

Guide to the General Electric 2004 Annual Report

Understanding Annual Reports

Introduction

This guide will walk you through the basics of how to read an annual report. Knowing how to read the information provided in annual reports may help you become a more informed investor. Even if you have no prior experience in finance or accounting, understanding a few simple concepts and guidelines goes a long way.

Why companies publish annual reports

An annual report includes information about a company's performance during the previous year, as well as management's view of the company's strategy for the future. It is one of the most important communications that publicly held corporations provide to the investing public.

Companies create and distribute their annual reports in order to:

1. Present an overview of the company, management's discussion of the company's recent performance and the company's plans for the future.
2. Report the company's financial performance for the most recently completed year and compare it with performance in prior years.
3. Fulfill part of their obligations for public financial reporting mandated by the Securities and Exchange Commission (SEC), the primary securities regulatory body of the United States government.

Why investors & analysts read annual reports

Investors and investment analysts read annual reports in order to help determine whether a company might be an attractive investment. Annual reports can contain useful information regarding a company's corporate mission, business model, quality of leadership, financial performance and strategic direction.

Nonetheless, an annual report is only one of many possible sources of information for making informed investment decisions. Investors and investment analysts should also consider information that puts the annual report within a larger context. Other sources include investment analyst reports, the Securities and Exchange Commission's EDGAR database of company filings, company press releases, industry association reports, the business press and others.

Sections of an annual report

LETTER TO STAKEHOLDERS

Annual reports often begin with a letter from the Chief Executive Officer (CEO) and/or Chairman. GE's letter is called the "Letter to Stakeholders." This letter includes management's assessment of the prior year, as well as a discussion of future plans. The letter typically highlights the CEO's priorities for the coming year.

"Stakeholders" refers to all of the people with an interest in the success and activities of a firm (in this case, GE). This includes everyone from shareowners and employees to members of the communities in which GE maintains operations. The notion of stakeholders reflects the impact firms have beyond their shareowners.

FINANCIAL HIGHLIGHTS

Near the front, annual reports often include a visual representation of important financial performance information. This allows management to present commonly requested measures of company performance. GE highlights the steady increase in consolidated revenues, earnings per share and cumulative dividend growth compared to that of the S&P 500.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides an area for management to characterize the company's performance through a series of discussion points, in this case:

- Operations
- Financial Resources and Liquidity
- Selected Financial Data
- Critical Accounting Changes

MANAGEMENT'S DISCUSSION OF OPERATIONS

Management's Discussion of Operations includes management's commentary on the company's overall performance (Consolidated Operations), as well as a breakdown by operating units (Summary of Operating Segments).

GE presents the 2004 results of its businesses within 11 operating segments. Most of GE's businesses, such as Energy and NBC Universal are segments by themselves. Management discusses each segment and its businesses separately, and also discusses international operations.

MANAGEMENT'S DISCUSSION OF FINANCIAL RESOURCES AND LIQUIDITY

This section describes the company's position relative to its cash requirements for continuing operations and servicing debt. Liquidity refers to a company's ownership of and access to the cash necessary to cover ongoing operations and other financial commitments, such as outstanding bills and interest payments to lenders.

MANAGEMENT'S DISCUSSION OF SELECTED FINANCIAL DATA

This section, required by the SEC, shows financial data that may be useful in highlighting trends. Given this purpose, it shows five years of data rather than the two or three shown in the financial statements.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING CHANGES

Here companies highlight certain accounting policies and decisions that they consider crucial to understanding their financial statements because their application places the most significant demands on the companies' ability to judge the effect of inherently uncertain matters on their financial results.

FINANCIAL STATEMENTS

INTRODUCTION TO THE FINANCIAL STATEMENTS

Financial statements are required by the SEC and present a detailed summary reflecting the company's financial performance over the most recent years, with a particular focus on the most recent year.

Financial statements present a summary of the financial situation of a firm based on total sales and expenses (Statement of Earnings), assets, liabilities and shareowners' equity (Statement of Financial Position) and the flow of cash in and out of the company (Statement of Cash Flows). These statements help analysts assess the financial health of a company.

CONSOLIDATED AND SUPPLEMENTAL INFORMATION

Annual reports provide consolidated results, meaning that the financial results of all of the company's business segments and subsidiaries have been added together into one summary report.

Companies supplement these consolidated statements with a variety of other information and detail. GE's annual report, for example, offers investors a great deal of information regarding specific businesses within segments.

GE also presents information pertaining to its financial services businesses, referred to in its annual report as General Electric Capital Services (GECS), and its industrial manufacturing and product services businesses, referred to in the annual report as General Electric (GE). Don't be confused; GECS and GE are both part of the General Electric Company. GE organizes and presents information in this way to enable investors to make meaningful assessments of items such as leverage, asset turnover and cash flow that bear on industrial and financial services businesses in different ways.

Management's Discussion of Operations addresses each operating segment separately in order to give investors greater visibility into the activities and performance of each segment

STATEMENT OF EARNINGS

Also known as the "income statement," the statement of earnings shows the company's revenues minus expenses, interest payments, and provision for taxes. In essence: revenues less expenses less interest and taxes = earnings. Net earnings (the "bottom line") refers to earnings after income taxes have been subtracted.

The Per Share Amounts section presents GE's net earnings divided by the number of shares outstanding. Finally, the "dividends declared per share" shows how much GE declared would be paid to investors for each share owned as of a given date. Because GE typically declares a dividend in December of a given year that is paid in January of the following year, the amount declared is not equal to the dividend paid in a given year.

STATEMENT OF CHANGES IN SHAREOWNERS' EQUITY

This statement shows the changes during the year in shareowners' interest in the company; for example, the increase in equity due to earnings and the decrease in equity due to dividend payments (which are distributions of equity to shareowners). shareowners' equity is calculated on the next statement, the = Statement of Financial Position, by subtracting the company's

liabilities from its assets - the remainder is shareowners' equity.

Shareowners' equity does not reflect the market value of GE, which is expressed in the price of GE stock.

STATEMENT OF FINANCIAL POSITION

Investors can think of this statement, also referred to as a balance sheet, as a snapshot of the company at a specific moment in time. In this case, GE's statement shows the company's financial position as of December 31, 2004, and 2003 for comparison.

The first section, "Assets," lists all of the things owned by GE, starting at the top with highly liquid assets like "cash and equivalents," moving down the list to less liquid, longer-term assets like "property, plant and equipment," also known as fixed assets. A liquid asset is an asset that can be quickly converted into cash. As such, U.S. dollars, obviously, are the most liquid of assets in the U.S.

The second section, "Liabilities and Equity," begins by listing all of the monies GE owes to others, or liabilities. This includes items like monies owed to companies that sell products and services to GE, also known as "accounts payable," to liabilities like long-term debt owed over many years to noteholders.

The "Liabilities and Equity" section concludes with a listing of the components of shareowners' equity, including shares issued and retained earnings. Equity is also referred to as net book value, since it represents assets less liabilities.

STATEMENT OF CASH FLOWS

The statement of cash flows shows how much money moved in and out of a company during a particular period or periods. It is literally an accounting of the "flow" of cash. Cash flow is of critical importance to every company. Firms require cash to pay operating expenses, repay loans and make investments—everything to provide goods and services to customers.

It is important to recognize that earnings and cash flows are not the same. Cash flows reflect the total amount of actual cash that has moved in and out of a company during a specific period, whereas earnings represent the difference between revenues and expenses. The difference between earnings and cash flows can be seen in the purchase of equipment. There is an immediate cash outflow, but the effect on earnings is recognized over future periods as a non-cash depreciation charge.

The structure of the statement distinguishes between three different sources and uses of cash flow:

1. Cash from Operating Activities represents cash flowing in and out as a result of GE's regular operating activities, like the manufacturing and sales of products and services.

2. Cash Used for Investing Activities refers to cash flowing in and out of GE as a result of investments the company makes in things like new production equipment, real estate or new facilities. Another item of interest to investors is cash paid during the period for acquisitions, listed in GE's statement as "Payments for principal businesses purchased." This section can also include things like cash inflows to GE as a result of selling off property, equipment, facilities and similar assets.

3. Cash from (Used for) Financing Activities reports cash that the company raised from or used for financing activities such as borrowing money, issuing corporate bonds or paying dividends to

shareowners. Paying dividends is an example of “(Cash Used for) Financing Activities.”

The line “Increase (Decrease) in Cash and Equivalents During Year” shows the total change in cash position as a result of cash flows during each of the years listed: 2004, 2002 and 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

This section is exactly what the title suggests: notes describing, supporting and providing detail on specific line items in a company’s financial statements.

INDEPENDENT AUDITORS’ REPORT

The Independent Auditors’ Report is a confirmation letter from an accredited third-party public accounting firm confirming that, based upon their assessment, the company’s consolidated financial statements in the annual report fairly present the company’s financial position and the results of its operations in conformity with accounting principles that are generally recognized in the U.S. Federal securities laws require publicly held companies to follow Generally Accepted Accounting Principles (GAAP). For more information on GAAP, see the Financial Accounting Standards Board’s Web site.

A few suggestions for further information

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

FASB is a private sector organization that establishes standards for accounting and financial reporting practices. Its Web site (www.fasb.org) provides detail on the role of FASB and the Generally Accepted Accounting Principles (GAAP) used by

financial managers to prepare financial statements.

SECURITIES AND EXCHANGE COMMISSION

The SEC’s Web site (www.sec.gov) offers investors a source for understanding the requirements the SEC places on public companies, as well as its efforts to regulate and monitor securities related activities. The SEC also maintains the EDGAR database of companies’ SEC filings.

Glossary

ADVERSE OR FAVORABLE DEVELOPMENT An adjustment to increase (adverse development) or reduce (favorable development) the provision for estimated ultimate insurance losses in a year following the year in which the loss event occurred.

BACKLOG Unfilled customer orders for products and product services (12 months for product services).

BORROWING Financial liability (short or long-term) that obliges us to repay cash or another financial asset to another entity.

BORROWINGS AS A PERCENTAGE OF TOTAL CAPITAL INVESTED For GE, the sum of borrowings and mandatorily redeemable preferred stock, divided by the sum of borrowings, mandatorily redeemable preferred stock, minority interest and total shareowners' equity.

CASH EQUIVALENTS Highly liquid debt instruments with original maturities of less than three months, such as commercial paper. Typically included with cash for reporting purposes, unless designated as available-for-sale and included with investment securities.

CASH FLOW HEDGES Qualifying derivative instruments that we use to protect ourselves against exposure to volatility in future cash flows. The exposure may be associated with an existing asset or liability, or with a forecasted transaction. See "Hedge."

CASH GENERATORS Our Advanced Materials, Consumer & Industrial, Insurance and Equipment & Other Services segments, businesses that provide consistently strong cash flow and grow earnings in an expanding economy.

COMMERCIAL PAPER Unsecured, unregistered promise to repay borrowed funds in a specified period ranging from overnight to 270 days.

CUSTOMER SERVICE AGREEMENTS (also referred to as "product services agreements") Contractual commitments, with multiple-year terms, to provide specified services for products in our industrial installed base—for example, monitoring, maintenance, overhaul and spare parts for a gas turbine/generator set installed in a customer's power plant.

DERIVATIVE INSTRUMENT A financial instrument or contract with another party (counterparty) that is structured to meet any of a variety of financial objectives, including those related to fluctuations in interest rates, currency exchange rates and commodity prices. Options, forwards and swaps are the most common derivative instruments we employ. See "Hedge."

DIRECT WRITTEN PREMIUMS Amounts charged to insureds in exchange for coverages provided in accordance with the terms of an insurance/reinsurance contract.

EARNED PREMIUMS Portion of the premium, net of any amount ceded, pertaining to the segment of the policy period for which insurance coverage has been provided.

EFFECTIVE TAX RATE Provision for income taxes as a percentage of earnings before income taxes and accounting changes. Does not represent cash paid for income taxes in the current accounting period.

EQUIPMENT LEASED TO OTHERS Rental equipment we own that is available to rent and is stated at cost less accumulated depreciation.

FAIR VALUE HEDGE Qualifying derivative instruments that we use to eliminate the risk of changes in the fair value of assets, liabilities or certain types of firm commitments. Changes in the fair values of derivative instruments that are designated and effective as fair value hedges are recorded in earnings, but are offset by corresponding changes in the fair values of the hedged items. See "Hedge."

FINANCIAL LEVERAGE The relationship of debt to equity. Expressed for financial services businesses as borrowings divided by equity. Expressed for industrial businesses as borrowings divided by total capital.

FINANCING RECEIVABLES Investment in contractual loans and leases due from customers (not investment securities).

FORWARD CONTRACT Fixed price contract for purchase or sale of a specified quantity of a commodity, security, currency or other financial instrument with delivery and settlement at a specified future date. Commonly used as a hedging tool. See "Hedge."

GOODWILL The premium paid for acquisition of a business. Calculated as the purchase price less the fair value of net assets acquired (net assets are identified tangible and intangible assets, less liabilities assumed).

GROWTH ENGINES Our Commercial Finance, Consumer Finance, Energy, Healthcare, Infrastructure, NBC Universal and Transportation segments, businesses that are market leaders with strengths in technology, cost, services, global distribution and capital efficiency.

GUARANTEED INVESTMENT CONTRACTS (GICs) Deposit-type products that guarantee a minimum rate of return, which may be fixed or floating.

HEDGE A technique designed to eliminate risk. Often refers to the use of derivative financial instruments to offset changes in interest rates, currency exchange rates or commodity prices, although many business positions are "naturally hedged"—for example, funding a U.S. fixed-rate investment with U.S. fixed-rate borrowings is a natural interest rate hedge.

INSURANCE RECEIVABLES Receivables of our insurance businesses associated with (1) reinsurance agreements in which those businesses legally transferred (ceded) insurance losses (and related premiums) to reinsurers and are entitled to recovery of those insurance losses; (2) premiums on insurance and reinsurance contracts; (3) policy loans to policyholders of certain life insurance contracts; and (4) premium funds on deposit with reinsurance customers as collateral for our obligations as a reinsurer.

INTANGIBLE ASSET A non-financial asset lacking physical substance, such as goodwill, patents, trademarks and licenses. Also includes present value of future profits, which are anticipated net discounted cash flows to be realized from certain in-force insurance, annuity and investment contracts at the date we acquire a life insurance business.

INTEREST RATE SWAP Agreement under which two counterparties agree to exchange one type of interest rate cash flow for another. In a typical arrangement, one party periodically will pay a fixed amount of interest, in exchange for which that party will receive variable payments computed using a published index. See "Hedge."

INVESTMENT SECURITIES Generally, an instrument that provides an ownership position in a corporation (a stock), a creditor relationship with a corporation or governmental body (a bond), or rights to ownership such as those represented by options, subscription rights and subscription warrants.

MANAGED RECEIVABLES Total receivable amounts on which we continue to perform billing and collection activities, including receivables that have been sold with and without credit recourse and are no longer reported on our balance sheet.

MATCH FUNDING A risk control policy that provides funds for a particular financial asset having the same currency, maturity and interest rate characteristics as that asset. Match funding ensures that we maintain initial financing spreads or margins for the life of a financial asset, and is executed directly, by issuing debt, or synthetically, through a combination of debt and derivative financial instruments. For example, when we lend at a fixed interest rate in the U.S., we can borrow those U.S. dollars either at a fixed rate of interest or at a floating rate executed concurrently with a pay-fixed interest rate swap. See "Hedge."

MONETIZATION Sale of financial assets to a third party for cash. For example, we sell certain loans, credit card receivables and trade receivables to third-party financial buyers, typically providing at least some credit protection and often agreeing to provide collection and processing services for a fee. Monetization normally results in gains on interest-bearing assets and losses on non-interest bearing assets. See "Securitization" and "Variable Interest Entity."

NET REVENUES For our lending and leasing businesses, revenues from services, less interest and other financial charges.

OPERATING PROFIT Earnings before interest and other financial charges, income taxes and effects of accounting changes.

OPTION The right, not the obligation, to execute a transaction at a designated price, generally involving equity interests, interest rates, currencies or commodities. See "Hedge."

PREMIUM Rate that is charged under insurance/reinsurance contracts.

PRESENT VALUE OF FUTURE PROFITS See "Intangible Asset."

PRODUCT SERVICES For purposes of the financial statement display of sales and costs of sales on pages 72 and 73, "goods" is required by U.S. Securities and Exchange Commission regulations to include all sales of tangible products, and "services" must include all other sales, including broadcasting and other services activities. In our Management's Discussion and Analysis of Operations we refer to sales of both spare parts (goods) and related services as sales of "product services," which is an important part of our operations.

PRODUCT SERVICES AGREEMENTS See "Customer Service Agreements."

PRODUCTIVITY The rate of increased output for a given level of input, with both output and input measured in constant currency. A decline in output for a given level of input is "negative" productivity.

PROGRESS COLLECTIONS Payments received from customers as deposits before the associated work is performed or product is delivered.

REINSURANCE A form of insurance that insurance companies buy for their own protection.

RETROCESSION AGREEMENT Contract to acquire third-party insurance protection for reinsurance policies written. Retrocession is a risk mitigation technique.

RETURN ON AVERAGE SHAREOWNERS' EQUITY Earnings before accounting changes divided by average total equity (on an annual basis, calculated using a five-point average).

RETURN ON AVERAGE TOTAL CAPITAL INVESTED EXCLUDING EFFECT OF ACCOUNTING CHANGES For GE, earnings before accounting changes plus the sum of after-tax interest and other financial charges and minority interest, divided by the sum of total shareowners' equity, borrowings, mandatorily redeemable preferred stock and minority interest (on an annual basis, calculated using a five-point average).

SECURITIZATION A process whereby loans or other receivables are packaged, underwritten and sold to investors. In a typical transaction, assets are sold to a special purpose entity (SPE), which purchases the assets with cash raised through issuance of beneficial interests (usually debt instruments) to third party investors. Whether or not credit risk associated with the securitized assets is retained by the seller depends on the structure of the securitization. See "Monetization" and "Variable Interest Entity."

SEPARATE ACCOUNT Investments controlled by policyholders and associated with identical amounts reported as insurance liabilities.

TURNOVER Broadly based on the number of times that working capital is replaced during a year. Accounts receivable turnover is total sales divided by the five-point average balance of customer receivables from sales of goods and services (trade receivables). Inventory turnover is total sales divided by a five-point average balance of inventories. See "Working Capital."

UNEARNED PREMIUMS Portion of the premium received, net of any amount ceded, that relates to future coverage periods.

UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES Claims reserves for events that have occurred, including both reported and incurred-but-not-reported (IBNR) reserves, and the expenses of settling such claims.

VARIABLE INTEREST ENTITY Entity defined by Financial Accounting Standards Board Interpretation No. 46 (as amended), and that must be consolidated by its primary beneficiary. A variable interest entity has one or both of the following characteristics: (1) its equity at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) as a group, the equity investors lack one or more of the following characteristics: (a) direct/indirect ability to make decisions, (b) obligation to absorb expected losses, or (c) right to receive expected residual returns.

WORKING CAPITAL Sum of receivables from the sales of goods and services, plus inventories, less trade accounts payables and progress collections.