

## To All Our Stakeholders,

GE is a big company. We think big is beautiful. At GE, our size is the consequence of our employees' commitment to excellence and determination to win. We are a fast-growth, multi-business enterprise that is expanding around the world. Our goal is not just to be big, but to use our size to be great.

But sometimes accomplishing this goal is harder than it sounds. Size with complexity breeds bureaucracy. Size without a face makes you the target of cynicism. Size with no heart will turn away the best people. Size can insulate a company from failure until it is too late to change. The corporate landscape is littered with companies that allowed themselves to be trapped by size.

But GE has thrived because we use our size to help us grow. Our depth allows us to lead in big markets by providing unmatched solutions for our customers; our breadth allows us to spread concepts across the Company, leveraging one small idea to create a big financial gain; and our strength allows us to take the risks required to grow. We make size an advantage without ever allowing it to be a disadvantage.

Recent history provides some examples of the advantages of size. Our commercial aviation business endured a terrible cycle after the 9/11 tragedy. Yet, we were able to sustain R&D investment at more than \$1 billion each year so that we could launch eight new engines by 2006. At the same time, our market knowledge allowed us to keep virtually all of our leased aircraft "flying" while helping the industry to restructure. Our financial expertise and knowledge of aviation helped GE win even during a time of market stress.

With our global reach, we could see the importance of China, and we have grown significantly in the past five years in this critical market. Today, we have \$5 billion in revenues and 12,000 employees. Winning in China has required depth in infrastructure technology, supported by the breadth of our multi-business approach. We can build partnerships in businesses such as energy, healthcare, aviation, plastics and consumer finance. We can use the totality of GE to grow.

In 2005, we launched a strategic, multi-disciplined campaign called ecomagination™ focused on applying GE technology to drive energy efficiency and improve environmental performance. Our technical depth, product breadth and reputation gave GE the foundation to lead this growth initiative.

Through the years, investors have used their GE stock to build retirement plans or put children through college. Each year, I do many "city swings" to visit retail investors. Many have owned our stock for decades, and have been rewarded with a 17% average return over the past 25 years.

Investors will be rewarded in the future as well. The stock is currently trading at one of the lowest earnings multiples in a decade. Yet, as I will describe in this letter, we have a great team generating record results with more valuable businesses that have high visibility

on future growth. Investors decide the stock price, but we love the way GE is positioned. We know it is time to go big!

### Sized to Perform for Investors

There are many companies that have been created through acquisitions that are frequently compared to GE, called conglomerates. However, our business model is designed to achieve superior performance through the synergies of a large, multi-business company structure. The following strategic imperatives provide the foundation for creating shareowner value:

1. SUSTAIN A STRONG PORTFOLIO OF LEADERSHIP BUSINESSES THAT FIT TOGETHER TO GROW CONSISTENTLY THROUGH THE CYCLES;
2. DRIVE COMMON INITIATIVES ACROSS THE COMPANY THAT ACCELERATE GROWTH, SATISFY CUSTOMERS AND EXPAND MARGINS; AND
3. DEVELOP PEOPLE TO GROW A COMMON CULTURE THAT IS ADAPTIVE, ETHICAL AND DRIVES EXECUTION.

It is our profound commitment to the integration of the elements mentioned above that makes GE different. It is not an easy model to copy, as it requires financial and cultural commitments over decades.

We use our size to perform for investors. Since 1990, GE's continuing earnings have grown every year but one, and most of these years have had double-digit earnings growth. Our dividend has increased for 30 straight years, growing 12% on average.

Going forward, we should generate more than \$10 billion of free cash flow each year. This is cash available after we have invested back in the Company and paid your dividend. Our industrial businesses do not require much investment to grow, while our financial services businesses have inherently high return on equity (ROE). Because of this excess cash, we have increased our share repurchase to \$25 billion through 2008.

The next few years should be good ones for your Company. We are well positioned for accelerating growth, expanding returns and strategic success.

### 1. Strong Portfolio

Our foundation is a set of leadership businesses constructed to achieve long-term targets of more than 10% annual earnings growth and 20% return on total capital (ROTC). In 2005, 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.

Over the past few years, we have aggressively strengthened our portfolio. We had two goals in mind: improve our industrial growth rate and expand financial services returns. Since 2002, we have completed \$65 billion of acquisitions, and announced or completed approximately \$30 billion of divestitures.

We feel good about the results. Our organic growth has expanded to 8% versus an historical level of 5%. At the same time, our ROE in our financial services businesses has increased to 26%. Our businesses fit well with the big demographic themes of our era. As a result, we are positioned to grow organically at two to three times the global gross domestic product (GDP).

Our team generated 20% earnings growth in 2005 and expects another strong year in 2006.

### Infrastructure

Infrastructure, led by Dave Calhoun, represents about 35% of our segment profit. In 2005, revenues grew 12% and earnings grew 14%. We compete in big infrastructure markets such as energy, aviation, rail, water and oil & gas. We have a successful business model: win with technology, grow with service and serve customers globally.

Orders of our Infrastructure products grew 13% in 2005. New products are at the heart of our growth. We captured more than \$6 billion of commercial aircraft engine orders in 2005, behind the success of the CFM™ engine and new launches of our GE90™ and GEnx™ engines. Our advanced Evolution™ locomotive captured market-share leadership and we will ship more than 900 units in 2006. Our renewable energy portfolio received more than \$3 billion in orders in 2005, up almost 15%.

Based on our product wins, our installed base grew by 6% in 2005. We now have \$81 billion of long-term service agreement commitments, creating a high-margin revenue source for the future. Our Infrastructure service revenues totaled \$21 billion in 2005 and are growing 10% annually.

More than 60% of our orders are from customers outside the U.S. We are benefiting from the massive investment going into developing country infrastructure, predicted to be \$3 trillion over the next 10 years. As energy costs increase, we benefit from technologies that support exploration as well as products that create fuel conservation for our customers.

Our Infrastructure business is projecting 10% revenue growth and more than 15% earnings growth for 2006 and into the future.

### Commercial Finance

Commercial Finance, led by Mike Neal, represents about 20% of our segment profit. We grew earnings 20% in 2005 and expanded ROE to 24%. We had another year of 18% volume growth, while losses were at an all-time low. Our markets are strong. We have 8,500 great salespeople, so we see more deals than our competition. The combination of strong origination, low cost of funds and great risk management allows us to grow earnings through every cycle.

We have driven significant growth outside the U.S. In Europe, we have created strong platforms in real estate, leasing and commercial lending. We have built local capabilities and our earnings have grown four times since 2000. We are on a similar trajectory in Asia.

Nearly all of our Commercial Finance assets are in industry verticals, such as healthcare, real estate and entertainment. This gives us unique origination, funding and risk management advantages. Our financing in trucking is a great example. We have \$10 billion in assets, 90,000 customers and deep domain expertise. This business is too "grunty" for some finance companies. For us, it is a 20% ROE "jewel." We understand our customers' businesses and market cycles, giving us a real competitive advantage.

We have less than 2% share of the global commercial finance market. We should be able to grow 10-15% in 2006 and beyond.

### Consumer Finance

Consumer Finance, led by Dave Nissen, represents about 15% of our segment profit. It has been a consistent growth business and had a 21% earnings gain in 2005, with a 29% ROE. Our strategy has been to expand globally, while making organic growth a core competency.

Consumer Finance is expanding globally, with 70% of our earnings outside the U.S. We are small in big markets, with substantial room for growth. We have also built significant capability in developing markets. In 2005, we made major investments in China, Korea, Spain, Central America, Turkey and the Philippines. Our earnings in developing markets grew 30% for the year.

Consumer Finance has averaged 16% growth annually for the last five years. In 2005, we introduced 364 new products, expanding our products per consumer by almost 20%. We have an endless pipeline of growth ideas in this big global market where our share is less than 3%.

Consumer Finance is benefiting from accelerating consumer wealth around the world. We expect 15% growth in 2006 and beyond.

### Healthcare

Our Healthcare business, led by Joe Hogan, represents about 10% of our segment profit. We grew revenues by 13% and earnings by 17% in 2005. This business continues to benefit from demographics and new technology.

There are three technical themes that GE will target to cement our role as an industry leader. We will lead in molecular imaging, which allows physicians to see disease at the molecular level. We are working to commercialize more diagnostic compounds. One example is Pittsburgh Compound B (PIB), which will be used along with positron emission tomography (PET) imaging to spot the onset of neurological disorders and diseases such as breast cancer and heart failure, while tracking the impact of therapy.

We are working on the convergence between diagnostics and therapy. We have active partnerships underway with companies such as Eli Lilly and Roche to impact product development in cardiology, cancer and neurology. Our diagnostic technologies can help to accelerate drug discovery by leveraging our information and process skills.

Information technology is critical to increasing the quality and lowering the cost of healthcare. A key strategy in Healthcare is building an effective and broad-based Electronic Medical Record (EMR). GE's pioneering position in the EMR will be enhanced through our acquisition of IDX and a unique collaboration with one of America's leading providers, Intermountain Healthcare.

We are well positioned for the future of the industry. Our focus is on understanding, preventing, diagnosing and treating disease at the earliest possible point in time. We lead in a massive healthcare market and should be able to grow earnings by 10-15% into the future.

### NBC Universal

NBC Universal (NBCU), led by Bob Wright, represents about 10% of our segment profit. We grew revenues by 14% and earnings by 21% in 2005. We like our strategy to be a content leader with diversified revenue streams. Our entertainment cable business made excellent progress behind successes in Bravo, USA and SCI FI. We increased our leadership in news, as Brian Williams had a great "rookie year" and the "Today Show" sustained its dominance. Our Universal team had a successful year both financially and artistically.

But we struggled in a visible area of our franchise, primetime entertainment. In fact, our ratings declined by 20% as we were unable to replace some aging hits with solid new programming. Frequently, people tell me how different entertainment is from the rest of the Company. They tend to forget that when you have lagging products in any business, you cannot be successful.

Today, our entertainment team has become more creative. We are taking more risks, and we are making progress. We like our team, and I am convinced we will get back on top.

We know that content is highly valued in a digital world. At the same time, we will adjust our approach to consumers and advertisers based on digital technologies. There is a growing market for our content, but it will require creativity in our approach to customers who want access to more digital platforms.

NBCU should hold earnings flat in 2006 as we strengthen our primetime programming. Over the long term, this business should grow earnings 10% annually.

### Industrial

Our Industrial business, led by John Rice, represents about 10% of our segment profit. We had a strong year in 2005, with revenue growth of 6% and earnings up 40%. Our Industrial businesses are the most cyclical part of GE and have benefited from an improving economy. We have increased our margins by launching great new products, pricing ahead of inflation and reducing structural cost.

The Appliances business is representative of our strategy in these industrial markets. Over the last three years, we have introduced 225 new products. We have gained high-end market share in our Monogram<sup>SM</sup> and Profile<sup>SM</sup> lines. We have improved our service to key retail and contract customers. We have lowered costs by sourcing products from Mexico and China. Our margin rates have expanded. We generated approximately \$2 billion in cash over the last three years with a 60% ROTC. Winning in these businesses requires strong execution.

Our Industrial platform is positioned for another year of 15% growth in an expanding global economy.

**STRATEGIC IMPERATIVES** To go big in a company such as GE, you need to create focus. We have a business model designed to achieve performance through integrating a large, multi-business structure. We have strategic imperatives that are the foundation for creating shareowner value.

1

### Strong Portfolio

We have a set of businesses built to achieve more than 10% annual earnings growth and 20% ROTC. In 2005, we restructured the Company to better organize around markets and customers.

2

### Common Initiatives: Organic Growth

We are driving common initiatives so everyone is focused on one goal: organic growth. Everyone is working on some part of this initiative.

3

### People + Culture

We use our size to develop good people within a strong culture.

### Insurance Exit

In 2002, we told you of our intention to exit the Insurance business. At that time, we had one-third of the Company's equity in Insurance, with no return. We had taken on excess leverage to grow the business and needed to reduce \$17 billion of debt. Adverse development on reinsurance that we had written in the late '90s required reserve strengthening of close to \$10 billion from 2001 through 2005.

We have reduced our exposure to Insurance in a disciplined fashion and our exit is now in sight. In November, we announced the sale of our reinsurance business to Swiss Re for \$8.5 billion including the assumption of debt. While another insurance loss—\$2.9 billion in 2005—was hard to accept, this action provides a path to final resolution for our investors. All insurance claims will become the responsibility of the acquirer. Certainty was critical for us, so that our investors could view GE's future without Insurance. As a part of this transaction, GE will obtain an approximate 12% ownership of Swiss Re. We believe that Swiss Re, as a dedicated leader in this industry, is well positioned to perform.

Exiting Insurance is important for GE. Our poor performance in insurance has dampened a strong performance by the rest of the Company. I am confident you will now benefit by having a faster-growth, less volatile Company.

### Simpler Structure + Lower Cost

Our businesses strive to lower cost and improve margins every year. At the same time, we want to increase investment in growth through new products, programming and advertising. I have always believed that we should fund innovation with an intent to lead, but pay for it by driving productivity. This requires a constant attack on overhead cost and complexity.

So we launched an initiative called **Simplification** to attack "non-growth" cost. In 2004, overhead cost as a percentage of revenue was 11%. Our target is to hit 8%. This will be a reduction of \$6 billion and the savings will be redeployed into growth and profit enhancement.

Our new organization will accelerate simplification.

Infrastructure is a great example. We expect to generate \$400 million of savings through sourcing commonality, consolidating structures or common IT platforms. Reducing complexity enables us to accelerate investments in technology.

### Portfolio: Value of Size

We expect every business to be a leader in its industry. We have the financial strength so that we can invest to win. And no business is allowed to rest while others perform. At the same time, our diversity protects investors. Businesses will go through economic or performance cycles. The Company can grow through these cycles because of our portfolio depth and breadth. Size and diversity create consistent and strong performance for investors.

### 2. Common Initiatives: Organic Growth

Our first imperative of size is to sustain a strong portfolio of leadership businesses. The second is to drive common initiatives across the portfolio to expand performance. The GE team embraces these initiatives. We measure, learn and drive initiatives until they become part of the culture.

Our most important initiative is to drive 8% organic revenue growth. We launched this in 2004, when we had an historical growth rate of 5%. Our total continuing revenue growth was 11% in 2005, and organic growth was 8%. This was about twice the rate of our industrial and financial peers.

We use our size to accelerate growth and innovation using the principles of depth, breadth and strength that I mentioned earlier. We apply this philosophy against the major elements of growth: technology, customer value, commercial excellence, globalization and innovation. Our aim is to make organic growth a process that is both predictable and reliable.



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**GROWTH IS THE GE INITIATIVE** After growing historically at an average of 5% revenue growth, in 2004, we launched this initiative to achieve 8% organic growth per year. This is about twice the rate of our industrial and financial peers. We want to make organic growth a process that is predictable and reliable.

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## Leadership in Technology

Products, services and content represent GE's value added and are the key to our growth. We invest about \$14 billion each year in this intellectual foundation for the Company, which includes R&D, content development and marketing. The scale of this investment—the depth and the breadth—makes GE unique.

"Cleaner Coal" technology is a great example of GE's depth. This technology is important for our customers and the global economy. The world has about a 200-year supply of coal. Our Cleaner Coal technology will produce energy with emissions approaching that of gas. The cost to produce Cleaner Coal energy is not competitive today, but we know we can reduce it substantially. This is transformational for GE, and great partners like Bechtel, AEP and Cinergy will help us make it happen.

We leverage breadth to lead in service technology. An exciting new service technology is non-destructive testing. This takes imaging technology from our healthcare business and applies it to energy, rail, aviation and oil & gas. For our customers, testing infrastructure for failure could save billions of dollars each year.

We use our technological strength to win. The GE90 engines and their offspring, the GENx, have established leadership in commercial aviation. Our leadership goes back to a bet we made almost 15 years ago on composite fan blades developed at our Global Research Center. This was an innovative approach, which will result in decades of leadership.

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 profitable and grows quickly. More importantly, our services are aligned to solve customer problems in areas such as fuel efficiency, environmental performance and quality.

We have a talented group of engineers and technologists at GE. Our renewed focus on innovative products gives them a platform of leadership in our Company.

## Linking Process Excellence to Customer Value

In 2005, we accelerated our progress to link our internal processes to the success of our customers. And we are working hard to get customer perspectives inside the Company.

It starts by creating formal ways to listen to customer input. Last year, I mentioned "dreaming sessions" which involves taking unique customer groupings and having them help us shape our strategy. Recently, I hosted 20 CEOs of major utilities to give us input into the future of nuclear and coal technology. We have hosted similar sessions in Rail, Aviation, Healthcare, Water and Financial Services.

Next, we improved our customer facing processes using **Lean Six Sigma**, a process for reducing cycle time. Every GE employee wakes up in the morning wanting to help a customer. Sometimes our internal complexities get in the way. Lean helps us look at our processes from a customer point of view and engages our team to create solutions. This is exciting and embarrassing at the same time. Our cycle time to approve a deal in our specialized Real Estate business used to be 168 days with 117 steps in the process. Lean has helped us reduce the cycle by 70%. We have hundreds of Lean activities that are improving speed and quality across the Company.

In several businesses we are linking Lean directly to growth, through what we call "Lean Showcases." The purpose of these showcases is not just to improve our cycle time for the benefit of customers. We know we can. Rather, it is to be so good that we generate incremental growth ... \$50 million in each "showcase."

Lastly, we are using a simple metric called **Net Promoter Score (NPS)** to measure how customers view GE. NPS creates a view of customer loyalty. The absolute score is less important than the trend. We learn from both promoters and detractors. Most importantly, we have been able to associate NPS improvement with growth. NPS is simple and we can use it across the Company. Our ultimate goal is to use improvements in NPS as a measure in how leaders get compensated.

## Commercial Excellence

GE has prided itself on our operating capability, and our 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.

One place where we have improved is by selling the breadth of GE for the benefit of customers, which we call Enterprise selling. Many of our customers want a more complete relationship of products, services and financing. We have made it a priority to be more flexible to meet their needs.

Our Commercial Finance business has been a leader in this effort. This is a business where we might have had 50 separate sales forces. We would only sell one financial product per customer, while some of our competition were selling more than five. In 2005, we identified 2,000 Enterprise accounts and trained our sales force to offer a total package. Our team loves the approach and we will grow assets by \$6 billion in 2006.

We are putting our Enterprise focus on big projects such as the Olympic Games. Our Company-wide Enterprise teams are driving sales in Torino, Beijing, Vancouver and London. Over these four Olympic Games, we should generate \$1 billion of incremental sales of energy, healthcare, security and lighting products.

We are thinking big about marketing as well. Beth Comstock, our chief marketing officer, led our launch of the ambitious ecomagination initiative. In essence, this packaged our technology in energy-efficiency and environmental services to drive growth.

Across the Company, we saw how our customers needed technology to solve their energy-efficiency and emission-reduction needs. We could sense a real change in thinking as to the importance of reducing greenhouse gas (GHG) emissions. As a global player, we could see markets in Europe and Asia diverging from the U.S. as to their interest in technical solutions for environmental challenges.

Ecomagination is a strategic initiative that makes specific commitments. We committed to double our R&D investment to \$1.5 billion by 2010. We launched with 17 products, and now have 21, with more in the pipeline. We committed to work constructively in the public policy arena to shape actions that get results without compromising industrial competitiveness. And, we have set a 30% GHG intensity reduction goal by the end of 2008, along with a 1% absolute reduction by 2012.

Most importantly, we think “Green is Green.” We had \$10 billion of revenue in environmental technology in 2005. We are working with our customers to double our sales to \$20 billion by 2010. With 20% growth in 2005 and a similar target for 2006, we are well on our way.

Ecomagination has rallied our teams. They love to see us use our products to solve tough problems. We will be at the leading edge of a world that is increasingly carbon and resource constrained, and we will make money in the process.

### Globalization

Globalization is one of our key strengths as a Company. We move quickly to recognize global opportunities. We are realizing significant global growth as our non-U.S. revenues reached \$78 billion in 2005, an increase of 16%. Globalization is an area where size creates an immense advantage.

About 50% of our global revenue is in the “developed world” of Western Europe and Japan. These markets continue to grow. Our business in Western Europe exceeds \$24 billion, and we have a strong presence across the region. We have worked hard to become established in Europe and see the results in our market-share growth. Japan has been a long-term source of customer partnerships and technology.

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. GE has the breadth to offer a “company-to-country” approach.

The Middle East is a good example of GE’s unique position. Our orders have grown to \$8 billion in 2005, doubling since 2003. The region is putting oil profits to work by building infrastructure. We are winning across our Infrastructure portfolio. We are co-investing with local partners in infrastructure financing. We are building capability. We have opened a service and research center in Qatar. We are building relationships with the next generation of leaders.

India is becoming another great growth story. We generated over \$1 billion in revenues in 2005. India is focused on infrastructure and GE already has a significant position in energy, transportation, water and healthcare. We received \$2 billion in commercial engine orders in 2005, more than the last 20 years combined! India could have a growth trajectory for the next five years similar to China.

In 2006, we plan to accelerate the ability of our global teams to develop their own products. Increasingly, products used in developing markets will be designed by local teams that understand their application. To grow over the long term, we must be able to anticipate the unique customer needs in important markets.

### Innovation

Size is a great platform for innovation. Last year we described our process for innovation called Imagination Breakthroughs (IBs). We have 100 IBs that each have the potential for at least \$100 million of incremental revenue. We started this in 2003, and 25 of these projects generated revenue in 2005. We are targeting \$3 billion of incremental revenue from this source each year.

About half of the new IBs are commercial innovations. These are investments in new market approaches to accelerate growth. An example is our Entertainment Vertical in Commercial Finance. We launched this in 2004 to leverage our unique entertainment industry knowledge through NBCU with financing expertise. In our first year, we earned more than \$200 million.

Desalination is an example of a technical IB that is higher risk and requires a longer time horizon. There is a major market need for clean water: 2.5 billion people in 40 countries are affected by water scarcity. In 2005, we announced our participation in the largest desalination project in Algeria. The desalination market is expected to grow to \$10 billion in the next few years. GE is a leader with energy, filtration and financial capability.

Imagination Breakthroughs allow me to play the role of “program manager” on significant growth ideas. Our employees want to live their dreams. It is up to me to give them that platform. I can help them take smart risks that will win over time, while spreading best practices across the Company.

Size facilitates growth. It gives us the chance to take swings, spread successes and learn from failure. We have developed a large pipeline of Imagination Breakthroughs that can create growth in the short and long terms.

### Initiatives: Value of Size

One important value of size is the ability to scale ideas quickly. We aim to be the best in the world at turning small ideas into huge businesses.

About 10 years ago, we acquired Nuovo Pignone, the state-owned Italian oil & gas supplier. It had \$800 million in sales and 50% of its business was in Europe. We knew this could be a growth platform.

Over the last decade, we have added GE process disciplines, global distribution, technology, customer relationships and talent. We invested in growth and created a services business with more than \$1.1 billion in revenues. In 2006, revenues from this business—now called GE Oil & Gas—should surpass \$4 billion. We operate out of the same Italian buildings we acquired, but everything else has changed.

Our leader, Claudi Santiago, and his team have transformed this business. In a world where significant investments will be made to get oil and gas from the wellhead to the consumer, this business has a great future. We have a vision and an appetite for a business that could reach \$10 billion in the near future.

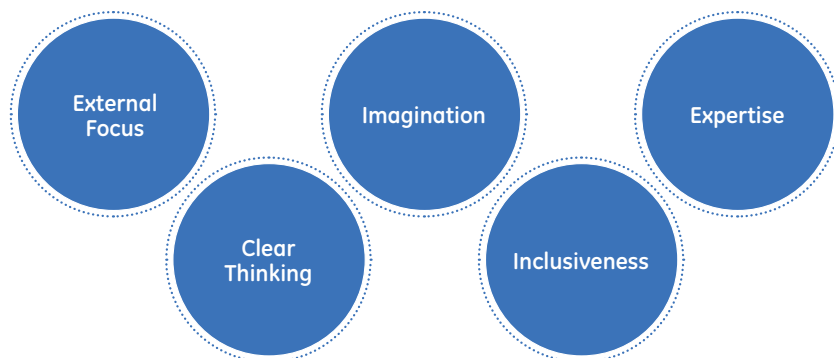
We never make an investment to leave it alone. Rather, we use our size to “scale ideas,” giving us new opportunities for rapid growth.

## 3. People + Culture

We have discussed the first two imperatives of size: sustaining a strong portfolio of leadership businesses, and driving common initiatives to expand performance. The final imperative—and maybe the most important—is to use our size to develop great people in a strong culture.

Developing and motivating people is the most important part of my job. I spend one third of my time on people. We invest \$1 billion each year in training to make them better. I spend the

**GROWTH TRAITS** To achieve our growth goals, we need a new type of leader. We studied the attributes of companies that have had long-term success with organic growth and found they had five traits in common. We call these our growth traits.



entire month of April in our talent development process called Session C. During this month, I discuss the future of GE's key leaders and try to make a personal connection. We make every moment a learning opportunity and every activity a source of evaluation.

I spend most of my time on the top 600 leaders in the Company. This is how you create a culture. These people all get selected and paid by me. I treat them as if they were a direct extension of my mission for the Company. At the top, we don't run GE like a big company. We run it like a big partnership, where every leader can make a contribution not just to their job, but to the entire Company. All of our leaders get exposure to the Board, who are an important part of the culture.

We are committed to teach our leaders new skills that make them contemporary in every era. Consistent with our initiatives, we are teaching them to be growth leaders. To achieve consistent growth, every leader in every function must make it their mission. This will require personal intervention with customers and protection of the funding of Imagination Breakthroughs. It will require risk-taking based on deep market instincts.

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.

In 2005, we developed training to teach these skills. In 2006, we will assess our leaders on these traits. This is important for every function and every business. We are treating this as a major, multi-year culture change.

The restructuring I mentioned earlier also had a human dimension, by stretching our leadership team. We appointed three new Vice Chairmen: Mike Neal, John Rice and Dave Calhoun. At the same time, we elevated leaders inside the Company into bigger roles with important businesses to run. We have a new generation of GE leaders on the field, many of whom I have worked with for more than 20 years. We must perform for you today and in the future. We are unified in executing the strategy.

#### **People: Value of Size**

Why do great people work for a big company? Why do they stay at GE? I get asked this question by our own employees, by business colleagues and even by headhunters. To be honest with you, this is one of the most important questions you should ask any CEO.

We do have great jobs and good performers get paid well. But people that are in it strictly for money or to stroke their egos typically leave over time.

The people who stay are those who 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. Warren Buffett once said to me that he loved business and wanted to paint a masterpiece in his career. At GE, you can paint the *Mona Lisa*.

Omar Ishrak is one of our "artists." We hired Omar to run our Ultrasound business in 1996. He was a Ph.D. engineer and an expert in Ultrasound. Our business had \$175 million in revenues and was a distant number seven. Omar had a lot of ideas about Ultrasound and wanted to create an industry leader.

He has. Omar was smart enough to tap into GE's process and financial strength. We were smart enough to let Omar teach us the Ultrasound business. Today we have an Ultrasound and device business that has \$3 billion in revenues. We are number one in the market and the leader in innovation. Omar has built his dream and investors have benefited from his performance. He is just one example; there are thousands of builders in GE.

## Our Commitment to Investors

The GE Board has continued to focus on our definition of good governance. The key elements are perform with integrity; build a strong and independent board; align management compensation with investors; talk about the Company externally the way we run it internally; and create a culture where the Company comes first. We know that good governance will lead to a more valuable Company.

Our Board understands the impact of our size, and that GE is frequently in the spotlight of the business community, the press and regulators. We do not want to use this platform to preach, but we try to set a good example. We have supported the changes in financial reporting and try to achieve good governance scores from credible sources. We have used our size to be a good citizen. GE, with the support of our employees, was a leading contributor to relief aid for victims of the Pacific Tsunami, Hurricane Katrina and Pakistan's earthquake.

The key to good governance is to have a strong and independent Board. We have one at GE. We focus on those areas that are important to investors: strategy, risk management and people. We want our Board to be engaged and tough-minded. A.G. Lafley and Andrea Jung gave us strong counsel as we made important new investments around the world. Shelly Lazarus provided excellent insights on brand and marketing. Sam Nunn and Ann Fudge had many good perspectives on our ecomagination launch. In 2005, we added Bob Lane, the CEO of Deere & Company. His views on globalization and brand building will be enormously valuable. Sandy Warner continues to provide strong leadership to our Audit Committee, assisted by Bob Swieringa and Jim Cash. Twice each year Sandy attends a GE Capital Board meeting and can see how we think about risk and returns.

Ralph Larsen leads the Compensation Committee and is presiding director. He, along with Roger Penske and Claudio Gonzalez, has a good working knowledge of the top leaders in the Company. Our Compensation Committee is totally focused on attracting, training, motivating and retaining the world's best team.

There is mutual trust between the Board and management because we communicate openly about successes and issues. Frequently, governance focuses on rules, processes or auditors. But big companies run on trust. Our Company is set up so that information—both good and bad—travels upward at a rapid pace. And I insist that none of our leaders block the information flow. At the heart of every good team is open and honest communication.

The Board treats us the same way. We discuss acquisitions, risk or organization changes months before they take place. They have open access to every level of the management team. Each Board member visits at least two GE businesses each year without the involvement of corporate management. That way, they can develop their own "feel" for the Company.

We have good results and good governance. What will it take to move the stock?

Over time, a stock reflects the performance of the company. Our performance is strong. We earn significantly more income and generate substantially more cash than we did when the stock traded at an all-time high. At the same time, we have done a lot of heavy lifting on our portfolio to create a more valuable Company. My job is to make the Company perform. We have, and we will.

I made a few tough calls in 2005 that may have had a short-term impact on the stock. The sale of Insurance Solutions for a loss is one of them. But I know you will be happy with these decisions over time.

I am so confident, in fact, that I have asked the Compensation Committee of our Board to pay my cash incentive bonus in GE performance shares for 2005. This replaces certain cash with the potential to get more GE shares if we perform in the future. I am totally aligned with you.

## Go Big

Great companies want to grow and become big. GE is a big company that uses its size as a platform to be great and drive future growth. The next few years will have an excellent profile for GE: double-digit earnings growth; expanding operating profit rate and ROTC; increasing operating cash flow; and the return of cash to investors through dividends and our share repurchase. I love how the Company is positioned and you will too!

Sustaining our performance requires superior execution around the three imperatives of size: we will sustain a strong portfolio of leadership businesses; we will drive common initiatives that expand performance; and we will develop people to grow a culture that is adaptive and ethical. We are committed to this model in good times and bad.

I love the GE team. They will fight to perform and win for you. We are indebted to you, our long-term investors. We will deliver for you, now and in the future.

Go Big!



**Jeffrey R. Immelt**  
Chairman of the Board  
and Chief Executive Officer

February 10, 2006