DREAM: Navistar has a rich heritage in Mexico, since the sale of its first International® truck in that country in 1926. For the past 30 years, the company has served the Mexican marketplace primarily through a series of highly successful licensing agreements that have made Navistar the predominant truck technology on Mexican roadways. ■ But with an improving Mexican economy and a unified North American market, establishing a stronger presence in Mexico is a critical priority. Simply put, to participate in Mexico, Navistar must produce in Mexico. The challenge to the International Operations group and Jose Manuel Cañal (center) was to create a complete production, marketing and distribution network in Mexico in a year's time.

ACHIEVEMENT: Drawing on resources from across the company, including sales, purchasing, engineering, manufacturing, and financial services, the "Navimex" team moved swiftly to put in place the infrastructure necessary for Navistar to attain a formidable position in the Mexican marketplace. ■ "We could not have accomplished all that we did—a complete dealer organization, parts distribution, production capacity—without the help and support of a lot of people across the company," Cañal said. "They shared their expertise and devoted resources to the International group. It was a true team effort in every sense." Also pictured from Navistar de Mexico are Augusto Rodriguez, director of purchasing (left), and Jorgé Luis Gonzalez, director of human resources and administration.

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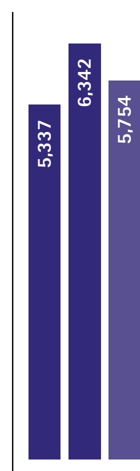
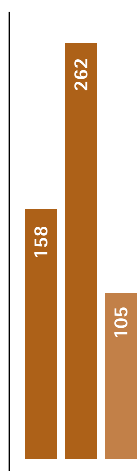
Financial Summary

For the Years Ended October 31

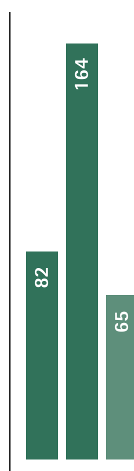
(Millions of dollars, except per share data)	96	95
Sales and revenues	$5,754	$6,342
Income before income taxes	$ 105	$ 262
Net income	$ 65	$ 164
Net income per common share	$ .49	$ 1.83
Manufacturing gross margin	12.5%	13.8%
Return on equity	7.1%	18.9%
Cash and marketable securities	$ 881	$1,040



Sales and revenues ($ millions)



Income before income taxes ($ millions)



Net income ($ millions)

ACHIEVEMENTS

- Unveiled new five-point truck strategy designed to increase returns to shareowners by meeting 15% return on assets (ROA) targets.
- Launched comprehensive capabilities in Mexico, including an assembly operation, a 24-dealer network and a centralized parts distribution operation.
- Spun off Columbus Plastics Operation to focus capital on core truck and engine divisions.
- Became the first diesel engine manufacturer to meet federal emission standards proposed for the year 2004.
- Created a joint venture for production of highly complex severe service Paystar® trucks at a focused operation in Garland, Texas.
- Partnered with Canadian Auto Workers in a labor agreement that achieves work rule changes allowing for manufacturing flexibility and cost savings.
- Concentrated stripped chassis production at AmTran.
- Introduced the Diamond SPEC™ truck ordering process to improve quality and delivery, while enhancing support services with Diamond PLUS℠—a new guarantee for truck uptime.
- Delivered improvements in productivity and quality throughout the Engine Division.
- Ranked number one for second year in a row by American Truck Dealers survey, where dealers rate major manufacturers on truck product lines, service and support.
- Broke ground for 700,000 square-foot manufacturing facility in Escobedo, Nuevo Leon, Mexico, to serve that market and Latin America in 1998 with annual production capacity of 14,000 vehicles.
- Initiated roll out of a performance-driven culture process to drive financial results.

Dream Achieve

At Navistar, we've set our sights on a singular vision: to be the best truck and engine company in North America. This is a bold dream. To achieve it, we know we must change. Business as usual won't get us there.

Being the best means creating real value for our shareowners. It means leading our industry in customer satisfaction. And, it means creating a climate for performance which challenges and motivates our employees.

In 1996, we took significant steps to drive fundamental change throughout Navistar.

- We strengthened the blend of executive management with the addition of Don DeFosset as president, Truck Group, and Bud Thompson, senior vice president, Employee Relations & Administration.
- We also continued to change the make-up of our Board of Directors. In 1996, we added three new directors who lead preeminent companies: Borg-Warner Automotive, Inc., Coleman Company, Inc. and the Geon Company.
- We underwent an exhaustive review of our truck business, forged a five-point strategy to drive improved performance, and began rapidly implementing these strategies.
- In our engine division, we reinforced our technological leadership by becoming the first in our industry to demonstrate our capability to meet proposed 2004 emissions standards.
- And, we launched a companywide initiative to create a high performance company culture. This has been an effort led from the top down and created from the bottom up.

While these actions position us to achieve our vision, our financial performance, which is reflected in our stock price, remains disappointing. This, too, must change.

Two events in 1996 are particularly noteworthy in demonstrating our resolve to change and our departure from business as usual.

First, for the last several years we have been working hard to develop a next generation of world-class medium trucks. In June, we were at the stage of the program where investment would escalate dramatically. Unfortunately, we were unable to reach agreement with the United Auto Workers on several issues critical to building the trucks profitably. So we terminated the program. This required a $35 million pretax charge to earnings and greatly disappointed our employees. Some called it a bold decision; it had to be made. We could not invest millions of dollars in an effort that would not deliver the kinds of operating returns that result in increased shareowner value.

Second, we successfully negotiated a new contract in partnership with the Canadian Auto Workers. Under this agreement, our Chatham, Ontario assembly plant, and the company overall, is on the right track to becoming more competitive. The flexible work rules, reduced job classifications, and team assembly approach paves the way for large increases in productivity and quality.

During the year, we also made progress on other initiatives. For example, our new Diamond SPEC™ modular truck offering, which greatly reduces product complexity, has been well received in the marketplace.

We began to focus our truck manufacturing to reduce complexity in our plants. We are simplifying our assembly operations—from the models produced to the systems and processes involved. During the year, stripped chassis production was moved from our Springfield, Ohio assembly plant to our AmTran subsidiary. Plans are underway to move our severe service trucks from our Chatham plant to a new joint venture in Texas early in 1997. Our objective is to focus these plants to achieve that 15% ROA target for our truck

business.

We aggressively expanded our presence in Mexico to take advantage of anticipated growth in that and other Latin American markets. Navistar now has 24 dealer locations in Mexico. During the year, we ramped up production at a contract manufacturing assembly operation to fill the near-term needs of these dealers, and we launched plans to build our own facility in Mexico with a capital appropriation of $167 million. This operation will meet our 15% ROA objective.

We moved forward with new product programs in our premium conventional truck line which include upgrades that appeal to customers and that allow for platform and process improvements to enhance profitability.

In our engine division, we continued to develop new technologies and adopt electronics to improve our diesel engines' air and fuel management, to reduce emissions, to improve fuel economy and to deliver more power, torque and product performance features.

And our finance subsidiary, Navistar Financial Corporation, exceeded their 15% ROA goal for the third year in a row. They also increased their retail market share to almost 26% in the heavy truck category, and 14% in medium truck. Yet, while Navistar Financial continues to see strong performance, in reality, their continued growth depends on our core truck business—in particular Class 8 trucks. These businesses will continue to work closely together to grow and build long-term viability.

The Office of the Chief Executive: Don DeFosset, executive vice president and president, Truck Group (left); John R. Horne, chairman, president and chief executive officer (center); and Robert C. Lannert, executive vice president and chief financial officer.

We also are encouraged by our efforts to create alliances with our supply base and by the long-term agreements we have forged with proven manufacturers of component parts.

But at the end of the day, while we have many achievements to report, our financial performance must improve. The challenges we face are significant as pricing continues to create pressure, as we face a downturn in demand, and as competition intensifies. We have, however, a gameplan to address these challenges with the strategies we have in place. Combined with management's resolve and the talents and energy of our employees, we will achieve our dream. We will be the best truck and engine company in North America.

John R. Horne

John R. Horne

Deliver

- Drive a minimum 15% return on assets over the cycle.
- Achieve a 17.5% return on equity.

We established two criteria as the foundation of our strategies to deliver acceptable returns to shareowners. Operating management must drive a 15% return on the assets (ROA) they manage, which will lead to corporate performance of 17.5% return on equity (ROE).

These are tough targets. They demand change and require us to stretch. But we can no longer afford to conduct business as usual. In 1996, we reported net income of $65 million, reflecting lower truck sales and a one-time $35 million pretax charge when we terminated development of our next generation truck (NGT). At the same time, our manufacturing gross margin declined to 12.5% of sales in 1996, compared to 13.8% in 1995 and 12.8% in 1994. At the end of the year, we did not achieve our ROA and ROE objectives.

To address our shareowners' requirements, we spent a great deal of time in 1996 further developing strategies that will enable the company to achieve these objectives, and now it's time to deliver progress against those metrics. Only those initiatives and programs that demonstrate a potential for adequate returns will be funded in the future. Those that do not will be reworked, or they will not be funded.

This year, our plan to build our next generation truck was contingent on reaching an agreement with the United Auto Workers on issues critical to producing the trucks and meeting the 15% ROA target for the truck business. When an agreement could not be reached, we terminated the program instead of investing in a program that would not deliver the targeted returns. While the initiative to produce NGT in Springfield was the preferred option, we're continuing to pursue new product development, including working with the United Auto Workers to find ways to become more cost competitive.

Our plan to establish operations in Mexico, on the other hand, can generate a 15% ROA and will provide opportunities for significant revenue growth. That's why we invested $17 million in developing our capabilities in Mexico during 1996 and received board approval for an additional $167 million to construct a manufacturing facility there. We expect to be in production by 1998—well positioned and with enough capacity to meet demand as the Mexican economy recovers, and for export to other Latin American markets.

When we negotiated a new contract with the Canadian Auto Workers at our Chatham, Ontario plant, the agreement also was based on achieving the 15% ROA target for the truck business. With work-rule changes that improve productivity and manufacturing flexibility, Chatham's ROA will improve by seven percentage points, bringing the truck business closer to its 15% goal.

Recognizing the need to focus our capital investments on our core truck and engine businesses, we elected to sell our Columbus Plastics Operation, which manufactures plastic components for Navistar and other original equipment manufacturers.

In line with our ROA and ROE metrics, we conducted an intensive education program in shareowner value for all of our managers throughout the Navistar organization. Our managers now are equipped with practical formulas for use in evaluating proposed programs and projects to ensure they meet our financial targets.

Navistar now is better positioned—with metrics and strategies firmly established—to achieve strong financial performance. Now, it's time to deliver.

DREAM: Creating shareowner value has to be more than a management imperative at Navistar. It must be the responsibility of each and every employee. But how do you help employees understand how such complex financial concepts as ROE and ROA affect decisions made every day? And how do you empower people with practical tools they can use in their workplace to create shareowner value?

ACHIEVEMENT: The answers came in a program spearheaded by Arnold Henning, director of financial projects. His team developed an intensive, two-day session to educate employees on how their actions impact the bottom line. Using case studies and sophisticated computer modeling, participants learn firsthand how a range of financial variables such as pricing, market share, engineering costs and inventory levels contribute to ROE and ROA. And they come away with an objective formula they can use to evaluate projects, programs or proposals on the basis of whether they meet the company's financial goals. ■ Navistar's top 450 managers have gone through the training. A modified version is being rolled out to all employees via "Joint Focus," a training program developed by Navistar and the United Auto Workers. ■ "We are developing a common language for how Navistar's success and performance are measured and are starting to recognize how we as individuals fit into the overall financial equation," Henning said.

Simplify

- Reduce product complexity.
- Decomplex assembly facilities.
- Emphasize product development.
- Expand internationally, initially in Mexico.
- Achieve competitive wage, benefit and productivity levels.

Navistar unveiled a five-point truck strategy in 1996 that addresses an increasingly tough competitive environment in North America and our need to alter our cost structure to deliver strong financial performance across the business cycle. The strategy comprises a series of initiatives to improve quality, productivity, and product development, and to drive profitable growth. These initiatives are supported by our financial services operations and a superior distribution system—a 1,000-location strong dealer franchise organization in the United States, Canada and Mexico; a comprehensive service parts network; and an expanding used truck organization.

While the performance of the truck group was not acceptable, there were a number of achievements that will drive improved financial performance.

One initiative within the truck strategy—reducing product complexity—resulted in a combination of manufacturing efficiencies and customer benefits. In 1996, we introduced upgrades of our International® and Eagle® 9200 and 9400 model premium conventional trucks featuring common chassis and standardized componentry. These enhancements reduce complexity in manufacturing to create efficiencies and improve quality. For customers, significant improvements in design, styling and features were implemented to enhance driver comfort and performance. We also introduced our Diamond SPEC™ truck ordering process and our Diamond PLUS℠ support package at the American Trucking Association annual meeting.

We took steps to reduce complexity in our manufacturing operations, within the framework of our union contracts, to focus our assembly plants on efficiently producing trucks and meeting marketplace demand. We began the transfer of stripped chassis from our Springfield, Ohio plant to our AmTran facility in Conway, Arkansas. Production of the International® 8200 heavy truck will cease in 1997, furthering Springfield's transition to a medium-duty only facility. We also created a joint venture to focus production of the highly complex Paystar® severe service trucks. This helps our Chatham, Ontario plant concentrate on building the International and Eagle 9000 models.

In new product development, we introduced the International® 9100 conventional truck—built on the same platform as other 9000 series models—to deliver a combination of benefits to local and regional transportation companies. These include an improved driver environment, the effective Diamond SPEC and Diamond PLUS systems, and a higher residual value than comparable vehicles. Longer term, our new family of premium conventional trucks, targeted for production in 1998, will enable us to provide improved performance and enhancements.

We also were active in bringing new bus models to market, including the International® 3400 shuttle and the rear engine transit bus.

We continue to address issues to improve productivity. Most significant in 1996 was the agreement reached with the Canadian Auto Workers. Under the terms of the current three-year contract, significant productivity gains are possible through changes in job classifications, work rules and training.

Finally, over the past year, we moved aggressively to expand our presence in Mexico, which represents an opportunity for growth as we meet customers' needs there and in other Latin American markets.

In all of our initiatives, we continue to focus on offering more to our customers through our superior distribution system. The performance of our school buses, and medium- and heavy-duty trucks drove us to the top of the industry in dealer satisfaction, as Navistar was rated tops in the American Truck Dealers "Dealer Attitude Survey" for two years running. Through our new Customer Satisfaction Process introduced in 1996, our entire dealer network is focused on delivering measurable, continuous improvements.

In our parts business, we continue to be the truck industry benchmark for total parts support. We target those customers who can benefit from one-stop shopping for all their needs, bumper-to-bumper. We also introduced Fleet Charge® Gold to offer customers opportunities to improve the ways they manage costs. In another effort, we've invested in business systems to improve the processing of customer orders, speed delivery of parts and link electronically with both customers and suppliers.

Through innovative financing offered by Navistar Financial Corporation, we're arming our dealers with attractive and flexible financing choices for our customers. As we drive performance through our initiatives, we will not lose sight of the needs of our customers and dealers.

DREAM: Selecting and ordering the combinations possible for a truck can be an arduous process. With literally thousands of options from which to choose, the process can take hours. In streamlining its ordering process, Navistar's challenge was to ensure that it continued to meet customer needs.

ACHIEVEMENT: With the new Diamond Services℠ program, Navistar introduced simplicity into the ordering process while still delivering customer satisfaction, according to James T. O'Dare, group vice president, Sales and Distribution (left) and Bruce Rosenquist, president, Pollard Motor Co. ■ Under the Diamond SPEC™ program, more than 200 pre-packaged option groups are arranged under 11 categories (i.e. engine, chassis, electrical system) based on customers' most popular preferences. All packages are pre-engineered so that a specific engine, for instance, comes with all the corresponding components—engine, brake, fan drive, radiator. ■ As a result, what once took hours now can be done in minutes. For customers and dealers, that means greater convenience, improved product quality and reliable delivery. ■ Once the truck is ordered, Navistar stands behind its customer with an unprecedented service program called Diamond PLUS℠, which helps customers manage costs over the lifecycle of the truck. The package includes a two-year, 200,000-mile limited warranty, and, under certain conditions, guaranteed parts availability, replacement vehicles during the warranty period, and free emergency breakdown service (EBS®) throughout the lifetime of the vehicle.

- Accelerate profitable growth in the V-8 and I-6 engine product lines.
- Drive application of technologies in products.
- Invest in leadership through development of new technologies.
- Achieve competitive wage, benefit and productivity levels.

Innovate

As a worldwide leader in mid-range diesel engines, we have a formula for performance, combining innovative technologies with our desire to be the low-cost producer. Evidence of our leadership was illustrated by our achievements in shipping mid-range diesel engines to other original equipment manufacturers. In 1996, we shipped a record 163,200 units, which is a 6% increase from the previous year and a 25% improvement over 1994. In addition, we exceeded the 15% ROA target in 1996, but our challenge is to deliver these returns throughout the business cycle.

To strengthen our leadership position and deliver a 15% ROA, we must stay in high gear, making continued gains in productivity, reducing costs, managing our inventories and assets, and delivering quality improvements across our entire product line. We've made significant strides in all of these areas, including a reduction in total man-hours per engine of more than 30% over the last two years.

Over the past five years, the market response to our 7.3DI eight-cylinder engine has been extremely favorable. Since 1991, Ford, our largest OEM customer, has doubled orders for these engines for use in its full-size commercial pickup trucks. Our success with Ford, combined with sales to OEM customers and off-highway applications, has resulted in solid growth.

Our focus on growth in 1997 is on serving our major OEMs, continuing development of our I-6 business and meeting accelerating demand for our V-8 engines.

To ensure that we can continue to provide customers the best technology in the industry, we opened our Competitive Intelligence Center to benchmark our engines against the competition. By conducting in-depth analysis, we can continue to reduce costs and increase the value of our engines. For example, we identified and implemented 15 cost reduction opportunities for our six-cylinder DT 466E engines to be implemented in the 1997 model year.

On the product development front, we continue to enhance existing technologies to add tangible, bottom-line value. This year, we applied our HEUI (hydraulically-actuated electronically-controlled unit injector) technology to lead the industry in meeting future emission standards. Using our HEUI system, we became the first diesel engine manufacturer to meet stringent government-proposed emission standards for the year 2004. We reduced smog-producing nitrogen oxide (NOx) levels without increasing particulate emissions or sacrificing fuel economy.

In developing winning technologies, we will continue to meet our customers' ongoing, changing needs. This long-term outlook, combined with an ability to deliver a 15% ROA in any business environment, will fuel profitable growth.

DREAM: Complying with ever-increasing federal exhaust emission limits is an ongoing challenge to anyone involved in transporting goods by truck. And some have questioned the continued viability of the diesel engine in the face of stricter environmental standards. To assure customers that future emission requirements can be met without sacrificing fuel economy, Navistar set out to beat the standards proposed for the year 2004—eight years early.

ACHIEVEMENT: Pranab Das, manager, Engine Technology (right), took on the challenge, and within 90 days his team demonstrated Navistar's ability to meet the proposed 2004 federal heavy-duty engine emissions limits for NOx using only existing technologies. And they did it without increasing particulate emissions or sacrificing fuel economy. Key to Navistar's success was its existing electro-hydraulic fuel system, which combines precise, electronic control of fuel injection timing and injection pressures—allowing Das; Jim Yan, V-8 product engineer (left); and other engineers to precisely calibrate fuel injection for optimum performance and reduced NOx formation. Also critical to the mix were Navistar's exhaust gas recirculation (EGR) technology, wastegated turbocharger, a particulate-reducing catalytic converter and an advanced, cleaner-burning diesel fuel formulation. ■ "In meeting these standards today with existing technologies, we've once again proven to our customers and the industry that we are the leader in developing innovative technologies that meet real customer needs," concluded Das.

Lead

- Develop our people for top individual and team performance.
- Broaden leadership's responsibility for achieving company results.
- Align the work culture to support aggressive operating strategies.

We know that strategies alone won't do the job. To create an environment in which aggressive operating strategies can flourish, employees need to work effectively both individually and in teams. And that expectation of strong performance must be supported by a work climate that encourages and rewards behavior that benefits employees, customers and shareowners.

After gathering ideas and opinions from employees at all levels throughout the company, we have a clear picture of what is needed to build the cultural foundation Navistar requires. They've told us, we've listened, and we've set a course for change.

Change begins with the senior managers of the company. The old command and control management style won't work any more. Our people want to be involved in finding solutions for the challenges they face daily, and they want to work in an environment characterized by trust and mutual respect. To prepare themselves to lead the workforce toward this new environment, senior managers themselves are learning to be more effective team members—learning to build stronger, more effective work relationships.

This training for managers is a small part of the development that's needed to help everyone at Navistar achieve top performance. We've made continuing education a requirement, not just an option. Our focus now extends beyond personal development to helping employees see the direct link between individual and company performance, and ultimately shareowner value.

Management employees must now take at least 40 hours of core business and skills education per year including the technical training that's required to perform many jobs. We also partnered with the United Auto Workers to introduce a program, called "Joint Focus," to educate Navistar employees at all levels and locations about business realities. An important part of this course is helping employees see what drives our stock price, and how they as individuals play a role in the company's viability. As approximately one-third of the company's common stock is held by our employees through the Supplemental Trust, this learning can help them understand how tightly their personal financial well-being is intertwined with company performance.

Helping to pilot the change to a performance-driven culture are our top 450 leaders. We established a Leadership Council with regular meetings and communications as a means to involve all management in improving company performance. After our first leadership conference, 98% of the participants said they had gained a deeper understanding of the company's strategies, vision and direction, and an appreciation for their role in helping Navistar achieve them. These individuals are charged with forging a common understanding of Navistar's vision and strategies throughout the organization and for delivering on performance commitments. Moreover, management's progress on corporate strategies will be rewarded through their annual incentive compensation.

Navistar people have immense pride in our company and our products. Our challenge is to create a work environment that focuses this pride on delivering results.

DREAM: To succeed, strategies must be more than sound. They must be well communicated, and they must be understood by the people charged with their implementation. In order for people to get there, they've got to know where they're going. In this particular effort, the people are deciding for themselves what the communications processes are and how they will share implementation responsibility with management.

ACHIEVEMENT: At each of Navistar's sites, management is forming communications teams to drive understanding of company direction, site business plans and the individual's role in accomplishing the strategies. ■ Larry Yeager, platform development manager, Heavy Duty Engineering, Fort Wayne, (fourth from top) is captain of a management/union team. Since its inception less than a year ago, the team has created and implemented processes for late-breaking news, business plan introduction and update, feedback, and management visibility. The team also created measurement systems to gauge levels of understanding and track the group's progress. ■ Yeager likes what he sees. "It's working for us," he says. "We're seeing better understanding of strategies. Management's increased visibility and openness also is improving trust and morale." From top, other Fort Wayne heavy-duty engineering communication team members include: Jeff Wolfe, design engineer; Bart Seslar, design engineering manager; Karen Buuck, development engineer; Yeager; B. J. Dixson, design engineering manager; and Dick Nartker, product designer.

Expand

- Establish a strong market presence in Mexico.
- Position operations for growth in the rest of Latin America.
- Expand opportunities in South Africa and the Middle East.

International expansion adds to the growth opportunities for both our truck and engine operations. During the past year, we moved aggressively to strengthen our presence in Mexico, a market that affords significant opportunities for growth and meets our 15% ROA requirement for investment.

In 1996, we quickly launched manufacturing capabilities, a dealer network and a service parts business in Mexico with an investment of $17 million. A contract manufacturing agreement satisfies our need for short-term production capability for the International® 4700 and 4900 medium trucks and International 9200 tractors. We produced 300 trucks in 1996, and achieved a 6% market share in Mexico. We expect to produce 1,000 trucks for Mexico in 1997.

To serve long-range market demand, Navistar's Board of Directors approved a $167 million appropriation for construction of our own manufacturing facility in Escobedo, Nuevo Leon. The 700,000 square-foot plant will start production in 1998, and will have the capacity to produce 65 units per day on one shift. Volume will be increased as demand rises with the growing strength of the Mexican economy. Increased distribution needs will be served by an additional 30 dealer outlets scheduled to open by 1999.

Our Mexico operations also will serve as a launch point for other Latin American countries, as Mexico enjoys more favorable and cost effective trade agreements with many of these countries.

Beyond this strategic initiative, we continue to grow our businesses in South Africa and the Middle East. As the heavy-duty truck market leader in South Africa, we forecast steady volume and sales growth, coupled with expansion opportunities into other countries in the South Africa Customs Union. In the Middle East, we project strong sales growth as rising oil prices stimulate economic growth and increased regional trade and transportation.

As we expand into new markets, our continuing challenge will be to focus on profitable growth and invest in opportunities that will achieve a 15% ROA.

Certain statements under this caption constitute "forward-looking statements" under the Reform Act, which involve risks and uncertainties. Navistar International Corporation's actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed under the caption "Business Environment."

Navistar International Corporation is a holding company and its principal operating subsidiary is Navistar International Transportation Corp. (Transportation). In this discussion and analysis, "company" refers to Navistar International Corporation and its consolidated subsidiaries. The company's manufacturing operations are engaged in the manufacture and marketing of Class 5 through 8 trucks, including school buses, mid-range diesel engines and service parts in the United States, Canada and Mexico. These products are also sold to distributors in selected export markets. The financial services operations of the company provide wholesale, retail and lease financing, and commercial physical damage and liability insurance coverage to the company's dealers and retail customers and to the general public through an independent insurance agency system.

The discussion and analysis reviews the operating and financial results, and liquidity and capital resources of manufacturing operations and financial services operations. Manufacturing operations include the financial results of the financial services operations included on a one-line basis under the equity method of accounting. Financial services operations include Navistar Financial Corporation (Navistar Financial), its domestic insurance subsidiary as well as the company's foreign finance and insurance companies. See Note 1 to the Financial Statements.

Results of Operations

The company reported net income of $65 million for 1996, or $0.49 per common share, reflecting lower sales and revenues and a one-time $35 million pretax charge for termination of its next generation truck program in the fourth quarter of 1996. Net income was $164 million, or $1.83 per common share, in 1995 and $82 million, or $0.72 per common share, in 1994. Net income in 1994 included a $20 million after-tax charge to discontinued operations related to environmental liabilities.

The company's manufacturing operations reported income before income taxes of $22 million in 1996 compared with pretax income of $200 million in 1995 and $98 million in 1994. The 1996 operating results reflect a decline in demand for trucks as well as the charge for termination of the company's next generation truck program. The increase between 1995 and 1994 reflects higher sales of trucks and diesel engines as well as the effects of improved pricing and various cost improvement initiatives.

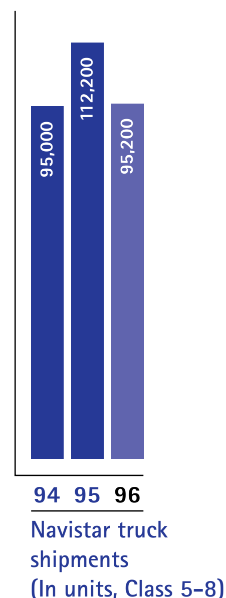
The company's financial services operations, which include Navistar Financial, its domestic insurance subsidiary and the company's foreign finance and insurance subsidiaries, had income before income taxes of $83 million, $62 million and $60 million in 1996, 1995 and 1994, respectively.

Navistar Financial's pretax income in 1996 was $81 million, a 37% increase from $59 million in 1995. The change is a result of higher income on sales of retail notes and increased volume of wholesale financing during the first nine months of 1996. The improved gains on sales resulted from higher margins on retail notes reflecting declining market interest rates prior to the date of sale. Navistar Financial's pretax income increased $4 million in 1995 from the $55 million reported in 1994. The change reflects higher income from an increased volume of wholesale financing to support the demand for trucks and improvement in Navistar Financial's interest cost over market interest rates offset by a reduction in margins on retail financing.

Earnings from the foreign finance and insurance subsidiaries were $2 million, $3 million and $5 million in 1996, 1995 and 1994, respectively.

Sales and Revenues. Industry retail sales of Class 5 through 8 trucks totaled 341,200 units in 1996, a 10% decline from the 380,600 units sold in 1995 but comparable to the 339,600 units sold in 1994. Class 8 heavy truck sales totaled 195,400 units, a decline of 15% from the 228,800 units sold in 1995 and 5% from the 205,400 units sold in 1994. Industry sales of Class 5, 6 and 7 medium trucks, including school buses, totaled 145,800 units in 1996, a 4% decrease from 1995 when 151,800 units were sold, but 9% higher than the 134,200 units sold in 1994. Industry sales of school buses, which accounted for 22% of the medium truck market, increased 7% over 1995 to 32,500 units.

Sales and revenues of $5,754 million in 1996 were 9% lower than the $6,342 million reported in 1995 but 8% higher than the $5,337 million reported in 1994. Sales of trucks, mid-range diesel engines and service parts, for 1996 totaled $5,508 million, 10% below the $6,125 million reported for 1995 and 7% over the $5,153 million reported in 1994.

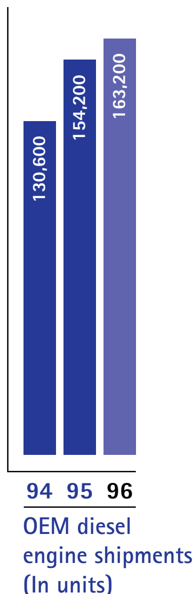


Navistar truck shipments
(In units, Class 5–8)

The company maintained its position as sales leader in the combined United States and Canadian Class 5 through 8 truck market in 1996 with a 27.5% market share, an increase from both the 26.7% share in 1995 and the 27.0% share in 1994. (Sources: American Automobile Manufacturer's Association, the United States Motor Vehicle Manufacturer's Association and R. L. Polk & Company.) In 1996, the company's share of the Class 8 heavy truck market declined to 17.1% from 18.4% in 1995, and 19.6% in 1994, reflecting intense competition in this market.

Shipments of mid-range diesel engines by the company to other original equipment manufacturers during 1996 were a record 163,200 units, a 6% increase from 1995 and a 25% improvement over 1994. Higher shipments to a domestic automotive manufacturer to meet consumer demand for the light trucks and vans which use this engine was the primary reason for the increase.

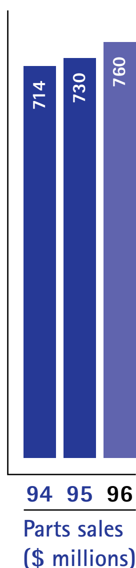
Service parts sales of $760 million in 1996 increased from the $730 million reported in 1995 and were 6% higher than the $714 million reported in 1994 as a result of dealer and national account volume growth.



OEM diesel engine shipments (In units)

Finance and insurance revenue for 1996 was $197 million, 18% higher than the $167 million reported in 1995 primarily as a result of higher income on sales of retail notes. Revenues from financial services operations increased 10% between 1995 and 1994 primarily as a result of higher wholesale and retail financing volume.

Other income was $49 million in 1996 unchanged from 1995. Other income increased 56% between 1995 and 1994 as a result of increased interest income from higher cash, cash equivalents and marketable securities balances.



Parts sales ($ millions)

Costs and Expenses. Manufacturing gross margin was 12.5% of sales in 1996, compared with 13.8% in 1995 and 12.8% in 1994. The decrease in gross margin is the result of lower sales volumes, more competitive pricing and the costs of terminating the next generation truck program. Factors which contributed to the change in gross margin between 1995 and 1994 included higher sales volumes and improved pricing offset by overtime costs and a provision for employee profit sharing.

Engineering and research expense increased to $129 million in 1996 from $113 million in 1995 and $97 million in 1994 reflecting investment in new truck and engine products as well as improvements to existing products.

Marketing and administrative expense was $319 million in 1996 compared with $307 million in 1995 and $265 million in 1994. The $12 million increase in the expense between 1995 and 1996 reflects investment in the implementation of the company's strategy to reduce costs and complexity in its manufacturing processes. The change between 1994 and 1995 is the result of higher sales and distribution costs, and an increase in the provision for payment to employees as provided by the company's performance incentive programs.

Interest expense decreased slightly to $83 million in 1996 from $87 million in 1995 but was $8 million higher than the $75 million reported in 1994. The increase in this expense in 1996 and 1995 over 1994 was the result of higher debt balances required by the financial services operations to finance the increased wholesale note and account balances as well as higher interest rates in 1995.

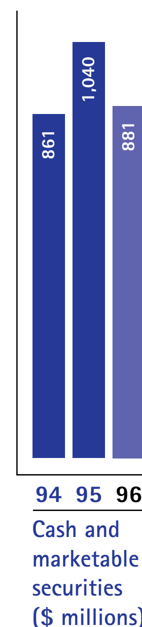
Finance service charges on sold receivables were $24 million in 1996, 17% lower than in 1995 but 50% higher than 1994 reflecting the pattern of truck unit sales over this period.

Liquidity and Capital Resources

Cash flow is generated from the manufacture and sale of trucks, mid-range diesel engines and service parts as well as product financing and insurance coverage provided to Transportation's dealers and retail customers by the financial services operations.

Historically, funds to finance Transportation's products are obtained from a combination of commercial paper, short- and long-term bank borrowings, medium- and long-term debt issues, sales of finance receivables and equity capital. Navistar Financial's current debt ratings have made bank borrowings and sales of finance receivables the most economic sources of cash. Insurance operations are funded through internal operations.

Total cash, cash equivalents and marketable securities of the company amounted to $881 million at October 31, 1996, $1,040 million at October 31, 1995 and $861 million at October 31, 1994.



Cash and marketable securities ($ millions)

Cash provided by operations during 1996 totaled $118 million, primarily from net income of $65 million, $37 million of noncash deferred income taxes and $92 million of other noncash items, principally depreciation. These amounts were partially offset by a net change in operating assets and liabilities of $76 million. Income tax expense for 1996 was $40 million, of which $3 million were cash payments to federal and certain state and local governments, while the remaining $37 million of federal and other taxes reduced the deferred tax asset.

The net change in operating assets and liabilities of $76 million includes a $186 million decrease in receivables offset by a reduction in accounts payable of $110 million, higher inventories and a $106 million decrease in other liabilities. The change in receivables and inventories reflects lower demand for the company's products while the decline in accounts payable is a result of lower production. The change in other liabilities is the result of the payment to employees as required by the company's profit sharing agreements.

Investment programs included a net decrease in marketable securities, as sales of securities exceeded purchases by $167 million. During 1996, the purchase of $1,108 million of retail notes and lease receivables was funded with $982 million in proceeds from the sale of receivables and principal collections of $125 million. Other investment activities used $73 million for an increase in property and equipment leased to others and $117 million to fund capital expenditures for truck product improvements, to increase mid-range diesel engine capacity and for programs to improve cost performance.

Financing activities used cash to pay $29 million in dividends on the Series G Preferred shares and $136 million for principal payments on long-term debt offset by an $81 million increase in notes and debt outstanding under the bank revolving credit facility and asset-backed and other commercial paper programs.

During 1996, Navistar Financial supplied 94% of the wholesale financing of new trucks sold to Transportation's dealers compared with 93% in 1995 and 1994. Navistar Financial's share of the retail financing of new trucks sold in the United States increased to 16% in 1996 compared with 14% in 1995 and 15% in 1994.

The sale of finance receivables is a significant source of funding for the financial services operations. During 1996 and 1995, Navistar Financial sold $985 million and $740 million, respectively, of retail notes through Navistar Finance Retail Receivables Corporation (NFRRC), a wholly owned subsidiary. In both years, the net proceeds were used for general working capital purposes.

NFRRC has filed registration statements with the Securities and Exchange Commission which provide for the issuance of up to $5,000 million of asset-backed securities. At October 31, 1996, the remaining shelf registration available to NFRRC for issuance of asset-backed securities was $2,400 million. See Note 9 to the Financial Statements.

Navistar Financial has a $925 million bank revolving credit facility, and a $400 million asset-backed commercial paper program supported by a bank liquidity facility which mature in March 2001. Navistar Financial also utilizes a $500 million revolving wholesale note sales trust that provides for the continuous sale of eligible wholesale notes on a daily basis. The sales trusts are comprised of three $100 million tranches of investor certificates maturing serially from 1997 to 1999 and a $200 million tranche maturing in 2004.

The company finances capital expenditures principally through internally generated cash. Capital leasing is used to fund selected projects based on economic and operating factors. The company had outstanding capital commitments of $38 million at October 31, 1996, which consist of truck and engine development and ongoing facility maintenance programs. In November 1996, the company announced plans to spend $167 million, over the next two years, to construct a new truck assembly facility in Mexico.

At October 31, 1996, the Canadian operating subsidiary was subject to maximum recourse of $164 million on retail contracts and $9 million on retail leases financed by a third party. In addition, the company is contingently liable for $51 million for various guarantees and buyback programs. Based on historic trends; however, the company's exposure is not considered material.

The Canadian operating subsidiary and certain financial services subsidiaries had $260 million of assets which were restricted as to distribution to Transportation in the form of dividends, or loans and advances at October 31, 1996. The company and Transportation are obligated under certain agreements to maintain Navistar Financial'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, 1996.

It is the opinion of management that, in the absence of significant unanticipated cash demands, current and forecasted cash flow will provide a basis of financing operating requirements, capital expenditures and anticipated payments of preferred dividends. Management also 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 the company's dealers and customers.

Environmental Matters

As disclosed in Notes 4 and 14 to the Financial Statements, Transportation recorded a $20 million charge in 1994, net of $13 million of income taxes, as a loss of discontinued operations for environmental liabilities at production facilities of two formerly owned businesses, Wisconsin Steel and Solar Turbine, Inc. (Solar). The $33 million pretax charge consisted of an $11 million payment to be made to the Economic Development Administration and a $22 million charge for potential cleanup costs for these sites.

In addition, 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 commonly known as the Superfund law. These cases involve sites which allegedly have 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 or shipped to each site 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 generally are recognized no later than completion of the remedial feasibility study and are not discounted to their present value. The company believes that, based on these calculations, its share of the potential costs for the cleanup of each site, other than the Wisconsin Steel and Solar sites, will not have a material effect on the company's financial results. The company reviews its accruals on a regular basis.

Derivative Financial Instruments

As disclosed in Notes 1 and 11 to the Financial Statements, the company uses derivative financial instruments to transfer or reduce the risks of foreign exchange and interest rate volatility, and potentially increase the return on invested funds. Company policy does not allow the use of derivatives for speculative purposes.

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 sales of manufactured products in other countries. Contracted purchases of commodities for manufacturing may be hedged up to one year. The manufacturing operations had no foreign exchange exposure at October 31, 1996.

Navistar Financial uses interest rate caps, interest rate swaps and forward interest rate contracts when needed to convert floating rate funds to fixed and vice versa to match its asset portfolio. Navistar Financial also uses forward interest rate contracts to manage its exposure to fluctuations in funding costs from the anticipated securitization and sale of retail notes. Between August and October 1996, Navistar Financial entered into $400 million of forward interest rate lock agreements which were closed in conjunction with the pricing of the sale of $487 million of retail receivables in November 1996. The unrecognized loss on the agreements at October 31, 1996, which was not material, was included in the gain recognized on the sale of receivables.

Both manufacturing operations and Navistar Financial purchase collateralized mortgage obligations that have relatively stable cash flow patterns in relation to interest rate changes.

Pending Accounting Standards

The company has elected to adopt Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," in fiscal 1997. This statement allows for, and the company intends to, retain the current method of accounting for employee stock-based compensation arrangements with certain additional disclosures. Accordingly, adoption of this standard will have no effect on the company's net income or financial position.

In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which the company must adopt for all applicable transactions occurring after December 31, 1996. The standard is not expected to have a material effect on the company's net income or financial position.

Income Taxes

The Statement of Financial Condition at October 31, 1996 and 1995 includes a deferred tax asset of $1,030 million and $1,087 million, respectively, net of a valuation allowance of $309 million and $307 million, respectively, related to future tax benefits. The deferred tax assets are net of valuation allowances since it is more likely than not that some portion of the deferred tax asset may not be realized in the future.

The deferred tax asset includes the tax benefits associated with cumulative tax losses of $1,987 million and temporary differences, which represent the cumulative expense of $1,507 million recorded in the Statement of Income that has not been deducted on the company's tax returns. The valuation allowance at October 31, 1996, assumes that it is more likely than not that approximately $815 million of cumulative tax losses will not be realized before their expiration date. Realization of the net deferred tax asset is dependent on the generation of approximately $2,700 million of future taxable income, of which an average of approximately $90 million would need to be generated annually for the 13-year period 1997 through 2009. The remaining taxable income, which represents the realization of tax benefits associated with temporary differences, does not need to be generated until subsequent to 2009. See Note 3 to the Financial Statements.

Extensive analysis is performed to determine the amount of the 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 using a number of alternatives to evaluate financial results in economic cycles at various industry volume conditions. Other factors considered are the company's 16-consecutive-year leadership in the combined market share of Class 5 through 8 trucks and recognition as a worldwide leading producer of mid-range diesel engines. The projected availability of taxable income to realize the tax benefit from net operating loss carryforwards and the reversal of temporary differences before expiration of these benefits are also considered. Management believes that, with the combination of available tax planning strategies and the maintenance of significant market share, earnings are achievable in order to realize the net deferred tax asset of $1,030 million.

Reconciliation of the company's United States income before income taxes for financial statement purposes to taxable income for the years ended October 31 is as follows:

Millions of dollars	96	95	94
Income of continuing operations before income taxes	$105	$262	$158
Exclusion of (income) loss of foreign subsidiaries	3	(11)	(13)
Loss of discontinued operations before income taxes	–	–	(33)
State income taxes	(2)	(2)	(2)
Temporary differences	(69)	69	24
Other	–	(4)	2
Taxable income	$ 37	$314	$136

Business Environment

Sales of Class 5 through 8 trucks are cyclical, with demand affected by such economic factors as industrial production, construction, demand for consumer durable goods, interest rates and the earnings and cash flow of dealers and customers. Although the general economy remained stable in 1996, demand for new trucks declined. This change reflected over capacity in the trucking industry as well as uncertainty over the future growth of the economy, causing freight carriers to scale back plans for modernizing and expanding their truck fleets. As a result, the Class 5 through 8 truck market experienced a significant decline in the rate of new truck orders. The decline in the number of new orders has reduced the company's order backlog to 20,900 units at October 31, 1996 from 47,100 units at October 31, 1995. Accordingly, retail deliveries in 1997 will be highly dependent on the rate at which new truck orders are received. The company will evaluate order receipts and backlog throughout the year and will balance production with demand as appropriate.

The company currently projects 1997 United States and Canadian Class 8 heavy truck demand to be 170,000 units, a 13% decrease from 1996. Class 5, 6 and 7 medium truck demand, excluding school buses, is forecast at 112,000 units, unchanged from 1996. Demand for school buses is expected to decline slightly in 1997 to 31,500 units. Mid-range diesel engine shipments by the company to original equipment manufacturers in 1997 are expected to be 176,500 units, 8% higher than in 1996. The company's service parts sales are projected to grow 6% to $809 million.

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 generally accepted accounting principles and include amounts that are based on management's estimates and judgments.

The accompanying financial statements have been audited by Deloitte & Touche LLP, independent auditors, whose appointment is ratified by shareowner vote at the Annual Meeting. 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 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. The system is tested and evaluated regularly by the company's internal auditors as well as by the independent auditors in connection with their annual audit of the financial statements. The independent auditors conduct their audit in accordance with generally accepted auditing standards and perform such tests of transactions and balances as they deem necessary. Management considers the recommendations of its internal auditors and independent auditors concerning the company's system of internal controls and takes the necessary actions that are cost-effective in the circumstances to respond appropriately to the recommendations presented. Management believes that the company's system of internal controls accomplishes the objectives set forth in the first sentence of this paragraph.

The Audit Committee of the Board of Directors, composed of six non-employee Directors, meets periodically with the independent auditors, 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 auditors, internal auditors, general counsel and financial management in scheduled joint sessions or private meetings as in the Committee's judgment seem appropriate. Similarly, the company's independent auditors, 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.

John R. Horne
Chairman, President and
Chief Executive Officer

Robert C. Lannert
Executive Vice President and
Chief Financial Officer

Independent Auditors' Report

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, 1996 and 1995, and the related Statements of Income and of Cash Flow for each of the three years in the period ended October 31, 1996. 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 generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Navistar International Corporation and Consolidated Subsidiaries at October 31, 1996 and 1995, and the results of their operations and their cash flow for each of the three years in the period ended October 31, 1996, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
December 16, 1996
Chicago, Illinois

Statement of Income

Navistar International Corporation and Consolidated Subsidiaries

For the Years Ended October 31 *(Millions of dollars, except per share data)*	96	95	94
Sales and revenues			
Sales of manufactured products	$5,508	$6,125	$5,153
Finance and insurance revenue	197	167	152
Other income	49	50	32
Total sales and revenues	5,754	6,342	5,337
Costs and expenses			
Cost of products and services sold	4,827	5,288	4,496
Postretirement benefits	220	206	176
Engineering and research expense	129	113	97
Marketing and administrative expense	319	307	265
Interest expense	83	87	75
Financing charges on sold receivables	24	29	16
Insurance claims and underwriting expense	47	50	54
Total costs and expenses	5,649	6,080	5,179
Income before income taxes	105	262	158
Income tax expense	40	98	56
Income of continuing operations	65	164	102
Loss of discontinued operations	–	–	20
Net income	65	164	82
Less dividends on Series G preferred stock	29	29	29
Net income applicable to common stock	$ 36	$ 135	$ 53
Income (loss) per common share			
Continuing operations	$ .49	$ 1.83	$ .99
Discontinued operations	–	–	(.27)
Net income per common share	$ .49	$ 1.83	$ .72
Average number of common and dilutive common equivalent shares outstanding (millions)	73.8	74.3	74.6

See Notes to Financial Statements.

Statement of Financial Condition

Navistar International Corporation and Consolidated Subsidiaries

As of October 31 (Millions of dollars)	96	95
Assets		
Cash and cash equivalents	$ 487	$ 485
Marketable securities	394	555
	881	1,040
Receivables, net	1,655	1,854
Inventories	463	416
Property and equipment, net	770	683
Investments and other assets	213	202
Intangible pension assets	314	284
Deferred tax asset, net	1,030	1,087
Total assets	$ 5,326	$ 5,566
Liabilities and shareowners' equity		
Liabilities		
Accounts payable, principally trade	$ 820	$ 933
Debt:		
Manufacturing operations	115	127
Financial services operations	1,305	1,330
Postretirement benefits liability	1,351	1,341
Other liabilities	819	965
Total liabilities	4,410	4,696
Commitments and contingencies		
Shareowners' equity		
Series G convertible preferred stock (liquidation preference $240 million)	240	240
Series D convertible junior preference stock (liquidation preference $4 million)	4	4
Common stock (51.0 million and 50.9 million shares issued)	1,642	1,641
Class B Common stock (24.3 million shares issued)	491	491
Retained earnings (deficit) — balance accumulated after the deficit reclassification as of October 31, 1987	(1,431)	(1,478)
Common stock held in treasury, at cost (1.6 million and 1.4 million shares held)	(30)	(28)
Total shareowners' equity	916	870
Total liabilities and shareowners' equity	$ 5,326	$ 5,566

See Notes to Financial Statements.

Statement of Cash Flow

Navistar International Corporation and Consolidated Subsidiaries

For the Years Ended October 31 *(Millions of dollars)*	96	95	94
Cash flow from operations			
Net income	$ 65	$ 164	$ 82
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATIONS:			
Depreciation and amortization	101	81	72
Deferred income taxes	37	89	51
Additional pension funding	–	(72)	–
Provision for loss of discontinued operations	–	–	20
Other, net	(9)	(4)	(26)
CHANGE IN OPERATING ASSETS AND LIABILITIES:			
Receivables	186	(91)	(173)
Inventories	(47)	35	(19)
Prepaid and other current assets	1	10	(4)
Accounts payable	(110)	63	99
Other liabilities	(106)	142	52
Cash provided by operations	118	417	154
Cash flow from investment programs			
Purchase of retail notes and lease receivables	(1,108)	(1,099)	(916)
Collections/sales of retail notes and lease receivables	1,107	850	1,176
Purchase of marketable securities	(585)	(722)	(710)
Sales or maturities of marketable securities	752	480	621
Proceeds from property sold under sale/leaseback	7	–	87
Capital expenditures	(117)	(139)	(87)
Property and equipment leased to others	(73)	(19)	(5)
Other investment programs, net	(15)	8	36
Cash provided by (used in) investment programs	(32)	(641)	202
Cash flow from financing activities			
Principal payments on debt	(136)	(121)	(222)
Issuance of debt	–	–	100
Net increase (decrease) in notes and debt outstanding under bank revolving credit facility and asset-backed and other commercial paper programs	81	312	(28)
Dividends paid	(29)	(29)	(58)
Repurchase of Class B Common stock	–	(10)	(12)
Cash provided by (used in) financing activities	(84)	152	(220)
Cash and cash equivalents			
Increase (decrease) during the year	2	(72)	136
At beginning of the year	485	557	421
Cash and cash equivalents at end of the year	$ 487	$ 485	$ 557

See Notes to Financial Statements.

1 Summary of Accounting Policies

Basis of Consolidation

Navistar International Corporation is a holding company, whose principal operating subsidiary is Navistar International Transportation Corp. (Transportation). As used hereafter, "company" refers to Navistar International Corporation and its consolidated subsidiaries. The consolidated financial statements include the results of Transportation's manufacturing operations and its wholly owned financial services subsidiaries. The effects of transactions between the manufacturing and financial services operations have been eliminated to arrive at the consolidated totals.

Transportation operates in two principal industry segments: manufacturing and financial services. Manufacturing operations are responsible for the manufacture and marketing of medium- and heavy-duty trucks, including school buses, mid-range diesel engines and service parts primarily in the United States and Canada as well as in selected export markets. Based on assets and revenues, manufacturing operations represent the majority of Transportation's business activities. The financial services operations consist of Navistar Financial, its domestic insurance subsidiary and the company's foreign finance and insurance subsidiaries. Navistar Financial's primary business is the retail and wholesale financing of products sold by the manufacturing operations and its dealers within the United States and the providing of commercial physical damage and liability insurance to the manufacturing operations' dealers and retail customers and to the general public through an independent insurance agency system.

The distinction between current and long-term assets and liabilities in the Statement of Financial Condition is not meaningful when finance, insurance and manufacturing operations are combined; therefore, the company has adopted an unclassified presentation. Certain 1995 and 1994 amounts have been reclassified to conform with the presentation used in the 1996 financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

Manufacturing operations recognize shipments of new trucks and service parts to independent dealers and retail customers as sales. Price allowances, expected in the normal course of business, and the cost of special incentive programs are recorded at the time of sale. Engine sales are recognized at the time of shipment to original equipment manufacturers. An allowance for losses on receivables is maintained at an amount that management considers appropriate in relation to the outstanding receivables portfolio and it is charged when receivables are determined to be uncollectible.

Financial services operations recognize finance charges on retail notes and finance leases as income over the term of the receivables on the accrual basis utilizing the interest method. Interest due from interest bearing notes and accounts is recognized on the accrual basis. Operating lease revenues are recognized on a straight-line basis over the life of the lease. Selected receivables are sold and securitized to public and private investors with limited recourse. Gains or losses on sales of receivables are credited or charged to revenue in the period in which the sale occurs. Financial services operations continue to service the sold receivables and receive a fee for such services from the investor. An allowance for losses is maintained at a level deemed appropriate based on loss experience and other factors and it is charged when receivables are determined to be uncollectible.

Insurance premiums are earned on a prorata basis over the terms of the policies. Underwriting losses and outstanding loss reserve balances are based on individual case estimates of the ultimate cost of settlement, including actual losses, and determinations of amounts required for losses incurred but not reported.

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, United States government securities and floating rate notes, are classified as cash equivalents in the Statement of Financial Condition and Statement of Cash Flow.

Marketable Securities

Marketable securities are classified as available-for-sale securities and are reported at fair value.

Inventories

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

1 Summary of Accounting Policies *(continued)*

Property and Other Long-Lived Assets

Significant expenditures for replacement of equipment, tooling and pattern equipment, and major rebuilding of machine tools are capitalized. Depreciation and amortization are generally provided on the straight-line basis over the estimated useful lives of the assets, which average 35 years for buildings and improvements and 8 years for machinery and equipment. 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, which includes research and development expenses and routine ongoing costs associated with improving existing products and manufacturing processes totaled $129 million, $113 million and $97 million in 1996, 1995 and 1994, respectively. Research and development expenses, which included activities for the introduction of new truck and diesel engine products and major improvements to existing products and processes totaled $101 million, $91 million and $88 million in 1996, 1995 and 1994, respectively.

Product Related Costs

The company accrues warranty expense at the time of end product sale. Product liability expense is accrued based on the estimate of total future payments to settle product liability claims.

Derivative Financial Instruments

The company uses derivatives to transfer or reduce risks of foreign exchange and interest rate volatility and to potentially increase the return on invested funds. Navistar Financial, a wholly owned subsidiary of Transportation, uses a variety of contracts to manage its exposure to fluctuations in funding costs from the anticipated securitization and sale of retail notes. All derivatives are held for purposes other than trading, and company policy does not allow the use of derivatives for speculative purposes. Gains and losses on hedges of existing assets or liabilities, firm commitments or anticipated transactions are included in the carrying amounts of the related asset or liability and recognized in income when the hedged event occurs. Gains or losses related to qualifying hedges of anticipated sales of receivables are deferred and are recognized in income when the receivables are sold.

Pending Accounting Standards

The company has elected to adopt Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," in fiscal 1997. This statement allows for, and the company intends to, retain the current method of accounting for employee stock-based compensation arrangements with certain additional disclosures. Accordingly, adoption of this standard will have no effect on the company's net income or financial position.

In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which the company must adopt for all applicable transactions occurring after December 31, 1996. The standard is not expected to have a material effect on the company's net income or financial position.

2 Postretirement Benefits

The company provides postretirement benefits to substantially all of its employees. Costs associated with postretirement benefits include pension expense for employees, retirees and surviving spouses, and postretirement health care and life insurance expense for employees, retirees, surviving spouses and dependents. In addition, as part of the 1993 restructured retiree health care and life insurance plans, profit sharing payments to an independent retiree trust are required. The cost of postretirement benefits is segregated as a separate component in the Statement of Income and is as follows:

Millions of dollars	96	95	94
Pension expense	$160	$110	$108
Health/life insurance	60	70	64
Profit sharing provision to Trust	–	26	4
Total postretirement benefits expense	$220	$206	$176

In the Statement of Financial Condition, the postretirement benefits liability of $1,351 million in 1996 and $1,341 million in 1995 includes $607 million and $587 million, respectively, for pension and $744 million and $754 million, respectively, for postretirement health care and life insurance benefits.

2 Postretirement Benefits *(continued)*

Pension Benefits

Generally, the pension plans are noncontributory with benefits related to an employee's length of service and compensation rate. The company's policy is to fund its pension plans in accordance with applicable United States and Canadian government regulations and to make additional payments as funds are available to achieve full funding of the vested accumulated benefit obligation. The pension plans vary in the extent to which they are funded, but for plan years which ended during the current year, all legal funding requirements have been met. Plan assets are invested primarily in dedicated portfolios of long-term fixed income securities with more recent contributions invested in equity securities.

Pension Expense

Net pension expense included in the Statement of Income is composed of the following:

Millions of dollars	96	95	94
Service cost for benefits earned during the period	$ 34	$ 24	$ 34
Interest on projected benefit obligation	231	232	211
Net amortization costs and other	104	57	50
Less expected return on assets	(209)	(203)	(187)
Net pension expense	$ 160	$ 110	$ 108
Actual return on assets	$ 188	$ 398	$(127)

"Amortization costs" shown in the above table include amortization of cumulative gains and losses over the expected remaining service life of employees, amortization of the initial transition liability over 15 years and amortization of plan amendments, recognized over the remaining service life of employees, except for those plan amendments arising from negotiated labor contracts, which are amortized over the length of the contract.

Pension Assets and Liabilities

Included in the Statement of Financial Condition is the minimum pension liability for certain unfunded pension plans. The adjustment for the minimum pension liability in the amounts of $623 million and $628 million are offset by intangible pension assets of $314 million and $284 million and accumulated reductions in shareowners' equity of $206 million and $220 million at October 31, 1996 and October 31, 1995, respectively. The changes in shareowners' equity are net of deferred income taxes of $103 million at October 31, 1996 and $124 million at October 31, 1995. The minimum pension liability will change from year to year as a result of revisions to actuarial assumptions, experience gains or losses and settlement rate changes.

The funded status of the company's plans as of October 31, 1996 and 1995 and a reconciliation with amounts recognized in the Statement of Financial Condition are provided below.

	Plans in which assets exceed accumulated benefits		Plans in which accumulated benefits exceed assets	
Millions of dollars	96	95	96	95
ACTUARIAL PRESENT VALUE OF:				
Vested benefits	$(59)	$(51)	$(2,672)	$(2,612)
Nonvested benefits	(7)	(5)	(270)	(270)
Accumulated benefit obligation	(66)	(56)	(2,942)	(2,882)
Effect of projected future compensation levels	(3)	(4)	(23)	(27)
Projected benefit obligation	(69)	(60)	(2,965)	(2,909)
Plan assets at fair value	91	87	2,336	2,295
Funded status at October 31	22	27	(629)	(614)
UNAMORTIZED PENSION COSTS:				
Net losses	11	9	332	372
Prior service costs	6	1	113	50
(Asset) liability at date of transition	(1)	(1)	200	233
Adjustment for the minimum liability	–	–	(623)	(628)
Net asset (liability)	$ 38	$ 36	$ (607)	$ (587)

The weighted average rate assumptions used in determining pension costs and the projected benefit obligation were:

	96	95	94
Discount rate used to determine present value of projected benefit obligation at end of year	8.1%	7.8%	9.3%
Expected long-term rate of return on plan assets for the year	9.0%	9.9%	8.1%
Expected rate of increase in future compensation levels	3.5%	3.5%	3.5%

2 Postretirement Benefits *(continued)*

Other Postretirement Benefits

In addition to providing pension benefits, the company provides health care and life insurance for a majority of its retired employees, spouses and certain dependents in the United States and Canada.

In 1993, a trust was established to provide a vehicle for funding the health care liability through company contributions and retiree premiums. The funds in this trust are invested primarily in equity securities. The company is required to make a prefunding contribution of $200 million to the trust on or prior to June 30, 1998.

The components of expense for other postretirement benefits included in the Statement of Income are as follows:

Millions of dollars	96	95	94
Service cost for benefits earned during the year	$ 14	$ 10	$ 10
Interest cost on the accumulated benefit obligation and other	84	90	81
Less expected return on assets	(38)	(30)	(27)
Net other postretirement benefits expense	$ 60	$ 70	$ 64
Actual return on assets	$ 46	$ 65	$ 12

The funded status of other postretirement benefits as of October 31 is as follows:

Millions of dollars	96	95
ACCUMULATED OTHER POSTRETIREMENT BENEFIT OBLIGATION (APBO):		
Retirees and their dependents	$ (773)	$ (729)
Active employees eligible to retire	(244)	(201)
Other active participants	(208)	(227)
Total APBO	(1,225)	(1,157)
Plan assets at fair value	401	364
APBO in excess of plan assets	(824)	(793)
Unamortized prior service cost	(6)	–
Unrecognized net loss	86	39
Net liability	$ (744)	$ (754)

The weighted average expected return on plan assets was 10.5% for 1996, 10% for 1995 and 9% for 1994. The weighted average of discount rates used to determine the accumulated other postretirement benefit obligation was 8.2% and 7.8% at October 31, 1996 and 1995, respectively. For 1997, the weighted average rate of increase in the per capita cost of covered health care benefits is projected to be 8.2%. The rate is projected to decrease to 5.0% by the year 2004 and remain at that level each year thereafter. If the cost trend rate assumptions were increased by one percentage point for each year, the accumulated postretirement benefit obligation would increase by approximately $117 million and the associated expense recognized for the year ended October 31, 1996 would increase by an estimated $8 million.

3 Income Taxes

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

Millions of dollars	96	95	94
Domestic	$108	$251	$145
Foreign	(3)	11	13
Total income before income taxes	$105	$262	$158

Taxes on income of continuing operations are analyzed by categories as follows:

Millions of dollars	96	95	94
CURRENT:			
Federal	$ 1	$ 7	$ 3
State and local	2	2	2
Total current expense	3	9	5
DEFERRED:			
Federal	32	77	44
State and local	5	12	7
Total deferred expense	37	89	51
Total income tax expense of continuing operations	$40	$98	$56

The deferred tax expense does not represent cash payment of income taxes and was primarily generated by the utilization of net operating loss (NOL) carryforwards and the increase of temporary differences, and will not require future cash payments. Consolidated tax payments made during 1996, 1995 and 1994 were $3 million, $9 million and $5 million, respectively.

The relationship of the tax expense to the income of continuing operations for 1996, 1995 and 1994 differs from the U.S. statutory rate (35%) because of state income taxes and the benefit of NOLs in foreign countries. The effective tax rates on the income of continuing operations for the years

1996, 1995 and 1994 were 38.1%, 37.4% and 35.4%, respectively.

3 Income Taxes *(continued)*

Undistributed earnings of foreign subsidiaries were $30 million and $28 million at October 31, 1996 and 1995, respectively. Taxes have not been provided on these earnings because no withholding taxes are applicable upon repatriation and U.S. tax would be substantially offset by utilization of NOL carryforwards.

Taxpaying entities of the company offset all deferred tax assets and liabilities within each tax jurisdiction and present them in a single amount in the Statement of Financial Condition. The components of the deferred tax asset (liability) at October 31 are as follows:

Millions of dollars	96	95
United States		
DEFERRED TAX ASSETS:		
Net operating loss carryforwards	$ 753	$ 768
Alternative minimum tax	11	10
Product liability	57	60
Warranty	43	42
Other liabilities	143	170
Postretirement benefits	363	390
Total deferred tax assets	1,370	1,440
DEFERRED TAX LIABILITIES:		
Prepaid pension assets	(12)	(23)
Depreciation	(40)	(42)
Total deferred tax liabilities	(52)	(65)
Total deferred tax asset	1,318	1,375
Less valuation allowance	(288)	(288)
Net deferred tax asset	$1,030	$1,087
Foreign		
DEFERRED TAX ASSETS:		
Net operating loss carryforwards	$ 2	$ –
Postretirement benefits	19	19
Total deferred tax assets	21	19
Less valuation allowance	(21)	(19)
Net deferred tax assets	–	–
Deferred tax liabilities—prepaid pension assets	(16)	(16)
Net deferred tax liabilities	$ (16)	$ (16)

A valuation allowance has been provided for those NOL carryforwards and temporary differences which are estimated to expire before they are utilized. Because the foreign tax carryforward period is relatively short, a full allowance has been provided against the total deferred tax assets. The valuation allowance increased $2 million during 1996 resulting from tax benefits associated with foreign NOLs.

At October 31, 1996, the company had $1,982 million of domestic and $5 million of foreign NOL carryforwards available to offset future taxable income. Such carryforwards reflect income tax losses incurred which will expire as follows, in millions of dollars:

1998	$ 202
1999	29
2000	300
2001	143
2002	47
2004	238
2005	7
2006 through 2009	1,021
Total	$1,987

Additionally, the reversal of net temporary differences of $1,507 million as of October 31, 1996 will create net tax deductions which, if not utilized previously, will expire subsequent to 2009.

4 Discontinued Operations

In the fourth quarter of 1994, Transportation recorded a $20 million charge, net of $13 million of income taxes, as a loss of discontinued operations for environmental liabilities at production facilities of two formerly owned businesses, Wisconsin Steel and Solar Turbine, Inc. The $33 million pretax charge, which included an $11 million settlement for various environmental related commercial issues and a $22 million charge for cleanup costs for these sites, was included in Other Liabilities. See also Note 14.

5 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	96 Amortized Cost	96 Fair Value	95 Amortized Cost	95 Fair Value
Corporate securities	$127	$126	$ 56	$ 56
U.S. government securities	152	152	411	413
Mortgage and asset-backed securities	94	94	65	66
Foreign government securities	5	5	9	9
Total debt securities	378	377	541	544
Equity securities	14	17	10	11
Total marketable securities	$392	$394	$551	$555

Gross unrealized gains and losses on marketable securities at October 31, 1996 and 1995 are not material.

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

Millions of dollars	96 Amortized Cost	96 Fair Value	95 Amortized Cost	95 Fair Value
Due in one year or less	$ 46	$ 46	$120	$120
Due after one year through five years	208	208	318	320
Due after five years through ten years	24	23	27	27
Due after ten years	6	6	11	11
	284	283	476	478
Mortgage and asset-backed securities	94	94	65	66
Total debt securities	$378	$377	$541	$544

Proceeds from sales or maturities of investments in securities were $752 million during 1996 and $480 million during 1995. Gross gains and losses realized on such sales or maturities were not material for each of the two years. Shareowners' equity includes an unrealized holding gain of $1 million, net of income taxes, at October 31, 1996 and $3 million, net of income taxes, at October 31, 1995. At October 31, 1996 and 1995, a domestic insurance subsidiary had $17 million and $23 million, respectively, of marketable securities on deposit with various state departments of insurance or otherwise not available. These securities are included in total marketable securities balances at October 31, 1996 and 1995.

6 Receivables

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

Millions of dollars	96	95
Accounts receivable	$ 560	$ 588
Retail notes and lease financing	733	747
Wholesale notes	101	268
Amounts due from sales of receivables	264	248
Reinsurance balance receivables	28	31
Allowance for losses	(31)	(28)
Total receivables, net	$1,655	$1,854

Navistar Financial purchases the majority of the wholesale notes receivable and some retail notes and accounts receivable arising from Transportation's operations in the United States.

A portion of Navistar Financial's funding for retail and wholesale notes comes from sales of receivables by Navistar Financial to third parties with limited recourse. Proceeds from sales of retail notes receivable, net of underwriting costs, were $982 million in 1996, $727 million in 1995 and $995 million in 1994. Uncollected sold retail and wholesale receivable balances totaled $1,866 million and $1,673 million as of October 31, 1996 and 1995, respectively.

Contractual maturities of accounts receivable, retail notes and lease financing and wholesale notes, including unearned finance income, at October 31, 1996 were: 1997—$860 million, 1998—$243 million, 1999—$186 million, 2000—$142 million, 2001—$76 million, and 2002 and thereafter—$14 million. Unearned finance income totaled $127 million at October 31, 1996.

7 Inventories

Inventories at October 31 are as follows:

Millions of dollars	96	95
Finished products	$242	$167
Work in process	97	91
Raw materials and supplies	124	158
Total inventories	$463	$416

8 Property and Equipment

At October 31, property and equipment includes the following:

Millions of dollars	96	95
Land	$ 12	$ 11
Buildings, machinery and equipment at cost:		
Plants	1,299	1,223
Distribution	79	75
Other	222	138
Subtotal	1,600	1,436
Total property	1,612	1,447
Less accumulated depreciation and amortization	(842)	(764)
Total property and equipment, net	$ 770	$ 683

Total property includes property under capitalized lease obligations of $25 million at October 31, 1996 and $24 million at October 31, 1995. In addition, total property includes vehicles under operating leases to third parties of $116 million at October 31, 1996 and $49 million at October 31, 1995.

9 Debt

Millions of dollars	96	95
MANUFACTURING OPERATIONS		
Notes payable and current maturities of long-term debt	$ 14	$ 10
6¼% Sinking Fund Debentures, due 1998	3	6
9% Sinking Fund Debentures, due 2004	53	60
8% Secured Note, due 2002 secured by plant assets	26	31
Capitalized leases and other	19	20
Total long-term debt	101	117
Manufacturing operations debt	115	127
FINANCIAL SERVICES OPERATIONS		
Commercial paper	99	50
Current maturities of long-term debt	–	118
Total short-term debt	99	168
Asset-backed commercial paper program, variable rate, due March 2001	402	302
Bank revolver, variable rate, due March 2001	704	760
Total senior debt	1,106	1,062
Subordinated Term Debt—Senior notes, 8⅞%, due November 1998	100	100
Total long-term debt	1,206	1,162
Financial services operations debt	1,305	1,330
Total debt	$1,420	$1,457

Consolidated interest payments were $83 million, $82 million and $76 million in 1996, 1995 and 1994, respectively.

Navistar Financial issues commercial paper with varying terms and has short-term borrowings with various banks on a noncommitted basis. Compensating cash balances and commitment fees are not required under these borrowings.

The aggregate annual maturities and sinking fund requirements for debt for the years ended October 31 are as follows:

Millions of dollars	MANUFACTURING OPERATIONS	FINANCIAL SERVICES OPERATIONS	TOTAL
1997	$14	$ 99	$ 113
1998	22	–	22
1999	16	100	116
2000	15	–	15
2001	15	1,106	1,121
Thereafter	33	–	33
WEIGHTED AVERAGE INTEREST RATE ON TOTAL DEBT, INCLUDING SHORT-TERM, AND THE EFFECT OF DISCOUNTS AND RELATED AMORTIZATION FOR THE YEAR ENDED:			
October 31, 1996	8.1%	6.5%	6.7%
October 31, 1995	9.0%	7.4%	7.6%

Effective March 29, 1996, Navistar Financial amended and restated its revolving credit facility and its asset-backed commercial paper (ABCP) program, extending the maturity date of each facility to March 2001. In addition, the commitment of the bank revolving credit facility was expanded to $925 million, the ABCP facility was increased to $400 million, and a new pricing and fee schedule was established. The available funding under the ABCP program is $414 million, comprised of the $400 million liquidity facility and $14 million of trust certificates issued in connection with ABCP trust.

Under the terms of the ABCP program, a special purpose wholly owned subsidiary of Navistar Financial will purchase retail notes and lease receivables. All assets of the subsidiary will be pledged or sold to a trust that will fund the receivables with investment grade commercial paper. The assets may also be sold to the trust.

Available funding under the amended and restated credit agreement and ABCP program was $233 million, of which $99 million was used to back short-term debt at October 31, 1996. The remaining $134 million, when combined with unrestricted cash and cash equivalents, made $141 million available to fund the general business purposes of Navistar Financial at October 31, 1996.

9 Debt *(continued)*

Navistar Financial's wholly owned subsidiaries, Navistar Financial Retail Receivables Corporation (NFRRC) and Navistar Financial Securities Corporation (NFSC), have a limited purpose of purchasing retail and wholesale receivables, respectively, and transferring an undivided ownership interest in such notes to investors in exchange for pass-through notes and certificates. The subsidiaries have limited recourse on the sold receivables and their assets are available to satisfy the claims of their creditors prior to such assets becoming available to Navistar Financial or affiliated companies.

NFSC has in place $500 million of revolving wholesale note sales trusts that provide for the continuous sale of eligible wholesale notes on a daily basis. The sales trusts are comprised of three $100 million tranches of investor certificates maturing serially from 1997 to 1999 and a $200 million tranche maturing in 2004.

During 1996, Navistar Financial sold $985 million of retail notes, net of unearned finance income, through NFRRC in two separate sales to two individual owner trusts which in turn sold $946 million of notes and $39 million of certificates to investors. The net proceeds, after underwriting costs and credit enhancements, of $934 million were used by Navistar Financial for general working capital purposes. At October 31, 1996, the remaining shelf registration available to NFRRC for issuance of asset-backed securities was $2,445 million.

In November 1996, Navistar Financial sold $487 million of retail notes through NFRRC. The net proceeds of $473 million were used for general working capital purposes.

10 Other Liabilities

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

Millions of dollars	96	95
Product liability and warranty	$293	$294
Loss reserves and unearned premiums	113	118
Employee incentive programs	10	104
Payroll, commissions and employee related benefits	73	80
Long-term disability and workers' compensation	55	66
Taxes	44	45
Environmental	23	25
Interest	9	12
Other	199	221
Total other liabilities	$819	$965

During the fourth quarter of 1996, the company recorded a one-time $35 million pretax charge for termination of its next generation truck program.

11 Financial Instruments

Fair Value of Financial Instruments

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

	96		95	
Millions of dollars	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Receivables, net	$1,655	$1,658	$1,854	$1,867
Investments and other assets	213	221	202	202
Debt	1,420	1,414	1,457	1,460

Cash and cash equivalents approximate fair value. The cost and fair value of marketable securities are disclosed in Note 5.

Customer receivables, wholesale notes and retail and wholesale accounts and other variable-rate retail notes approximate fair value as a result of the short-term maturities of the financial instruments. The fair value of truck retail notes is estimated based on quoted market prices of similar sold receivables. The fair value of amounts due from sales of receivables is estimated by discounting expected cash flows at estimated current market rates.

The fair value of 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 Navistar Financial's bank revolving credit agreement, which is repriced frequently, approximate fair value. The fair value of long-term debt is estimated based on quoted market prices, when 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.

Derivatives Held or Issued for Purposes Other Than Trading

The company uses derivatives to transfer or reduce risks of foreign exchange and interest rate volatility and to potentially increase the return on invested funds.

The company purchases collateralized mortgage obligations (CMOs) that have predetermined fixed-principal payment patterns which are relatively certain. These instruments totaled $94 million at October 31, 1996. At October 31, 1996, the unrecognized gain on the CMOs was not material.

11 Financial Instruments *(continued)*

Navistar Financial manages its exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt, by selling fixed rate retail receivables on a fixed rate basis and, to a lesser extent, by utilizing financial derivative instruments. These instruments may include interest rate swaps, interest rate caps and forward interest rate contracts. Navistar Financial enters into forward interest rate contracts to manage its exposure to fluctuations in funding costs from the anticipated securitization and sale of retail notes.

Between August and October 1996, Navistar Financial entered into $400 million of forward interest rate lock agreements on a Treasury note maturing in 1998 related to the anticipated November 1996 sale of retail receivables. These hedge agreements were closed in conjunction with the pricing of the sale, and the loss at October 31, 1996, which was not material, was deferred and included in the gain recognized on the sale of receivables in November 1996.

12 Commitments, Contingencies, Restricted Assets, Concentrations and Leases

Commitments, contingencies and restricted assets

At October 31, 1996, commitments for capital expenditures in progress were approximately $38 million.

Navistar Financial's maximum exposure under all receivable sale recourse provisions at October 31, 1996 was $215 million; however, Navistar Financial's exposure is not considered material.

At October 31, 1996, the Canadian operating subsidiary was contingently liable for retail customers' contracts and leases financed by a third party. The company is subject to maximum recourse of $164 million on retail contracts and $9 million on retail leases. In addition, as of October 31, 1996, the company is contingently liable for approximately $45 million for various guarantees and buyback programs; however, based on historical loss trends, the company's exposure is not considered material.

The Canadian operating subsidiary and certain subsidiaries included in financial services operations are parties to agreements which restrict the amounts which can be distributed to Transportation in the form of dividends or loans and advances which can be made. As of October 31, 1996, these subsidiaries had $385 million of net assets of which $260 million was restricted as to distribution.

The company and Transportation are obligated under certain agreements with public and private lenders of Navistar Financial 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 3 years ended October 31, 1996.

Concentrations

At October 31, 1996, the company employed 9,043 hourly workers and 5,143 salaried workers in the United States and Canada. Approximately 91% of the hourly employees and 23% of the salaried employees are represented by unions. Of these represented employees, 89% of the hourly workers and 93% 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 collective bargaining agreements with the UAW and the CAW expire on October 1, 1998, and October 24, 1999, respectively.

Reflecting higher consumer demand for light trucks and vans, sales of mid-range diesel engines to a domestic automobile manufacturer have increased from 10% of consolidated sales and revenues in 1994 to 12% in 1995 and 14% in 1996.

Leases

The company has long-term noncancellable leases for use of various equipment and facilities. Lease terms are generally for 5 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.

The majority of the company's lease payments are for operating leases. At October 31, 1996, future minimum lease payments under operating leases having lease terms in excess of one year are: 1997—$33 million, 1998—$30 million, 1999—$29 million, 2000—$29 million, 2001—$21 million and thereafter—$55 million. Total operating lease expense was $35 million in 1996, $42 million in 1995 and $38 million in 1994. Income received from sublease rentals was $6 million in 1996, 1995 and 1994, respectively.

13 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 which constitute ordinary routine litigation incidental to the business of the company and its subsidiaries. In the opinion of the company's management, none of these proceedings or claims is material to the business or the financial condition of the company.

14 Environmental Matters

In the fourth quarter of 1994, Transportation recorded a $20 million charge, net of $13 million of income taxes, as a loss of discontinued operations related to environmental liabilities at production facilities of two formerly owned businesses, Wisconsin Steel and Solar Turbine, Inc. (Solar). Transportation reached an agreement with the Economic Development Administration, a division of the U.S. Department of Commerce, in 1994 in settlement of commercial and environmental disputes related to the Wisconsin Steel property. At October 31, 1996, the final consent decree remained subject to approval by the U.S. Department of Justice and by Transportation.

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 known as the Superfund law. These cases involve sites which allegedly have 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 or shipped to each site 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 generally are recognized no later than completion of the remedial feasibility study and are not discounted to their present value. The company believes that, based on these calculations, its share of the potential additional costs for the cleanup of each site, other than the Wisconsin Steel and Solar sites, will not have a material effect on the company's financial results. The company reviews its accruals on a regular basis.

15 Industry Segment Data

Information concerning operations by industry segment is as follows:

Millions of dollars	MANUFACTURING OPERATIONS	FINANCIAL SERVICES OPERATIONS	CONSOLIDATED
OCTOBER 31, 1996			
Total sales and revenues	$5,550	$ 258	$5,754
Operating profit	690	109	750
Depreciation and amortization	90	11	101
Capital expenditures	117	–	117
Identifiable assets	3,815	1,843	5,326
OCTOBER 31, 1995			
Total sales and revenues	$6,168	$ 235	$6,342
Operating profit	845	80	870
Depreciation and amortization	75	6	81
Capital expenditures	139	–	139
Identifiable assets	4,018	1,922	5,566
OCTOBER 31, 1994			
Total sales and revenues	$5,178	$ 214	$5,337
Operating profit	659	76	685
Depreciation and amortization	68	4	72
Capital expenditures	87	–	87
Identifiable assets	3,724	1,582	5,047

Intersegment sales and revenues were not material in 1996, 1995 or 1994. Transactions between manufacturing operations and financial services operations have been eliminated from the consolidated column.

16 Preferred and Preference Stocks

The company's Nonconvertible Junior Preference Stock Series A is held for the Retiree Supplemental Benefit Program by the Supplemental Trust which is currently entitled to elect two members to the company's Board of Directors. 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, 1996, there was one share each of Series A and Series B Preference stock authorized and outstanding. The value of the preference shares is minimal.

Other information pertaining to preferred and preference stocks outstanding is summarized as follows:

	SERIES G CONVERTIBLE CUMULATIVE PREFERRED	SERIES D CONVERTIBLE JUNIOR PREFERENCE
Number authorized and issued	4,800,000	3,000,000
Number outstanding	4,800,000	176,994
Optional redemption price and liquidation preference	$50 per share plus accrued dividends	$25 per share plus accrued dividends
Conversion rate per share into Common Stock (subject to adjustment in certain circumstances)	0.133 shares	0.3125 shares
Ranking as to dividends and upon liquidation	Senior to all other equity securities	Senior to Common; junior to Series G
Dividend rate	Annual rate of $6.00 per share, payable quarterly	120% of the cash dividends on Common Stock as declared on a common equivalent basis

Dividends may be paid out of surplus as defined under Delaware corporation law. At October 31, 1996, the company had such defined surplus of $903 million.

17 Common Shareowners' Equity

Changes in the common shareowners' equity accounts are as follows:

Millions of dollars	96	95	94
COMMON STOCK			
Beginning of year	$ 1,641	$ 1,628	$ 1,615
Conversion of Class B Common Stock and other	1	13	13
End of year	$ 1,642	$ 1,641	$ 1,628
CLASS B COMMON STOCK			
Beginning of year	$ 491	$ 501	$ 513
Repurchase of stock	–	(10)	(12)
End of year	$ 491	$ 491	$ 501
RETAINED EARNINGS (DEFICIT)			
Beginning of year	$(1,478)	$(1,538)	$(1,592)
Net income	65	164	82
Preferred dividends	(29)	(22)	(36)
Minimum pension liability adjustments and other	11	(82)	8
End of year	$(1,431)	$(1,478)	$(1,538)
COMMON STOCK HELD IN TREASURY			
Beginning of year	$ (28)	$ (18)	$ (5)
Repurchase of Common Stock and other	(2)	(10)	(13)
End of year	$ (30)	$ (28)	$ (18)

Common Stock

The company has authorized 110 million shares of Common Stock with a par value of $.10 per share and 26 million shares of Class B Common Stock with a par value of $.10 per share and restricted voting rights and transfer provisions. At October 31, 1996 and 1995, there were 49.4 million and 49.5 million shares of Common Stock outstanding, net of Common Stock held in Treasury, respectively. The number of shares of Class B Common Stock outstanding at October 31, 1996 and 1995 was 24.3 million.

18 Stock Compensation Plans

The Navistar 1994 Performance Incentive Plan (Incentive Plan), which replaced the Navistar 1988 Performance Incentive Plan, provides for the granting of stock options and restricted stock to key employees as determined by the Committee on Organization of the Board of Directors (Committee).

The Incentive Plan includes the granting of two types of stock option awards, nonqualified options and incentive options. Nonqualified and incentive options, which may be granted by the Committee in amounts and at times as it may determine, have a term of not more than ten years and one day and ten years, respectively, and are exercisable at a price equal to the fair market value of the stock on the day of the grant. Generally, these options are not exercisable during the first year. Payment for the exercise of any of the options may be made by cash or by delivering, at fair market value, shares of Common Stock already owned by the option-owner or by a combination of cash and shares.

The following table summarizes changes in Common Stock under option plans for the years ended October 31:

Number of shares	96	95	94
Outstanding at beginning of the year	1,738,304	1,146,154	639,234
Granted	692,000	635,900	614,560
Exercised	–	–	(8,850)
Terminated	(131,780)	(43,750)	(98,790)
Outstanding at end of the year	2,298,524	1,738,304	1,146,154
Exercisable at October 31	1,654,624	1,122,804	554,374
Available for grant	–	–	146,406
Average price per share			
Outstanding at October 31	$50	$51	$52
Granted	$10	$12	$19
Exercised	$ –	$ –	$22

19 Selected Quarterly Financial Data (Unaudited)

	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER	
Millions of dollars, except per share data	96	95	96	95	96	95	96	95
Sales and revenues	$1,432	$1,416	$1,480	$1,640	$1,391	$1,514	$1,451	$1,772
Manufacturing gross margin	12.2%	12.4%	13.7%	14.0%	12.6%	14.0%	11.6%	14.4%
Net income	$ 22	$ 23	$ 26	$ 46	$ 17	$ 39	$ –	$ 56
Net income (loss) per common share	$ .20	$ .21	$ .26	$ .52	$ .13	$ .43	$ (.10)	$ .66
MARKET PRICE RANGE—COMMON STOCK								
High	$ 12 1/8	$ 17 1/2	$ 12	$ 16 3/8	$ 12	$ 16 5/8	$ 10 3/8	$ 15 1/8
Low	$ 9 1/2	$ 12 3/4	$ 9 1/2	$ 12 1/4	$ 9 1/8	$ 13 7/8	$ 8 1/2	$ 9 1/4

Net income per common share is computed independently based on the weighted average number of Common and Class B Common shares at the end of each quarter.

20 Supplemental Financial Information as of October 31 and for the Years Then Ended (Unaudited)

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

Condensed Statement of Income

	96	95	94
Sales of manufactured products	$5,508	$6,125	$5,153
Other income	42	43	25
Total sales and revenues	5,550	6,168	5,178
Cost of products sold	4,818	5,280	4,494
Postretirement benefits	219	205	175
Engineering and research expense	129	113	97
Marketing and administrative expense	282	277	238
Other expenses	80	93	76
Total costs and expenses	5,528	5,968	5,080
Income before income taxes			
Manufacturing operations	22	200	98
Financial services operations	83	62	60
Income before income taxes	105	262	158
Income tax expense	40	98	56
Income of continuing operations	65	164	102
Loss of discontinued operations	–	–	20
Net income	$ 65	$ 164	$ 82

Condensed Statement of Financial Condition

	96	95
Cash, cash equivalents and marketable securities	$ 707	$ 876
Inventories	463	416
Property and equipment, net	666	642
Equity in Financial Services subsidiaries	306	282
Other assets	643	715
Deferred tax asset, net	1,030	1,087
Total assets	$3,815	$4,018
Accounts payable	$ 771	$ 876
Postretirement benefits liabilities	1,344	1,334
Other liabilities	784	938
Shareowners' equity	916	870
Total liabilities and shareowners' equity	$3,815	$4,018

Condensed Statement of Cash Flow

	96	95	94
Cash flow from operations			
Net income	$ 65	$ 164	$ 82
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATIONS:			
Depreciation and amortization	90	75	68
Equity in earnings of nonconsolidated companies, net of dividends received	(24)	(28)	(10)
Deferred income taxes	37	89	51
Other, net	4	(66)	8
Change in operating assets and liabilities	(172)	166	81
Cash provided by operations	–	400	280
Cash flow from investment programs			
Purchase of marketable securities	(501)	(646)	(651)
Sales or maturities of marketable securities	665	399	569
Capital expenditures	(117)	(139)	(87)
Other investment programs, net	(8)	8	123
Cash provided by (used in) investment programs	39	(378)	(46)
Cash flow from financing activities	(48)	(60)	(112)
Cash and cash equivalents			
Increase (decrease) during the year	(9)	(38)	122
At beginning of the year	461	499	377
Cash and cash equivalents at end of the year	$ 452	$ 461	$ 499

Five-Year Summary of Selected Financial and Statistical Data

For the Years Ended October 31 *Millions of dollars, except per share data, market share and units shipped*	96	95	94	93	92
Results of operations					
Total sales and revenues	$5,754	$6,342	$5,337	$ 4,721	$3,897
Net income (loss) of continuing operations	65	164	102	(273)	(147)
Net income (loss) (a)	65	164	82	(501)	(212)
Income (loss) per common share of continuing operations	.49	1.83	.99	(8.63)	(6.97)
Net income (loss) per common share	.49	1.83	.72	(15.19)	(9.55)
Average number of Common, Class B Common and dilutive common equivalent shares outstanding (millions)	73.8	74.3	74.6	34.9	25.3
Financial data					
Total assets	5,326	5,566	5,047	5,060	3,627
Debt					
Manufacturing operations	115	127	127	175	187
Financial services operations	1,305	1,330	1,091	1,199	1,218
Total debt	1,420	1,457	1,218	1,374	1,405
Shareowners' equity	916	870	817	775	338
Total manufacturing operations debt as a percent of total manufacturing capitalization	11.2%	12.7%	13.4%	18.4%	35.6%
Return on equity (b)	7.1%	18.9%	12.5%	(35.2)%	(43.5)%
Supplemental data					
Capital expenditures	117	139	87	110	55
Engineering and research expense	129	113	97	94	92
Operating data					
United States and Canadian market share (c)	27.5%	26.7%	27.0%	27.6%	28.4%
Unit shipments					
Trucks	95,200	112,200	95,000	87,200	73,200
OEM engines	163,200	154,200	130,600	118,200	97,400
Service parts sales	760	730	714	632	571

(a) In the third quarter of 1993, the company adopted SFAS 106 and SFAS 109 retroactive to November 1, 1992.

(b) Return on equity is calculated based on income of continuing operations.

(c) Based on retail deliveries of medium trucks (Classes 5, 6 and 7), including school buses, and heavy trucks (Class 8).

About Your Stock

Navistar International Corporation Common Stock is listed on the New York, Chicago and Pacific Stock Exchanges and is quoted as "Navistar" in stock table listings in daily newspapers. The abbreviated stock symbol is "NAV."

The stock transfer agent who can answer inquiries about your Navistar International Corporation Common Stock such as name changes, changes of address or missing certificates is: Harris Trust and Savings Bank, 311 West Monroe Street, 11th Floor, Chicago, Illinois 60606; Telephone: (312) 461-3309.

For information about other shareowner matters, contact: Investor Relations, Navistar International Corporation, 455 North Cityfront Plaza Drive, Chicago, Illinois 60611; Telephone: (312) 836-2143.

There were approximately 62,307 owners of Common Stock at October 31, 1996.

Annual Meeting

The 1997 Annual Meeting of Shareowners is scheduled to take place at 10:15 a.m., CST on March 19, 1997, at the Art Institute of Chicago in the Arthur Rubloff Auditorium.

Shareowners are invited to attend this meeting, take part in discussions of company affairs and meet personally with the directors and officers responsible for the operations of Navistar.

A Proxy Statement and Form of Proxy will be mailed to each shareowner on or about February 7, 1997.

Commitment to Equal Employment Opportunity

Navistar International Corporation has a long-standing commitment to equal employment opportunity dating back to 1919 when the company issued its first written statement against discrimination in the workplace.

Today, Navistar continues to be a leader in the industry in complying with all state and federal laws, local municipal laws and regulations governing employment. Navistar has continuously and aggressively implemented measures to ensure that all individuals regardless of age, race, sex, religion, national origin, disability, or veteran status are not discriminated against in regard to career opportunities within the company.

Navistar has adopted policy standards and assurances for all employees and qualified applicants, pledging terms and conditions of employment to be equal for all individuals.

Corporate Headquarters

The corporate offices of Navistar International Corporation and its principal subsidiary, Navistar International Transportation Corp., are located at 455 North Cityfront Plaza Drive, Chicago, Illinois 60611; Telephone: (312) 836-2000.

Reports and Publications

A copy of the company's 1996 Annual Report on Form 10-K to the Securities and Exchange Commission will be provided, without charge, to shareowners upon written request to the Corporate Secretary, Corporate Headquarters, after January 31, 1997.

In order to provide shareowners with immediate access to financial information and news about the company, Navistar distributes its corporate news releases through PR Newswire, an electronic news service, and files its financial statements with the Securities and Exchange Commission electronically through the EDGAR system. PR Newswire and EDGAR can be accessed by computer via the Internet, and through such services as America On-Line and CompuServe. In addition, this information can be accessed through such databases and information services as Lexis-Nexis, Dow Jones and Bloomberg which frequently are available at libraries and brokerage firms.

Navistar also offers a toll-free, "Company News on Call" service, which allows shareowners to receive copies of recent Navistar corporate news releases via telefax. To access this service, call (800) 758-5804, and enter Navistar's six digit code when prompted: 103895. Using a touch-tone phone, shareowners can select from a menu of news releases and request specific news releases to be faxed directly to them.

Navistar encourages shareowners to take advantage of these electronic databases and the "Company News on Call" service to access the company's quarterly financial results on the same day that the results are announced. Navistar's fiscal 1997 quarterly financial results will be announced on the following dates:

First quarter	February 13, 1997
Second quarter	May 15, 1997
Third quarter	August 14, 1997
Fourth quarter	December 4, 1997

News releases, Form 10-Qs, Navistar's Annual Environmental Health & Safety Report, and other publications are available by writing:
Corporate Communications, Navistar International Corporation,
455 North Cityfront Plaza Drive, Chicago, Illinois 60611.

Navistar also encourages shareowners to view its home page on the World Wide Web at http://www.navistar.com.

Trademarks

Navistar logotype and Navistar are registered trademarks of Navistar International Corporation. The Diamond Road symbol, International, Eagle, Fleet Charge, Fleetrite, Paystar and Pro Sleeper are registered trademarks of Navistar International Transportation Corp. Sky-Rise, Diamond SPEC, Diamond PLUS and Diamond Services are trademarks of Navistar International Transportation Corp.

Directors and Officers

Navistar International Corporation *(As of December 31, 1996)*

Board of Directors

John R. Horne
Chairman, President
and Chief Executive Officer
Navistar International Corporation
Committees: 1(Chair)

William F. Andrews
Chairman
Schrader-Bridgeport International Inc.
Manufacturer of Tire Valves and
Valve Accessories
Chairman
Scovill Fasteners, Inc.
Manufacturers of Apparel and Industrial
Fasteners
Committees: 1, 2, 3(Chair), 6

Dr. Andrew F. Brimmer
President
Brimmer & Company, Inc.
Economic and Financial Consulting
Committees: 1, 3, 4(Chair), 5, 6

Richard F. Celeste
Managing General Partner
Celeste & Sabety, Ltd.
Public Policy Consulting Firm
Committees: 4, 5

John D. Correnti
Chief Executive Officer,
President and Vice Chairman
Nucor Corporation
Steel Manufacturer
Committees: 2, 4, 6

James C. Cotting
Former Chairman of the Board
and Chief Executive Officer
Navistar International Corporation
Committees: 3, 5

William C. Craig
Former Executive Vice President
Mack Trucks
Manufacturer of Trucks
Committees: 1, 2, 3

Jerry E. Dempsey
Chairman and Chief Executive Officer
PPG Industries, Inc.
Diversified Global Manufacturer of Glass,
Protective Coatings and Chemicals
Committees: 1, 2(Chair), 3, 6(Chair)

John F. Fiedler
Chairman and Chief Executive Officer
Borg-Warner Automotive, Inc.
Supplier of Engineered Components
and Systems
Committees: 2, 5, 6

Mary Garst
Manager, Cattle Division
Garst Company
Agri-Business Company
Committees: 1, 4, 5(Chair)

Michael N. Hammes
Chairman and Chief Executive Officer
The Coleman Company, Inc.
Manufacturer and Distributor of Camping
and Outdoor Recreational Products and
Hardware/Home Products
Committees: 3, 5

Robert C. Lannert
Executive Vice President
and Chief Financial Officer
Navistar International Corporation

Walter J. Laskowski
International Vice President of the UAW
Committees: 1, 3, 4

William F. Patient
Chairman of the Board, President
and Chief Executive Officer
The Geon Company
Manufacturer of Polyvinyl Chloride (PVC)
Resins and Compounds
Committees: 2, 4

Principal Officers

John R. Horne
Chairman, President
and Chief Executive Officer
Donald DeFosset, Jr.
Executive Vice President
and President Truck Group
Robert C. Lannert
Executive Vice President
and Chief Financial Officer
Robert A. Boardman
Senior Vice President
and General Counsel
Thomas M. Hough
Vice President and Treasurer
J. Steven Keate
Vice President and Controller
Steven K. Covey
Corporate Secretary

Committees:
1 Executive
2 Organization
3 Finance
4 Audit
5 Public Policy
6 Strategic Initiatives

Navistar International Transportation Corp.

Principal Officers
John R. Horne
Chairman, President
and Chief Executive Officer
Donald DeFosset, Jr.
Executive Vice President
and President Truck Group
Robert C. Lannert
Executive Vice President
and Chief Financial Officer

Group Vice Presidents
John J. Bongiorno
General Manager
Financial Services
David J. Johanneson
Truck Businesses
James T. O'Dare, Jr.
Sales and Distribution
Daniel C. Ustian
General Manager
Engine and Foundry
Dennis W. Webb
International Operations

Senior Vice Presidents
Robert A. Boardman
General Counsel
Joseph V. Thompson
Employee Relations
and Administration

Vice Presidents
Thomas M. Hough
Treasurer
J. Steven Keate
Controller
Thomas E. Rigsby
Truck Manufacturing
James L. Simonton
Purchasing and Supplier Development
Dean P. Stanley
Quality Management and Technology
Brian B. Whalen
Public Affairs

Secretary
Gregory Lennes

Company Locations

CORPORATE HEADQUARTERS
Chicago, Illinois

MANUFACTURING FACILITIES
American Transportation Corporation
School Bus Assembly
Conway, Arkansas

Chatham Assembly Plant
Heavy Truck Assembly
Chatham, Ontario

Indianapolis Casting Corporation
Precision Grey Iron Castings
Indianapolis, Indiana

Indianapolis Engine Plant
Mid-range Diesel Engines
Indianapolis, Indiana

Melrose Park Engine Plant
Mid-range Diesel Engines
Melrose Park, Illinois

Mexico Assembly Operation
(A contract manufacturing agreement)
Medium and Heavy Truck Assembly
Monterrey, Nuevo Leon

Springfield Assembly Plant
School Bus, Medium and Heavy Truck Assembly
Springfield, Ohio

Springfield Body Plant
Fabricated Truck Components
Springfield, Ohio

SST Truck Company
(A Navistar/TIC joint venture)
Severe Service Truck Assembly
Garland, Texas

Waukesha Manufacturing Facility
Ductile Iron Castings and Machining
Waukesha, Wisconsin

ENGINEERING AND TECHNICAL CENTERS
Truck Engineering
Fort Wayne, Indiana

Engine Engineering
Melrose Park, Illinois

PURCHASING AND SUPPLIER DEVELOPMENT AND PARTS OPERATIONS
Westchester, Illinois

PARTS DISTRIBUTION CENTERS
Baltimore, Maryland
Burlington, Ontario
Cuautitlan, Mexico
Dallas, Texas
East Point, Georgia
Edmonton, Alberta
Richmond, California
West Chicago, Illinois

REGIONAL SALES OFFICES
Atlanta, Georgia
Dallas, Texas
Hamilton, Ontario
Mt. Laurel, New Jersey
Oakbrook Terrace, Illinois
San Ramon, California

EXPORT SALES OFFICES
Dubai, United Arab Emirates
Johannesburg, South Africa
Miami, Florida
Singapore

USED TRUCK CENTERS
Charlotte, North Carolina
Conley, Georgia
Dallas, Texas
Etna, Ohio
Houston, Texas
Indianapolis, Indiana
Kansas City, Missouri
Liverpool, New York
Melrose Park, Illinois
Oakland, California
Philadelphia, Pennsylvania
Tampa, Florida
Taylor, Michigan

NAVISTAR FINANCIAL CORPORATION
Rolling Meadows, Illinois

NAVISTAR INTERNATIONAL CORPORATION CANADA
Hamilton, Ontario

NAVISTAR DE MEXICO
Mexico City, D.F.

Company Profile

Navistar International Corporation manufactures and markets medium and heavy trucks, school buses and mid-range diesel engines in North America and selected export markets. Navistar has led the U.S. and Canadian markets in combined sales of medium and heavy trucks and school buses for 15 consecutive years, and the company is the leading supplier of mid-range diesel engines in the 175 to 300 horsepower range.

The company's products, parts and services are sold through a network of more than 1,000 dealer outlets in the United States, Canada and Mexico, nearly 80 dealers in 75 countries overseas, light parts distribution centers and 13 used truck centers. Navistar also provides financing for its customers and distributors principally through its wholly owned subsidiary, Navistar Financial Corporation.