unlawful or invalid shall, if possible, be construed in a manner that will give effect to the terms of such Section to the fullest extent possible while remaining lawful and valid.

11. Construction. The Restricted Stock is being issued pursuant to Section XI of the Plan and is subject to the terms of the Plan. A copy of the Plan has been given to the Grantee and additional copies of the Plan are available upon request during normal business hours at the principal executive officers of the Corporation. To the extent that any provisions of this Award Agreement violates or is inconsistent with an express provisions of the Plan, the Plan provision shall govern and any inconsistent provision in this Award Agreement shall be of no force or effect.

12. Binding Effect and Benefit. This Award Agreement shall be binding upon and, subject to the conditions hereof, inure to the benefit of the Corporation, its successors and assigns, and the Grantee and his successors and assigns.

13. Entire Understanding. This Award Agreement embodies the entire understanding and agreement of the parties in relation to the subject matter hereof, and no promise, condition, representation or warranty, expressed or implied, not herein stated, shall bind either party hereto.

14. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Illinois.

The Corporation and the Grantee hereby agree to the terms and conditions of this Award Agreement and have executed it as of the Date of Grant set forth above.

NAVISTAR INTERNATIONAL CORPORATION

By: _____
Daniel C. Ustian
Chairman, President and Chief
Executive Officer

Attest:

Assistant Secretary

Grantee

Premium Share Unit Certificate
NAVISTAR EXECUTIVE STOCK OWNERSHIP PROGRAM
Adopted As Of February 17, 2004

EMPLOYEE:

ADDRESS:

SOCIAL SECURITY NUMBER:

TRANCHE VESTING:

TOTAL OF PREMIUM SHARE UNITS:

DATE OF GRANT:

DATE EARNED:

DATE UNITS VEST: NUMBER OF UNITS VESTED:

This is an award agreement (the "Award Agreement") between Navistar International Corporation, a Delaware corporation (the "Corporation"), and the individual named above (the "Employee"). The Corporation hereby credits to the Employee's account, the above-stated number of Premium Share Units, which are issuable as Common Stock of the Corporation in accordance with the terms and conditions of the Corporation's 2004 Performance Incentive Plan approved by the shareholders February 17, 2004, as amended from time to time (the "Plan").

The Premium Share Units awarded hereunder are further subject to the terms and conditions of the Corporation's Executive Stock Ownership Program, as amended and restated September 1, 2004, as amended from time to time (the "Program"), a copy of which is attached. Subject to the terms and conditions of the Program and the Plan, including the provisions regarding forfeiture of the shares and restrictions on transferability, these Premium Share Units will vest on the dates set forth above. Premium Share Units which have been fully vested will convert to the Corporation's Common Stock and be distributed to the Employee upon termination of employment or such other mutually agreed upon date if such termination of employment is through qualified retirement. These Premium Share Units shall have the same rights as Common Stock of the Corporation except the units shall be non-voting.

The Corporation and the Employee hereby agree to the terms and conditions of this Award Agreement and have executed it as of the date set forth above.

NAVISTAR INTERNATIONAL CORPORATION

By: _____
 Terry M. Endsley
 Vice President & Treasurer

Attest:

 Assistant Secretary

 Employee

Deferred Share Unit Certificate
NAVISTAR EXECUTIVE STOCK OWNERSHIP PROGRAM
Adopted As Of February 17, 2004

EMPLOYEE:

ADDRESS:

SOCIAL SECURITY NUMBER:

TOTAL OF DEFERRED SHARES:

DATE OF GRANT:

DATE VESTED:

This is an award agreement (the "Award Agreement") between Navistar International Corporation, a Delaware corporation (the "Corporation"), and the individual named above (the "Employee"). The Corporation hereby credits to the Employee's account, the above-stated number of Deferred Share Units, which are issuable as Common Stock of the Corporation in accordance with the terms and conditions of the Corporation's 2004 Performance Incentive Plan approved by the shareholders February 17, 2004, as amended from time to time (the "Plan").

The Deferred Share Units awarded hereunder are further subject to the terms and conditions of the Corporation's Executive Stock Ownership Program, as amended and restated September 1, 2004, as amended from time to time (the "Program"), a copy of which is attached. Subject to the terms and conditions of the Program and the Plan, including the provisions regarding forfeiture of the shares and restrictions on transferability, these Deferred Share Units will vest on the dates set forth above. Deferred Share Units which have been fully vested will convert to the Corporation's Common Stock and be distributed to the Employee upon termination of employment or such other mutually agreed upon date if such termination of employment is through qualified retirement. These Deferred Share Units shall have the same rights as Common Stock of the Corporation except the units shall be non-voting.

The Corporation and the Employee hereby agree to the terms and conditions of this Award Agreement and have executed it as of the date set forth above.

NAVISTAR INTERNATIONAL CORPORATION

By: _____
 Terry M. Endsley
 Vice President & Treasurer

Attest:

 Assistant Secretary

 Employee

Board of Directors Resolution

Non-Employee Director Compensation

RESOLVED, that the Board of Directors hereby approves an increase in board and committee meeting fees to \$1,500 per meeting, effective November 1, 2004.

Comparison of Ratio of Earnings to Fixed Charges

Year ended October 31,

Navistar International Corporation (in millions)	2004	2003	2002	2001	2000
Income/(loss) from continuing operations before income taxes:					
	\$ 311	\$ (49)	\$ (772)	\$ (33)	\$ 230
Cumm. Effect of changes in acct. principle	-	-	-	-	-
Interest Expense	127	142	159	161	146
Debt expense amortization	9	3	3	2	2
Rent expense rep. of interest expense (33%)	<u>18</u>	<u>20</u>	<u>23</u>	<u>15</u>	<u>11</u>
Total Earnings	<u>\$ 465</u>	<u>\$ 116</u>	<u>\$ (587)</u>	<u>\$ 145</u>	<u>\$ 389</u>
Fixed Charges:					
Capitalized interest	6	7	14	42	31
Interest Expense	127	142	159	161	146
Debt expense amortization	9	3	3	2	2
Rent expense rep. of interest expense (33%)	<u>18</u>	<u>20</u>	<u>23</u>	<u>15</u>	<u>11</u>
Total Fixed Charges	<u>\$ 160</u>	<u>\$ 172</u>	<u>\$ 199</u>	<u>\$ 220</u>	<u>\$ 190</u>
Ratio of Earnings to Fixed Charges	2.9	-	-	-	2.0
Earning Shortfall	-	(56)	(786)	(75)	-

Year ended October 31,

Navistar Financial Corporation (in millions)	2004	2003	2002	2001	2000
Income/(loss) from continuing operations before income taxes:					
	\$ 102	\$ 99	\$ 68	\$ 71	\$ 77
Cumm. Effect of changes in acct. principle	-	-	-	-	-
Interest Expense	41	50	58	93	104
Debt expense amortization	4	3	3	4	2
Rent expense rep. of interest expense (25%)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Total Earnings	<u>\$ 147</u>	<u>\$ 152</u>	<u>\$ 129</u>	<u>\$ 169</u>	<u>\$ 184</u>
Fixed Charges:					
Capitalized interest	-	-	-	-	-
Interest Expense	41	50	58	93	104
Debt expense amortization	4	3	3	4	2
Rent expense rep. of interest expense (25%)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Total Fixed Charges	<u>\$ 45</u>	<u>\$ 53</u>	<u>\$ 61</u>	<u>\$ 98</u>	<u>\$ 107</u>
Ratio of Earnings to Fixed Charges	3.3	2.9	2.1	1.7	1.7

**NAVISTAR INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**SUBSIDIARIES OF THE REGISTRANT
AS OF OCTOBER 31, 2004**

	STATE OR COUNTRY IN WHICH SUBSIDIARY ORGANIZED
<hr/>	
Subsidiary included in the financial statements, which is 100% owned:	
International Truck and Engine Corporation	Delaware
International of Mexico Holding Corporation LLC	Delaware
Subsidiaries that are 100% owned by International Truck and Engine Corporation:	
International Truck and Engine Corporation Canada	Canada
Navistar Financial Corporation	Delaware
IC Corporation	Arkansas
Navistar Severe Service Truck Company	Delaware
Subsidiaries that are 100% owned by International of Mexico Holding Corporation LLC:	
International Truck and Engine Corporation Cayman Islands Holding Company	Cayman Islands
Camiones y Motores Internacional de Mexico, S.A. de C.V.	Mexico

Subsidiaries and corporate joint ventures not shown by name in the above listing, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

CERTIFICATION

I, Daniel C. Ustian, certify that:

1. I have reviewed this annual report on Form 10-K of Navistar International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2005

/s/ Daniel C. Ustian

Daniel C. Ustian

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Robert C. Lannert, certify that:

1. I have reviewed this annual report on Form 10-K of Navistar International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2005

/s/ Robert C. Lannert

Robert C. Lannert

Vice Chairman and Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Navistar International Corporation (the "Company") on Form 10-K for the period ended October 31, 2004 as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Daniel C. Ustian, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: February 14, 2005

/s/ Daniel C. Ustian

Daniel C. Ustian

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. This certification shall also not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Navistar International Corporation (the "Company") on Form 10-K for the period ended October 31, 2004 as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Robert C. Lannert, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: February 14, 2005

/s/ Robert C. Lannert

Robert C. Lannert

Vice Chairman and Chief Financial Officer
(Principal Financial Officer)

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. This certification shall also not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference.

Forward-Looking Statements, Risks and Factors

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, and such forward-looking statements only speak as of the date of this Form 10-K. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this Form 10-K, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and could cause these actual results to differ materially from those in the forward-looking statements. Some of these factors include:

- ***The markets in which we compete are subject to considerable cyclicity.*** Our ability to be profitable depends in part on the varying conditions in the truck, school bus, mid-range diesel engine and service parts markets. The markets in which we compete are subject to considerable cyclicity. Such markets move in response to cycles in the overall business environment and are particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Truck and engine demand is also dependent on general economic conditions, interest rate levels and fuel costs. The weakness in the demand for new trucks adversely affected our operating results in fiscal 2003 and 2002.
- ***We operate in the highly competitive North American truck market.*** The North American truck market, in which we compete, is highly competitive. The intensity of this competition, which is expected to continue, results in price discounting and margin pressures throughout the industry and adversely affects our ability to increase or maintain vehicle prices.
- ***Our business may be adversely impacted by work stoppages and other labor relations matters.*** We are subject to risk of work stoppages and other labor relations matters because our workforce is highly unionized. Approximately 78% of the hourly workers and 15% of the salaried workers are represented by unions.
- ***The loss of business from Ford, our largest customer, would have a negative impact on our business, financial condition and results of operations.*** Ford accounted for approximately 18% of our revenues for fiscal 2004, 21% for fiscal 2003 and 20% for fiscal 2002. In addition, Ford accounted for approximately 76%, 77% and 78% of our diesel engine unit volume in fiscal 2004, fiscal 2003 and fiscal 2002, respectively, primarily relating to the sale of our V-8 diesel engines. Although we have an agreement with Ford that continues through 2012 to supply V-8 diesel engines for inclusion in selected models produced by Ford, this agreement provides that we will supply Ford's requirements rather than manufacture a specific quantity of products.
- ***The costs associated with complying with environmental and safety regulations could lower our margins.*** We, like other truck and engine manufacturers, continue to face heavy governmental regulation of our products, especially in the areas of environment and safety. As a diesel engine manufacturer, we have incurred research, development and tooling costs to design our engine product lines to meet new United States Environmental Protection Agency and California Air Resources Board emission standards. Complying with environmental and safety requirements has added and will continue to add to the cost of our products, and increases the capital-intensive nature of our business.

Forward-Looking Statements, Risks and Factors (continued)

- ***Our liquidity position may be adversely affected by a continued downturn in our industry.*** Any downturn in our industry can adversely affect our operating results and consequently limited our ability to incur additional indebtedness under certain covenants within our debt instruments. In the event industry conditions remain weak for any significant period of time, our liquidity position may be adversely affected, which may limit our ability to complete product development, capital improvement programs or other strategic initiatives at currently proposed levels.
- ***Our business could be negatively impacted in the event NFC is unable to access sufficient capital to engage in its financing activities.*** NFC supports our manufacturing operations by providing financing to a significant portion of International dealers and retail customers. NFC traditionally obtains the funds to provide such financing from sales of receivables, commercial paper, medium- and long-term debt and equity capital and from short- and long-term bank borrowings. If cash provided by operations, bank borrowings, continued sales and securitizations of receivables and the placement of term debt does not provide the necessary liquidity, NFC would restrict its financing of International products and to International dealers.
- ***Navistar has significant underfunded postretirement obligations.*** We have significant underfunded postretirement obligations. The underfunded portion of our accumulated benefit obligation was \$805 million and \$994 million for pension benefits at October 31, 2004 and 2003, respectively, and \$1,880 million and \$1,810 million for postretirement healthcare benefits at October 31, 2004 and 2003, respectively. Moreover, we have assumed expected rates of return on plan assets and failure to achieve these assumed rates of return could have an adverse impact on our underfunded postretirement obligations, financial condition and results of operations.
- ***Our manufacturing operations are dependent upon third-party suppliers, making us vulnerable to a supply shortage.*** We obtain materials and manufactured components from third-party suppliers. Some of our suppliers are the sole source for a particular supply item. Any delay in receiving supplies could impair our ability to deliver products to our customers and, accordingly, could have a material adverse effect on our business, results of operations and financial condition.
- ***Our ability to use Net Operating Loss Carryovers to reduce future tax payments could be negatively impacted if there is a change in ownership of Navistar or a failure to generate sufficient Taxable Income.*** As of October 31, 2004, the company has recorded on its statement of financial condition a deferred tax asset, net of allowances, of \$581 million relating to \$1,466 million of domestic and \$72 million of foreign net operating loss, or NOL, carryovers. Currently there is no annual limitation on our ability to use NOLs to reduce future income taxes. However, if an ownership change as defined in Section 382 of the Internal Revenue Service Code of 1986, as amended, occurs with respect to our capital stock, our ability to use NOLs would be limited to specific annual amounts. Generally, an ownership change occurs if certain persons or groups increase their aggregate ownership by more than 50 percentage points of our total capital stock in a three-year period. If an ownership change occurs, our ability to use domestic NOLs to reduce income taxes is limited to an annual amount based on our fair market value immediately prior to the ownership change multiplied by the long-term tax-exempt interest rate. NOLs that exceed the Section 382 limitation in any year continue to be allowed as carryforwards for the remainder of the 15- or 20-year carryforward period and can be used to offset taxable income for years within the carryover period subject to the limitation in each year. Our use of new NOLs arising after the date of an ownership change would not be affected. If more than a 50% ownership change were to occur, use of our NOLs to reduce payments of federal income tax may be deferred to later years within the 15- or 20-year carryover period, or, if the carryover period for any loss year expires, the use of the remaining NOLs for the loss year will be prohibited. If we should fail to generate a sufficient level of taxable income prior to the expiration of the NOL carryforward periods, then we may lose the ability to offset future taxable income against these expired NOLs.

Forward-Looking Statements, Risks and Factors (continued)

- ***We are exposed to political, economic and other risks that arise from operating a multinational business.*** We have significant operations in foreign countries, primarily in Canada, Mexico, Brazil and Argentina. Accordingly, our business is subject to the political, economic and other risks that are inherent in operating in those countries and internationally. These risks include, among others:
 - trade protection measures and import or export licensing requirements;
 - tax rates in certain foreign countries that exceed those in the United States and the imposition of withholding requirements of foreign earnings;
 - difficulty in staffing and managing international operations and the application of foreign labor regulations;
 - currency exchange rate risk to the extent that our assets/liabilities are denominated in a currency other than the functional currency of the country where we operate; and
 - changes in general economic and political conditions in countries where we operate, particularly in emerging markets.
- ***Our substantial debt could require us to use a significant portion of our cash flow to satisfy our debt obligations and may limit our operating flexibility.*** We have a substantial amount of outstanding indebtedness. Our level of indebtedness could:
 - increase our vulnerability to general adverse economic and industry conditions;
 - limit our ability to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to make payments on our indebtedness;
 - limit our ability to obtain additional financing to fund future working capital, acquisitions, capital expenditures, research and development costs and other general corporate requirements;
 - limit our ability to take advantage of business opportunities as a result of various restrictive covenants in our indebtedness; and
 - place us at a competitive disadvantage compared to our competitors that have less debt.
- ***Adverse resolution of litigation may adversely effect our operating results or financial condition.*** Litigation can be expensive, lengthy and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome of a particular matter could have a material adverse effect on our business, operating results or financial condition. For additional information regarding certain lawsuits in which we are involved, see Item 3, “Legal Proceedings” contain in Part I of the company’s Annual Report on Form 10-K.

All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

ANNUAL CEO CERTIFICATION
(Section 303A.12(a))

As Chief Executive Officer of Navistar International Corporation
(Name of Company)

and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's Corporate Governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(a) and disclosed as an attachment hereto.

By: /s/ Daniel C. Ustian

Daniel C. Ustian

Date: March 23, 2004