

# 2006 Annual Meeting of Shareowners



*The 2006 annual meeting of GE shareowners was held on April 26, 2006, in Philadelphia, Pennsylvania. This report on Company operations (presented here as prepared) was delivered by Jeffrey R. Immelt, GE Chairman and CEO.*

## **We think big is beautiful.**

At GE, our size is the result of our employees' commitment to excellence and determination to win. We are a fast-growth, multibusiness enterprise that is growing around the world. But our goal is not just to be big — it is to use our size to be great.

We used this strength to generate excellent financial results in 2005. Our revenue grew 11% to \$150 billion, with 8% organic growth. Earnings reached a record of \$18.3 billion, up 12%, and we generated \$21.6 billion of cash, up 42%.

Your Company has massive financial strength. We have a "AAA" balance sheet and an overfunded pension. We used this strength to return \$14 billion of cash to you through our 35th consecutive dividend and a \$25 billion share repurchase program.



JEFFREY R. IMMELT  
Chairman of the Board and  
Chief Executive Officer

Meanwhile, GE's reputation remained strong. We were named *FORTUNE*'s "Most Admired Company" for the sixth time in the last ten years. We were voted *Barron's* "Most Respected" in its inaugural poll.

## The "Go Big" Business Model

That is where we have been. What should be even more exciting to you is where we are going. GE has a business model designed to create wealth on a massive scale. We do this:

- BY ORGANIZING AROUND LARGE LEADERSHIP BUSINESSES IN A SIMPLE STRUCTURE. WE LEAD IN OUR INDUSTRIES, HAVE LOW COSTS, AND SPREAD IDEAS ON A LARGE SCALE.
- BY DRIVING COMMON INITIATIVES ACROSS THE COMPANY THAT ACCELERATE GROWTH, SATISFY CUSTOMERS AND EXPAND MARGINS.
- BY DEVELOPING PEOPLE TO GROW A COMMON CULTURE THAT IS ADAPTIVE, ETHICAL AND DRIVES EXECUTION.

GE is in position for rapid growth. Some of our growth is driven by the economy — and we have a good one today. Robust global demand has pushed oil to record heights. We have had 10 consecutive interest rate increases as the Fed pushes to control inflation. We live in a world that is increasingly more global and more volatile.

But over the long term, we are well positioned to capitalize on a "portfolio of tailwinds" that should allow us to grow faster than the economy, without taking excessive risk.

We are capitalizing on investments in developing country infrastructure. There should be \$3 trillion invested in infrastructure over the next ten years. We could double our developing country revenue by 2010.

We have positioned ourselves to win, as demographics require increased spending on Healthcare technology. By 2010, our Healthcare business could be as large as the entire Company was in 1980.

We are betting that in a digitized world, content and a huge installed base will create value. Our industrial service business could be 40% of our revenue by 2010. We believe that \$1 billion of our entertainment content could be sold online over the same time period.

We have globalized our financial service business into new markets where our share is very small. By 2010, we could double our financial services profits outside the U.S.

We have invested in technologies that help our customers in an environment of natural resource shortages. As oil hits \$70 and water is scarce, the demand for these products is booming. **Size needs dynamic platforms to create growth. We have that at GE.**

We restructured the Company into six businesses focused on the broad markets we serve: Infrastructure, Commercial Finance, Consumer Finance, Healthcare, NBC Universal and Industrial. Each business has scale, market leadership and superior customer offerings. Here is a brief summary of our 2006 expectations.

Infrastructure is a strong GE business run by Vice Chairman Dave Calhoun. We compete in big markets such as Energy, Aviation, Rail, Water, and Oil & Gas. With revenues of \$45 billion, Infrastructure generates 35% of GE's earnings. These businesses lead with technology, win around the world, and maximize lifetime economics with service revenue and financing.

GE dominates this market. We have leadership products in the pipeline — the GENx Engine, Evolution locomotives, water desalination, coal gasification and renewable energy. This business should be set for a long stretch of rapid growth.

We have \$200 billion in assets in our Commercial Finance business, led by Vice Chairman Mike Neal. Commercial Finance generates 20% of our earnings. This is a massive global business where GE is the domain expert. We have 8,500 sales people that are growing volume by more than 20%, supported by a strong risk team. With less than 2% market share, we have many years of strong growth ahead.

Dave Nissen has built our Consumer Finance business, which represents 15% of our earnings. We are benefiting from accelerating consumer wealth around the world. We have built significant capability in developing markets — like China, Korea, Central America, Russia and Turkey. Consumer Finance is a marketing powerhouse creating excellent growth prospects for the future.

Joe Hogan leads a \$17 billion Healthcare business which generates 10% of our earnings. We are exceptionally well positioned to capitalize on important technical trends. We have built a \$3 billion Healthcare IT business, where we lead in important areas like the Electronic Medical Record. Healthcare is fueled by demographics and we are well positioned for long-term growth.

Vice Chairman John Rice leads our \$35 billion Industrial business, which is 10% of GE's earnings. These businesses are benefiting from an improving economy. We have increased our margins by launching great new products, pricing ahead of inflation and reducing structural cost. For instance, Appliances — one of GE's oldest businesses — has a 12% margin rate and a 50% Return on Total Capital.

Vice Chairman Bob Wright leads our \$16 billion entertainment franchise, NBCU, which is 10% of our earnings. Our strategy is to be a content leader with diversified revenue streams. We have made great progress in entertainment cable, news, Hispanic media and movies. We will have \$300 million of digital content in 2006, that will grow dramatically in the future.

We improved the Company through the exit of our Insurance business. Last November, we announced the sale of our reinsurance business to Swiss Re for \$8.5 billion. This required a loss on sale. But exiting Insurance is important for GE. Over the last five years, insurance created significant volatility and earnings headwind for your Company. It was a tough fit for us, but I am confident you will now benefit by having a faster-growth, less volatile Company.

For the year, our revenue will grow 10% to \$165 billion, while earnings will expand about 15%. Throughout the Company we continue to work on productivity and capital efficiency projects. We will generate \$4 billion of productivity this year and improve our profit rates by 1.1 points. We will generate \$10 billion of free cash flow and improve ROTC by two points to 18%.

We are seeing this performance in the first quarter of 2006. Our orders grew 33%, revenue grew 10%, earnings-per-share grew 18%, cash grew 132%, and return on total capital grew 1.4 points. **We are performing for you.**

## Common Initiative: Organic Growth

We expand our financial performance by driving common initiatives across GE. Our current initiative is organic growth. Over the last six quarters, our organic growth rate has averaged 8%. Our aim is to make organic growth a process that is both predictable and reliable.

A key to growth is **technology**. Products, services and content create our future. We invest about \$14 billion each year in the intellectual foundation for the Company. The scale of this investment is unique.

"Cleaner Coal" technology is a great example of GE's depth. This technology is important for our customers and the global economy — and it's important right here in Pennsylvania. The world has about a 200-year supply of coal. Our technology will produce energy with emissions approaching that of gas. We expect to announce several coal gasification projects this year, and we believe this will be a \$1 billion product by 2008, and could deliver \$75 billion of growth from 2010 to 2020.

The bounty of great technology is not just the products we sell today, but also the large installed base of long-lived assets where we sell service. Our service business is \$30 billion today — growing quickly and very profitable.

Another element of growth is to create **customer value**. We have made great strides in terms of listening to our customers' needs, linking internal processes such as Lean and Six Sigma to our customers, and measuring their loyalty to GE through a "Net Promoter Score."

Our experience in the rail industry is indicative of what is going on throughout the Company. We worked with our customers to design a leadership product, the Evolution locomotive. It has the best reliability, fuel efficiency, and emissions performance in the history of the industry. Demand for this product was so great that we sold out. However, we stretched our capacity using lean manufacturing and are now meeting customers' increased demand. We ask our rail customers how we are doing through a Net Promoter Score. This has identified opportunities to use Lean and Six Sigma to create productivity and speed in their operations. We have been able to align our resources to meet their needs.

We have invested in commercial excellence. Our operating capability and financial processes are among the best in the world. Our goal is to make our commercial processes just as good by developing our skills in sales and marketing.

Last May, we initiated a “cross-Company” marketing campaign around energy and environmental technology called ecomagination. We believe that “Green is Green.” In other words, we believe we can make money for GE investors, while solving this difficult problem. We outlined a cohesive plan to invest in technology for our customers and apply some of that technology inside GE. It is working.

In 2005, our ecomagination products grew 30% to \$11 billion. Our orders and commitments doubled to \$18 billion. Moreover, GE is positioned as a partner of choice with our customers who want to improve their environmental and energy performance.

**Globalization** is one of GE’s key strengths — and a place where only the best can truly go big. Globalization is an area where size is an advantage. Our non-U.S. revenues rose to \$78 billion in 2005, an increase of 16%.

Our most dynamic global growth is in developing markets, where we have close to \$25 billion in revenue, growing 20% each year. These countries need infrastructure, financial investment, capability and partnership.

The Middle East is a good example of our unique position. Our orders grew to \$8 billion in 2005, doubling since 2003. The region is putting oil profits to work by building infrastructure.

Another great growth story is being written in India. India needs infrastructure and GE already provides significant energy, transportation, water and health-care solutions. We have set a target to grow to \$8 billion in revenues in India by 2010.

Lastly, we work on **innovation** through a process called **Imagination Breakthroughs**. We have nearly 100 projects that each have the potential for \$100 million of incremental revenue. We are targeting \$3 billion from this source each year.

A good example is a financial services vertical for the entertainment sector. We have capitalized on the market knowledge of NBCU to drive incremental earnings in financial services. We launched this initiative in 2004,

and already have \$7 billion in assets and \$250 million in earnings.

Some people think that big companies can’t grow. We use our size as a basis for growth. Since 2003, we have grown GE by \$37 billion. Our incremental growth is equal to creating a Fortune 100 Company the size of Dow or Dupont. We plan to keep going!

## People + Culture

Driving new initiatives like growth requires great people in a strong culture. Developing and motivating people is the most important part of my job.

I spend most of my time on the top 600 leaders in the Company. This is how you create a culture. It’s like a big partnership, where every leader can make a contribution not just to their job, but to the entire Company.

We must have the best people. And we invest \$1 billion in training to help them learn. Today, we are training them to be growth leaders. We studied the attributes of companies that had long-term success with organic growth. We found that they had five traits in common:

- THEY HAD EXTERNAL FOCUS THAT DEFINED SUCCESS IN MARKET TERMS.
- THEY WERE CLEAR THINKERS WHO SIMPLIFIED STRATEGY INTO SPECIFIC ACTIONS, MADE DECISIONS AND COMMUNICATED PRIORITIES.
- THEY HAD IMAGINATION AND COURAGE TO TAKE RISKS ON BOTH PEOPLE AND IDEAS.
- THEY WERE ENERGIZED BY INCLUSIVENESS AND A CONNECTION WITH PEOPLE, WHICH BUILDS LOYALTY AND COMMITMENT.
- THEY DEVELOPED EXPERTISE IN A FUNCTION OR DOMAIN, USING DEPTH AS A SOURCE OF CONFIDENCE TO DRIVE CHANGE.

We are treating this as a major, multiyear culture change. We expect our leaders to leverage this growth to expand profits and returns for investors.

Why do great people work for a big company? GE people think big about the team, their careers and the Company. They are people who want to build their dreams with teammates they admire. You can’t do that in two or three years, or by hopping from one company to the next. It takes years of contribution. GE is a meritocracy where the best contributions are rewarded.

Every year, we survey our employees to see how they feel about the Company. We receive input from 95% of our exempt workforce. And the results are remarkable — 80% of our employees view GE as a great place to work.

### Investors

Our financial performance is strong. Our growth initiative is in full swing. We have a great team. So what gives with the stock? We have outperformed the market over the past 10 years; underperformed over the past five years; performed in line over the last 3 years and underperformed over the past year.

At the outset, I want you to know that I have skin in the game. I own 1 million shares of GE stock. I have another 500,000 shares that I will not receive unless GE outperforms the S&P 500. We all want the stock to go up.

But to do that, we have to manage the Company. In fact, the only way you can run GE is to believe that performance will ultimately drive the stock. And we are performing.

Since 2000, our revenue has grown by 60%. Our earnings and cash have doubled. We have reduced debt and increased organic growth. Meanwhile, we have made a few tough calls like the exit of the insurance business. We are now in a period of expanding profit rates and returns.

We are experiencing a little of the “Blue Chip Blues.” Over the last four years, S&P 100 company earnings have doubled while their stock values haven’t changed. Microsoft, Citigroup, Wal-Mart, and others share our experience.

Sometimes a stock price is ahead of a company. At other times, the company is ahead of the stock. I believe that is the case today. Others believe this as well. Nineteen out of 20 sell side investment analysts have GE as a “buy.” That is why I took my bonus for 2005 in performance shares.

Our profile looks excellent over the next few years. We will deliver for you, now and in the future. I am confident our share price will follow.

### Social Costs

I would now like to turn our attention to GE’s social plans, a topic I know is important to many of you. A lot has been written about pensions and healthcare. I would say, in all honesty, if we were starting GE over today, we would have different social plans than we have supported in the past. But we aren’t. We made a commitment to you in the form of a defined benefit pension plan. And we decided to have a healthcare plan that would be responsive and flexible to balance employee needs with Company competitiveness.

Let’s start with pensions. For decades, GE has been a good steward of our assets and obligations. While we have made changes in pension benefits for new hires that are more consistent with industry trends, we have maintained our long-standing commitments to current employees and retirees.

Employees have contributed \$3.5 billion to the GE Pension since 1945. Over more than 60 years, retirees have received roughly \$35 billion in pension payments. Last year alone, we paid annual benefits totaling more than \$2.4 billion.

And at present we have long-term obligations of \$43 billion to some 523,000 people. These are our current and future retirees and their beneficiaries who receive pension benefits.

Today, many large companies face significant funding challenges. Some have terminated or modified their pension plans. Our pension plans have a “surplus.” This is the result of managing the fund carefully to fulfill a long-term commitment to a half-million people. GE has kept that promise. In addition, we have provided seven voluntary improvements since 1980.

We will continue to consider changes. But we will not over-promise and we will not change our successful approach to managing the fund’s commitments.

Healthcare is different. Healthcare is an operating expense, like materials and capital. In 2005, it was \$2.2 billion and growing 10% annually. We will not let this expense grow unchecked. We will continue to work with our healthcare providers to improve their quality. We will continue to work with governments to



modernize the healthcare system using technology. And we will continue to drive more healthcare consumerism in our retirees and employees. We are committed to controlling healthcare cost and will never allow it to be a burden to the future growth of GE. You will always have a great plan within the context of a competitive Company.

## Only GE

I want to conclude today by talking about a business headquartered in Philadelphia, our Water + Process Technologies business. In 2001, we conducted an exhaustive search to identify new markets for GE. We had very focused criteria. We wanted to invest in global businesses that were technology based, had multiple revenue streams, and fulfilled essential needs. We identified Water.

There is a global dimension — 4 billion people live in areas of profound water shortage. There is increasing regulation dictating a need for technical investment. Developing country governments believe that clean water is a strategic advantage. This will be a big and growing market for a long time.

We looked at the industry. The technologies were good fits with GE — chemistry, material science, energy and services. The customers were common to many other GE business. The competition was regional and fragmented. And we felt that water was an essential fit with our global infrastructure business.

So we launched. We have invested \$4 billion in eight acquisitions over the last four years. We have built a strong technical franchise and are working hard to integrate a sales force of more than 2,000 people. We are building the world's most efficient desalination plant in Algeria.

In 2006, this business should have more than \$2 billion in revenue. The future looks bright. GE Water has become a global infrastructure business, along the lines of Engines, Energy, Rail, and Oil & Gas. We will grow a financial services vertical right alongside. This is hard work; but I believe GE Water could be a \$5 billion business by 2010.

A \$5 billion business — right here in Philadelphia. One that didn't exist in 2001. This is your GE. A company that is constantly reinventing itself. A company that is fearless. We are willing to take a few risks, but work hard to grind out ultimate success. This is a company filled with builders — people who can create the future. And, in the Water business, we will make money by solving one of the world's toughest problems.

The average retiree at GE is about 70 years old. They might have joined GE in 1958. In 1958, Lighting was 25% of the Company — today it is less than 1%. If GE had remained the company they had joined — if the Company hadn't taken risks — no one would get a pension.

Instead we are fearless in building out new ideas. And in this willingness to put it on the line, your future is secure. So I hope you are a little bit proud of this American company that is winning around the world.

How does this happen? Why do some companies take risks while others fall behind?

It is because of people — GE people. It is in their brains, in their hearts, in their guts. Let us celebrate a great team of GE leaders that conquered fear with innovation and hard work. Let us celebrate everyone in this room who helped make GE great. Let us celebrate the magic of GE.

General Electric Company  
Fairfield, Connecticut 06828  
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