Introduction

General Motors is the world's largest and most diversified automobile manufacture. In addition to its unmatched global market penetration and product diversity, GM has a strategic position superior to that of its main rivals: Ford and DaimlerChrysler.

Recognizing General Motor's current strength, Blaisdell Consulting was retained by GM's management to provide a long-term strategic outlook for the firm, along with recommendations for building on GM's strengths and remedying its deficiencies.

Over a fifteen-year horizon, automaker success will be largely shaped by the following four factors.

1. The explosion of the entry-level Asian market, especially China.
2. An increasing demand for more compact and fuel efficient cars.
3. Diversification of markets and products, to better hedge against regional macroeconomic and taste fluctuations.
4. Production efficiency, as globalization will increase competition and drive down prices.

Additionally, the lowering of global cultural and trade barriers will drive further consolidation in the auto industry. Blaisdell Consulting predicts that a "Big Five"—five fully global GM-like firms—will be the eventual industry structure. GM is the dominant player among the current "Big Three" and should do its best to prevent the Fourth and Fifth from dislodging it. Thus, GM should consider the strategic preemptive benefits of M&A in addition to the direct synergies.

To best take advantage of these opportunities, and to further establish GM as the world's leading auto manufacturer, Blaisdell Consulting offers the following three-pronged strategy:

1. Continue to match Ford's aggressive price cutting. As GM is significantly stronger in terms of liquidity, profitability and cash flows, it will win this battle for market share.
2. Move aggressively into China by opening a joint venture[1] Daewoo plant and domestically manufacturing the full Daewoo range of automobiles. Daewoo will be positioned to become China's dominant car builder.
3. Merge with Toyota. Economies of scale are effectively infinite in the auto industry—merger failures are issues of management, not industry fundamentals. Toyota's core competencies perfectly match GM's shortcomings. Likewise, GM's strengths fit with Toyota's weaknesses. The potential cost synergies from this merger are simply spectacular.

General Motors: Financial Overview

2002 in review:

During 2002, General Motors' benefited greatly from surprisingly high consumer demand and industry volume combined with a stable market share. This unexpected boon was largely responsible for 2002 earnings of $6.98 per share, excluding special items and the underperforming Hughes division. For sake of comparison, management estimated $1.90 EPS at the beginning of 2002. A positive shift in product mix accounts for the remainder of this outperformance, with sales of higher margin offerings outpacing

[1] With SAIC, capitalizing on GM's existing goodwill with the Chinese government from GM Shanghai.

its less profitable lines. It should also be noted that this increased demand was driven, in part, by unprecedented price competition among the automotive manufacturers. This manifested itself in price declines approaching 2%. In an industry where profit margins are typically below 5%, this is highly material.

GM did make impressive progress in cost-controls, trimming material and miscellaneous costs $4 billion. This gain, however, was negated by a $2.5 billion increase in employee compensation and $1.5 billion in rising healthcare costs. Likewise, while GMAC outperformed in Asia and Europe, Latin American losses left GM's financial arm neutral, on net.

The second half of 2002 was marked by intense discussions of GM's underfunded pension liability. Given the labor dynamics within the US auto industry, GM's legacy costs are not unreasonable. Nevertheless, it does represent a major source for instability, as the liabilities are fixed while the assets fluctuate with the markets. In 2002, GM's pension fund lost 10% of its value, while its discount rate was revised downward from 7.15% to 6.75%. The combined effect doubled GM's underfunded pension liability to $23 billion.

2003 Forecast:

Demand is expected to slow while competition is slated to increase—a bad combination for both GM and its competition. Additionally, product mix is expected to take a turn for the worse in 2003, as GM's three highest volume product introductions are all low margin: Grand Prix, Malibu, and the new light pick-up. On a positive note, GM intends to continue cost cutting on materials, setting a target of 3.0% cost reductions. In total, EPS, including Hughes, are expected to slide 22%.

Three major external variables will impact GM's 2003 results.

1. Now that the Hughes has been successfully sold off GM has eliminated a boat anchor on its EPS. Additionally, GM managed to negotiate for uniquely favorable terms, receiving most of its compensation in cash. If GM uses this cash to partially plug its underfunded pension liability, the markets will likely react favorably. If, instead, GM sinks this one time windfall into its continuing operations it will receive the market's wrath.
2. Fiat, the perennially diseased Italian automobile manufacturer 20% owned by GM, currently holds a put option that allows it to sell GM the remaining 80%. GM claims that recent intervention by the Italian government renders the put void. This issue is still unresolved and leaves GM with a major potential cash liability. Were this resolved in GM's favor, the markets would react positively. If Fiat, on the other hand, invoked its option, GM would be punished.
3. 2003 will reveal the first empirical results of GM's recent aggressive product differentiation campaign. The new Cadillac range has received mixed reviews, as have 2003's high margin offerings: three new Cadillacs, the GTO, and the SSR. The proof is in the pudding, and buyer response to GM's new products will materially impact 2003's performance.

Industry Comps.

General

General Motors is both the largest and the most diversified of the world's auto manufactures. GM is in better financial health than either of its main rivals, Daimler-

Chrysler and Ford, and this is largely priced into current share prices. Toyota has been included as Blaisdell Consulting recommends it as a merger candidate. The financials show the dramatic differences between the Toyota business model and those of the Big Three, but these differences prove highly profitable and, we believe, worthy of integration.

	General Motors	Daimler-Chrysler	Ford	Toyota
Annual Sales ($mil.)	186,763.00	157,107.00	163,420.00	107,443.00
Employees	350,000	365,571	350,321	246,702
Market Value ($mil.)	52,901.90	31,396.90	14,823.00	76,942.00

Profitability and Efficiency

GM is considerably below the industry average in terms of gross profitability. All three of the comparable companies cited have stronger gross margin. GM is simply not a very efficient car maker. However, through low SG&A and non-production cost controls, GM partially redeems itself. Ford provides the counterexample, with the highest gross profitability but no earnings. Return on Equity provides little useful information due to differences in capital structure within the auto industry. Return on Assets is more telling. Despite GM's recent reinvention, it is still makes inefficient use of its capital, due to both production techniques and outdated equipment. Toyota, in comparison, leads the industry with its lean production process. The prospect of applying Toyota's efficiency expertise to GM's massive asset base is the primary driver for Blaisdell Consulting's merger recommendation.

	General Motors	Daimler-Chrysler	Ford	Toyota	Industry	Market
Gross Profit Margin	24.82%	27.91%	32.71%	26.49%	28.79%	47.79%

Pre-Tax Profit Margin	1.21%	4.06%	0.58%	6.92%	3.08%	5.37%
Net Profit Margin	0.93%	3.26%	0.01%	3.89%	2.10%	2.51%
Return on Equity	25.50%	14.00%	0.40%	7.70%	11.10%	4.90%
Return on Assets	0.50%	2.60%	0.00%	2.90%	1.40%	0.80%
Return on Invested Capital	0.80%	5.80%	0.00%	5.10%	2.60%	2.40%

Liquidity, Solvency, and Capital Structure

GM and Ford are both levered well above the industry average. DaimlerChrysler and Toyota are the opposite. The current price war between GM and Ford will be won by the party best able to survive attrition. As GM has deeper pockets, better liquidity, better solvency, and better credit, it is easy to see why GM is heavily favored. Blaisdell Consulting agrees—Ford will eventually be forced to cut costs by retiring excess capacity and ceding US market share.

	General Motors	Daimler-Chrysler	Ford	Toyota	Industry	Market
Current Ratio	2.4	1.52	1.94	1.21	1.75	1.38
Quick Ratio	1.9	1.3	1.3	0.9	1.3	1
Leverage Ratio	54.41	5.37	51.76	2.66	8.21	5.93
Total Debt/Equity	29.64	2.27	29.02	0.92	3.86	1.52
Interest Coverage	1.3	6.8	1.1	37.6	2.1	1.8

Operations

GM is a mixed bag in terms of efficiency. GM provides a low water mark in receivables management. In comparison to its rivals, it takes GM about 50% longer to turn Accounts Receivable into cash. GM fares better with its inventory management—significantly more efficient than the industry average. In terms of asset utilization, GM is sub-par, as shown by its low asset turnover ratio. Regarding taxes, however, GM does a better job controlling these costs than the industry at large. Besides DaimlerChrysler, GM's rivals generally pay significantly higher effective tax rates, particularly its Japanese competitors.

	General Motors	Daimler-Chrysler	Ford	Toyota	Industry	Market
Days of Sales Outstanding	289.83	182.81	218.3	100.24	194.48	60.13
Inventory Turnover	14	7.2	16.7	11.1	8.8	7.4
Days Cost of Goods Sold In Inventory	26	50	22	33	41	49
Asset Turnover	0.5	0.8	0.6	0.8	0.7	0.3
Net Receivables Turnover Flow	1.3	2.2	3.2	3.8	2.2	6.2
Effective Tax Rate	23.50%	19.40%	31.70%	42.70%	30.00%	--

Market Valuations

In the financial market, GM is favored over its two closest competitors. This, however, is due to Ford and DaimlerChrysler's weakness as much as it is to GM's strength. Toyota, on the other hand, gets a significantly warmer treatment. Toyota's consistently high profitability, stability, and focus contribute to these high multiples. Additionally, the differences in liquidity between the Japanese and US financial markets account for much of this difference.

	General Motors	Daimler-Chrysler	Ford	Toyota	Industry	Market
Price/Sales Ratio	0.28	0.2	0.09	0.72	0.3	1.08
Price/Earnings Ratio	10.4	6.13	--	18.49	11.51	42.12
Price/Book Ratio	7.76	0.86	2.66	1.41	1.57	2.13
Price/Cash Flow Ratio	3.62	1.62	0.98	7.5	3.26	12.9

Per Share Data

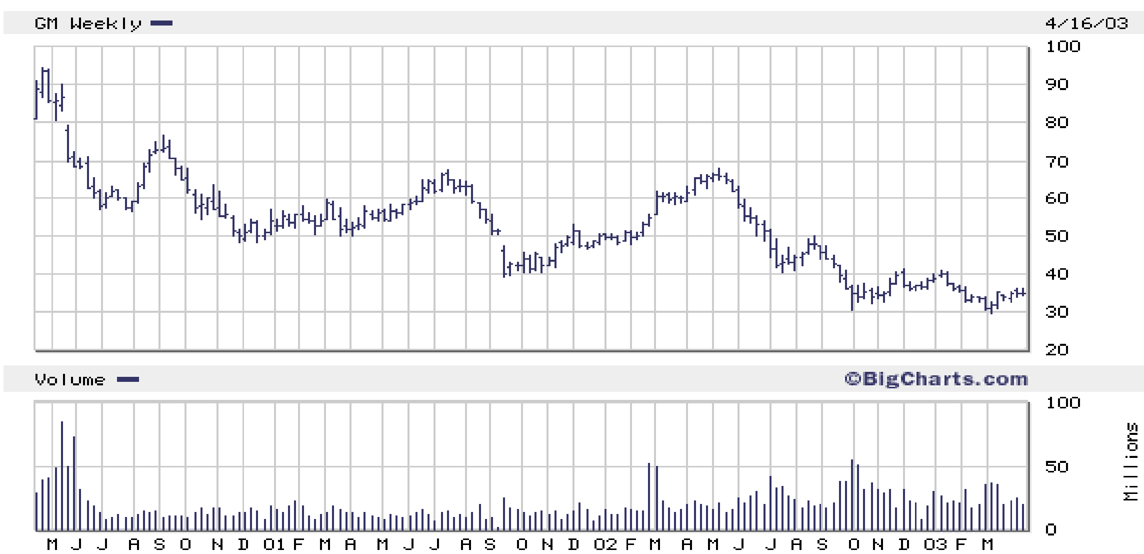
	General Motors	Daimler-Chrysler	Ford	Toyota	Industry	Market
Share Price	35.17	31.85	8.35	21.34	--	--
Revenue Per Share	122.96	155.12	89.3	58.87	71.15	19.08
Fully Diluted Earnings Per Share from Total Operations	3.35	5.06	0	2.28	1.83	0.49
Dividends Per Share	2	1	0.4	0.38	0.57	0.41
Cash Flow Per Share	9.63	19.18	8.3	5.62	6.47	1.6
Working Capital Per Share	92.18	37.12	51.32	5.76	28.02	2.03
Long-Term Debt Per Share	132.95	50.59	88.65	15.31	43.92	10.38
Book Value Per Share	4.49	36.21	3.05	29.87	13.46	9.69
Total Assets Per Share	244.12	194.26	158.12	79.39	110.52	57.5

	General Motors	Daimler-Chrysler	Ford	Toyota	Industry	Market
12-Month Revenue Growth	5.40%	15.30%	0.60%	1.30%	4.50%	-0.40%
12-Month Net Income Growth	188.90%	--	--	-23.30%	289.70%	31.90%
12-Month EPS Growth	89.30%	--	--	-21.90%	335.70%	48.50%
12-Month Dividend Growth	0.00%	-51.90%	-61.90%	-15.60%	-26.90%	0.00%
36-Month Revenue Growth	2.90%	0.10%	-0.30%	-0.80%	0.00%	6.40%
36-Month Net Income Growth	-43.60%	--	--	5.20%	-20.50%	-26.00%
36-Month EPS Growth	-35.30%	--	--	6.30%	-28.90%	-35.60%
36-Month Dividend Growth	5.40%	-24.60%	-40.40%	3.80%	-17.50%	-12.70%

Stock Performance:

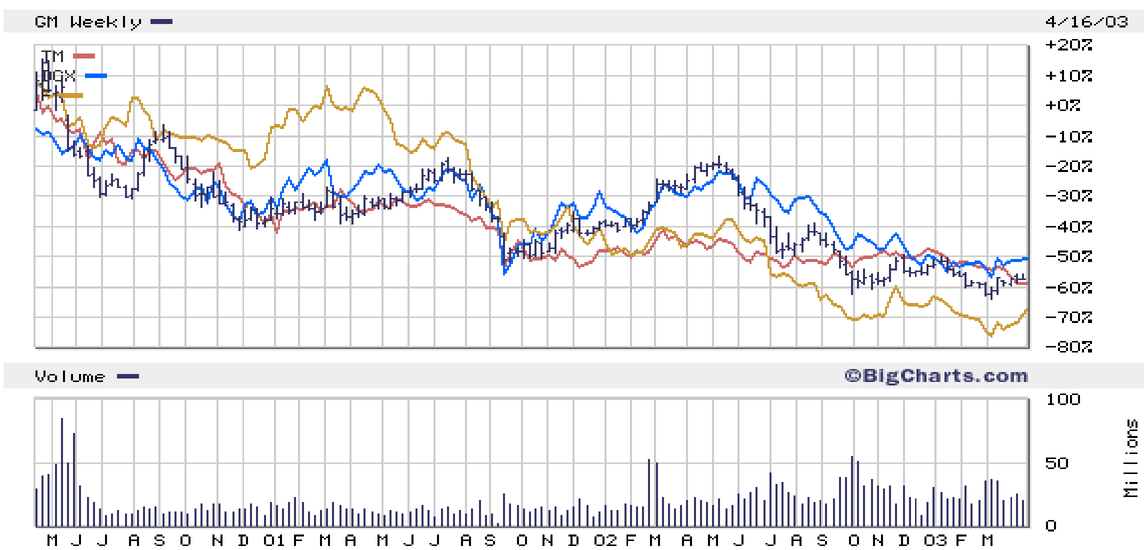
GM's stock is still hovering near its lowest point since early 1995. From a high of $95 in 2Q2000, GM lost roughly two-thirds of its value by 1Q2003. While GM's stock is trading up slightly from its recent bottom at $30, the punishment it has received is hard to overstate. While, GM has underperformed the overall stock market since 1995, this trend has been industry-wide as the graph below shows. The notable anomaly among GM's comparable firms is Ford. Ford's outperformed until 3Q2001 when the Explorer's roll-over problems led to a precipitous sell-off. Ford's stock never recovered and has been underperforming the auto industry since, due to the direct impact of the Explorer scandal and Ford's general strategic and financial weakness.

GM's 3-Year Stock Performance:



GM vs. S&P500 3-Year Comparison:

GM vs. Comparable Companies 3-Year Comparison:



<u>General Motors: Five Forces Analysis</u>

Internal Rivalry:

For General Motors, internal rivalry is the most significant of Porter's Five Forces. As industry demand pulls back from 2002 levels and both price and non-price competition increase in the near term, internal rivalry will become even more critical. GM's most direct competitor is Ford followed by DaimlerChrysler. Though much is made of automotive brand loyalty, low switching costs keep competition high. The heightened competition between the GM and Ford stems from comparable products accounting for the majority of profit: full-size SUVs, trucks, mid-sized automobiles. Additionally, patriotism impacts consumer choice forcing the "Big Three" into more direct competition.

GM, along with DaimlerChrysler and Ford, will need to break with the historical trend of ceding market segments to foreign manufactures, if these firms hope to preserve their domestic market share. GM faces an uphill battle to reclaim a luxury market that had, until recently, been surrendered to the Germans and Japanese. Additionally, GM appears resigned to 'also-ran' status the small-car and compact SUV market. GM's offering are much weaker in these segments than in the truck and large SUV market, where GM's all-American aesthetic strikes a cord. Additionally, GM suffers from a reputation for substandard build-quality and reliability despite having surpassed several Japanese manufacturers on these fronts. Here, as well, GM needs to manage its image to reap the benefits of these material improvements.

Most crucially, even with the unexpectedly high demand of 2002, both Ford and GM are operating at roughly 60% of capacity. The strategic value of this is ambiguous. Ford's behavior indicates that it believes it can still win its current price war with GM. Recognizing this, it is clear that both GM and Ford are geared up for a large gain in sales. Likewise, in a hostile price-competitive market, excess capacity is needed to buffer against market share grabs by an output-hiking price-slashing rival. It appears that Ford and GM are locked in a death struggle on this front, as both are proving marginally profitable at best while increasing production and dropping prices. Eventually, attrition will force one of the two firms to cede market share and likely mothball their excess capacity. Strong exit barriers, however, ensure that this battle will be protracted and bloody. GM will win the battle, but the degree of overcapacity GM needs to remain a credible threat is less than current levels. Moreover, even when Ford concedes the field, GM will not be seeing a major increase in sales—prices will be increased, partially countering the sales benefit of Ford's defeat. GM should close some of its current excess capacity.

Entry:

In the automotive industry, entry is essentially negligible—industry conditions conspire to keep new firms out. The minimum efficient scale of production precludes start-ups. With product quality only partially apparent at purchase, manufacturer reputation is essential to driving sales. Automotive distribution is also problematic, as creating a dealer network and stocking automobiles is extremely costly. In effect, the only obvious avenue of entry is through government subsidies, an unappealing prospect, particularly after the Australian debacle. From a domestic vantage, however, Korean car manufacturers Hyundai and Kia, both DaimlerChrysler marquees, have begun to enter the US market. People laugh now, but they also laughed at the Japanese in the 70's. Fortunately for GM, these offering are competing for the entry-level compact market which contributes little to GM's bottom line. Moreover, GM owns Daewoo and is bringing its products stateside to compete with these two entrants. Overall, GM is secure against entry.

Substitutes and Complements:

As GM relies on the domestic market for most of its revenues, substitutes are little threat to its market. The US has a generally unimpressive record on public transportation, particularly when compared to Europe. Moreover, the urban sprawl model of city growth and current technology preclude an efficient system of mass transit.

The few cities in which public transportation effectively rivals the automobile have already reached equilibrium.

With regards to complements, on the other hand, gasoline prices will continue to drastically impact our consumption habits. In real terms, the late 90's represented the lowest priced gasoline since the 50's, adjusting for inflation. GM's current moneymakers all face demand dependent on continued cheap gasoline. With the situation in Iraq improving, the ongoing Venezuelan political crisis being resolved, and despite a terrorist enemy aware of America's dependence on Middle Eastern oil, the petroleum market will continue to face downward price pressure. Even so, GM should place more focus on small cars, both for diversification and as a hedge against increasing global oil prices. A merger with Toyota is an efficient way to accomplish this.

Supplier and Buyer Power:

Both of these are largely irrelevant. The domestic automobile industry sells the majority of its cars to exclusive but independent private buyers, removing the prospect of oligopsony. Additionally, GM owns most of its suppliers outright.

Strategy Intro:

Strategic positioning through mergers and partnerships will be the most critical determinant of financial performance in the next decade. While the last ten years have seen a blitz of industry consolidation, Blaisdell Consulting believes that significant economies of scale are still unrealized. Consolidation and partnerships allow each marquee to focus on its core competencies while eliminating costly redundancies. At present, auto markets are still inefficiently regionalized by taste and availability—and the benefits of global consolidation are only beginning to be realized. In the auto industry's end game, there will be three to five major global auto companies, each fielding multiple marquees.

GM is both larger and better positioned than its major rivals. If GM continues to competently execute its existing strategies, it is highly favored to handily beat out its rival Daimler-Chrysler and Ford. GM's empire has three main weaknesses:

1. No globally desirable luxury marquee.
2. Mediocre production line efficiency.
3. Perennial difficulty in designing and engineering successful compacts.

Rather than reinventing the wheel, Blaisdell Consulting believes that M&A offers the most efficient means of fixing these shortcomings. Two companies stand out as candidates: Toyota and Honda. Both offer universally respected luxury ranges. Both lead the industry in production efficiency and build quality. Both are specialists in designing and engineering market dominating compacts.

We believe Toyota is the superior choice for two reasons:

1. GM already has a strong and direct working relationship with Toyota.
2. The Toyota corporate culture is more compatible with GM.

GM and Toyota already share ownership of the New United Motor Manufacturing plant and jointly employ over 5000 workers, and in the process GM has demonstrated an ability to work profitably with Toyota. Additionally, high-level managerial connections and goodwill will greatly simplify the merger process. Honda, on the contrary, has a reputation for iconoclastic behavior and strongly independent thinking. This can be seen in both its eclectic product offerings and its current lack of cooperative ties to other manufactures. While it originally purchased its truck platforms (minivan and SUV) from Isuzu, a GM company, that relationship was terminated and did not result in any lasting ties with GM. While Honda is an intriguing success story, defying the common logic that favors M&A, its current management and corporate culture preclude it as a merger target.

Strategy: How GM Stacks Up:

Immediate Term—GM v. Ford

Recent decreases in domestic demand sparked a price war between GM and Ford. Through subsidized financing and 'cash back,' these two manufactures have cut their profit margins to zero. Both manufactures have significant overcapacity and are only producing at about 60% of maximum. This arrangement is unsustainable—at least one of the two will have to retire capacity and cede market share.

Blaisdell Consulting believes GM will win this battle thanks to deeper pockets, better debt position and stronger cash flows. However, this battle of attrition could potentially last several years. US-based manufacturers have not made material gains in domestic market share since the first OPEC oil crisis of the 1970s. Losing US market share is a one-way street. Ford knows this, and will hold on until the bitter end.

Strategy: The Next 20 Year—Asia

Within the next twenty years, China will become the world's third biggest auto market, behind US and Europe. GM's best hope at capitalizing on this opportunity is through its Daewoo marquee. While Shanghai GM has become China's third largest auto producer at 100,000 units per year, Daewoo offers a wide range of entry-level products more compatible with regional tastes. Additionally, Daewoo, along with its two major Korean rivals, is the world's current low cost producer.

Daewoo has two other advantages over any of GM's other brands. First, Daewoo will have an easier time managing a China-based plant than GM itself. Daewoo's managerial strengths are:

1. Daewoo has thrived under tight government regulation since its inception. The experience of Daewoo's management coping with Korea's bureaucracy leaves them uniquely qualified to oversee China-based manufacturing.
2. The geographic proximity between Korea and China will facilitate both managerial communication and sharing of materials and capital.
3. The cultural gap between China and Korea is tangibly smaller than that between China and the US.

Second, Daewoo's manufacturing process is more labor intensive than those of the major American and Japanese manufacturers. As the Chinese government would require domestic production in exchange for sales privileges, Daewoo's labor intensive production techniques can take full advantage of China's inexpensive workforce.

GM should act quickly in furthering its contacts with the Chinese government. In 1995, Shanghai GM was founded and rolled outs its first car in 1998. Ford, Toyota, Volkswagen, Fiat, and Suzuki have already cemented joint ventures as well. However, none of the naturally advantaged Korean firms have fully entered the Chinese market. Since GM's acquisition of Daewoo, it quickly sold a ten percent equity stake to Shanghai Automotive Industry Corporation, the prospective partner in an anticipated Chinese joint venture. While GM appears set on moving Daewoo into China, nothing has been finalized to date.

Given GM's current lack of profitability, and the three years it took Shanghai GM to sell its first car, GM's management has been hesitant to commit its full resources to building a major auto plant in China. While building this plant would clearly hurt GM's bottom line for the next few years, sacrificing first mover advantage will harm GM's performance in perpetuity.

Daewoo would likely become China's dominant auto manufacturer through its product quality and market suitability. Moreover, these two advantages will persist for the foreseeable future. Only Hyundai and Kia can match Daewoo's combination of low cost production, quality, and a product line appropriate to a developing China. Both of these rivals are owned by DaimlerChrysler, which has taken no action to gain a toehold in the Chinese market. They will be punished for this oversight—as late entrants they will be forced to fight an expensive and uphill battle to enter an established market. Blaisdell Consulting urges GM to give GM-Daewoo the green light to finalize a joint venture plant with SAIC and to begin production of a full range of Daewoo products. While this project would generate no revenue until late 2005 at the earliest, the strategic advantages of getting Daewoo into China are enormous.

Strategy: Long-Term Product Diversification and Specialization.

M&A continues to be the single strongest factor shaping the structure of the automobile industry. With international barriers lowering and global tastes converging, the benefits of regional focus are diminishing. The benefits to consolidation are numerous:

1. Hedging against macroeconomic shocks and changing tastes, by diversifying across markets and product types.
2. Cost savings through increased cross-platforming.
3. Cost savings through elimination of redundant infrastructure: dealers, parts distribution, accounting, marketing, management, R&D, etc.
4. Individual brands can focus on their own comparative advantage.

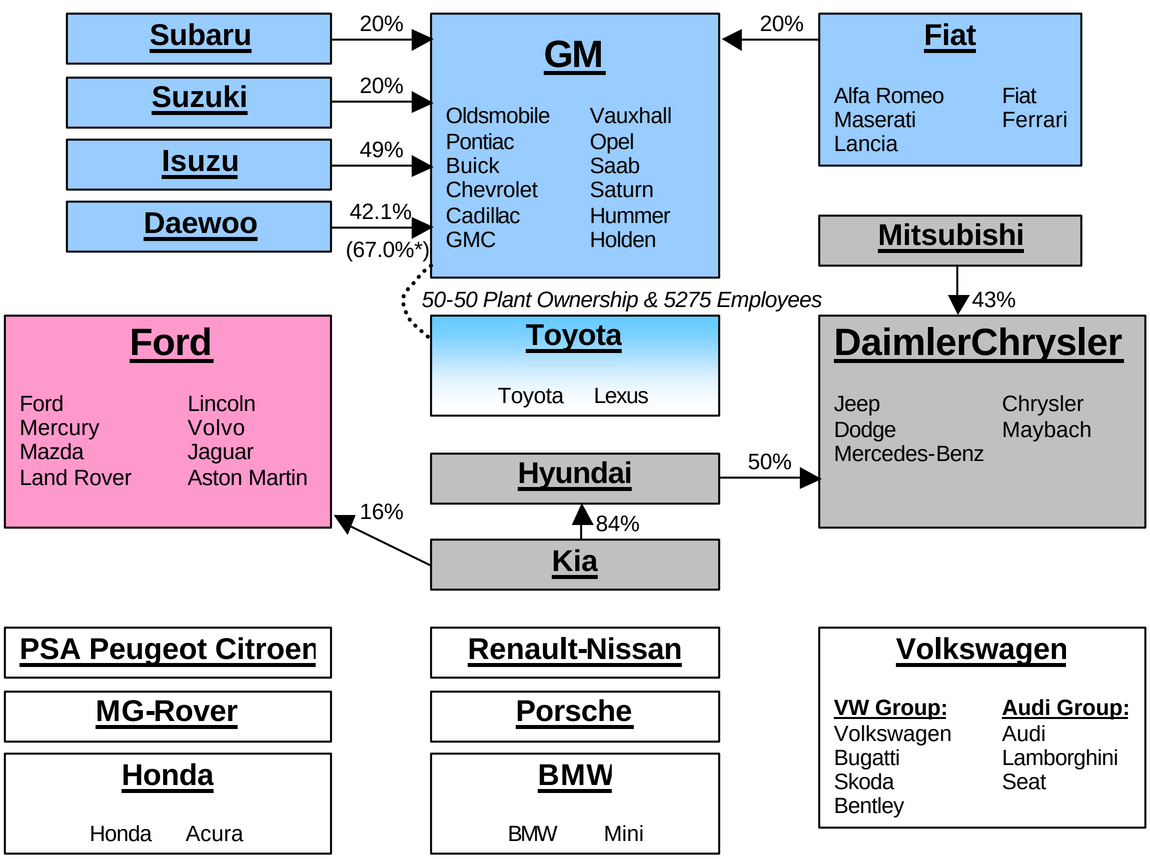
While it was once claimed that GM faced **dis**economies of scale, recent efficiency improvements have proven these critics wrong. In the current era, it appears that there are no material limits to economies of scale in the auto industry.

It has been claimed that partnerships and joint ventures offer a simpler means to achieve similar benefits. Implicitly, this argues that the costs of merger (investment banking fees and merger premiums) outweigh the additional benefits a formal merger entails. These benefits are, namely, tax savings and improved cooperation. The tax benefits derive from making a taxable transaction internal. For example, imagine Ford outsourced its engine design to Yamaha. Yamaha designs the motor, Ford pays Yamaha $100m and Yamaha pays a third of this to the Japanese government. If, instead, Ford purchased Yamaha outright, this transaction would be made intracompany and untaxable, saving Ford-Yamaha $33.3m in taxes. The improved cooperation a merger offered could be more accurately described as guaranteed non-competition. By merging with a company, the fortunes of both companies become inexorably tied, ensuring cooperative behavior.

We should address the fact that the equity market discounts conglomerates for their financial opacity. GE, for example, sells for roughly 85% of the estimated value of its component businesses. This could be applied to the automotive industry—if the market wanted diversification, it would prefer a diverse stock portfolio rather than a single diversified company. Blaisdell Consulting, however, believes this concern bears little weight in the automotive industry. First, the diversification of products and geography has tangible advantages. The automobile industry requires a large skilled workforce and major investments in fixed capital—both highly immobile. If a company only produces a sports car and only sells this car in Bulgaria, if either Bulgarian tastes in cars change or if there is a macroeconomic shock to the country, the firm will simply be forced to close up shop, wasting investor's capital. If, however, this factory was part of an international group such as GM, it could retool its plant to produce another model of car or could use a preexisting international distribution network to sell its car abroad until Bulgaria's macroeconomic situation improved. In either case, only diversification can ensure that investor capital will be put to efficient use.

Having established the importance of scale and diversification, and recognizing M&A as the most efficient way to achieve these aims in an established market, let us size up GM and its competition. Please refer to the following chart for a summary of the auto industry's current organization.

Structure of the Global Auto Industry:



Blaisdell Consulting believes the end game for the auto industry will involve five major manufacturing groups. Currently, the three largest global players all follow a similar business model. These are GM, DaimlerChrysler and Ford. Consolidation is the dominant strategy in the auto industry—the remaining independent manufactures will eventually merge amongst themselves or be absorbed into the Big Three. Some may persist as maverick independents, but this will be the exception, rather than the rule.

Toyota is the dominant player within the independent field, with roughly two-third of the sales of each of the "Big Three." Toyota is unique as it has sufficient scale to remain independent indefinitely. Its product line is diverse: passenger cars, trucks, and luxury. It is also more regionally diversified than any of the other independents, with penetration in all major open markets. Moreover, Toyota boasts remarkable production efficiency, R&D expertise, and design experience. If it is not incorporated into one of the Big Three, it **will** become the backbone of the "Big Fourth." By merging with Toyota, GM can capitalize on unprecedented cost and revenue synergies, while preempting the entry of a rival more potent than either Ford or DaimlerChrysler.

The other intriguing independent is Renault-Nissan--an aggressive up and comer. Renault was financially weak and managerially mediocre until Ghosn[2] came aboard as president in 1996. By 1998, he had improved the firm's balance sheet enough to include $5.4b cash in Renault's bid for Nissan. Since the merger, Nissan has been largely turned around: an overly diverse product line has been pared down; slashed costs have improved efficiency; aggressive new designs have revitalized sales and redefined Nissans image (the new Maxima, the Altima, and the Z are all strong examples). The merger appears to have been a success and Renault-Nissan is just beginning to capitalize on its potential synergies. Moreover, Ghosn is a remarkable president and a worthy competitor. Renault-Nissan is not, however, a strong merger candidate, for three reasons.

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[2] Blaisdell Consulting is currently in negotiation with Mr. Ghosn regarding a position as partner within the firm.

1. Its core competencies don't fill GM's weaknesses as well as Toyota (or Honda).
2. The firm is still volatile and an uncertain investment. Just five years ago, Nissan was on the verge of insolvency. Renault was not much better after its failed 1993 bid for Volvo.
3. Renault-Nissan's biggest strength is its president Carlos Ghosn. His iconoclastic style makes him a remarkable turnaround specialist but would prove incompatible with a mature organization such as GM.

Renault-Nissan is the car manufacturer to watch for the next five years. Besides Toyota, Renault-Nissan is the most probable challenger to the "Big Three." Fortunately, it will be years before this firm can poses the threat Toyota represents.

The other independent manufactures all suffer serious weaknesses. They are either too regionally concentrated, or they have an over-specialized product line. None of these firms alone represent a credible threat to GM's dominance. Honda is worthy of mention as it ties Toyota for dominance of the economy compact[3] and economy sedan[4] markets. This segment specificity, however, largely eliminates Honda's threat to GM, as GM has basically forsaken the US small car market.

Conclusion:

The biggest danger GM faces is complacency. GM's dominance within the 'Big Three' is unassailable at the present. GM's diversification protects it against both macroeconomic risk and shifting tastes. Additionally, GM has managed to improve product quality and reliability enough to compete with vanguard: Toyota and Honda. Beating out Ford on the domestic front will further bolster management confidence.

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[3] Civic v. Corolla
[4] Accord v. Camry

To insure this dominance in future, it is crucial that GM deemphasize its current cash flows. Daewoo China will be a money pit for the next three years, at least. However, the long-term benefits of quick action on this front are hard to exaggerate. Opportunities of this scale are exceedingly rare in a mature industry like automobile production.

Similarly, GM should actively pursue stronger links with Toyota but merger terms should not be fleshed out given current market conditions. GM is currently undervalued relative to Toyota, due to a soft US economy combined with investor infatuation with Toyota's efficiency. Moreover, current bearishness precludes major M&A activity. GM's market cap is presently only two-thirds of Toyota's. Formal merger talks should wait until this balance has shifted back in favor of GM.

2003 Q1 Quarterly Report

Consolidated Statements of Income

(Unaudited)

(dollars in millions except per share amounts)	Three Months Ended March 31, 2003	2002
Total net sales and revenues	**$49,365**	$46,214
Cost of sales and other expenses	**39,383**	38,401
Selling, general, and administrative expenses	**5,706**	5,601
Interest expense	**2,128**	1,858
Total costs and expenses	**47,217**	45,860
Income before income taxes and minority interests	**2,148**	354
Income tax expense	**656**	125
Equity income (loss) and minority interests	**(9)**	(1)
Net income	**1,483**	228
Dividends on preference stocks	**-**	(24)
Earnings attributable to common stocks	**$1,483**	$204
Basic earnings (losses) per share attributable to common stocks		
Earnings per share attributable to $1-2/3 par value	**$2.71**	$0.58
Earnings per share attributable to Class H	**($0.04)**	($0.14)
Earnings (losses) per share attributable to common stocks assuming dilution		
Earnings per share attributable to $1-2/3 par value	**$2.71**	$0.57
Earnings per share attributable to Class H	**($0.04)**	($0.14)

Supplemental Information to the Consolidated Statements of Income

(Unaudited)

(dollars in millions)	Three Months Ended March 31, 2003	2002
AUTOMOTIVE, COMMUNICATIONS SERVICES, AND OTHER OPERATIONS		
Total net sales and revenues	**$42,042**	$39,773
Cost of sales and other expenses	**37,313**	36,211
Selling, general, and administrative expenses	**3,341**	3,690
Total costs and expenses	**40,654**	39,901
Interest expense	**321**	162
Net expense from transactions with *Financing and Insurance Operations*	**41**	90
Income (loss) before income taxes and minority interests	**1,026**	(380)
Income tax expense (benefit)	**226**	(160)
Equity income (loss) and minority interests	**1**	11
Net income (loss) - Automotive, Communications Services, and Other Operations	**$801**	($209)
FINANCING AND INSURANCE OPERATIONS		
Total revenues	**$7,323**	$6,441
Interest expense	**1,807**	1,696
Depreciation and amortization expense	**1,506**	1,361
Operating and other expenses	**2,177**	1,905
Provisions for financing and insurance losses	**752**	835
Total costs and expenses	**6,242**	5,797
Net income from transactions with Automotive, *Communications Services, and Other Operations*	**(41)**	(90)
Income before income taxes and minority interests	**1,122**	734
Income tax expense	**430**	285
Equity income/(loss) and minority interests	**(10)**	(12)
Net income - Financing and Insurance Operations	**$682**	$437

The above supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1)

Automotive, Communications Services, and Other Operations; and (2) Financing and Insurance Operations.

Consolidated Balance Sheets

(dollars in millions)	**Mar 31, 2003 (Unaudited)**	Dec 31, 2002	Mar 31, 2002 (Unaudited)
ASSETS			
Cash and cash equivalents	**$26,982**	$21,449	$19,049
Marketable securities	**16,841**	16,825	13,282
Total cash and marketable securities	**43,823**	38,274	32,331
Finance receivables – net	**141,273**	134,647	112,686
Accounts and notes receivable (less allowances)	**16,209**	15,715	11,091
Inventories (less allowances)	**10,769**	9,967	9,802
Deferred income taxes	**39,000**	39,865	28,677
Equipment on operating leases – (less accumulated depreciation)	**36,997**	32,988	32,378
Equity in net assets of nonconsolidated associates	**4,976**	5,044	4,871
Property – net	**37,681**	37,514	35,512
Intangible assets - net	**17,975**	17,954	16,972
Other assets	**33,733**	37,028	40,360
Total assets	**$382,436**	$368,996	$324,680
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable (principally trade)	**$28,738**	$27,452	$27,465
Notes and loans payable	**211,726**	201,940	166,470
Postretirement benefits other than pensions	**38,239**	38,187	38,586
Pensions	**22,536**	22,762	11,113
Deferred income taxes	**7,342**	7,178	6,318
Accrued expenses and other liabilities	**63,654**	63,829	54,386
Total liabilities	**372,235**	361,348	304,338
Minority interests	**835**	834	766
Stockholders' equity			
$1-2/3 par value common stock (outstanding, 560,616,422; 560,447,797; and 560,021,275 shares)	**934**	936	934
Class H common stock (outstanding, 1,107,517,793; 958,284,272; and 877,777,148 shares)	**111**	96	88
Capital surplus (principally additional paid-in capital)	**22,808**	21,583	21,589
Retained earnings	**11,234**	10,031	9,387
Subtotal	**35,087**	32,646	31,998
Accumulated foreign currency translation adjustments	**(2,665)**	(2,784)	(3,014)
Net unrealized loss on derivatives	**(196)**	(205)	(256)
Net unrealized gains on securities	**344**	372	428
Minimum pension liability adjustment	**(23,204)**	(23,215)	(9,580)
Accumulated other comprehensive loss	**(25,721)**	(25,832)	(12,422)
Total stockholders' equity	**9,366**	6,814	19,576
Total liabilities and stockholders' equity	**$382,436**	$368,996	$324,680

Supplemental Information to the Consolidated Balance Sheets

(dollars in millions)	**Mar. 31, 2003 (Unaudited)**	Dec. 31, 2002	Mar. 31, 2002 (Unaudited)
ASSETS			
Automotive, Communications Services, and Other Operations			
Cash and cash equivalents	**$16,977**	$13,291	$14,656
Marketable securities	**3,239**	2,174	781
Total cash and marketable sec urities	**20,216**	15,465	15,437
Accounts and notes receivable (less allowances)	**6,085**	5,861	5,957
Inventories (less allowances)	**10,769**	9,967	9,802
Equipment on operating leases – (less accumulated depreciation)	**5,661**	5,305	3,675
Deferred income taxes and other current assets	**10,957**	10,816	7,974
Total current assets	**53,688**	47,414	42,845
Equity in net assets of nonconsolidated associates	**4,976**	5,044	4,871
Property – net	**35,856**	35,693	33,888
Intangible assets - net	**14,637**	14,611	13,745
Deferred income taxes	**30,473**	31,431	22,826
Other assets	**7,753**	7,781	17,494
Total Automotive, Communications Services, and Other Operations assets	**147,383**	141,974	135,669
Financing and Insurance Operations			
Cash and cash equivalents	**10,005**	8,158	4,393
Investments in securities	**13,602**	14,651	12,501
Finance receivables – net	**141,273**	134,647	112,686
Investment in leases and other receivables	**39,476**	35,517	31,794
Other assets	**30,697**	34,049	27,637
Net receivable from Automotive, Communications Services, and Other Operations	**486**	1,089	477
Total Financing and Insurance Operations assets	**235,539**	228,111	189,488
Total assets	**$382,922**	$370,085	$325,157
LIABILITIES AND STOCKHOLDERS' EQUITY			
Automotive, Communications Services, and Other Operations			
Accounts payable (principally trade)	**$21,659**	$20,169	$19,367
Loans payable	**815**	1,516	1,591
Accrued expenses	**41,718**	40,518	34,352
Net payable to Financing and Insurance Operations	**486**	1,089	477
Total current liabilities	**64,678**	63,292	55,787
Long-term debt	**19,228**	16,651	16,797
Postretirement benefits other than pensions	**34,291**	34,275	34,719
Pensions	**22,481**	22,709	11,072
Other liabilities and deferred income taxes	**15,307**	15,461	13,741
Total Automotive, Communications Services, and Other Operations liabilities	**155,985**	152,388	132,116
Financing and Insurance Operations			
Accounts payable	**7,079**	7,283	8,098
Debt	**191,683**	183,773	148,082
Other liabilities and deferred income taxes	**17,974**	18,993	16,519
Total Financing and Insurance Operations liabilities	**216,736**	210,049	172,699

Total liabilities	**372,721**	362,437	304,815
Minority interests	**835**	834	766
Stockholders' equity			
$1-2/3 par value common stock (outstanding, 560,616,422; 560,447,797; and 560,021,275 shares)	**934**	936	934
Class H common stock (outstanding, 1,107,517,793; 958,284,272; and 877,777,148 shares)	**111**	96	88
Capital surplus (principally additional paid-in capital)	**22,808**	21,583	21,589
Retained earnings	**11,234**	10,031	9,387
Subtotal	**35,087**	32,646	31,998
Accumulated foreign currency translation adjustments	**(2,665)**	(2,784)	(3,014)
Net unrealized loss on derivatives	**(196)**	(205)	(256)
Net unrealized gains on securities	**344**	372	428
Minimum pension liability adjustment	**(23,204)**	(23,215)	(9,580)
Accumulated other comprehensive loss	**(25,721)**	(25,832)	(12,422)
Total stockholders' equity	**9,366**	6,814	19,576
Total liabilities and stockholders' equity	**$382,922**	$370,085	$325,157

The above supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive,

Communications Services, and Other Operations; and (2) Financing and Insurance Operations.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(dollars in millions)	Three Months Ended March 31, 2003	2002
Net cash provided by (used in) operating activities	**$10,055**	$7,707
Cash flows from investing activities		
Expenditures for property	**(1,686)**	(1,904)
Investments in marketable securities - acquisitions	**(2,830)**	(12,883)
Investments in marketable securities - liquidations	**2,906**	12,182
Net change in mortgage servicing rights	**(461)**	(551)
Increase in finance receivables	**(33,775)**	(32,185)
Proceeds from sales of finance receivables	**23,446**	28,196
Operating leases – acquisitions	**(3,661)**	(2,991)
Operating leases – liquidations	**2,510**	2,307
Investments in companies, net of cash acquired	**(32)**	(161)
Proceeds from sale of business units	**1,076**	-
Other	**(504)**	318
Net cash (used in) provided by investing activities	**(13,011)**	(7,672)
Cash flows from financing activities		
Net decrease in loans payable	**(585)**	(6,391)
Long-term debt – borrowings	**19,391**	13,667
Long-term debt – repayments	**(10,066)**	(6,543)
Proceeds from issuing common stocks	**-**	50
Proceeds from sales of treasury stocks	**-**	19
Cash dividends paid to stockholders	**(280)**	(304)
Net cash provided by (used in) financing activities	**8,460**	498
Effect of exchange rate changes on cash and cash equivalents	**29**	(39)
Net increase (decrease) in cash and cash equivalents	**5,533**	494
Cash and cash equivalents at beginning of the period	**21,449**	18,555
Cash and cash equivalents at end of the period	**$26,982**	$19,049

Supplemental Information to the Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Automotive, Comm. Serv. and Other		Financing and Insurance	
	Three Months Ended March 31,			
(dollars in millions)	**2003**	2002	**2003**	2002
Net cash provided by (used in) operating activities	**$4,681**	$3,762	**$5,374**	$3,945
Cash flows from investing activities				
Expenditures for property	**(1,582)**	(1,888)	**(104)**	(16)
Investments in marketable securities – acquisitions	**(1,155)**	(399)	**(1,675)**	(12,484)
Investments in marketable securities - liquidations	**90**	408	**2,816**	11,774
Net change in mortgage servicing rights	**-**	-	**(461)**	(551)
Increase in finance receivables	**-**	-	**(33,775)**	(32,185)
Proceeds from sales of finance receivables	**-**	-	**23,446**	28,196
Operating leases – acquisitions	**-**	-	**(3,661)**	(2,991)
Operating leases – liquidations	**-**	-	**2,510**	2,307
Investments in companies, net of cash acquired	**(32)**	(39)	**-**	(122)
Proceeds from sale of business units	**1,076**	-	**-**	-
Other	**(306)**	524	**(198)**	(206)
Net cash (used in) provided by investing activities	**(1,909)**	(1,394)	**(11,102)**	(6,278)
Cash flows from financing activities				
Net increase (decrease) in loans payable	**(733)**	(811)	**148**	(5,580)
Long-term debt – borrowings	**2,566**	6,414	**16,825**	7,253
Long-term debt – repayments	**(36)**	(392)	**(10,030)**	(6,151)
Proceeds from issuing common stocks		50	**-**	-
Proceeds from sales of treasury stocks		19	**-**	-
Cash dividends paid to stockholders	**(280)**	(304)	**-**	-
Net cash provided by (used in) financing activities	**1,517**	4,976	**6,943**	(4,478)
Effect of exchange rate changes on cash and cash equivalents	**1**	(40)	**28**	1
Net transactions with Automotive/Financing Operations	**(604)**	(1,080)	**604**	1,080
Net increase (decrease) in cash and cash equivalents	**3,686**	6,224	**1,847**	(5,730)
Cash and cash equivalents at beginning of the period	**13,291**	8,432	**8,158**	10,123
Cash and cash equivalents at end of the period	**$16,977**	$14,656	**$10,005**	$4,393

The above supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive, Communications Services, and Other Operations; and (2) Financing and Insurance Operations.

2002 Annual Report

Consolidated Statements of Income

(Dollars in millions except per share amounts) Years ended December 31,	**2002**	2001	2000
GENERAL MOTORS CORPORATION AND SUBSIDIARIES			
Total net sales and revenues (Notes 1, 2, and 23)	**$186,763**	$177,260	$184,632
Cost of sales and other expenses (Notes 2 and 3)	**153,344**	144,093	145,664
Selling, general,and administrative expenses	**23,624**	23,302	22,252
Interest expense (Note 13)	**7,715**	8,347	9,552
Total costs and expenses	**184,683**	175,742	177,468
Income before income taxes and minority interests	**2,080**	1,518	7,164
Income tax expense (Note 8)	**533**	768	2,393
Equity income (loss) and minority interests	**189**	(149)	(319)
Net income	**1,736**	601	4,452
Dividends on preference stocks	**(47)**	(99)	(110)
Earnings attributable to common stocks	**$1,689**	$502	$4,342
Basic earnings (losses) per share attributable to common stocks			
Earnings per share attributable to $1-2/3 par value	**$3.37**	$1.78	$6.80
Earnings per share attributable to Class H	**($0.21)**	($0.55)	$0.56
Earnings (losses) per share attributable to common stocks assuming dilution			
Earnings per share attributable to $1-2/3 par value	**$3.35**	$1.77	$6.68
Earnings per share attributable to Class H	**($0.21)**	($0.55)	$0.55

Supplemental Information to the Consolidated Statements of Income

(Dollars in millions) Years ended December 31,	**2002**	2001	2000
AUTOMOTIVE, COMMUNICATIONS SERVICES,AND OTHER OPERATIONS			
Total net sales and revenues (Notes 1, 2, and 23)	**$159,737**	$151,491	$160,627
Cost of sales and other expenses (Notes 2 and 3)	**144,550**	135,620	138,303
Selling, general, and administrative expenses	**14,993**	16,043	16,246
Total costs and expenses	**159,543**	151,663	154,549
Interest expense (Note 13)	**789**	751	815
Net expense from transactions with Financing and Insurance Operations (Note 1)	**296**	435	682
(*Loss*) income before income taxes and minority interests	**(891)**	(1,358)	4,581
Income tax (benefit) expense (Note 8)	**(489)**	(270)	1,443
Equity income (loss) and minority interests	**256**	(79)	(299)
Net income (loss) – Automotive,Communications Services,and Other Operations	**(146)**	(1,167)	$2,839

(Dollars in millions) Years ended December 31,	**2002**	2001	2000
FINANCING AND INSURANCE OPERATIONS			
Total revenues	**$27,026**	$25,769	$24,005
Interest expense (Note 13)	**6,926**	7,596	8,737
Depreciation and amortization expense (Note 9)	**5,541**	5,857	5,982
Operating and other expenses	**8,356**	7,348	5,805
Provisions for financing and insurance losses (Note 1)	**3,528**	2,527	1,580
Total costs and expenses	**24,351**	23,328	22,104
Net income from transactions with Automotive, Communications Services, and Other Operations (Note 1)	**(296)**	(435)	(682)
Income before income taxes and minority interests	**2,971**	2,876	2,583
Income tax expense (Note 8)	**1,022**	1,038	950
Equity income (loss) and minority interests	**(67)**	(70)	(20)
Net income – Financing and Insurance Operations	**$1,882**	$1,768	$1,613

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive,Communications Services, and Other Operations; and (2) Financing and Insurance Operations.

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

Consolidated Balance Sheets

(Dollars in millions) December 31,	**2002**	2001
GENERAL MOTORS CORPORATION AND SUBSIDIARIES		
ASSETS		
Cash and cash equivalents (Note 1)	**$21,449**	$18,555
Other marketable securities (Note 4)	**16,825**	12,069
Total cash and marketable securities	**38,274**	30,624
Finance receivables – net (Note 5)	**134,647**	109,211
Accounts and notes receivable (less allowances)	**15,715**	10,798
Inventories (less allowances) (Note 6)	**9,967**	10,034
Deferred income taxes (Note 8)	**41,649**	28,239
Equipment on operating leases (less accumulated depreciation) (Note 7)	**34,811**	36,087
Equity in net assets of nonconsolidated associates	**5,044**	4,950
Property – net (Note 9)	**37,973**	36,440
Intangible assets – net (Notes 1 and 10)	**17,954**	16,927
Other assets (Note 11)	**34,748**	39,102
Total assets	**$370,782**	$322,412
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable (principally trade)	**$27,452**	$26,197
Notes and loans payable (Note 13)	**201,940**	166,314
Postretirement benefits other than pensions (Note 14)	**38,187**	38,393
Pensions (Note 14)	**22,762**	10,839
Deferred income taxes (Notes 8 and 12)	**8,964**	6,690
Accrued expenses and other liabilities (Note 12)	**63,829**	53,526
Total liabilities	**363,134**	301,959
Minority interests	**834**	746
Stockholders' equity (Note 17)		
$1-2/3 par value common stock (outstanding, 560,447,797 and 558,439,976 shares)	**936**	932
Class H common stock (outstanding , 958,284,272 and 877,386,595 shares)	**96**	88
Capital surplus (principally additional paid-in capital)	**21,583**	21,519
Retained earnings	**10,031**	9,463
Subtotal	**32,646**	32,002
Accumulated foreign currency translation adjustments	**(2,784)**	(2,919)
Net unrealized losses on derivatives	**(205)**	(307)
Net unrealized gains on securities	**372**	512
Minimum pension liability adjustment	**(23,215)**	(9,581)
Accumulated other comprehensive loss	**(25,832)**	(12,295)
Total stockholders' equity	**6,814**	19,707
Total liabilities and stockholders' equity	**$370,782**	$322,412

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

Supplemental Information to the Consolidated Balance Sheets

(Dollars in millions) December 31,	**2002**	2001
ASSETS		
Automotive, Communications Services, and Other Operations		
Cash and cash equivalents (Note 1)	**$13,291**	$8,432
Marketable securities (Note 4)	**2,174**	790
Total cash and marketable securities	**15,465**	9,222
Accounts and notes receivable (less allowances)	**5,861**	5,406
Inventories (less allowances) (Note 6)	**9,967**	10,034
Equipment on operating leases (less accumulated depreciation) (Note 7)	**5,305**	4,524
Deferred income taxes and other current assets (Note 8)	**11,273**	7,877
Total current assets	**47,871**	37,063
Equity in net assets of nonconsolidated associates	**5,044**	4,950
Property – net (Note 9)	**36,152**	34,908
Intangible assets – net (Notes 1 and 10)	**14,611**	13,721
Deferred income taxes (Note 8)	**32,759**	22,294
Other assets (Note 11)	**7,323**	17,274
Total Automotive,Communications Services,and Other Operations assets	**143,760**	130,210
Financing and Insurance Operations		
Cash and cash equivalents (Note 1)	**8,158**	10,123
Investments in securities (Note 4)	**14,651**	11,279
Finance receivables – net (Note 5)	**134,647**	109,211
Investment in leases and other receivables (Note 7)	**35,517**	33,382
Other assets (Note 11)	**34,049**	28,207
Net receivable from Automotive, Communications Services, and Other Operations (Note 1)	**1,089**	1,557
Total Financing and Insurance Operations assets	**228,111**	193,759
Total assets	**$371,871**	$323,969
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive, Communications Services, and Other Operations		
Accounts payable (principally trade)	$20,169	$18,297
Loans payable (Note 13)	1,516	2,402
Accrued expenses (Note 12)	40,976	34,090
Net payable to Financing and Insurance Operations (Note 1)	1,089	1,557
Total current liabilities	63,750	56,346
Long-term debt (Note 13)	16,651	10,726
Postretirement benefits other than pensions (Note 14)	34,275	34,515
Pensions (Note 14)	22,709	10,790
Other liabilities and deferred income taxes (Notes 8 and 12)	16,789	13,794
Total Automotive,Communications Services,and Other Operations liabilities	154,174	126,171
Financing and Insurance Operations		
Accounts payable	7,283	7,900
Debt (Note 13)	183,773	153,186
Other liabilities and deferred income taxes (Notes 8 and 12)	18,993	16,259
Total Financing and Insurance Operations liabilities	210,049	177,345
Total liabilities	364,223	303,516
Minority interests	834	746

Stockholders' equity (Note 17)		
$1-2/3 par value common stock (outstanding, 560,447,797 and 558,439,976 shares)	936	932
Class H common stock (outstanding , 958,284,272 and 877,386,595 shares)	96	88
Capital surplus (principally additional paid-in capital)	21,583	21,519
Retained earnings	10,031	9,463
Subtotal	32,646	32,002
Accumulated foreign currency translation adjustments	(2,784)	(2,919)
Net unrealized losses on derivatives	(205)	(307)
Net unrealized gains on securities	372	512
Minimum pension liability adjustment	(23,215)	(9,581)
Accumulated other comprehensive loss	(25,832)	(12,295)
Total stockholders' equity	6,814	19,707
Total liabilities and stockholders' equity	$371,871	$323,969

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive,Communications Services, and Other Operations; and (2) Financing and Insurance Operations.

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

Consolidated Statements of Cash Flows

(Dollars in millions) For the years ended December 31,	**2002**	2001	2000
GENERAL MOTORS CORPORATION AND SUBSIDIARIES			
Cash flows from operating activities			
Net income	**$1,736**	$601	$4,452
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expenses	**12,938**	12,908	13,411
Postretirement benefits other than pensions, net of payments and VEBA contributions	**(208)**	1,881	799
Pension expense, net of contributions	**(3,380)**	148	128
Net change in mortgage loans	**(4,376)**	(4,241)	242
Net change in mortgage securities	**(656)**	(777)	(577)
Rental fleet vehicle – acquisitions	**(5,595)**	(4,997)	(6,000)
Rental fleet vehicle – dispositions	**4,774**	6,116	6,008
Change in other investments and miscellaneous assets	**6,195**	(1,235)	(538)
Change in other operating assets and liabilities (Note 1)	**4,600**	(101)	3,229
Other	**1,081**	2,682	291
Net cash provided by operating activities	**$17,109**	$12,985	$21,445
Cash flows from investing activities			
Expenditures for property	**(7,443)**	(8,631)	(9,722)
Investments in marketable securities – acquisitions	**(39,386)**	(35,130)	(27,119)
Investments in marketable securities – liquidations	**35,688**	34,352	27,171
Net change in mortgage servicing rights	**(1,711)**	(2,075)	(1,084)
Increase in finance receivables	**(143,166)**	(107,440)	(73,754)
Proceeds from sales of finance receivables	**117,276**	95,949	59,221
Operating leases – acquisitions	**(16,624)**	(12,938)	(15,415)
Operating leases – liquidations	**13,994**	11,892	10,085
Investments in companies, net of cash acquired (Note 1)	**(782)**	(1,285)	(6,379)
Other	**867**	(1,184)	2,597
Net cash used in investing activities	**(41,377)**	(26,490)	(34,399)
Cash flows from financing activities			
Net (decrease) increase in loans payable	**(404)**	(20,044)	7,865
Long-term debt – borrowings	**53,144**	64,371	27,760
Long-term debt – repayments	**(24,889)**	(21,508)	(22,459)
Repurchases of common and preference stocks	**(97)**	(264)	(1,613)
Proceeds from issuing common stocks	**62**	100	2,792
Proceeds from sales of treasury stocks	**19**	418	–
Cash dividends paid to stockholders	**(1,168)**	(1,201)	(1,294)
Net cash provided by financing activities	**26,667**	21,872	13,051
Effect of exchange rate changes on cash and cash equivalents	**495**	(96)	(255)
Net increase (decrease) in cash and cash equivalents	**2,894**	8,271	(158)
Cash and cash equivalents at beginning of the year	**18,555**	10,284	10,442
Cash and cash equivalents at end of the year	**$21,449**	$18,555	$10,284

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

	(Dollars in millions) For the years ended December 31					
	2002		2001		2000	
	Automotive, Communications, and Other	Financing and Insurance	Automotive, Communications, and Other	Financing and Insurance	Automotive, Communications, and Other	Financing and Insurance
Cash flows from operating activities						
Net income (loss)	**($146)**	**$1,882**	($1,167)	$1,768	$2,839	$1,613
Adjustments to reconcile net income (loss) to net cash provided by operating activities						
Depreciation and amortization expenses	**7,397**	**5,541**	7,051	5,857	7,429	5,982
Postretirement benefits other than pensions, net of payments and VEBA contributions	**(223)**	**15**	1,861	20	772	27
Pension expense, net contributions	**(3,380)**	**–**	148	–	128	–
Net change in mortgage loans	**–**	**(4,376)**	–	(4,241)	–	242
Net change in mortgage securities	**–**	**(656)**	–	(777)	–	(577)
Rental fleet vehicle – acquisitions	**(5,595)**	**–**	(4,997)	–	(6,000)	–
Rental fleet vehicle – dispositions	**4,774**	**–**	6,116	–	6,008	–
Change in other investments and miscellaneous assets	**2,689**	**3,506**	959	(2,194)	1,154	(1,692)
Change in other operating assets and liabilities (Note 1)	**4,649**	**(49)**	(2,056)	1,955	724	2,505
Other	**(1,694)**	**2,775**	(357)	3,039	(1,966)	2,257
Net cash provided by operating activities	**$8,471**	**$8,638**	$7,558	$5,427	$11,088	$10,357
Cash flows from investing activities						
Expenditures for property	**(6,986)**	**(457)**	(8,611)	(20)	(9,200)	(522)
Investments in marketable securities – acquisitions	**(2,228)**	**(37,158)**	(857)	(34,273)	(2,520)	(24,599)
Investments in marketable securities – liquidations	**873**	**34,815**	1,228	33,124	3,057	24,114
Net change in mortgage servicing rights	**–**	**(1,711)**	–	(2,075)	–	(1,084)
Increase in finance receivables	**–**	**(143,166)**	–	(107,440)	–	(73,754)
Proceeds from sales of finance receivables	**–**	**117,276**	–	95,949	–	59,221
Operating leases – acquisitions	**–**	**(16,624)**	–	(12,938)	–	(15,415)
Operating leases – liquidations	**–**	**13,994**	–	11,892	–	10,085
Investments in companies, net of cash acquired	**(690)**	**(182)**	(743)	(542)	(4,302)	(2,077)
Net investing activity with Financing and Insurance Operations (Note 1)	**400**	**–**	(500)	–	(1,069)	–
Other	**1,700**	**(833)**	(768)	(416)	2,504	93
Net cash used in investing activities	**(6,931)**	**(34,046)**	(10,251)	(16,739)	(11,530)	(23,938)
Cash flows from financing activities						
Net increase (decrease) in loans payable	**(1,482)**	**1,078**	194	(20,238)	142	7,723
Long-term debt – borrowings	**6,295**	**46,849**	5,849	58,522	5,279	22,481
Long-term debt – repayments	**(328)**	**(24,561)**	(2,602)	(18,906)	(6,196)	(16,263)
Net financing activity with Automotive,Communications Services,and Other Operations	**–**	**(400)**	–	500	–	1,069
Repurchases of common and preference stocks	**(97)**	**–**	(264)	–	(1,613)	–
Proceeds from issuing common stocks	**62**	**–**	100	–	2,792	–
Proceeds from sales of treasury stocks	**19**	**–**	418	–	–	–
Cash dividends paid to stockholders	**(1,168)**	**–**	(1,201)	–	(1,294)	–
Net cash provided by (used in) financing activities	**3,301**	**22,966**	2,494	19,878	(890)	15,010
Effect of exchange rate changes on cash and cash equivalents	**485**	**10**	(74)	(22)	(249)	(6)
Net transactions with Automotive/ Financing Operations	**(467)**	**467**	(414)	414	970	(970)
Net increase (decrease) in cash and cash equivalents	**4,859**	**(1,965)**	(687)	8,958	(611)	453
Cash and cash equivalents at beginning of the year	**8,432**	**10,123**	9,119	1,165	9,730	712

Consolidated Statements of Stockholders' Equity

(Dollars in millions)	Total Capital Stock	Capital Surplus	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2000	$1,047	$13,794		$6,961	**($1,158)**	$20,644
Shares reacquired	(184)	(9,626)		–	–	(9,810)
Shares issued	139	16,852		–	–	16,991
Comprehensive income:						
Net income	–	–	$4,452	4,452	–	4,452
Other comprehensive income (loss):						
Foreign currency translation adjustments	–	–	(469)	–	–	–
Unrealized losses on securities	–	–	(415)	–	–	–
Minimum pension liability adjustment	–	–	76	–	–	–
Other comprehensive loss			(808)		(808)	(808)

Comprehensive income	–	–	$3,644	–	–	–
Cash dividends	–	–		(1,294)	–	(1,294)
Balance at December 31, 2000	1,002	21,020		10,119	(1,966)	30,175
Shares reacquired	–	(125)		–	–	(125)
Shares issued	18	624		–	–	642
Comprehensive income:						
Net income	–	–	$601	601	–	601
Other comprehensive income (loss):						
Foreign currency translation adjustments	–	–	(417)	–	–	–
Unrealized losses on derivatives	–	–	(307)	–	–	–
Unrealized losses on securities	–	–	(69)	–	–	–
Minimum pension liability adjustment	–	–	(9,536)	–	–	–
Other comprehensive loss	–	–	(10,329)		(10,329)	(10,329)
Comprehensive loss	–	–	($9,728)	–	–	–
Delphi spin-off adjustment (a)	–	–		(56)	–	(56)
Cash dividends	–	–		(1,201)	–	(1,201)
Balance at December 31, 2001	1,020	21,519		9,463	(12,295)	19,707
Shares reacquired	–	(2,086)		–	–	(2,086)
Shares issued	12	2,150		–	–	2,162
Comprehensive income:						
Net income	–	–	$1,736	1,736		1,736
Other comprehensive income (loss):						
Foreign currency translation adjustments	–	–	135	–	–	–
Unrealized gains on derivatives	–	–	102	–	–	–
Unrealized losses on securities	–	–	(140)	–	–	–
Minimum pension liability adjustment	–	–	(13,634)	–	–	–
Other comprehensive loss	–	–	(13,537)	–	(13,537)	(13,537)
Comprehensive loss	–	–	($11,801)	–	–	–
Cash dividends	–	–		(1,168)	–	(1,168)
Balance at December 31, 2002	**$1,032**	**$21,583**		**$10,031**	**($25,832)**	**$6,814**

(a) Resolution of workers' compensation, pension, and other postemployment liabilities owed to GM by Delphi Automotive Systems, which GM spun-off in 1999.

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