

Vivendi Universal and NBC announced today that they will commence exclusive negotiations for a merger of Vivendi Universal Entertainment (VUE) and NBC. We anticipate this exclusivity period will extend for approximately 4 weeks.

While this announcement does not signify that we have reached a final agreement, it is a significant step forward in these well-publicized discussions so we thought it would be useful if we provided you some background on the potential deal:

- This is a smart strategic deal for NBC.
- The valuation is reasonable, and the structure of the deal allows both parties to share in the incremental value creation from the combination. The proposed structure meets VU requirements for liquidity and financial flexibility.
- There are meaningful and realistic synergies between the two companies, and a talented and experienced leadership team well positioned to capture them.
- The transaction would be accretive for GE shareholders, with acceptable returns. The structure of the deal provides flexibility and risk mitigation for GE.

### **Smart Strategic Transaction**

The new company would have one of the broadest reaches of any television media company with some of the most compelling brands in the media business. The combination further strengthens NBC's position as a major content provider and packager:

- The No. 1-ranked NBC Television Network, with its leadership positions in all day-parts, and tremendous franchise assets of NBC News and NBC Sports.
- A major television production company, combining NBC Entertainment and **Universal Television**, one of the major producers and distributors of television programming worldwide. The combined libraries comprise more than 32,000 TV episodes.
- A portfolio of leading cable networks, including **USA Network**, **Sci-Fi Channel**, CNBC, MSNBC (jointly owned with Microsoft), Bravo, and **Trio**
- The nation's best-managed and most-profitable TV stations group, with 10 of its 14 NBC stations No. 1 or No. 2 in their markets
- Spanish-language TV broadcaster Telemundo and 15 Telemundo stations, which reaches 91% of Hispanic TV households in the U.S.
- **Universal Pictures**, a world leader in the production and distribution of motion pictures, with a valuable library of more than 5,000 films
- Interests in five theme parks.

The new company would have annual revenues of ~\$13 billion (2003 proforma) with a broad balance of revenue sources, from advertising, cable subscription fees, production and syndication revenues, and theatrical revenues and film licensing fees. The continuing advancement of digital distribution vehicles provides new ongoing revenue opportunities for the strong content libraries of the new company.

With combined EBITDA of ~\$3 billion (2003 proforma) and operating margins of ~20%, the new company would be one of the most profitable in the industry.

While GE has previously chosen not to pursue the acquisition of theatrical movie studio assets because of the inherent volatility and unpredictability of the business, we believe:

- The Universal Pictures team is a world leader with very solid performance.
- The film library is a great asset with multiple new revenue sources (e.g. DVD releases, Video-on-Demand, etc) that will serve to provide a more stable revenue base.
- Within the combined new company, theatrical revenues would comprise only ~10% of the total revenue base... a manageable element.

### **Reasonable Valuation**

The proposed terms value the combined company at approximately \$42 billion using 2003 estimated EBITDA of ~\$3 billion, implying a multiple of ~14x for both companies' assets. The VUE assets would be valued at ~\$14 billion on ~\$1 billion of 2003 estimated EBITDA.

This multiple is well within the range of comparable transactions and is consistent with the trading ranges of television media equities.

### **Transaction Structure**

The proposed structure would entail:

- The creation of a new company containing both VUE (~\$14 billion of asset value) and NBC (~\$28 billion of asset value).
- Vivendi would retain an ongoing ~20% ownership position in the new company (valued at ~\$8.4 billion) after receiving ~\$5.4 billion in immediate liquidity.
- GE would achieve ~80% ownership position (there are other interests representing less than 1% of the equity) in exchange for providing the liquidity in the form of the assumption of \$1.6b of debt and the monetization of an issuance or firm commitment to issue up to \$4.0 billion of GE stock.
- Vivendi would have the option to monetize the remaining ~20% ownership interest in future years (from 2006) at fair value. Obviously we believe the value creation opportunities will result in this being at higher valuation.
- GE would have the first right to acquire the Vivendi position.

Bob Wright, vice chairman of General Electric, and chairman and CEO of NBC - one of the most experienced executives in television - would lead the new company.

We believe this structure best meets the interests of VU and GE shareholders by:

- Meeting Vivendi liquidity goals
- Providing the best opportunity to maximize the value of the combined company, and therefore the value of each company's assets.
- Meeting GE's financial, operational, and risk mitigation goals.

### **Operational Synergies**

We believe there are meaningful synergies in the combination of the operations of VUE and NBC. The teams have identified targets totaling \$400 to \$500 million annually (and growing) including both revenue (~25%) and cost (75%) opportunities. The cost opportunities, while large in absolute, would represent just ~5% of the combined entities cost base.

The NBC management team has great credibility and is the industry leader driving profitability across the enterprise. NBC drove profitability in News operations when many believed that News should never be more than a cost center. In Sports, NBC has demonstrated excellent judgment in avoiding the massive losses associated with many of the professional sports contracts. In Stations, NBC is the first to implement the station operations hub infrastructure. NBC is the most profitable entity of its kind.

### **Financial Implications**

On an ongoing basis, we believe GE's ~80% ownership position in the combined company would be accretive for GE shareholders, with \$0.01 to \$0.02 incremental EPS from year 2 after a neutral impact in the first year.

The impact on cash flow will be positive, with operating cash flow at a level comparable to the earnings contribution, and well above incremental dividends on newly issued shares.

Under the relevant accounting treatments (SAB 51), the initial transaction results in the marking to fair value the ~20% stake in NBC that would be held by the minority interests. While not precisely the mechanics, the current terms imply that mark would approximate:

	<u>Total</u>	<u>~20%</u>
Fair Value of NBC assets:	~\$28 b	\$5.6 billion
Book Value:	<u>~\$ 9</u>	<u>1.8</u>
Fair Value Mark		~\$3.8 (pre-tax)
Net Incremental Equity		~\$2.5 net of deferred taxes

We have not yet determined if the mark will be through equity or through the P&L. It would not be subject to current cash taxes.

We are excited about the possibility to create one of the world's fastest-growing and most profitable television media companies. We believe this combination can be an attractive for both GE and VU shareholders, and look forward to a productive 4-week exclusive negotiation period to try to conclude a definitive agreement.

As always, Joanna and I are available if you have questions.  
--Rich

*Rich Wacker*  
*Vice President, GE Investor Communications*  
*1-203-373-2468*  
*Richard.Wacker@ge.com*

*This message includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global economic, business, competitive, market and regulatory factors. More detailed information about those factors is contained in GE's filings with the Securities and Exchange Commission.*