

**GM February 17 Plan
Viability Determination**

Summary

The Loan and Security Agreement of December 31, 2008 between the General Motors Corporation and the United States Department of the Treasury (“LSA”) laid out conditions that needed to be met by March 31, including the approval of Labor Modifications, VEBA Modifications, and the commencement of a Bond Exchange (all as defined in the LSA).

As of the date of this memo, the above steps have not been completed, nor are they expected to be completed by March 31. As a result, General Motors has not satisfied the terms of its loan agreement. Additionally, after substantial effort and review, the President’s Designee¹ has concluded that the GM plan, in its current form, is not viable and will need to be restructured substantially while GM operates under an amendment to the existing LSA. It is strongly believed, however, that such a substantial restructuring will lead to a viable GM.

This determination of viability was based on a thorough review, as conducted by the Task Force and its outside advisors and as summarized below, of the Company’s submitted plan and prospects. While there were many individual considerations, no single factor was critical to the assessment. Rather, the ultimate determination of viability was based upon a total consideration of all relevant factors, taken as a whole.

General Motors is in the early stages of an operational turnaround in which the Company has made material progress in a number of areas, including purchasing, product design, manufacturing, brand rationalization and its dealer network. Despite these steps, a great deal more progress needs to be made, and GM’s plan contemplates initiatives that will take many years to complete. In the end, GM’s plan is based on a number of assumptions that will be very challenging to meet without a more dramatic restructuring in which many of its planned changes are accelerated. A few highlights:

- **Market Share:** GM has been losing market share to its competitors for decades, yet its plan assumes only a very moderate decline, despite reducing fleet sales and shuttering brands that represent 1.8% of its current market share.
- **Price:** The plan assumes improvement in net price realization despite a severely distressed market, lingering consumer quality perceptions, and an increase in smaller vehicles (where the Company has previously struggled to maintain pricing power).
- **Brands/Dealers:** The Company is currently burdened with underperforming brands, nameplates and an excess of dealers. The plan does not act aggressively enough to curb these problems.
- **Product mix:** GM earns a large share of its profits from high-margin trucks and SUVs, which are vulnerable to a continuing shift in consumer preference to smaller vehicles. Additionally, while the Chevy Volt holds promise, it will likely be too expensive to be commercially successful in the short-term.
- **Legacy liabilities:** In GM’s plan, its cash needs associated with legacy liabilities grow to unsustainable levels, reaching approximately \$6 billion per year in 2013 and 2014.

Moreover, even under the Company’s optimistic assumptions, the Company continues to experience negative free cash flow (before financing but after legacy obligations) through the projection period, failing a fundamental test of viability.

In short, while the Company has made meaningful progress in its turnaround plan over the last few years, the progress has been far too slow, allowing the Company to continue to lag the best-in-class competitors. As a result, the President’s Designee has found that General Motors’ plan is not viable as it is currently structured. However, because of GM’s scale, franchise and progress to date, we believe that there could be a viable business within GM if the Company and its stakeholders engage in a substantially more aggressive restructuring plan.

Detailed Determination

The Loan and Security Agreement of December 31, 2008 between the General Motors Corporation and the United States Department of the Treasury (“LSA”) laid out various conditions that needed to be met by March 31, including:

- (a) Approval of the Labor Modifications (Compensation Reductions, the Severance Rationalization and the Work Rule Modifications) by the members of the Unions;
- (b) Receipt of all necessary approvals of the VEBA Modifications other than regulatory and judicial approvals; provided, that the Borrower must have filed and be diligently prosecuting applications for any necessary regulatory and judicial approvals; and
- (c) The commencement of an exchange offer to implement a Bond Exchange.

As of the date of this memo, none of the above steps has been completed. As a result, General Motors has not satisfied the terms of its loan agreement.

The LSA also requires that the President’s Designee review the Restructuring Plan Report in order to determine whether General Motors has taken all necessary steps to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries

Since receiving the Company’s plan on February 17th, the Government has engaged in substantial efforts to assess its viability. This work has involved staff from the Department of the Treasury, National Economic Council, Council of Economic Advisors as well as the numerous other Cabinet agencies involved in the President’s Task Force on the Auto Industry. The working group has also worked extensively with several dozen individuals at industry-leading consulting, financial advisory and law firms. Numerous outside experts and affected stakeholders have been consulted. As a result of this work, the President’s Designee has concluded that the General Motors plan, in its current form, is not viable and will need to be restructured substantially in order to lead to a viable General Motors. It is strongly believed, however, that such a substantial restructuring will lead to a viable General Motors.

While the President’s Designee considered many factors when assessing viability, the most fundamental benchmark was the following: for a business to be viable, it must be able – after accounting for spending on research and development and capital expenditures necessary to maintain and enhance the company’s competitive position -- to generate positive cashflow and earn an adequate return on capital over the course of a normal business cycle.

Progress to date:

General Motors is in the early stages of an operational turnaround in which GM has made material progress in a number of areas:

- Purchasing: GM has organized its purchasing globally, with its purchasing organization taking advantage of GM’s global scale, and has put into place a rigorous, metric-oriented approach to drive supplier quality and cost improvements.
- Product design: GM has refined its product design process to create global vehicle platforms, thus allowing GM to reduce engineering costs and improve the content of its cars. These global platforms leverage the scale of the business and allow GM to amortize product development costs over a large range

of models. GM has also, since 2005, focused on customer needs, interior designs, styling and quality to provide more attractive products. Examples of successes of this initiative include the 2008 North American Car of the Year Chevy Malibu and the 2008 Motor Trend Car of the Year Cadillac CTS (though they constitute a modest share of GM's portfolio today).

- Manufacturing: GM has worked to create greater flexibility within its facilities, allowing for increased capacity utilization and an enhanced ability to spread its significant fixed costs across a broader car base.
- Brand rationalization: The recently announced decisions to divest or shut down Saab, Saturn and Hummer, while late, were important steps in reducing the Company's brand portfolio and allowing it to focus its financial and human resources on a smaller number of higher quality brands.
- Dealer network: GM has been eliminating dealers from markets where it is oversaturated, as well as eliminating dealers who are either unprofitable or create a poor customer experience.

However, it is important to recognize that a great deal more progress needs to be made, and that GM's plan is based on fairly optimistic assumptions that will be challenging in the absence of a more aggressive restructuring.

- The plan contemplates that each of its restructuring initiatives will continue well into the future, in some cases until 2014, before they are complete.
 - The slow pace at which this turnaround is progressing undermines the Company's ability to compete against large, highly capable and well-funded competitors. GM's plan forecasts it to catch up to (and, in some cases, surpass) its competitors' current performance metrics; however, its key competitors are constantly working to improve as well, potentially leaving GM further behind over time.
- Given the slow pace of the turnaround, the assumptions in GM's business plan are too optimistic.
 - Market Share
 - GM has been losing market share slowly to its competitors for decades. In 1980, GM's US market share was 45%; in 1990, GM's US share was 36%, in 2000, its share was 29%. In 2008, its share was 22%. In short, GM has been losing 0.7% per year for the last 30 years.
 - Yet, in its forecast, GM assumes a much slower rate of decline, 0.3% per year until 2014, even though it is reducing fleet sales and shuttering brands which represent a loss of 1.8% market share, of which only a fraction will be retained. Management's plan to achieve this is driven by a reduction in nameplates and an ensuing increase in marketing spend per nameplate.
 - Furthermore, in the current plan, GM has retained too many unprofitable nameplates that tarnish its brands, distract the focus of its management team, demand increasingly scarce marketing dollars and are a lingering drag on consumer perception, market share and margin.
 - Price
 - In 2006 and 2007, GM North America achieved a 30.4% contribution margin. Then, the plan assumes, despite a severely distressed market, that margins increase to 30.8% in 2009 and 30.7% in 2010. These figures remain at 30.9% in 2013 and 30.3% in 2014, despite GM's plan to increase its focus on passenger cars and crossovers, which have traditionally earned lower margins.
 - Fundamentally, the lingering consumer perception is that GM makes lower-quality cars (despite meaningful improvements in the last few years), which in turn leads to greater discounting, which harms GM's price realizations and depresses profitability. These lower price points are an important impediment to enhanced GM profitability and need to be reversed over time in order for GM to bring its margins into line with its best-in-class peers.

- Brands/dealers
 - GM has been successfully pruning unprofitable or underperforming dealers for several years. However, its current pace will leave it with too many such dealers for a long period of time while requiring significant closure costs that its competitors will not incur. These underperforming dealers create a drag on the overall brand equity of GM and hurt the prospects of the many stronger dealers who could help GM drive incremental sales.
- Europe
 - GM's European operations have experienced negative results for at least the last decade with a sharp decline in market share from 12.9% to 9.3% between 1995 and 2008, leaving the Company with high fixed costs and low capacity utilization.
 - The European business is seeking additional capital beyond the funds requested from the Treasury. These funds have not been allocated and thus represent a risk to the viability of GM's current plan.
- Product mix and CAFE compliance
 - GM earns a disproportionate share of its profits from high-margin trucks and SUVs and is thus vulnerable to energy cost-driven shifts in consumer demand. For example, of its top 20 profit contributors in 2008, only nine were cars.
 - GM is at least one generation behind Toyota on advanced, "green" powertrain development. In an attempt to leapfrog Toyota, GM has devoted significant resources to the Chevy Volt. While the Volt holds promise, it is currently projected to be much more expensive than its gasoline-fueled peers and will likely need substantial reductions in manufacturing cost in order to become commercially viable
 - Absent the successful introduction of a number of new-generation nameplates, as described in the Company's plan, GM's product portfolio is more vulnerable to CAFE standard increases than the portfolios of many of its competitors (although GM is in compliance today with current standards). Many of its products fail to meet the minimum threshold on fuel economy and rank in the bottom quartile of fuel economy achievement.
- Legacy liabilities – cash costs
 - As GM moves through its forecast period, its cash needs associated with legacy liabilities grow, reaching approximately \$6 billion per year in 2013 and 2014. To meet this cash outflow, GM needs to sell 900,000 additional cars per year, creating a difficult burden that leaves it fighting to maximize volume rather than return on investment.
- Even under the Company's optimistic assumptions, the Company remains breakeven, at best, on a free cash flow basis throughout the projection period, thus failing the fundamental test of viability.
 - Under its own plan, GM generates \$14.5bn of negative free cash flow over its 6 year forecast period. Even in 2014, on its own assumptions, GM generates negative free cash flow after servicing legacy obligations.
 - Given the highly challenging current market, the Company is already behind plan in its overall volume expectations and market share for calendar year 2009.
 - Since the Company has built a plan with little margin for error, even slight swings in its assumptions produce significant and ongoing negative cash flows. For example, a 1% share miss in overall global sales, all else being equal, in 2014 would lead to a \$2 billion cash flow reduction in that year.

In short, while the Company has made meaningful progress in its turnaround plan over the last few years, the progress has been far too slow, allowing the Company to continue to lag the best-in-class competitors. Furthermore, even if the projected plan is achieved, the cash flow forecast is quite modest, leaving the Company little margin for error in what will

Determination of Viability Summary
General Motors Corporation

March 30, 2009

be a very difficult turnaround. As a result, the President's Designee has found that General Motors' plan is not viable as it is currently structured. However, given the improvements that have been made to date, and the path on which these improvements place GM, we believe that there could be a viable business within GM if the Company and its stakeholders engage in a substantially more aggressive restructuring plan.