

To Our Customers, Share Owners and Employees

2000 was a memorable year for GE:

It was a year of record-breaking business

performance; a year that saw the proposal

to acquire and integrate the businesses

of Honeywell; and a year that began the

transition to a new leadership team.

- Revenues rose 16% to \$129.9 billion—a record.
- Net income rose 19% to a record \$12.7 billion, with 15 of GE's top 20 businesses posting double-digit earnings increases.
- Earnings per share increased 19%.
- Cash generated from our operations was a record \$15.4 billion—up 31%, or \$3.6 billion from 1999.
- Ongoing operating margin—a key metric of business performance—rose to nearly 19%—this from a Company that struggled for 111 years to reach 10%.

- The Company made over 100 acquisitions for the fourth consecutive year and moved quickly to acquire Honeywell, whose businesses are a perfect complementary fit with our Aircraft Engines, Industrial Systems and Plastics businesses. Honeywell share owners approved the merger in January, and GE and Honeywell are working with regulatory agencies to close the transaction as early as possible in 2001.

We expect the acquired Honeywell businesses to give us double-digit earnings-per-share accretion and, within two years, add one to two percentage points to GE's bottom-line growth rate.

- In 2000, GE continued its share repurchase program, raised the dividend 17% and split the stock 3 for 1.
- Our stock price was down 7% but outperformed the S&P 500, which was down 10%. This is not the kind of "outperformance" we've been proud to report in past years—particularly after posting the best operating results in the history of the Company. Still, share owners who have held our stock for five years, including 2000, have been rewarded with an average 34% total annual return on their investment. Those who have held it for a decade, 29%; two decades, a 23% total annual return.
- Substantial progress was made in 2000 in further diversifying GE's leadership. 26% of the Company's top 3,900 executives are now women and minorities, and over \$30 billion of our 2000 revenues were generated by business operations led by female and minority operating managers.
- GE continued to be the world's most honored company—awarded for the fourth straight year *Fortune's* "Most Admired Company in America," as well as, for the third time, "The World's Most Respected Company," by the *Financial Times*.

We write this in a year of transition to a new team, and we would like to use this occasion to reflect on what GE is today: why it works, the values and beliefs it is built upon and how they will serve to take us to the even better days that we know lie ahead for our Company.

First, and most importantly, GE is a growth company, creating, in 2000 alone, the equivalent of an \$18 billion, multi-business “company” with earnings of \$2 billion. In 2000 the Company not only posted its highest revenues ever, but grew them at one of the highest rates in its history.

Second, through the rigorous pursuit of four big Company-wide initiatives—Globalization, Services, Six Sigma Quality and Digitization—we’ve changed not only where we work and what we sell, but how we work, think and touch our customers.

Globalization has transformed a heavily U.S.-based Company to one whose revenues are now 40% non-U.S. Even more importantly, it has changed us into a Company that searches the world, not just to sell or to source, but to find intellectual capital: the world’s best talent and greatest ideas.

A **Services** focus has changed GE from a Company that in 1980 derived 85% of its revenues from the sale of products to one that today is based 70% on the sale of services. This extends our market potential and our ability to bring value to our customers.

Six Sigma has turned the Company’s focus from inside to outside, changed the way we think and train our future leaders and moved us toward becoming a truly customer-focused organization.

As we said in our 1999 letter, **Digitization** is transforming everything we do, energizing every corner of the Company and making us faster, leaner and smarter even as we become bigger. In 2000, these words began to turn into numbers, as we sold over \$7 billion of goods and services over the net and conducted over \$6 billion in online auctions. Digitization efforts across the Com-

pany will generate over \$1.5 billion in operating margin improvements in 2001.

The initiatives are playing a critical role in changing GE, but the most significant change in GE has been its transformation into a **Learning Company**. Our true “core competency” today is not manufacturing or services, but the global recruiting and nurturing of the world’s best people and the cultivation in them of an insatiable desire to learn, to stretch and to do things better every day. By finding, challenging and rewarding these people, by freeing them from bureaucracy, by giving them all the resources they need—and by simply getting out of their way—we have seen them make us better and better every year.

We have a Company more agile than others a fraction of our size, a high-spirited company where people are free to dream and encouraged to act and to take risks. In a culture where people act this way, every day, “big” will never mean slow.

This is all about people—“soft stuff.” But values and behaviors are what produce those performance numbers, and they are the bedrock upon which we will build our future.

The rest of our letter will describe these abiding values and beliefs because they are at the heart and soul of everything we do, what we stand for, what we stand on and, most important, where we are going.

Integrity

It’s the first and most important of our values. Integrity means always abiding by the law, both the letter and the spirit. But it’s not just about laws; it is at the core of every relationship we have.

Inside the Company, integrity establishes the trust that is so critical to the human relationships that make our values work. With that trust, employees can take risks and believe us when we say a “miss” doesn’t mean career damage.



Chairman and Chief Executive Officer John F. Welch, Jr. (seated, right), President and Chairman-Elect Jeffrey R. Immelt (seated, left), and Vice Chairmen and Executive Officers Dennis D. Dammerman (standing, right) and Robert C. Wright (standing, left) form GE's Corporate Executive Office.

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GE... a learning Company. Our true "core competency" today is not manufacturing or services, but the global recruiting and nurturing of the world's best people and the cultivation in them of an insatiable desire to learn, to stretch and to do things better every day.

With trust, employees can set stretch performance goals and can believe us when we promise that falling short is not a punishable offense. Integrity and trust are at the heart of the informality we cherish. There are no witnesses needed to conversations, nor the need to "put it in writing." None of that—our word is enough.

In our external dealings, with our unions and governments, we are free to represent our positions vigorously, in a constructive fashion, to agree or disagree on the issues, knowing that our integrity itself is never an issue.

A period of transition is a period of change, and some of our values will be modified to adapt to what the future brings. One will not: our commitment to integrity, which, beyond doing everything right, means always doing the right thing.

Relishing Change

We've long believed that when the rate of change inside an institution becomes slower than the rate of change outside, the end is in sight. The only question is when.

Learning to love change is an unnatural act in any century-old institution, but today we have a Company that does just that: sees change always as a source of excitement, always as opportunity, rather than as threat or crisis. We're no better prophets than anyone else, and we have difficulty predicting the exact course of change. But we don't have to predict it. What we have to do is simply jump all over it! Our moves in Europe, Mexico, Japan and the rest of Asia during the '90s were risky, richly-rewarded big swings at fast-breaking change, as was our leap into digitization, and more recently our decision to acquire Honeywell. We strive every day to always have everyone in the organization see change as a thrilling, energizing phenomenon, relished by all, because it is the oxygen of our growth.

The Customer

Bureaucracies love to focus inward. It's not that they dislike customers; they just don't find them as interesting as themselves. Today we have a Company doing its very best to fix its face on customers by focusing Six Sigma on their needs.

Key to this focus is a concept called "span," which is a measurement of operational reliability for meeting a customer request. It is the time window around the Customer Requested Delivery Date in which delivery will happen. High span shows poor capability to hit a specific date; low span reflects great capability; and zero span is always the objective.

With span, the measurement is based on the day the customer wants the product. When the order is taken, that date becomes known to everyone, from the first person in the process receiving the castings, circuit boards or any other components from the supplier, all the way through to the service reps who stand next to the customer as the product is started up for the first time. Every single delivery to every single customer is measured and in the line of sight of everyone; and everyone in the process knows he or she is affecting the business-wide measurement of span with every action taken.

The object is to squeeze the two sides of the delivery span, days early and days late, ever closer to the center: the exact day the customer desired. Plastics has reduced its span from 50 days to 5; Aircraft Engines from 80 days to 5; Mortgage Insurance took it from 54 days to 1.

GE completed more than 2000 Six Sigma projects "at the customer, for the customer," last year. Here we took GE resources and applied them to our customers' biggest needs, using Six Sigma as a foundation. The focus has been totally inside our customer operations. The wins have been significant: improving locomotive reliability, reducing medical CT scan wait times and improving airline operations. It's not that we know all the answers but we're totally committed to finding them; and committed to externalizing all of our initiatives for the benefit of the customer. Over the long term, we believe this will differentiate GE in the eyes of the customer.

Using Size

One of the biggest mistakes large institutions can make is indulging the compulsion to "manage" their size. They become impressed with how big they are and at the same time nervous about the need to control their size, to get their arms around it. This often leads to more layers, structure and bureaucracy—and eventually stifled and frustrated people.

We see size differently. We understand its inherent limitations—on speed and on clarity of communications, among other things—and we fight every day to create the quickness and spirit of a small company. But we appreciate the one huge advantage size offers: the ability to take big swings, big risks, and to live outside the technology envelope, to live in the future. Size allows us to invest hundreds of millions of dollars in an enormously ambitious program like the GE90, the world's highest-thrust jet engine, and the "H" turbine,

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the world's highest-efficiency turbine generator. Size allows us to introduce at least one new product in every segment, every year, in medical diagnostics, or to spend hundreds of millions on new plastics capacity, or to continue to invest in a business during a down cycle, or to make over 100 acquisitions a year, year after year.

Our size allows us to do this knowing that we don't have to be perfect, that we can take more risks, knowing that not all will succeed. That's because our size—far from inhibiting innovation, the conventional stereotype—actually allows us to take more and bigger swings. We don't connect with every one, but the point is, our size allows us to miss a few—without missing a beat.

Annihilating Bureaucracy

We cultivate the hatred of bureaucracy in our Company and never for a moment hesitate to use that awful word "hate." Bureaucrats must be ridiculed and removed. They multiply in organizational layers and behind functional walls—which means that every day must be a battle to demolish this structure and keep the organization open, ventilated and free. Even if bureaucracy is largely exterminated, as it has been at GE, people need to be vigilant—even paranoid—because the allure of bureaucracy is part of human nature and hard to resist, and it can return in the blink of an eye. Bureaucracy frustrates people, distorts their priorities, limits their dreams and turns the face of the entire enterprise inward.

In a digitized world, the internal workings of companies will be exposed to the world, and bureaucracies will be seen by all for what they are: slow, self-absorbed, customer insensitive—even silly.

Self-Confidence, Simplicity and Speed

One leads to the other. Self-confidence is the indispensable leadership characteristic. It can come from early family life, from sports, from school success, or it can be acquired through opportunities to lead, to take business risks, to be challenged and to win. It is the obligation of every leader to give everyone the business challenges that provide opportunities to develop personal self-confidence. We see, day after day, people's lives—and not just their business lives—utterly transformed by the self-confidence born of meeting big challenges.

Self-confidence in turn allows one to communicate simply and clearly—without the business jargon, busy charts, convoluted memos and incomprehensible presentations that insecure leaders use to mask their self-doubt. Leaders who lack self-confidence use their intelligence to make things more complex. Self-confident people use it to make things simpler.

Simplicity clarifies communications and enhances the chance that everyone in the organization gets the same message. Those clear, simple messages energize people and inspire them to action; thus simplicity leads to speed, one of the key drivers of business success.

Leadership

It's about the four "E's" we've been using for years as a screen to pick our leaders. "Energy": to cope with the frenetic pace of change. "Energize": the ability to excite, to galvanize the organization and inspire it to action. "Edge": the self-confidence to make the tough calls, with "yeses" and "noes"—and very few "maybes." And "Execute": the ancient GE tradition of always delivering, never disappointing.

And it's about the four "types" that represent the way we evaluate and deal with our existing leaders. Type I: shares our values; makes the numbers—sky's the limit! Type II: doesn't share the values; doesn't make the numbers—gone. Type III: shares the values; misses the numbers—typically, another chance, or two.

None of these three are tough calls, but Type IV is the toughest call of all: the manager who doesn't share the values, but delivers the numbers; the "go-to" manager, the hammer, who delivers the bacon but does it on the backs of people, often "kissing up and kicking down" during the process. This type is the toughest to part with because organizations always want to deliver—it's in the blood—and to let someone go who gets the job done is yet another unnatural act. But we have to remove these Type IVs because they have the power, by themselves, to destroy the open, informal, trust-based culture we need to win today and tomorrow.

We made our leap forward when we began removing our Type IV managers and making it clear to the entire Company why they were asked to leave—not for the usual "personal

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reasons" or "to pursue other opportunities," but for not sharing our values. Until an organization develops the courage to do this, people will never have full confidence that these soft values are truly real. There are undoubtedly a few Type IVs remaining, and they must be found. They must leave the Company, because their behavior weakens the trust that more than 300,000 people have in its leadership.

Training

We've always had great advanced management training programs at GE. We also have terrific early-career programs in financial management, engineering, manufacturing, the audit staff and others. However, because of our diversity we've never had a truly early-career generic program that would develop leaders for all our functions. All of our big, Company-wide initiatives have led us down serendipitous paths, and Six Sigma has proved no exception. It has, in addition to its other benefits, now become the language of leadership. It is a reasonable guess that the next CEO of this Company, decades down the road, is probably a Six Sigma Black Belt or Master Black Belt somewhere in GE right now, or on the verge of being offered—as all our early-career (3-5 years) top 20% performers will be—a two-to-three-year Black Belt assignment. The generic nature of a Black Belt assignment, in addition to its rigorous process discipline and relentless customer focus, makes Six Sigma the perfect training for growing 21st century GE leadership.

People

Our technology, our great businesses, our reach and our resources aren't enough to make us the global best unless we always have the best people—people who are always stretching to become better. This requires rigorous discipline in evaluating, and total candor in dealing with, everyone in the organization.

In every evaluation and reward system, we break our population down into three categories: the top 20%, the high-performance middle 70% and the bottom 10%.

The top 20% must be loved, nurtured and rewarded in the soul and wallet because they are the ones who make magic happen. Losing one of these people must be held up as a leadership sin—a real failing.

The top 20% and middle 70% are not permanent labels. People move between them all the time. However, the bottom 10%, in our experience, tend to remain there. A Company that

bets its future on its people must remove that lower 10%, and keep removing it every year—always raising the bar of performance and increasing the quality of its leadership.

Not removing that bottom 10% early in their careers is not only a management failure, but false kindness as well—a form of cruelty—because inevitably a new leader will come into a business and take out that bottom 10% right away, leaving them—sometimes midway through a career—stranded and having to start over somewhere else. Removing marginal performers early in their careers is doing the right thing for them; leaving them in place to settle into a career that will inevitably be terminated is not. GE leaders must not only understand the necessity to encourage, inspire and reward that top 20%, and be sure that the high-performance 70% is always energized to improve and move upward; they must develop the determination to change out, always humanely, that bottom 10%, and do it every year. That is how real meritocracies are created and thrive.

Informality

Informality is not generally seen as a particularly important cultural characteristic in most large institutions, but it is in ours. Informality is more than just being a first-name company; it's not just an absence of managers parading around the factory floor in suits, or of reserved parking spaces or other trappings of rank and status. It's deeper than that. At GE it's an atmosphere in which anyone can deliver a view, an idea, to anyone else, and it will be listened to and valued, regardless of the seniority of any party involved. Leaders today must be equally comfortable making a sales call or sitting in a boardroom—informality is an operating philosophy as well as a cultural characteristic.

One of GE's long-standing management tenets has been the belief that businesses must be, or become, number one or number two in their marketplaces. We managed by that tenet for years, and enjoyed the business success that came, over time, from implementing it. But, once again, insidious bureaucracy crept into the definition of number one or number two and began to lead management teams to define their markets more and more narrowly to assure that their business would fit the one-or-two share definition.

It took a mid-level Company management training class reporting out to us in the spring of 1995 to point out, without

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shyness or sugar-coating, that our cherished management idea had been taken to nonsensical levels. They told us we were missing opportunities, and limiting our growth horizons, by shrinking our definition of “the market” in order to satisfy the requirement to be number one or two.

That fresh view shocked us, and we shocked the system. At the July three-year planning review that year, leaders were asked to define their markets in such a way that their businesses would have a 10%-or-less share. Rather than the increasingly limited market opportunity that had come from this number-one or number-two definition that had once served us so well, we now had our eyes widened to the vast opportunity that lay ahead for our product and service offerings. This simple but very big change, this punch in the nose, and our willingness to see it as “the better idea,” was a major factor in our acceleration to double-digit revenue growth rates in the latter half of the '90s.

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GE, as a **Global Learning Company**, is the result, the culmination, of the values and behaviors we've described. Today, the whole world's intellect and best ideas are ours because we are “boundaryless.” More than just being receptive to these ideas, we spend our days seeking them out. Years ago Toyota taught us asset management. Wal-Mart introduced us to Quick Market Intelligence. AlliedSignal and Motorola got us started on our enormous Six Sigma initiative. More recently, Trilogy, Cisco and Oracle helped us begin the digitization of GE.

In today's GE, the rewarded behavior has changed from being the exclusive originator of an idea as a vehicle for standing out among colleagues—to, more importantly, finding a better idea and eagerly sharing it across the business and the entire Company, with the intent and effect of raising the bar of performance for all of GE.

The innovation that keeps every one of our businesses—from Aircraft Engines to Medical Systems—at the leading edge of their industries occurs much more rapidly because of the technology that flows rapidly back and forth across our Company in countless streams: metallurgy from Aircraft Engines to Power Systems; digitization from Medical Systems

to Industrial Systems to Capital Services; span success from Plastics to Mortgage Insurance to every other business.

The GE operating system, which we have illustrated in the pages that follow our letter, is not a bureaucratic series of reviews, budget drills, reports and dog-and-pony shows, but a regular series of sessions devoted to learning and to sharing the best ideas and practices from across the Company and around the world.

Understanding how this learning culture, this insatiable thirst for new ideas fuels and is the central agenda of this operating system, explains how businesses as diverse as Plastics, Aircraft Engines or NBC can grow faster and perform better as part of this system than they would if they were not. It's what makes GE work. It's the fabric of the learning culture. Such an operating mechanism is difficult to bring alive on paper or in a chart, but is vividly clear when one observes the ferment and sharing of ideas that are at the heart of what might look like, from an agenda, just another series of boring business meetings.


It is this passion for learning and sharing that forms the basis for the unrelenting optimism with which we view the future, and for the conviction that our greatest days lie ahead.

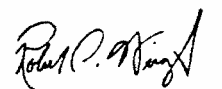
The GE of the future will be based on the cherished values that drive us today: mutual trust and the unending, insatiable, boundaryless thirst for the world's best ideas and best people. But the GE of the future will be a faster, bolder GE whose actions will make the Company of today appear slow and tentative by comparison, a GE whose every employee will understand that success can only come from an inextricable link to the success of our customers.

And it will be a GE that will always be, as it is today, grateful for your continuing support.


Chairman of the Board
and Chief Executive Officer


President and Chairman-Elect


Vice Chairman of the Board
and Executive Officer


Vice Chairman of the Board
and Executive Officer

February 9, 2001

To Our Share Owners, Customers and Employees

The final year of the century was our finest, as 340,000 GE people around the globe posted the strongest results in the Company's 122-year history.

- Revenues rose 11% to \$112 billion, a record.
- Earnings increased 15% to \$10.7 billion, the first time GE has broken the \$10 billion mark in earnings from operations.
- Earnings per share were up 15%.
- Free cash flow was a strong \$11.8 billion, up 17%.
- Our ongoing operating margin rate grew to 17.8%, a gain of more than a full point from '98 and the third straight year of more than a full point improvement. Working capital turns hit an all-time high of 11.5—an improvement of 2.3 turns. The 80% improvement in this key performance measure over the past three years has added \$4 billion to our cash flow.
- GE made 134 acquisitions in 1999, worth almost \$17 billion. This marks the Company's third year in a row with over 100 acquisitions, totaling over \$51 billion.
- GE was named, for the second consecutive year, *Fortune* magazine's "Most Admired Company in America." Also for the second straight year, we were named "The World's Most Respected Company" by the *Financial Times*. A *Business Week* survey named the GE Board of Directors "Best Board," and *Time* magazine described GE as "The Company of the Century."



Chairman and Chief Executive Officer John F. Welch, Jr. (center) and Vice Chairman and Executive Officers John D. Dowd (left) and Dennis D. Denison (right) from GE's Corporate Executive Office

- We repurchased \$1.9 billion in GE stock in 1999, raised the dividend 17% for the second consecutive year, and proposed a 3-for-1 stock split, the fifth split in 17 years, which will take effect after share owner approval in April 2000.

Our share owners—including our active and retired employees who have \$24 billion of GE stock in their savings plans—were rewarded for this performance. The total return on a share of GE stock in 1999 was 54%. This followed returns of 41% in 1998, 51% in 1997, 40% in 1996 and 45% in 1995.

Understanding GE

In this report, for the first time, the CEOs of the top 20 GE businesses will describe the highlights and, in a few cases, the shortfalls of the year, and their plans for the future. Fourteen of these 20 businesses produced double-digit earnings increases in 1999: five grew more than 40%; four between 25-40%; five between 15-25%; three were about flat; three were down.

We never get it all “right” in any year, and probably never will, but it is the scale and leading market positions of these businesses, and the quality of the teams that run them, that allow us to have one great year after another. 1999 was an outstanding year—our best ever—but the past five have been great as well, as have the past 20. For that matter, it’s been a great century. Edison would be pleased.

We believe annual reports are as much about where we can go as where we have been; and our message to you this year should enable you to look forward to the brightest of futures for GE in its third century of operation.

Much has been said of the difficulty of “understanding” GE because of the enormous diversity of its products and services and the breadth of its global operations. But it’s actually easy to understand this Company, and to feel confident about its future growth, if you look at its array of world-class businesses and grasp the two fundamental forces that drive GE—its social architecture and its operating system.

The Social Architecture

GE's current social architecture began to form in the early '80s when we became convinced that the only way a company like ours could move quickly and successfully through times of radical change was to use every mind in the Company and to involve everyone in the game—to leave no one, and no good idea, out. To achieve this radical cultural transformation, we developed something we called “Work-Out,” which is based on the simple premise that those closest to the work know it best. Over the years there have been literally hundreds of thousands of Work-Out “town meetings,” where the views and ideas of every employee, from every function, in every business, were solicited and turned into action—usually on the spot. People saw the value we attached to their intellect and their ideas—and as a result, their ideas began to flow in torrents.

The second facet of the social architecture involved the cultivation of what we call “boundary-less” behavior by the removal of every organizational and functional obstacle to the free and unimpeded flow of ideas—inside the Company across every operation, and outside the Company from the best thinking in world business. We measured this boundaryless behavior in our leadership—and rewarded or removed people based on it. We anonymously survey thousands of employees every year to measure our progress and see if our rhetoric matches their reality. When it does not, we take action.

The combination of involving everyone in the game and of responding to this flow of ideas and information turned GE into what we are today—a learning company. By becoming a learning company, we have taken market and geographic diversity, the traditional handicap of multi-business companies, and turned them into a decisive advantage—unlimited access to the most enormous supply of best ideas, information and intellectual capital the business world has to offer.

Our social architecture—our values—is the software that drives what we call the operating system of GE.

The GE Operating System

The operating system of GE was devised to channel and focus this torrent of ideas and information and put it to use through the medium of Company-wide “initiatives,” as well as to track, measure and expand these initiatives as they take hold and flourish.

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This operating system is based on an informal but intense, regular schedule of reviews designed to create momentum for the initiative. It progresses with a drumbeat regularity throughout our business year—year after year.

A typical initiative—Product Services, say, or Six Sigma Quality—is launched with passionate intensity at the meeting of our 600 global leaders in January. A commitment to the initiative is made. Every subsequent event in the Company is developed around implementing and expanding the initiative: resources are allocated; high visibility jobs are created; intense communications start throughout the businesses; and work begins.

Each quarter throughout the year, the leaders of our businesses meet to share what each of them has done to drive the initiative. At these meetings, leaders ranging from the Reinsurance CEO, to the NBC executive, to the head of the Industrial Systems business describe

how they are implementing the particular initiative in their own operations. The incredible amount of learning that comes from this shared experience expands the initiative and energizes their efforts.

Every Company activity and every Company event during the year add energy and momentum to the initiative. In these same quarterly meetings, for example, every Business Management Course class at our Management Development Institute—50 to 60 of our highest potential leaders—reports back on its three-week experience in the field on the best practices they found from other companies around the world—and they are brutally honest on how we stack up vis-à-vis the best they saw. This candid feedback really picks up the pace.

The same is true for Human Resources reviews. In April and May, the Corporate Executive Office and Human Resources leaders go into the field for full-day personnel reviews at each location, where the people leading and practicing the initiatives present their progress, and a clear assessment is made of the capabilities and the level of intensity of the people involved in the initiative. We want only the best, the brightest and the most committed to be in these leadership roles, and the focus on talent is relentless.

By October, role models—heroes—have emerged in all the businesses, and they are selected to present to the 150 Corporate Officers at their annual meeting. This meeting serves as a platform where each business can measure its progress against that of the best of its peers.

This takes us full circle to January, when the 600 global leaders of our Company meet and focus, once again, on the initiatives. The initiative from the prior January usually occupies the entire first day, and the role models present their stories and share their learning. On Day 2, new ideas around other ongoing initiatives—some several years old—are shared. This year, for example, the first full day was on e-Business. Day 2 covered new thinking in Globalization, Six Sigma and Product Services.

This operating system propels what has become a "learning engine" and embeds these initiatives in the DNA of the Company.

Crucial to the success of this social architecture and operating system is their synchronization with our reward and incentive system. How well people capitalize on these initiatives, how open they are to change, determines the level of their reward. Making the numbers at GE gets you into the game. Living the values and leveraging the operating system is the road to promotions and greater personal rewards.

The remainder of this report will describe how this social architecture and operating system have driven and expanded the four key initiatives that will be the source of GE growth for decades.

Globalization

The oldest current initiative in GE, driven by the GE operating system for about 15 years, is, like Work-Out, becoming so pervasive and ingrained in the Company that it's less an "initiative" now and more a reflex. Globalization began with a GE that derived more than 80% of revenues from the U.S. and has taken us to where we are today, with 41% of revenues from outside the U.S. and moving toward a majority sometime in this decade.

Globalization evolved from a drive to export, to the establishment of global plants for local consumption, and then to global sourcing of products and services. Today, we are moving into its final stages—drawing upon intellectual capital from all over the world—from metallurgists in Prague, to software engineers in Asia, to product designers in Budapest, Monterrey, Tokyo, Paris and other places around the globe. Our insatiable appetite for more advanced technology is being fed, not by a new wing on our world-class Corporate R&D Center in Schenectady, New York, but by a soon-to-open greenfield laboratory in the suburbs of Bangalore, India.

There has been an enormous amount of comment recently on the subject of globalization. Let us assure you that GE brings only world-class business and work practices and careful, compliant and proactive environmental processes to every one of our global operations. We understand that to be a truly great global company, we must be a great local citizen.

Today, American GE business leaders located outside the United States have become fewer and fewer as local leaders, trained in GE operating methods and steeped in our values but with their own unmatched customer intimacy and market savvy, are replacing them. Our objective is to be the "global employer of choice," and we are striving to create the exciting career opportunities for local leaders all over the world that will make this objective a reality. This initiative has taken us to within reach of one of our biggest and longest-running dreams—a truly global GE.

Product Services

The precursor to our Product Services initiative was a GE where new product development was primarily "where the action was" for our huge corps of engineers and scientists. The best and brightest of these wanted to work on the highest-thrust jet engine, the fastest medical scan or the leading-edge electrical turbine design. Product services consisted of less-exciting maintenance of our high-value machines—turbines, engines, medical devices and the like.

Making the numbers at GE gets you into the game. Living the values and leveraging the operating system is the road to promotions and greater personal rewards.

As recently as 1995, when this initiative was launched, GE derived \$8 billion a year in revenues from product services. In 2000, this number will be \$17 billion.

The premise for the Product Services initiative was the collective realization that while GE cannot win, and shouldn't play, in the "wrench-turning" game, it could find enormous growth in the high-technology, customer-productivity game—where there are few, if any, who can do the things we can do for that customer.

The human resources focus in the operating system made services the new "place to be" for the best and brightest. Big, exciting, high-technology jobs in services were created. And the GE values system—increasingly tied to customer focus—reinforced the shift.

But the most important key to the long-range success of our services initiative is the understanding that leading-edge technology can only be derived from creating great products. By driving this leading-edge technology back into the installed base of older equipment, we can increase our customers' productivity and, in turn, make them more competitive—with significantly lower investment on their part. We want being a product services customer of GE to be analogous to bringing your car in for a 50,000-mile check and driving out with 100 more horsepower, better gas mileage and lower emissions.

For example, the technology in the world's most advanced, highest-thrust jet engine—the GE90—is now being migrated into yesterday's installed base, refreshing 20-year-old customer engines, improving their thrust, fuel efficiency and time on-wing.

"H" gas turbine technology, the world's most advanced, is now improving the efficiency and heat rate of customers' 20- and 30-year-old power plants. Twenty-first century AC locomotive technology is making 1980s' locomotives more reliable; and 1990s' CT machines are producing better scans because of infusions of technology from Six Sigma-designed twenty-first century platforms.

We understand that to be a great services company, we must be a great leading-edge product technology company—they go hand in hand. Using tomorrow's technology to upgrade yesterday's hardware will make our customers more successful and

create for GE a rapidly expanding services business for decades to come.

Six Sigma Quality

The Six Sigma initiative is in its fifth year—its fifth trip through the operating system. From a standing start in 1996, with no financial benefit to the Company, it has flourished to the point where it produced more than \$2 billion in benefits in 1999, with much more to come this decade.

We want being a product services customer of GE to be analogous to bringing your car in for a 50,000-mile check and driving out with 100 more horsepower, better gas mileage and lower emissions.

In the initial stages of Six Sigma, our effort consisted of training more than 100,000 people in its science and methodology and focusing thousands of "projects" on improving efficiency and reducing variance in our internal operations—from industrial factories to financial services back rooms. From there, our operating system steered the initiative into design engineering to prepare future generations of "Design for Six Sigma" products—and drove it rapidly across the customer-interactive processes of the financial services businesses. Medical Systems used it to open up a commanding technology lead in several diagnostic platforms and has achieved dramatic sales increases and customer satisfaction improvements. Every GE product business and financial service activity is using Six Sigma in its product design and fulfillment processes.

Today, Six Sigma is focused squarely where it must be—on helping our customers win. A growing proportion of Six Sigma projects now under way are done on customer processes, many on customer premises.

The objective is not to deliver flawless products and services that we think the customer wants when we promise them—but rather what customers really want when they want them.

One thing that the truly great companies of the world have in common, regardless of the diversity of their industries, is a total business focus on servicing customers. With Six Sigma as the enabler, we intend to meet that standard.

E-Business

E-Business, which entered the operating system at the January Managers Meeting little more than a year ago, is already so big and transformational that it has almost outgrown the bounds of the word “initiative.” While we are already generating billions in Web-based revenues, the contribution of e-Business to GE has been so much more. It is changing this Company to its core.

One thing that the truly great companies of the world have in common, regardless of the diversity of their industries, is a total business focus on servicing customers. With Six Sigma as the enabler, we intend to meet that standard.

For 20 years, we’ve been driving to get the soul of a small company into this sometimes muscle-bound, big-company body. We described the contribution of Work-Out, and there was more. We de-layered in the ‘80s, eliminating many of the filters and gatekeepers. We got faster by reducing corporate staff. We launched venture units, in imitation of start-ups. We made close to 30,000 people stock optionees in a Company that used to have under 500. And we ridiculed and removed bureaucrats until they became as rare around GE as whooping cranes.

Every year we got better, faster, hungrier and more customer-focused—until the day this elixir, this tonic, this e-Business came along and changed the DNA of

GE forever by energizing and revitalizing every corner of this Company.

The first effect of e-Business was to further energize and refresh our other three initiatives. For one, it enabled us to put to customer advantage the enormous databases we had compiled on customer processes as part of Six Sigma projects.

What we are rapidly moving toward is the day when “Dr. Jones,” in radiology, can go to her home page in the morning and find a comparison of the number, and clarity, of scans her CT machines performed in the last day, or week, to more than 10,000 other machines across the world. She will then be able to click and order software solutions that will bring her performance up to world-class levels. And the performance of her machines might have been improved, online, the previous night, by a GE engineer in Milwaukee, Tokyo, Paris or Bangalore.

The day is almost here when the chief engineer at the local utility may check the heat rate and fuel burn of his turbines—before he has coffee in the morning—to learn how he stacks up with 100 other utilities. Again, with a click to a home page, he can look at what GE services can provide to increase his competitiveness. Here, a number of GE’s service packages are offered that will take him quickly to world-class levels.

The efficient harvesting of intellectual capital, which is the state-of-the-art of the globalization initiative, is impossible without the Internet, and GE products are today being designed collaboratively online around the globe 24 hours a day—as our Industrial Systems business does with its “Web City.”

But the transformation e-Business is bringing about at GE is more pervasive than even this growing magic.

When you think about this e-Business revolution that is transforming the world, an obvious question comes to mind: Why wasn’t the e-revolution launched by big, highly resourced, high-technology companies rather than the small start-ups that led it? The answer may lie, as perhaps is true in GE’s case, in the mystery associated with the Internet—the perception that

creating and operating Web sites was Nobel Prize work—the realm of the young and wild-eyed. In our case, we once again used a best practice from one of our businesses to overcome this discomfort. We took the top 1,000 managers in the Company and asked them to become “mentees” of 1,000 “with it”, very bright e-Business mentors—many brand new to GE—and to work with them three to four hours a week, traveling the Web, evaluating competitor sites, and learning to organize their computers, and their minds, for work on the Internet. It was this mentor-mentee interaction—which in some cases resembled that of “Stuart” and his boss in the Ameritrade commercial—that helped overcome the only real hurdle some of us had—fear of the unknown. Having overcome that fear, and experienced the transformational effects of e-Business, we find that digitizing a company and developing e-Business models is a lot *easier*—not harder—than we had ever imagined.

Start-ups have energized the business landscape, supported by a strong venture capital environment and healthy IPO market; however, much of their resources must go to establish brand, develop real content and achieve fulfillment capability. We already have that! We already have the hard stuff—over 100 years of a well-recognized brand, leading-edge technology in both product and financial services, and a Six Sigma-based fulfillment capability. The opportunities e-Business creates for large companies like GE are unlimited.

But digitizing a company does more than just create unlimited business opportunities; it puts a small company soul into that big company body and gives it the transparency, excitement and buzz of a start-up. It is truly the elixir for GE and others who relish excitement and change.

E-Business is the final nail in the coffin for bureaucracy at GE. The utter transparency it brings about is a perfect fit for our boundaryless culture and means everyone in the organization has total access to everything worth knowing.

The speed that is the essence of “e” has accelerated the metabolism of the Company, with people laughing out loud at presentations of business plans for “the third quarter of next year” and other tortoise-like projections of action. Time in GE today is measured in days and weeks.

E-Business was made for GE, and the “E” in GE now has a whole new meaning. We get it—we all get it.

The accelerating pace of our success in this initiative is leading to a lot of spontaneous celebrating—something big companies, including GE, have always had trouble doing as well as small companies. It generates more fun across a business than anything we’ve ever seen. The informality, joy of work and endless celebration that comes with “e” life is something on which we are thriving.

E-Business was made for GE, and the “E” in GE now has a whole new meaning. We get it—we all get it.

We begin this century with a GE totally focused on the customer, utterly energized and rejuvenated by e-Business, and driven by the relentless beat of a unique operating system and social architecture. This Company is poised to move forward to levels of performance, growth and excitement undreamed of in the past.

We thank you all for your support in helping make this future so bright.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer



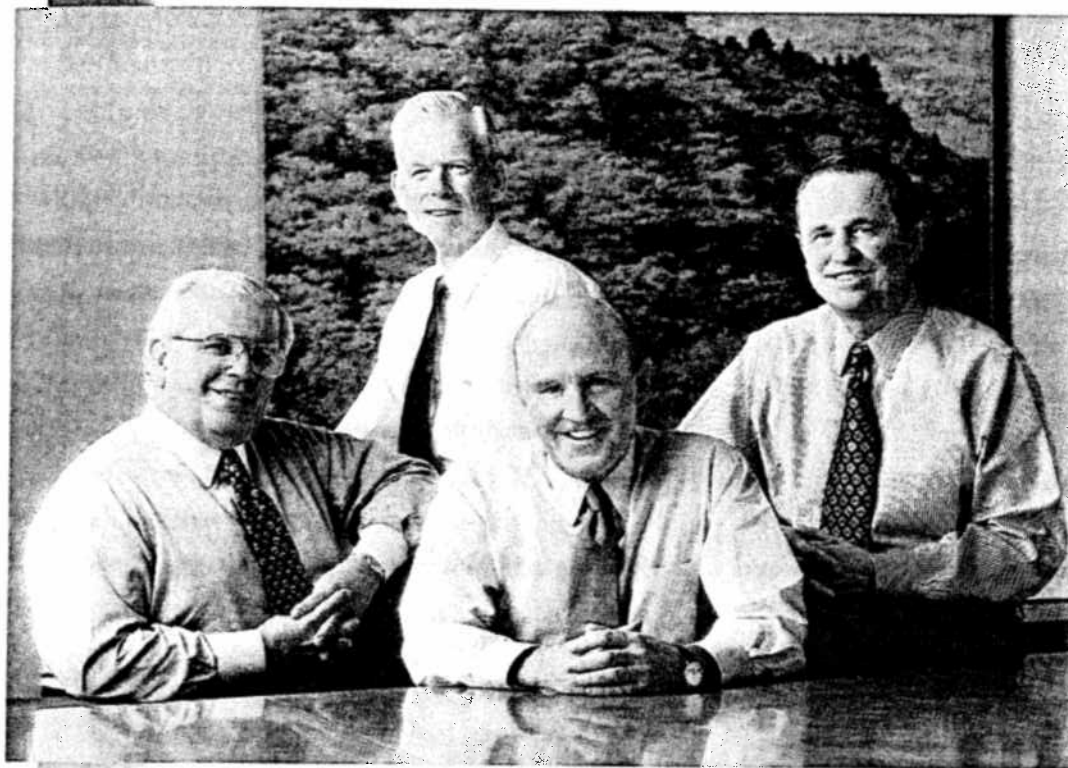
Dennis D. Dammerman
Vice Chairman of the Board
and Executive Officer



John D. Opie
Vice Chairman of the Board
and Executive Officer

February 11, 2000

To Our Share Owners, Employees and Customers



Chairman and Chief Executive Officer John F. Welch, Jr. (center) and Vice Chairmen and Executive Officers Dennis D. Dammerman (left), Eugene F. Murphy (back) and John D. Opie (right) form GE's Corporate Executive Office.

1998 was another terrific year for your Company — another record year.

- Revenues rose to \$100.5 billion, up 11%.
- Earnings increased 13% to \$9.3 billion.
- Earnings per share grew 14% to \$2.80.
- Operating margin rose to a record 16.7%, up a full point from the record 15.7% of 1997. Working capital turns rose sharply to 9.2, up from 1997's record of 7.4.
- This performance generated \$10 billion in free cash flow, which, in combination with a "AAA" debt rating, allowed us to invest \$21 billion for 108 acquisitions in support of two of our three Company-wide initiatives: Globalization and Services.
- Record cash flow allowed us to raise dividends by 17% and to further increase share owner value by repurchasing an additional \$3.6 billion in GE stock.
- In 1998, GE was named *Fortune* magazine's "Most Admired Company in America" and "The World's Most Respected Company" by a worldwide business audience in the *Financial Times*.

Our share owners — including our active and retired employees, who now own more than \$17 billion in GE stock in their savings plans — were rewarded for these actions and this performance — the total return on a share of GE stock was 41% in 1998. GE has averaged a 24% per-year total return to share owners for the past 18 years.

This performance, year after year, is the product of a diverse and powerful portfolio of leading global businesses. This performance has been driven this decade by three big Company-wide growth initiatives: Globalization, Services and Six Sigma quality.

These initiatives, in turn, have been rapidly advanced by a General Electric culture that values the contributions of every individual, thrives on learning, thirsts for the better idea, and has the flexibility and speed to put the better idea into action every day.

We are a learning company, a company that studies its own successes and failures and those of others — a company that has the self-confidence and the resources to take big swings and pursue numerous opportunities based on winning ideas and insights, regardless of their source.

That appetite for learning, and the ability to act quickly on that learning, will provide GE with what we believe is an insurmountable and sustainable competitive advantage as we pursue our three big growth initiatives.

Globalization is the first of those initiatives.

Last year we wrote to you as the difficulties in Asia were causing global uncertainty and unease.

We, like everyone else, had not foreseen these difficulties, but we quickly viewed Asia as similar in many respects to the Europe of the early 1990s — in need of various structural remedies but rich in opportunity. In the case of Europe — and in the case of Mexico in the mid-'90s — we moved decisively and were rewarded with significant and rapid growth. We have grown fourfold in Europe, from a relatively small GE presence in 1990 to \$24 billion in revenues in 1998.

The GE of the next century must provide high-value global products and services, designed by global talent, for global markets.

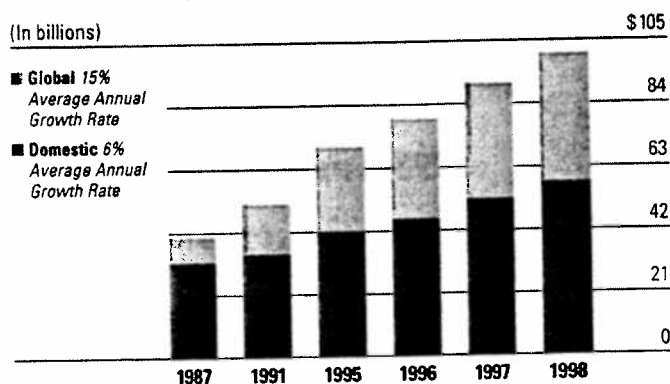
We learned from our European successes and saw in Japan the opportunity to do it again — only faster.

We acquired the business infrastructure and sales force of Toho Mutual Life, and — because of the high respect the Japanese have for Thomas Edison — we renamed it GE Edison

Life and quickly became a force in the Japanese insurance industry. We also acquired the consumer loan business of Japan's Lake Corporation, with \$6.2 billion in assets, and added it to our already rapidly growing consumer finance business there. These acquisitions, along with several other ventures, partnerships and buyouts by our industrial businesses, together with the growth of our ongoing existing businesses in Japan, should allow us to more than double our over \$300 million in 1998 Japanese earnings within three years.

Our Japanese initiatives are part of an intense multiyear focus on globalization that produced \$43 billion in revenues in 1998 and a growth rate for GE outside the United States that has been double our U.S. growth rate for 10 years.

Growth Through Globalization



But market success is only part of globalization. We must globalize every activity in the Company. We've made some progress in sourcing products and components so critical to survive and win in a price-competitive deflationary world, but our challenge is to go beyond that — to capitalize on the vast intellectual capital available around the globe. In 1999, we will move aggressively to broaden our definition of globalization by increasing the intensity of our effort to search out and attract the unlimited pool of talent that is available in the countries in which we do business — from software designers in India to product engineers in Mexico, Eastern Europe and China.

The GE of the next century must provide high-value global products and services, designed by global talent, for global markets.

Product services is a second continuing growth initiative. This initiative has already changed the headset of the Company from that of a provider of products augmented

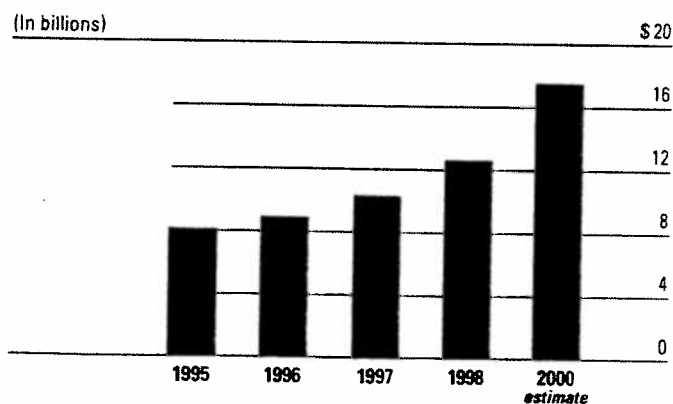
by ancillary services to a Company that is overwhelmingly a source of customer-focused, high-value, information technology-based productivity solutions — as well as a provider of high-quality products.

With this initiative, as with globalization, we are broadening our definition of services — from the traditional activities of parts replacement, overhauling and reconditioning high-value machines like jet engines, turbines, medical equipment and locomotives, to a larger and bolder vision. We have the engineering, the R&D, the product knowledge, the resources and the management commitment to make the series of hundred-million-dollar investments that will allow us to truly change the performance of our installed base, and by doing so upgrade the competitiveness and profitability of our customers: utilities, hospitals, railroads, factories and airlines.

By adding higher and higher technology to the customers' installed base of machines, we will have the capability of returning them to operation not just "overhauled" but with better fuel burn rates in engines, higher efficiency in turbines, better resolutions in CT scanners, and the like.

The ability to go beyond "servicing" to, in essence, "reengineering the installed base" will dramatically improve our customers' competitive positions.

Growth Through Product Services



In product services, as with globalization, the new expanding view of both initiatives is driven by the insatiable learning culture inherent in the Company today, learning from each other, across businesses, across cultures, and from other companies.

Six Sigma quality, our third growth initiative, is, in itself, a product of learning. After observing the transforma-

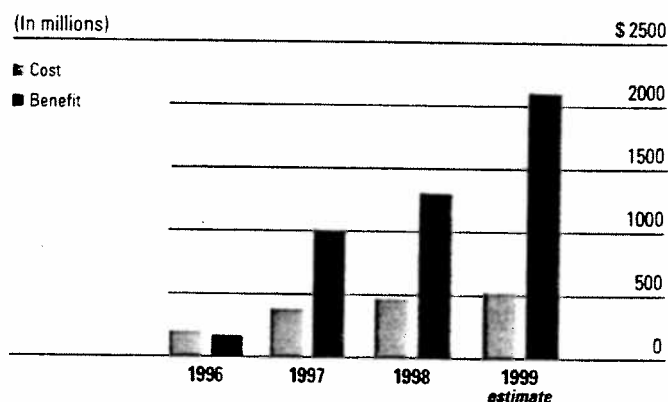
tional effects this science, this way of life and work, had on the few companies that pursued it, we plunged into Six Sigma with a Company-consuming vengeance just over three years ago. We have invested more than a billion dollars in the effort, and the financial returns have now entered the exponential phase — more than three quarters of a billion dollars in savings beyond our investment in 1998, with a billion and a half in sight for 1999.

The Six Sigma-driven savings are impressive, but it is the radical change in the overall measures of operating efficiency that excite us most. For years — decades — we have been straining to improve operating margin and working capital turns. Our progress was typically measured in basis points for margins and decimal points in working capital turns. Six Sigma came along in 1995 when our margins were in the 13.6% range and turns at 5.8. At the end of 1998, margins hit 16.7% and turns hit 9.2. These numbers are an indicator of the progress and momentum in our Six Sigma journey.

The ratio of plant and equipment expenditures to depreciation is another measure of asset efficiency. This number in 1998 dropped to 1.2 and will be in the .7–.8 range in the future, as "hidden factory" after "hidden factory" — literally "free capacity" — is uncovered by Six Sigma process improvements.

All this has taken place in just over three years, after the quarter million of us hurled ourselves into this unknown way of life and work.

Six Sigma Progress



Year three of Six Sigma shows how far we have come in training ourselves — with 5,000 full-time "Master Black Belts" and "Black Belts" driving scores of thousands of quality

projects around the globe, and with virtually every single professional in the Company a "Green Belt," extensively trained and with a project completed.

As measured by internal performance improvements, and the enhancement of share owner value, Six Sigma has been an unqualified success.

The first major products designed for Six Sigma are just now coming into the marketplace and beginning to touch some of our customers. The new LightSpeed™ CT scanner and the new TrueTemp™ electric range, to name two, are drawing unprecedented customer accolades because they were, in essence, designed by the customer, using all of the critical-to-quality performance features (CTQs) the customer wanted in the product and then subjecting these CTQs to the rigorous statistical Design For Six Sigma process.

The LightSpeed scanner, the first multislice CT to reach the market, is a godsend to patients who, for example, now have to endure a chest scan for only 17 seconds compared with the 3 minutes it takes with a conventional CT. A patient with a pulmonary embolism, usually in breathing distress, must lie in a conventional scanner for nearly half a minute compared with 6 seconds for the LightSpeed. A trauma patient, for whom time-to-diagnosis is a literal life-or-death matter, can have a full-body scan in 26 seconds instead of the 3 minutes a single-slice CT scanner requires. Hospitals, for their part, now get a much higher utilization rate and hence lower per-scan costs. The reception of this product has been remarkable, with \$60 million in orders in the first 90 days and with customer acceptance levels and endorsements never before seen.

Every new GE product and service in the future will be "DFSS" — Designed For Six Sigma. These new offerings will truly take us to a new definition of "World Class."

Yes, we've had some early product successes, and those customers who have been touched by them understand what this Six Sigma they've heard so much about really means. But, as we celebrate our progress and count our financial gain, we need to focus on the most powerful piece of learning we have been given in 1998, summarized perfectly in the form of what most of our customers must be thinking, which is: "When do I get the benefits of Six Sigma?" "When does my company get to experience the GE I read about in the GE Annual Report?"

Questions like these are being asked because, up to now, our Six Sigma process improvements have concentrated primarily on our own internal processes and on internal measurements such as "order-to-delivery" or "shop turnaround time."

And in focusing that way — inwardly on our processes — we have tended to use all our energy and Six Sigma science to "move the mean" to, for example, reduce order-to-delivery times from an average of, say, 17 days to 12 days, as reflected in the example below. We've repeated this type of improvement over and over again in thousands of GE processes and have been rewarded for it with less "rework" and greater cash flow. The problem is, as has been said, "the mean never happens," and the customer who looks at this chart, or charts like it, is still seeing variances in when the deliveries actually occur — a heroic 4-day delivery time on one order, with an awful 20-day delay on another, and no real consistency. The customers in this chart feel nothing. Their life hasn't changed; their profitability hasn't increased one bit. These customers hear the sounds of celebration coming from within GE walls and ask, "What's the big event; what did we miss?" The customer only feels the variance that we have not yet removed.

Example

Customer Dashboard: Customer XYZ
Dashboard Dial: Order to Delivery Time
Order by Order Delivery Times

	Starting Point	After Project	
	29 Days	11 Days	
	18	24	
	7	10	
	19	6	
	6	12	
	8	8	
	16	15	
	19	10	
	33	4	
	15	20	
Performance Mean	17 Days	12 Days	
Customers Feel Variance!			
			Mean — Big Change 17 Days → 12 Days
			Variance — Almost No Change

Our challenge, as we move toward 2000, is to turn our Company vision "outside in," to measure the parameters of the customers' needs and processes and work toward zero variability in serving them. **Variation is evil in any customer-touching process.** Improvement to our internal processes is of no interest to the customer.

In 1999, our customers will feel and enjoy the same benefits of Six Sigma that we have been experiencing internally. We will improve variability. We will make this happen. The impetus for this change will come not only from the business leaders but also from the first of the pioneering Six Sigma GE leaders who have now completed their "tours" and have been promoted into leadership positions in the businesses. They are now General Managers, Directors of Finance, Vice Presidents of Sales, Vice President of the Audit Staff, President of GE Mexico, and the like — big jobs.

This next generation of senior GE leadership, and the succeeding waves of Black Belts, share a camaraderie and an esprit forged by their Six Sigma training and the experiences of their tours. They are already predisposed toward hiring only those fluent in Six Sigma language and adept at its methodology. Within a few years, the work culture and the management style of General Electric will be indelibly, irreversibly, Six Sigma — and it will be focused on the customer's success.

These new leaders are changing the very DNA of GE culture. Work-Out, in the '80s, opened our culture up to ideas from everyone, everywhere, killed NIH (Not Invented Here) thinking, decimated the bureaucracy, and made boundaryless behavior a reflexive and natural part of our culture, thereby creating the learning culture that led to Six Sigma. Now, Six Sigma, in turn, is embedding quality thinking — process thinking — across every level and in every operation in our Company around the globe.

Work-Out in the 1980s defined how we behave. Today, Six Sigma is defining how we work.

The two initiatives — Services and Six Sigma — have one common theme: Only when tomorrow's product and service offerings from GE significantly reduce the plant and equipment expenditures of our customers and increase their productivity will we have fulfilled the GE Services and Six Sigma vision.

These, then, are the three initiatives — Globalization, Services and Six Sigma — fueling powerful growth in your Company and transforming its culture and its soul.

These initiatives are being driven across the businesses and across the globe by a unique brand of 21st century business leader — the GE "A" player, the leader who embodies

what we call the four "E's": high **E**nergy; the ability to **E**nergize others; "**E**dge," the ability to make the tough calls; and finally **E**xecute, the consistent ability to turn vision into results.

These "A" players, driving these initiatives, have transformed the very nature of GE — what it does and how well and how quickly it does it.

The two initiatives — Services and Six Sigma — have one common theme: Only when tomorrow's product and service offerings from GE significantly reduce the plant and equipment expenditures of our customers and increase their productivity will we have fulfilled the GE Services and Six Sigma vision.

With our three initiatives, these "A" players will broaden our globalization vision beyond markets and products to the pursuit of the best intellectual capital in the world.

"A" players will see the mission of product services as investing in technology to change our customers' productivity equation and enhance their competitiveness.

And finally, they will turn the face of Six Sigma outward toward the customer and make that customer's profitability the number one priority in any process improvement.

What does a Company with an incredible array of leading global businesses, a learning culture and a depth of "A" player leadership talent have to worry about as we approach the next century? What should keep it awake at night?

Not much, but history points a warning finger toward the arrogance and complacency that have caused others to stumble. It points to the sheer size that has slowed them and limited their agility to change quickly in this era of rapid change.

Already, as we approach the millennium, the pundits are hard at work. Predictions of trends and megatrends are in full production. Their record for accuracy has been spotty, at best. Most recently, less than two years ago, the conventional view of Asia was still one of "onward and upward" without interruption.

Looking back much further, to 20 years ago, when a new GE team moved into leadership, the prognostications were, in many cases, spectacularly inaccurate.

- In 1980, with oil at \$35 a barrel, the big questions were when would it hit \$100 or if it would be available at all.
- Japan in 1980 seemed to be in inexorable ascendancy, invading and dominating complacent industry after industry. Future American generations were doomed to menial work. The U.S. was losing confidence, experiencing "malaise."
- Twenty years ago, everything was predicated on the expectation of a never-ending double-digit inflationary environment.

Obviously, these trends did not play out — quite the reverse. Oil is at record lows, Japan is struggling, and the U.S. has moved from "malaise" to exuberance — irrational or not. Inflation has yielded to deflation as the shaping economic force.

So what does this tell us about the future? It tells us that what's as important as predicting trends is a company's ability to cope with any trend.

Sure, early in the next century, Japan will rebound. Oil prices are bound to rise again. Inflation is probably not dead. But spending a lot of time putting too fine a point on the "how" and "when" any of these might happen is less important than growing a culture that is both challenged by the unexpected and confident in, as well as capable of, dealing with whatever comes along.

That's why so much about leading a big company is about assuring that it stays agile, unencumbered by bureaucracy or lulled by complacency — keeping it a company that breathes information, loves change and is excited by the opportunity change presents. It means never allowing a company to take itself too seriously, and reminding it constantly, in the face of any praise or good press, that yesterday's press clippings often wrap today's fish.

Crossing the \$100 billion mark in revenue, as we did in 1998, was a milestone, just as the \$10 billion mark in earnings will be, but that's all they are — good for a quick pat on the back.

Yes, GE has become a very big company, and with the growth initiatives we have under way, we have every intention of becoming a lot bigger.

So what does this tell us about the future?
It tells us that what's as important as predicting trends is a company's ability to cope with any trend.

But bigger is only better if a company understands and is committed to using the unique advantages of size.

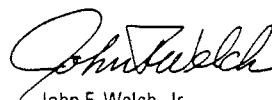
As a big, global, multibusiness company, we have access to an enormous amount of information — and with our learning culture, we have the ability to acquire, share and act rapidly on that information to turn it into marketplace advantage.

Size gives us another big advantage: our reach and resources enable us to go to bat more frequently, to take more swings, to experiment more, and, unlike a small company, we can miss on occasion and get to swing again.

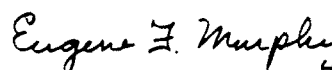
What size cannot be allowed to do to a big company is to let it fall to the temptation of "managing" its size rather than "using" it. We can never stop swinging! At the same time, we must always be striving to capture the best of a small company — its energy, excitement and speed.

We move into 1999 filled with high expectations and with the confidence that we have the right initiatives, the right culture and the right leadership teams — teams with the agility and speed to seize the big opportunities we know this changing world will present us.

Thanks for your continuing support.



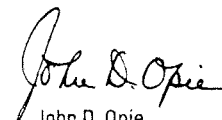
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and Executive Officer



Dennis D. Dammerman
Vice Chairman of the Board
and Executive Officer



John D. Opie
Vice Chairman of the Board
and Executive Officer

February 12, 1999

To Our Share Owners and Employees

In 1997, your Company had a great year — a record year.

- Ongoing revenues rose to \$89.3 billion; up 13%.
- Global (non-U.S.) revenues rose to \$38.5 billion, now 42% of total revenues.
- Earnings increased to more than \$8.2 billion; up 13%.
- Earnings per share increased 14% to a record \$2.50.
- Ongoing operating margin rose to a record 15.7%, exceeding 15% for the first time in the history of our Company.
- Operating cash flow rose to a record \$9.3 billion. This, in combination with our Triple A debt rating, fueled the investment of \$17.2 billion in more than 75 industrial and financial services acquisitions in 1997.
- This record cash flow also allowed us to return \$7 billion to share owners: \$3.5 billion in dividends and \$3.5 billion for the repurchase of GE stock. Dividends were increased by 15%, our 22nd consecutive annual dividend increase.
- In April, our share owners approved a 2-for-1 stock split, the fourth in the last 15 years.

Our share owners — including our active and retired employees, who now own more than \$12 billion in GE stock in their savings plans — were rewarded for this performance. The total return on a share of GE stock was 51% in 1997; this followed gains of 40% in 1996 and 45% in 1995.



Chairman and Chief Executive Officer John F. Welch, Jr. (front) and Vice Chairmen and Executive Officers Paolo Fresco (left), John D. Opie (center) and Eugene F. Murphy (right) form GE's Corporate Executive Office.

We delivered these 1997 results by executing on our three major initiatives: globalization, a focus on product services and our drive for Six Sigma quality. Building on these same three initiatives will be critical to our future success.

The uncertainty brought about by the Asian economic difficulties creates both challenges and opportunities. For GE, Asia represents about 9% of our revenues (about half in Japan) — exposure that is by no means insignificant, but certainly manageable — and we are confident that we can minimize any impact on our existing operations.

It has been our repeated experience that business uncertainty is inevitably accompanied by opportunity. The Asian situation should be no exception; it should provide us with a unique opportunity to make the strategic moves that will increase our presence and our participation in what we know will be one of the world's great markets of the 21st Century.

We've been down this path before. In the early 1980s, we experienced a United States mired in recession, hand-wringing from the pundits and dirges being sung over American manufacturing. We didn't buy this dismal scenario; instead, we invested in both a widespread restructuring and in new businesses. We emerged into the recovery a much more competitive and productive company.

Our successful experience with U.S. business uncertainty gave us a very different view of the European malaise of the early 1990s.

To us, Europe looked a lot like the United States in the 1980s, and in need of the same remedies: restructuring, spin-offs, and the like. So, while many were "writing-off" Europe, we invested heavily, buying new companies and expanding our existing presence. Following the restructuring of its industrial and financial structure, as well as a dose of the powerful export medicine of a devalued currency, Europe is now recovering, and "GE Europe" is now a \$20.6 billion operation. Our revenues have more than doubled from 1994 to 1997; net income has tripled to more than \$1.5 billion; and this growth is accelerating as the European recovery progresses.

Mexico in the mid-1990s was a similar story: dislocation, uncertainty and turbulence. Reacting to the peso crisis of 1995 and its aftermath, GE moved, acquiring 10 companies and investing more than \$1 billion in new and existing operations. The result was revenue growth of 60% and a doubling of earnings in the two years following the crisis.

Today, we are determined, and poised, to do the same thing in Asia we have done in the United States, Europe and Mexico: invest in the future.

Globalization

Globalization is one of the engines of GE growth, now and well into the next century. There will be dislocations and speed bumps on the road to prosperity in all the world's critical markets, but one cannot afford to write off any region in difficulty. Bad business management or bad government policies that weaken competitiveness can be remedied by tough restructuring and policy change.

Today, we are determined, and poised to do the same thing in Asia we have done in the United States, Europe and Mexico: invest in the future.

The same conditions that made restructuring and reform necessary frequently create a currency weakness that, when coupled with the increased competitiveness brought about by restructuring leads the country out of recession, via internal growth and increased exports.

The path to greatness in Asia is irreversible, and GE will be there.

Services

Another growth engine, which we have described for you in the past, is Services. By any measure, GE is today a global service company, and in 1998 more than two-thirds of its revenues will come from financial, information and product services. Our second major initiative is focused on high-technology product services. In 1997, we achieve

a second consecutive year of double-digit growth in product service revenues and improved ongoing operating margin, while making 20 acquisitions and joint ventures, primarily in the industrial, power, medical and aircraft engine services businesses. Key among these were the \$1.5 billion Greenwich/UNC jet engine service acquisition and the recently completed \$600 million acquisition of the gas turbine-related businesses of Stewart & Stevenson Services, a global power generation equipment service company.

The opportunity for growth in product services is unlimited. We have the ability, using high-technology services, to make our customers' existing assets (e.g., power plants, locomotives, airplanes, factories, hospital equipment and the like) more productive, and by doing so reduce their capital outlays. This growing capability, much of it information technology-based, will enable us to increase our revenues from product services by more than 30% in 1998 — to \$13 billion.

Six Sigma

We have described our progress in globalization and services rather quickly so we could cover in depth something we talk to each other about all day: the centerpiece of our dreams and aspirations for this great Company — the drive for Six Sigma quality. "Six Sigma" is a disciplined methodology, led and taught by highly trained GE employees called "Master Black Belts" and "Black Belts," that focuses on moving every process that touches our customers — every product and service — toward near-perfect quality.

Six Sigma project work consists of five basic activities: Defining, Measuring, Analyzing, Improving and then Controlling processes. These projects usually focus on improving our customers' productivity and reducing their capital outlays, while increasing the quality, speed and efficiency of our operations.

We didn't invent Six Sigma — we learned it. Motorola pioneered it and AlliedSignal successfully embraced it. The experiences of these two companies, which they shared with us, made the launch of our initiative much simpler and faster.

GE had another huge advantage that accelerated our quality effort: we had a Company that was open to change, hungry to learn and anxious to move quickly on a good idea.

This learning environment came from a decade-long, soul-transforming cultural initiative called "Work-Out." Work-Out is a continuing effort to achieve what we call "boundaryless behavior" — business behavior that tramples or demolishes all barriers of rank, function, geography and bureaucracy in an endless pursuit of the best idea — in the cause of *engaging and involving every mind in the Company*.

After a decade of Work-Out, most of the old bureaucracy and the boundaries among us have been demolished. (We are, however, aware that bureaucracy is the Dracula of institutional behavior, and will rise again and again, requiring everyone in the organization to reflexively pound stakes through its reappearances.) But at GE today — and we are obviously proud of this — finding *the better way, the best idea*, from whomever will share it with us, has become our central focus.

Nowhere has this learning environment, this search for the better idea, been more powerfully demonstrated than in our drive for Six Sigma quality. Twenty-eight months ago, we became convinced that Six Sigma quality could play a central role in GE's future; but we believed, as well, that it would take years of consistent communication, relentless emphasis and impassioned leadership to move this big Company on this bold new course.

We were wrong!

We are the ones who now find ourselves running to *keep up* with the excited charge of tens of thousands of GE employees who have seen the transformational magic — the rejuvenation — that this combination of rigid discipline and cheerful fanaticism can achieve in our businesses. Projections of our progress in Six Sigma, no matter how optimistic, have had to be junked every few months as gross underestimates.

Six Sigma has spread like wildfire across the Company, and it is transforming everything we do.

We had our annual Operating Managers Meeting — 500 of our senior business leaders from around the globe — during the first week of January 1998, and it turned out to be a wonderful snapshot of the way this learning Company — this new GE — has come to behave; and now, with Six Sigma, how it has come to *work*.

Today, in the uncountable number of business meetings across GE — both organized and “in-the-hall” — the gates are open to the largest flood of innovative ideas in world business. These ideas are generated, improved upon and shared by 350

GE had another huge advantage that accelerated our quality effort: we had a Company that was open to change, hungry to learn and anxious to move quickly on a good idea.

business segments — or, as we think of them, 350 business *laboratories*. Today, these ideas center on spreading Six Sigma “best practices” across our business operations.

At this particular Operating Managers Meeting, about 25 speakers, from across the Company and around the world, excitedly described how Six Sigma is transforming the way their businesses work. They shared what they had learned from projects such as streamlining the back room of a credit card operation, or improving turnaround time in a jet engine overhaul shop, or “hit-rate” improvements in commercial finance transactions. Most of the presenters focused on how their process improvements were making their *customers* more competitive and productive:

- Medical Systems described how Six Sigma designs have produced a **10-fold** increase in the life of CT scanner x-ray tubes — increasing the “uptime” of these machines and the profitability and level of patient care given by hospitals and other health care providers.

- Superabrasives — our industrial diamond business — described how Six Sigma **quadrupled** its return on investment and, by improving yields, is giving it a full **decade's** worth of capacity despite growing volume — without spending a nickel on plant and equipment capacity.
- Our railcar leasing business described a 62% reduction in turnaround time at its repair shops: an enormous productivity gain for our railroad and shipper customers and for a business that's now **two to three** times faster than its nearest rival because of Six Sigma improvements. In the next phase, spread across the entire shop network, Black Belts and Green Belts, working with their teams, redesigned the overhaul process, resulting in a **50% further** reduction in cycle time.
- The plastics business, through rigorous Six Sigma process work, added 300 million pounds of new capacity (equivalent to a “free plant”), saved \$400 million in investment and will save another \$400 million by 2000.

At our meeting, zealot after zealot shared stories of customers made more competitive, of credit card and mortgage application processes streamlined, of inventories reduced, and of whole factories and businesses performing at levels never believed possible.

The sharing process was repeated at another level two weeks later in Paris, as 150 Master Black Belts and Black Belts, from every GE business throughout Europe, came together to share and learn quality technology. This learning is done in the boundaryless, transcultural language of Six Sigma, where “CTQ's” (critical to quality characteristics) or “DPMO's” (defects per million opportunities) or “SPC” (statistical process control) have exactly the same meaning at every GE operation from Tokyo to Delhi and from Budapest to Cleveland and Shanghai.

The meeting stories are anecdotal; big companies can make great presentations and impressive charts. But the cumulative impact on the Company's numbers is **not** anecdotal, nor a product

charts. It is the product of 276,000 people executing . . . and delivering the results of Six Sigma to our bottom line.

Operating margin, a critical measure of business efficiency and profitability, hovered around the 10% level at GE for decades. With Six Sigma embedding itself deeper into Company operations, GE in 1997 went through the “impossible” 15% level — approaching 16% — and we are optimistic about the upside.

Six Sigma, even at this relatively early stage, delivered more than \$300 million to our 1997 operating income. In 1998, returns will more than double this operating profit impact.

Six Sigma is quickly becoming part of the genetic code of our future leadership. Six Sigma training is now an ironclad prerequisite for promotion to any professional or managerial position in the Company — and a requirement for any award of stock options.

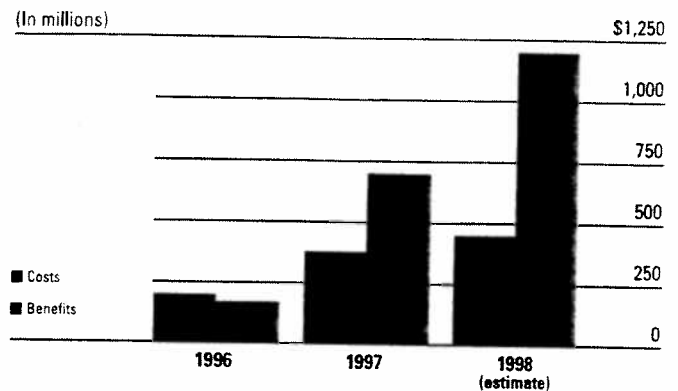
Senior executive compensation is now heavily weighted toward Six Sigma commitment and success — success now increasingly defined as “eatable” financial returns, for our customers and for us.

Six Sigma is quickly becoming part of the genetic code of our future leadership.

There are now nearly 4,000 full-time, fully trained Black Belts and Master Black Belts: Six Sigma instructors, mentors and project leaders. There are more than 60,000 Green Belt part-time project leaders who have completed at least one Six Sigma project.

Already, Black Belts and Master Black Belts who are finishing Six Sigma assignments have become the most sought-after candidates for senior leadership jobs in the Company, including vice presidents and chief financial officers at some of our businesses. Hundreds have already moved upward through the pipeline. They are true believers, speaking the language of the future, energized by successful projects under their belts, and drawing other committed zealots upward with them.

Six Sigma costs and benefits



In the early 1990s, after we had finished defining ourselves as a company of boundaryless people with a thirst for learning and a compulsion to share, it became *unthinkable* for any of us to tolerate — much less hire or promote — the tyrant, the turf defender, the autocrat, the big shot. They were simply “yesterday.”

As we move toward 2000 and beyond, with Six Sigma permeating much of what we do all day, it will be likewise unthinkable to hire into the Company, promote or tolerate those who cannot, or will not, commit to this way of work. It is simply too important to our future.

And as we “raise the bar” from three to four to five and then to Six Sigma . . . we must raise, again, the bar of quality as it applies to ourselves. The reality is, we simply cannot afford to field anything but teams of “A” players.

What is an “A”? At the leadership level, an “A” is a man or woman with a vision and the ability to articulate that vision to the team, so vividly and powerfully that it also becomes their vision.

An “A” leader has enormous personal energy and, beyond that, the ability to energize others and draw out their best, usually on a global basis.

An “A” leader has “edge” as well: the instinct and the courage to make the tough calls — decisively, but with fairness and absolute integrity.

As we go forward, there will be nothing but “A’s” in every leadership position in this Company. They will be the best in the world, and they will act

to field teams consisting of nothing but "A" players. The best leaders — the "A's" — are really coaches. What coach, with any instinct or passion for winning, would field an Olympic swimming or gymnastics team, or a Super Bowl team, that wasn't made up of the absolute best available? In the same vein, what business leader worthy of the name would even consider fielding a team with anything other than the very best, the "A" players?

This is now the business of your Company: "A" products and "A" services delivered by "A" players around the globe.

What characterizes "A" *players*?

In finance, for example, "A's" will be people whose talents include, but transcend, traditional controllership. The bigger role is one of full-fledged participant in driving the business to win in the marketplace — a role far bigger than the dreary and wasteful budget "drills" and bean-counting that once defined and limited the job.

In engineering, "A's" are those who embrace the methodology of Design for Six Sigma. "A" engineers can't stand the thought of "riding it out" in the lab, but rather relish the rapid pace of technological change and continually re-educate themselves to stay on top of it.

In manufacturing, "A" players will be people who are immersed in Six Sigma technology, who consider inventory an embarrassment, especially with a whiff of deflation in the air — people who understand how to drive asset turns and reduce inventory while at the same time increasing our readiness to serve the customer.

In sales, "A" players will use the enormous customer value that Six Sigma generates to differentiate GE from the competition, to find new accounts, and to refresh and expand the old ones — as contrasted with "C" players whose days are spent visiting "friends" on the "milk-run" circuit of customer calls.

This is now the business of your Company: "A" products and "A" services delivered by "A" players around the globe.

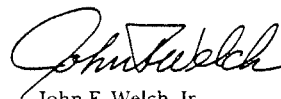
We are feverish on the subject of Six Sigma quality as it relates to products, services and people — maybe a bit unbalanced — because we see it as the ultimate way to make real our dreams of what this great Company could become.

Six Sigma has turned up the voltage in every GE business across the globe, energizing and exciting all of us and moving us closer than ever to what we have always wanted to become: more than a hundred-billion-dollar global enterprise with the agility, customer focus and fire in the belly of a small company.

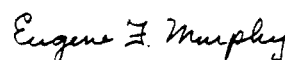
In our 1994 letter to you, we addressed the perennial question put to management teams, which is "how much more can be squeezed from the lemon?" We claimed, then, that there was in fact unlimited juice in this "lemon," and that none of this had anything to do with "squeezing" at all. We believed there was an ocean of creativity and passion and energy in GE people that had no bottom and no shores. We believed that then, and we are convinced of it today. And when we said that there was an "infinite capacity to improve everything," we believed that as well — viscerally — but there was no methodology or discipline attached to that belief. *There is now.* It's Six Sigma quality, along with a culture of learning, sharing and unending excitement.

For GE, these are the best of times, and in our view they will only get better.

Thanks, as always, for your continuing support.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer



Eugene F. Murphy
Vice Chairman of the Board
and Executive Officer



Paolo Fresco
Vice Chairman of the Board
and Executive Officer



John D. Opie
Vice Chairman of the Board
and Executive Officer

To Our Share Owners

In 1996, your Company had its best year ever.

- Revenues rose to a record \$79.2 billion, up 13%.
- Global revenues were up 18% to \$33 billion, a record.
- Earnings increased 11% to a record \$7.280 billion.
- Earnings per share increased 13% to a record \$4.40.
- Operating cash flow rose to \$9.1 billion, \$3 billion above our previous high.

This performance translated into significant rewards for our share owners.

- Total return to share owners in 1996 was 40%, after a 45% return in 1995.
- Record cash flow allowed us to return more than \$6 billion to share owners for the second consecutive year: \$3.1 billion in dividends; \$3.3 billion in the repurchase of GE stock.
- We increased our quarterly dividend 13%, our 21st consecutive annual increase.
- We expanded our share repurchase program from \$9 billion to \$13 billion, extending it through 1998.
- The Board of Directors recommended, for share owner approval in April, a 2-for-1 stock split.



In this year's letter, we intend to describe three key facets of General Electric: its financial model, the values that drive it, and the enormous growth opportunities this model, driven by these values, will capture in the years ahead. (See page 3.)

Chairman and Chief Executive Officer John F. Welch, Jr. (right) and Vice Chairmen and Executive Officers Paolo Fresco (left) and John D. Opie (center) form GE's Corporate Executive Office.

The Model

The GE financial model is simple but, we believe, unique in world business. On one side is a group of 11 large businesses, virtually all #1 or #2 in their marketplaces, that consistently improve operating margins, earnings and cash flow and support the “triple A” debt rating of the parent Company. GE’s “triple A,” in turn, supports a huge, diverse, global financial services enterprise, also rated “triple A.”

The uniqueness of this model lies in its **consistency**. The operating businesses in the model consistently grow their revenues, operating margins and working capital turns, while the 27 businesses that make up the financial services arm grow earnings at consistent double-digit rates.

The uniqueness of this model lies in its consistency.

Our model is not in itself difficult to construct, nor are we the first to put together a mix of industrial/service/media and financial services businesses. It is the consistent aggregate performance of these large #1 or #2 businesses over a diverse array of global markets that makes this model work.

While consistent growth is the output of this model, the fuel that drives it — the energy behind it — is our culture . . . *how we behave*.

The Values

Our behavior is driven by a fundamental core belief: the desire, and the ability, of an organization to continuously learn from any source, anywhere — and to rapidly convert this learning into action — is its ultimate competitive advantage.

Driven by this belief, and anxious to get at the learning opportunities that abound in, and around, a multi-business global company, we first had to deal with the myriad boundaries that were impeding the generation and transfer of

ideas. There were boundaries within the Company, between management layers, functional disciplines and different national cultures. The boundaries between us and the outside were the product of an NIH (Not-Invented-Here) attitude that limited our ability to learn from suppliers, our customers and other global companies that had “best practices” that could be of enormous use to us.

We went after these barriers with a massive initiative called Work-Out, which we’ve described for you in detail in past letters. Work-Out flattened those barriers. It eliminated insularity in our businesses. Work-Out also went after NIH — and eradicated it. GE began to systematically roam the world, learning better ways of doing things from the world’s best companies.

We supported this behavior with changes in the management appraisal and compensation systems. We introduced a 360° management appraisal that focused leaders on finding and rewarding people who demonstrated an ability to get every mind in the organization into the relentless search for ideas: for finding the better way — every day.

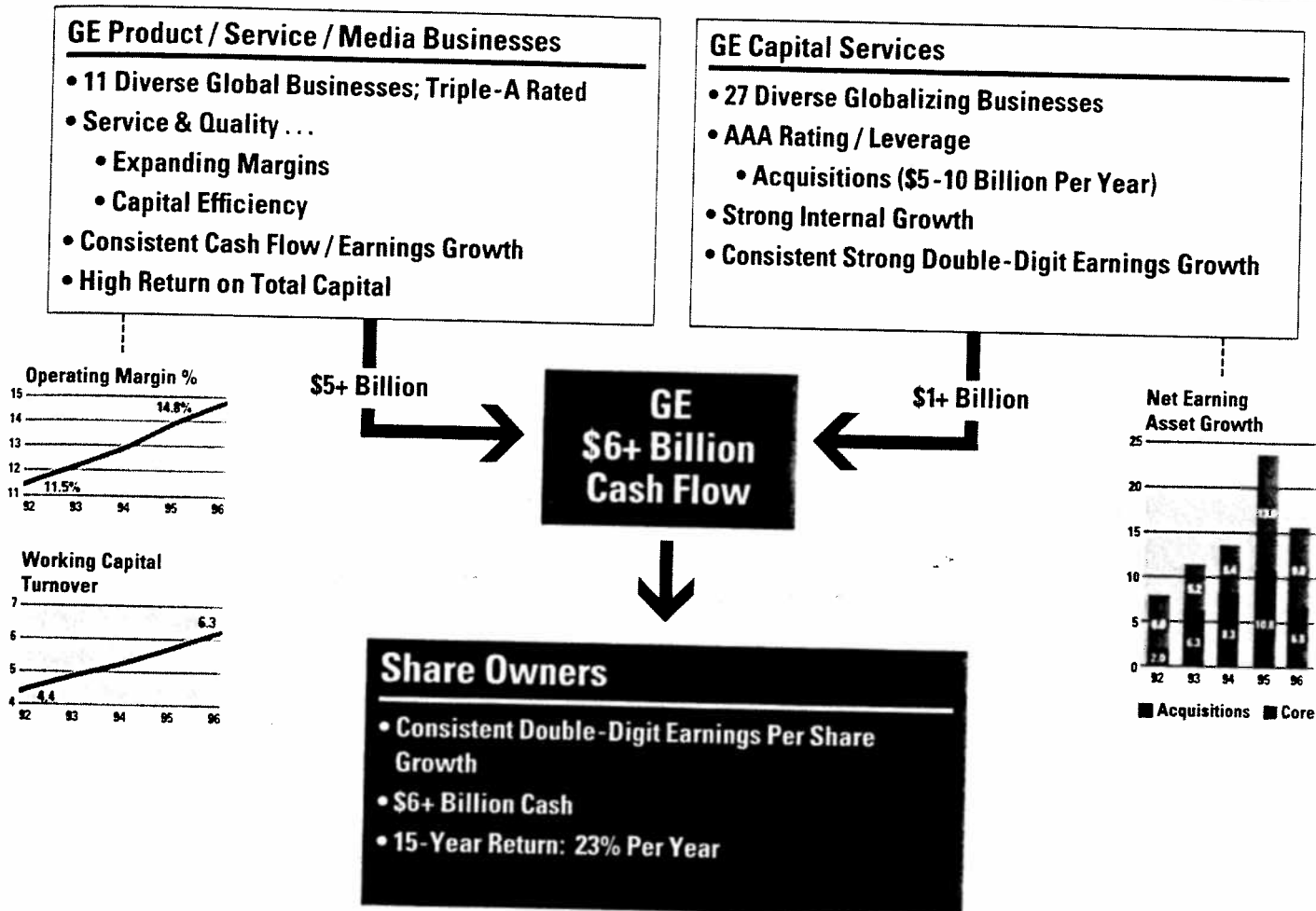
We made major changes in the compensation system to support this learning behavior. Before Work-Out, we operated under a management philosophy that rewarded “originating” ideas and “standout” performance with bonuses and

*... the desire, and the ability,
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salary. Today, those bonuses, as well as salaries, reward the *finding* and *sharing* of ideas even more than their origination. Stock options — formerly held by a few hundred, now by 22,000 GE employees — provide a powerful incentive to learn and share and work together.

The GE Growth Model

The Financial Engine



The Culture ... Finding A Better Way Every Day

GE Leaders ... Always with Unyielding Integrity:

- Have a Passion for Excellence and Hate Bureaucracy
- Are Open to Ideas from Anywhere ... and Committed to Work-Out
- Live Quality ... and Drive Cost and Speed for Competitive Advantage
- Have the Self-Confidence to Involve Everyone and Behave in a Boundaryless Fashion
- Create a Clear, Simple, Reality-Based Vision ... and Communicate It to All Constituencies
- Have Enormous Energy and the Ability to Energize Others
- Stretch ... Set Aggressive Goals ... Reward Progress ... Yet Understand Accountability and Commitment
- See Change as Opportunity ... Not Threat
- Have Global Brains ... and Build Diverse and Global Teams

Horizontal Growth Opportunities

Quality ... \$100-200 Million of Operating Margin in '97 in Second Full Year of Quality Program

Globalization ... \$30+ Billion Global Revenues Growing Three Times Domestic

Service ... \$8 Billion Equipment Service Businesses Growing Double-Digit in '96 and '97

Information Technology ... \$9 Billion Information Technology Businesses Growing Double-Digit

Consumer Savings ... \$46 Billion Assets of New "Savings" Business Will Add Several Cents Per Share of '97 Growth

You can talk — you can preach — all you want about a “learning organization,” but, from our experience, reinforcing management appraisal and compensation systems are the critical enablers that must be in place if rhetoric is to become reality.

As those of you who’ve read these reports in the past know, we never shut up about the great things that lie ahead of a company whose people get up every morning and come to work knowing — convinced — that there *is* a better way of doing everything they do — and determined to find out who knows that way and how they can learn it.

You can talk — you can preach ... about a “learning organization,” but ... reinforcing management appraisal and compensation systems are the critical enablers ... if rhetoric is to become reality.

It is this learning, sharing and action-driven culture, when laid across the diverse businesses of GE, that gives us our true advantage, an advantage single-industry companies can never match — what we call “*horizontal learning*” across more than 250 diverse, global GE business segments.

The Horizontal Growth Opportunities

As this learning, sharing and doing have become rooted in our culture, we see, beyond our strong #1 and #2 individual businesses, the common growth opportunities that cut across them.

Quality, Globalization, Service, Information Technology and Consumer Savings . . . are part of our answer to the sometimes-posed question of how an \$80 billion company — a \$7.3 billion net income machine — can continue to grow at double-digit rates.

The biggest opportunity for us to use this horizontal learning to accelerate growth is *Quality*.

Quality

Just as Work-Out got us to a culture of learning and openness that defined the way we behave, quality improvement, under the disciplined rubric of Six Sigma methodology, will define the way we work.

Six Sigma quality means the virtual elimination of defects from every product, process and transaction this Company engages in every day around the globe. A Six Sigma quality level generates fewer than 3.4 defects per million operations in a manufacturing or service process.

It has been estimated that less than Six Sigma quality, i.e., the three-to-four Sigma levels that are average for most U.S. companies, can cost a company as much as 10-15% of its revenues. For GE, that would mean \$8-12 billion.

Six Sigma quality is already becoming part of our culture and defining how we work. The Six Sigma process is a very specific scientific methodology of measuring, analyzing, improving and controlling every process we engage in, from making jet engine blades, to executing a credit transaction with a customer, to minimizing “dead air” between segments in broadcasting. It involves enormous amounts of training, with thousands of “Green Belts,” “Black Belts” and “Master Black Belts” leading projects, teaching, and widening the circle of involvement in the quality initiative throughout GE.

... our answer to the sometimes-posed question of how an \$80 billion company — a \$7.3 billion net income machine — can continue to grow at double-digit rates.

The methodologies of Six Sigma we learned from other companies, but the cultural obsessionalness and all-encompassing passion for it is pure GE. The intensity level involved in our decade-long struggle to achieve a boundaryless culture now seems “laid-back” compared to the near monomania with which we are approaching Six Sigma quality. Forty percent of every

manager's bonus is tied to his or her progress on quality results. Quality is the top item on every agenda in every discussion in every business in this Company. For leaders who do not see how

Just as Work-Out got us to a culture of learning and openness that defined the way we behave, quality improvement, under the disciplined rubric of Six Sigma methodology, will define the way we work.

critical quality is to our future — like leaders who could not become boundaryless during the 1980s — GE is simply not the place to be.

The momentum of the Six Sigma initiative is unprecedented. From launching this initiative in late 1995, with 200 projects and massive training, we moved to 3,000 projects and even more training in 1996; and we will undertake 6,000 projects, and still more training, in 1997. The \$200 million we invested in 1996 has already returned nearly that much in quality-related savings. The additional \$300 million we will invest in 1997 will deliver some \$400-500 million in savings, producing an additional \$100-200 million in incremental margins. This snowball will pick up size and momentum in terms of people trained, projects completed, and customer and employee satisfaction — all driving sales and net income growth. Growth and more growth.

Globalization

We now have a \$33 billion “global business” that grew 18% in 1996. More than 40% of GE's revenues are now derived from non-U.S. markets — markets where we have grown, and will continue to grow, at three times the U.S. rate.

In Europe, despite the less-than-robust economy, we have grown revenues 42% per year from 1994 to 1996 — and almost tripled profits. That growth will continue in strong double digits in 1997. Today there is an \$18 billion “European GE.”

Asia also is a source of ongoing double-digit growth, and today there is an \$8 billion “Asian GE,” a big player in the fastest-growing market in the world.

Nowhere is the horizontal learning more important than in globalization. The constant sharing of business experiences and cultural insights, from around the world, is creating a Company whose brains, as well as its businesses, are truly global.

Information Technology

GE is a high-growth information company. Along with NBC, CNBC, MSN and the network's other ventures, we are well positioned in information services, in satellite leasing, and in a technology management services business created by the acquisition of AmeriData in the United States and CompuNet in Germany. In 1995, our information technology businesses had revenues of \$6 billion. We expect to more than double that in 1997, in a market synonymous with seemingly endless double-digit growth.

Information technology is clearly an important business opportunity in itself, but equally important is the role it is playing in the success of every business in the Company. It is making the huge transition from the “function” it was in the 1980s — with its own language, rituals and priesthood — to the indispensable competitive tool, the central nervous system of virtually every operation in the Company. Information technology has drawn us closer to customers via inventory management systems. It enables our engineers to monitor and service products on-line globally. It allows new products to be designed in real time by engineers, 24 hours a day, on two or three continents.

Without the detailed information on process capabilities, our quality initiative would be more art than science, driven more by slogans than by precise methodologies where tolerances are measured in millionths.

And even beyond "changing the game" in virtually every business operation in the Company, information technology is a perfect fit for our culture, as it gets more people "into the game," learning and sharing — and allows them to execute the fruits of that learning — faster.

Information technology ... is making the huge transition from the "function" it was in the 1980s — with its own language, rituals and priesthood — to the indispensable competitive tool, the central nervous system of virtually every operation in the Company.

Consumer Wealth Accumulation and Protection

GE is a savings business, focusing on consumer wealth accumulation, with \$46 billion in assets. This has been created by the acquisition of insurance and annuity companies such as First Colony, Life of Virginia, GNA, Harcourt General, AMEX-LT Care, Union Fidelity Life and Union Pacific Life.

The scale of this business can be understood in the context of the several cents a share it will add to GE's 1997 earnings growth — this from an activity in which we were not even participating four years ago. It illustrates both the power of our financial services arm as well as the horizontal approach to managing newly acquired companies. Our culture is driving these well-positioned niche players into a closely integrated, stronger whole; they are in the process of becoming a large consumer wealth accumulation business serving the huge demand for the financial, insurance, health care and other needs of the aging baby-boomer population.

Services Expansion

Looking across several manufacturing businesses, GE is an \$8 billion equipment services business, growing at double-digit rates, with an advantage unique in the world: an installed base of some 9,000 GE commercial jet engines, 10,000 turbines, 13,000 locomotives and 84,000 major pieces of medical diagnostic imaging equipment.

Medical Systems has long been a world leader in remote diagnostics. Thousands of its MRI and CT scanners are on-line 24 hours a day, allowing a doctor in, say, Bombay to get help from Tokyo, Paris or Milwaukee anytime, day or night.

This on-line diagnostic technology has been transferred across all GE equipment businesses and is taking the concept of equipment service into an entirely new dimension.

In Aircraft Engines, all critical operating parameters of GE jet engines can be monitored by our service experts while the engines are in flight. As a result, any out-of-spec performance data can be quickly dealt with when the plane lands, with the engine on the wing, saving airlines millions by increasing the time between off-wing overhauls.

Two joint ventures with Harris Corporation capitalize on related diagnostic and communications technologies — one to help our electric utility customers increase the efficiency of their systems, and the other to radically improve the

Services is so great an opportunity for the Company that our vision for the next century is a GE that is "a global service company that also sells high-quality products."

utilization of rolling stock for the railroad industry. Both of these service initiatives are key to the long-term success of companies in these increasingly deregulated and intensely competitive industries.

Customers will always need high-quality hardware, but what they must have more than ever are productivity solutions that help them win in

their markets. Our challenge in the years to come will be to continuously find new ways to help them fight their competitive battles, by providing more sophisticated added-value services.

Services is so great an opportunity for the Company that our vision for the next century is a GE that is "a global service company that also sells high-quality products."

This, then, is General Electric: its financial engine, the culture that drives it, and the opportunity for growth ahead of it as it attacks the largest opportunities in its history across multi-business fronts.

In giving you this picture of a few of these enormous multi-business growth opportunities, we do not for a moment minimize the terrific growth opportunities in front of our individual businesses: a new line of ultrasound products from Medical Systems growing 25% a year in a modest-growth market; a new on-line interactive network — MSNBC; a new high-technology 6000HP locomotive; a new washing machine that has grown share close to three points in a mature market; a new product nearly every day from Lighting; and all the other individual opportunities ahead for these intensely entrepreneurial, world-leading businesses.

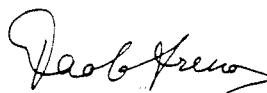
Nor do we neglect our traditional tight management of individual business results — accountability is still a part of our culture — but increasingly the important question is not only "How is Plastics or Lighting or Employers Reinsurance or Auto Financial Services doing?" at any given moment, but also "How is **GE** doing?" in Europe or Asia, in Services, in Information Technology, in Consumer Wealth Accumulation and Protection, and, above all, in Quality.

What better time, with this "learning, sharing, doing" culture in our blood — and with quality growing by the hour in each of our operations around the globe — to have before us not one, but several of the biggest growth opportunities in our history. We are determined to seize them. We are determined to grow.

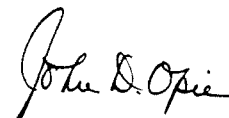
Thanks for your continuing support.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer



Paolo Fresco
Vice Chairman of the Board
and Executive Officer



John D. Opie
Vice Chairman of the Board
and Executive Officer

February 7, 1997

To Our Share Owners



Chairman and Chief Executive Officer John F. Welch, Jr. (right) and Vice Chairmen and Executive Officers Paolo Fresco (left) and John D. Opie (standing) form GE's Corporate Executive Office.

Your Company had a terrific 1995 — a record year by any measure.

- Revenues rose to \$70 billion, up 17%.
- Global revenues increased 34% to \$27 billion.
- Earnings were \$6.6 billion, up 11%.
- Earnings per share of \$3.90 were up 13%.
- Seven of our 12 big businesses produced double-digit earnings increases.
- The quarterly dividend was increased 12% — the 20th consecutive year of dividend increases.
- We repurchased \$3 billion of our stock, increased our buy-back program from \$5 billion to \$9 billion, and extended it through 1997.

This performance was recognized by the market, which rewarded GE investors in 1995 with a total return of 45%.

As strong as the year was, we did not achieve two of what we call “stretch” performance targets: operating margins and inventory turns. Over the last three decades, our highest corporate operating margin hovered around 10%, and our inventory turns around five, so in 1991 we set two “stretch” targets for 1995: 15% operating margin and 10 turns. 1995 has come and gone, and despite a heroic effort by our 222,000 employees, we fell short on both measures, achieving a 14.4% operating margin and almost seven turns. But in stretching for these “impossible” targets, we learned to do things faster than we would have going after “doable” goals, and we have enough confidence now to set new stretch targets of at least 16% operating margin and more than 10 turns by 1998.

The hottest trend in business in 1995 — and the one that hit closest to home — was the rush toward breaking up multi-business companies and “spinning-off” their components, under the theory that their size and diversity inhibited their competitiveness. The obvious question to General Electric, as the world’s largest multi-business company, was “When are you going to do it?” The short answer is that we’re not. We’ve spent more than a decade getting bigger and faster and more competitive, and we intend to continue.

Breaking up is the right answer for some big companies. For us it is the wrong answer. “Why” is the subject of our letter to you this year.

Our dream, and our plan, well over a decade ago, was simple. We set out to shape a global enterprise that preserved the classic big-company advantages — while eliminating the classic big-company drawbacks. What we wanted to build was a hybrid, an enterprise with the reach and resources of a big company — the body of a big company — but the thirst to learn, the compulsion to share and the bias for action — the soul — of a small company.

Here's how we went about it.

Changing the Hardware

No. 1 or No. 2 — or Fix, Sell or Close

The foundation for our future was to be involved in only those businesses that were, or could become, either number one or number two in their global markets. The rest were to be fixed, sold or closed. We made this decision based on our observation that when a number-one market-share business entered a down cycle, and “sneezed,” number four or five often caught galloping pneumonia. Consistent with this view, we divested, in the eighties, \$10 billion worth of marginal businesses, and made \$19 billion of acquisitions, to strengthen the world-leading businesses we wanted to take with us into the nineties.

Delaying

While we were restructuring the businesses, we also changed the management hardware at GE. We delayered. We removed “Sectors,” “Groups,” “Strategic Business Units” and much of the extensive command structure and staff apparatus we used to run the Company.

We cleared out stifling bureaucracy, along with the strategic planning apparatus, corporate staff empires, rituals, endless studies and briefings, and all the classic machinery that makes big-company operations smooth and predictable — but often glacially slow. As the underbrush of bureaucracy was cleared away, we began to see and talk to each other more clearly and more directly.

As the Company moved through the eighties, the businesses grew increasingly powerful. Freed from bureaucratic tentacles, and charged to act independently, they did so, with great success. Corporate management got off their backs, and instead lined up behind them with resources and support.

Changing the Software

Self-Confidence, Simplicity, Speed

As the big-company body was developing, we turned from changing its hardware to the infinitely more difficult task of changing its software — toward creating, in GE, the spirit and soul of a small company.

Most successful small companies possess three defining cultural traits: self-confidence, simplicity and speed. We wanted them. We went after them.

Self-Confidence

We began with a theory of the case that valued self-confidence as the absolutely indispensable ingredient in a high-performance business culture. Self-confident people are open to good ideas regardless of their source and are willing to share them. Their egos don't require that they originate every idea they use, or “get credit” for every idea they originate. We began to cultivate self-confidence among our leaders by turning them loose, giving them independence and resources, and encouraging them to take big swings. The inevitable surge of self-confidence that grows in people who win leads to another natural outgrowth: simplicity.

Simplicity

Self-confident people don't need to wrap themselves in complexity, “businessese” speech, and all the clutter that passes for sophistication in business — especially big business. Self-confident leaders produce simple plans, speak simply and propose big, clear targets.

The boldness that comes from self-confidence, and the clarity that comes from simplicity, lead to one of the small company's greatest competitive advantages: speed.

Speed

Simple messages travel faster, simpler designs reach the market faster, and the elimination of clutter allows faster decision making. All this happened in the upper echelons of GE. We saw the leadership come alive with energy, excitement and the crackle of small-company urgency.

Involving Everyone

The challenge then became to involve everyone — to spread our new openness into every corner of our Company; to give every one of our 222,000 employees what the best small companies give people: voice. We were running out of models at this point, and moving into uncharted territory — at least for big companies — and so our next move, and the centerpiece of culture change at GE, was one we had to invent ourselves. We called it Work-Out.

Work-Out

Work-Out was based on the simple belief that people closest to the work know, more than anyone, how it could be done better. It was this enormous reservoir of untapped knowledge, and insight, that we wanted to draw upon. Across GE today, holding a Work-Out session is as natural an act as coming to work. People of disparate ranks and functions search for a better way, every day, gathering in a room for an hour, or eight, or three days, grappling with a problem or an opportunity, and dealing with it, usually on the spot — producing real change instead of memos and promises of further study. Everyone today has an opportunity to have a voice at GE, and everyone who uses that voice to help improve things is rewarded.

Management Selection

It was at Work-Out sessions that it became clear that some of the rhetoric heard at the corporate level — about involvement and excitement and turning people loose — did not match the reality of life in the businesses. The problem was that some of our leaders were unwilling, or unable, to abandon big-company, big-shot autocracy and embrace the values we were trying to grow. So we defined our management styles, or “types,” and how they furthered or blocked our values. And then we acted.

Type I not only delivers on performance commitments, but believes in and furthers GE's small-company values. The trajectory of this group is “onward and upward,” and the men and women who comprise it will represent the core of our senior leadership into the next century.

Type II does not meet commitments, nor share our values — nor last long at GE.

Type III believes in the values but sometimes misses commitments. We encourage taking swings, and Type III is typically given another chance.

Type IV. The “calls” on the first two types are easy. Type III takes some judgment; but Type IV is the most difficult. One is always tempted to avoid taking action, because Type IV's deliver short-term results. But Type IV's do so without regard to values and, in fact, often diminish them by grinding people down, squeezing them, stifling them. Some of these learned to change; most couldn't. The decision to begin removing Type IV's was a watershed — the ultimate test of our ability to “walk the talk,” but it had to be done if we wanted GE people to be open, to speak up, to share, and to act boldly outside traditional “lines of authority” and “functional boxes” in this new learning, sharing environment.

Crotonville

Throughout this process of change — much of it wrenching and all of it new — our Management Institute at Crotonville, New York, served as a forum for the sharing of the experiences, the aspirations and, often, the frustrations of the tens of thousands of GE leaders who passed through its campus. It was the glue that held things together as the process of change took hold.

With the new culture in place, Crotonville has become a vehicle for learning and sharing the best practices that can be found anywhere around the globe. Leaders return from these intense courses to their businesses prepared to put these new ideas quickly into action. Entire classes are regularly sent to Europe or Asia, to wrestle with specific potential opportunities. After data gathering, and intense Work-Out style discussion, each class returns and presents recommendations directly to the top 35 officers of GE, who act on them — often on the spot. Crotonville combines the thirst for learning of academia with an action environment usually seen only in small, hungry companies.

Boundaryless Behavior

These changes in the culture of our Company — the profound and pervasive effect of Work-Out and the steady reduction of Type IV management — developed a fresh, open, anti-parochial environment, friendly toward the seeking and sharing of new ideas, regardless of their source. It also encouraged looking outside the traditional boundaries that shackle thinking and restrict vision. Ideas around the Company quickly began to stand or fall on their merits — rather than on the altitude of their originators.

An endless search began for best practices — for ways of getting better, faster. Meetings around the Company that used to consist of self-serving “reports” and windy speeches became interactive forums for disseminating new ideas and the sharing of experiences. A whole new behavior has invigorated and freshened this century-old company. We've seen the emergence of true small-company phenomena: dreaming, which is at the heart of those “stretch” goals we mentioned earlier; and constant celebration of the milestones toward those goals — even if we occasionally don't quite get there. We describe our emerging culture by an awkward but descriptive name: “boundaryless.” It is the soul of our integrated diversity and at the heart of everything we do well. It is the small-company culture we've been after for all these years.

The sweetest fruit of boundaryless behavior has been the demise of "Not-Invented-Here" and its utter disappearance from our Company. We quickly began to learn from each other: productivity solutions from Lighting; "quick response" asset management from Appliances; transaction effectiveness from GE Capital; the application of "bullet-train" cost-reduction techniques from Aircraft Engines; and global account management from Plastics — just to name a few. At the same time, we embarked on an endless search for ideas from the great companies of the world. Wal-Mart taught us the direct customer feedback technique we call Quick Market Intelligence. We learned New Product Introduction methods from Toshiba, Chrysler and Hewlett-Packard, and advanced manufacturing techniques from American Standard, Toyota and Yokogawa. AlliedSignal, Ford and Xerox shared their insights into launching a quality initiative. Motorola, which created a dramatically successful, quality-focused culture over a period of a decade, has been more than generous in sharing its experiences with us.

Stretch

"Stretch," which we mentioned earlier in connection with inventory turns and margin goals, simply means moving beyond being as good as you have to be — "making a budget" — to being as good as you possibly can be: setting "impossible" goals and going after them. Crucial to stretch is the trust that grows in a boundaryless organization, as self-confident people come to know that it is the quality of their effort toward achieving the "impossible" that is the ultimate measure.

Compensation

To reinforce the boundaryless and stretch behavior taking root across the Company, we adapted our compensation system. When we began our journey in the eighties, about 400 of the senior people in GE received stock options. Today, 22,000 individuals, at all levels, have options, and thereby have a clear financial incentive for driving total Company performance by doing everything they can to help their colleagues in their own, or another, GE business.

Today, stock option compensation, based on total GE performance, is far more significant than the salary or bonus growth associated with the performance of any individual unit or business. This aligns the interests of the individual, the Company and the share owner behind powerful one-company results.

A New Kind of Company

What we have described is the creation of a new kind of company — one that has, and uses, all the strengths of a big company while moving with the speed, hunger and urgency of a small company.

While the excitement, speed and growing confidence can be felt all across GE, its accelerating performance can be quantified as well.

In the first five years of the eighties, as we divested, invested, and restructured our array of big, leading businesses, GE returned to its share owners about \$850 million a year in dividends.

Through the following five years, ending in 1990, as the effect of Work-Out took hold across the Company and small-company values began to flourish, we returned nearly double that — about \$1.4 billion in annual dividends — and repurchased \$2.6 billion of stock.

During the past five years, as boundaryless behavior has taken hold, and the best practices we shared have taken effect, we've returned to share owners about \$2.3 billion a year in dividends and repurchased an additional \$5.5 billion of our stock.

The pace continued to accelerate in 1995 when \$5.9 billion impacted share owner value — \$2.8 billion of it in dividends, and \$3.1 billion supporting the equity by stock repurchase.

The GE Board of Directors has approved an additional \$6 billion of stock repurchase through 1997. That, and our performance objectives in the current global economic environment, should permit us to maintain or increase the \$6 billion level of share owner support each year, through dividends and the repurchase program.

Moving from about a billion dollars of share owner support in 1985 to \$6 billion in 1995 says more than any of the words we've written about the new GE, and its new look to investors.

Once this big, diverse Company is looked at for what it has become — an accelerating earnings and cash engine — its performance is much easier for investors and analysts to judge. Those who follow GE are increasingly aware that there are very few individual hits or misses of sufficient magnitude to alter the trajectory of a Company moving toward the \$100 billion revenue level in any reasonable global economic scenario. By focusing on the scale, breadth and growth of our Company, rather than on the "event of the day" — whether it be a hit or miss, from locomotives to TV programs — investors should look beyond the headline — to the bottom line.

Growing Rapidly into the Next Century

As the millennium approaches, this Company will pick up the pace, as it brings to bear its enormous financial, technical and human resources in support of its big businesses as they move to seize five of the biggest growth opportunities in our history: Globalization, New Products, Information Technology, Installed-Base Service and Quality.

Globalization

- Approaching joint venture partners, and even sovereign states, as multi-business teams, sharing country knowledge, and capable of assembling supportive financing packages from GE Capital, our globalization is accelerating. Global revenues over the last 10 years have increased from 20% of the Company's total to 38% today — and, somewhere around the millennium, we expect the majority of GE revenue to come from outside the United States.

New Products

- The sharing of new product introduction techniques, developed both inside and outside GE, is compressing the cycle of learning and executing, and is already producing a torrent of new products, from jet engines to turbines to washing machines to TV shows.

Information Technology

- The enormous leverage of information technology, combined with our culture of learning and sharing, creates a tremendous opportunity, both internally — with better inventory control and shorter order-to-remittance cycles, for example — and externally — with remote diagnostics in medical imaging and just-in-time inventory replenishment for our customers.

Service

- Improving the profitability of our customers through technology upgrades of the enormous installed base of GE equipment — scores of thousands of jet engines, locomotives, turbines and CT scanners, for instance — is an enormous growth opportunity for us and a profit opportunity for our customers.

Quality

- Already equal to or better than our competitors — quality at GE will be taken to world-leading levels, providing us with yet another competitive differentiator. Our openness to learning, our ability to share

across the Company and our bias for speed, as well as the generosity of Motorola and others in sharing their techniques with us, will bring GE to a whole new level of quality in a fraction of the time it would have taken to climb the learning curve on our own.

This is a Company focusing on huge growth opportunities as we look to the millennium — a GE that renews itself constantly, exhilarates itself with speed and freshens itself by constant learning.

We are a Company intent on getting bigger, not smaller — a Company whose only answer to the trendy question — “What do you intend to spin off?” — is “cash — and lots of it.”

Two significant events occurred within a couple of weeks of each other as 1995 ended and the new year began. The first was the 100th anniversary of the Dow Jones Industrial Average and an invitation from Dow Jones to GE to open the market with them on the year's first trading session. The reason we were invited to “ring the bell” was because we are the only surviving company of those in the original Dow Average. We celebrated that occasion, but thought “surviving” an anemic adjective, inadequate to the vibrancy of our Company and the promise of its future.

There was a glimpse of that future in the second event, in that two-week time span, when NBC and Microsoft, a company synonymous with the future, announced they were joining in two exciting new information ventures. The juxtaposition of those two events provides a nice snapshot of GE — a Company with a legendary past, humming powerfully in the present, with its greatest days always ahead.

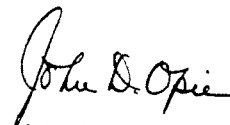
Thank you for supporting us.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer



Paolo Fresco
Vice Chairman of the Board
and Executive Officer



John D. Opie
Vice Chairman of the Board
and Executive Officer

February 9, 1996

To Our Share Owners

GE had a great year in 1994, with the notable exception of the Kidder, Peabody issue. By any other measure, our 221,000 associates turned in their best performance in the Company's history.

- Earnings and earnings per share from ongoing operations were up 22%.
- Nine of our 12 businesses saw double-digit earnings growth; five of them were up more than 20%. Only Aircraft Engines, saddled with a weak commercial market and declining defense spending, saw a modest earnings decline, but the business still managed to produce more than one-half billion dollars in net income.
- GE revenues from outside the United States continued to outpace our domestic growth. In Europe, they totaled more than \$9 billion in 1994. More importantly, our businesses are well positioned for another year of significant net income growth as the European economy continues to recover.

In Japan, we expanded our already substantial presence with a major financial services ac-

quisition and the significant growth of our existing partnerships.

Globalization continued with double-digit top-line growth in the key emerging markets of Mexico, India, China and Southeast Asia. While there will, no doubt, be temporary setbacks on their road to full development, these countries represent the key growth markets of the next century, and we are committed to continue investing in them.

- NBC's cable assets continued their growth, with a valuation now exceeding \$1.5 billion. Using the reach and resources of GE, the globalization of the network continued, with well over 60 million homes throughout Europe and the Middle East now being reached through NBC Super Channel. In Asia, NBC's new network is currently distributing programs from the United States and Europe, and, later in 1995, locally produced programming will come on stream from our new Hong Kong studio and be available in more than 25 Asian nations.



Chairman and Chief Executive Officer John F. Welch, Jr. (center), Vice Chairman and Executive Officer Paolo Fresco (right) and Executive Vice President Frank P. Doyle form GE's Corporate Executive Office.

- A series of initiatives enabled the businesses to generate more than \$2 billion in free cash flow for the third straight year. This enabled GE to undertake a second \$5 billion stock buyback in five years, while still retaining our triple-A debt rating.

- In April 1994, the share owners approved a two-for-one stock split, the seventh split since the founding of the Company and the third in the past 12 years. In December, a 14% dividend increase was declared, making 1994 the 19th consecutive year of dividend increases.

These strong operating results, and the actions to enhance share owner value that they permit, are the result of the Company's commitment to involving everyone, a philosophy that is the core of our vision for the future.

Boundarylessness . . . Boundaryless behavior has become the "right" behavior at GE.

Since the early 1980s, as the Company downsized in order to become more globally competitive, we often heard the question, "How much more can be squeezed from the lemon?" This zero-sum-thinking did not foresee the immense reservoir of creativity and energy that flows from an engaged work force that increasingly embraces three fundamental operating behaviors.

We've described these three behaviors in past letters: boundarylessness, speed and stretch. They have evolved from philosophical, "soft," concepts into behaviors that deliver hard results, and they are the reason for both today's success and the enormous potential we see for tomorrow.

A few examples of where these soft concepts have delivered top- and bottom-line results:

Boundaryless behavior, an odd, awkward phrase just a few years ago, is increasingly a way of life at GE. It has led to an obsession for find-

ing a better way — a better idea — be its source a colleague, another GE business, or another company across the street or on the other side of the globe that will share its ideas and practices with us.

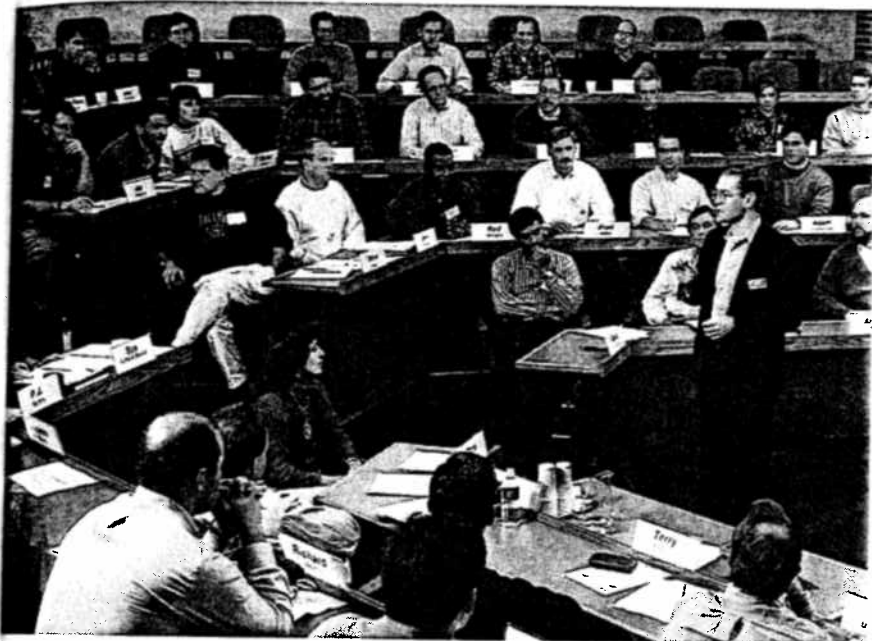
- American Standard, a customer of our Motors and Industrial Systems business, has been using a technique called "Demand Flow Technology" to double and triple inventory turn rates and move toward a goal of zero working capital. GE teams have learned from American Standard and are obtaining dramatic results from Power Systems to Plastics to Medical Systems, producing a second consecutive year of double-digit improvement in working capital turnover.

- Yokogawa, our partner in the Medical Systems business, has been using "Bullet Train Thinking" to take 30-50% out of product costs over a two-year period. This technique, which employs "out-of-the-box" thinking and cross-functional teams dedicated to removing obstacles to cost reduction, is now fully operational in our Aircraft Engines business. This effort should lead this business to double-digit profitability growth in 1995, despite less-than-robust market conditions.

- "Quick Market Intelligence," the weekly direct customer feedback technique, was originally learned from Wal-Mart and implemented with great success in our Appliances business to improve asset turnover. "QMI" has now been adopted by a service business — GE Capital's Retailer Financial Services — in this instance to drive the quality of customer service in its credit card operations and help grow earnings more than 25% in 1994, with double-digit growth expectations for 1995.

- Caterpillar has dramatically reduced its service cost structure and new product introduction time through part standardization disciplines. The implementation of these disciplines is becoming key to the rapid new product introduction successes in our Appliances and Power Systems businesses, where product introduction cycle times have been cut by more than half.

Speed . . . *From decision-making to deal-making to communications to product introduction, speed, more often than not, ends up being the competitive differentiator.*



GE employees from around the world and from all functions and levels come to GE Crotonville, the Company's world-renowned leadership development institute in mid-state New York, to participate in business training seminars. In this management development class, for example, are employees from Brazil, Canada, China, Colombia, England, France and the United States.

- From Toshiba we have learned of its "Half-Movement" — half the parts, half the weight, in half the time — and tomorrow it will become a key element of engineering design philosophy at each of our businesses.

Boundaryless behavior has become the "right" behavior at GE, and aligned with this behavior is a rewards system that recognizes the adapter or implementer of an idea as much as its originator. Creating this open, sharing climate magnifies the enormous and *unique* advantage of a multi-business GE, as our wide diversity of service and industrial businesses exchange an endless stream of new ideas and best practices.

Speed. Today's global environment, with its virtually real-time information exchanges, demands that an institution embrace speed. **Faster**, in almost every case, is **better**. From decision-making to deal-making to communications to product introduction, speed, more often than not, ends up being the competitive differentiator.

In new product introduction, a clear gauge with which to quantify speed, there are several important examples:

- The Lighting business introduced hundreds of new products, ranging from the expansion of its Halogen IR line, to a whole new range of compact fluorescents, to the introduction of GE/Motorola brand electronic fluorescent ballasts.

- Power Systems, a long-cycle business that used to be characterized by glacial product development, completed design of, and brought to market, three new gas turbine-generators in 1994.

- CNBC brought America's Talking, 14 hours a day of original programming, from a concept to on-the-air in less than six months.

- Product development in Medical Systems has gone from a two-year cycle to less than one, and now 70% of our computed tomography products are less than one year old.

- In locomotive manufacturing, the change from "DC" technology — the standard diesel locomotive propulsion for 30 years or so — to "AC" is, in many respects, as profound a change as from steam to diesel. This "traditional," century-old, long-cycle business had an AC model locomotive on the tracks within 18 months, is changing out its entire product line and, in 1995, will be selling very little that it sold as recently as 1993.

Across every business, the focus on shorter cycles — on simply getting faster — has been the driver of our improved asset turnover rate and strong cash flow.

In an organization where boundarylessness, openness, informality and the use of ideas from anywhere — and speed — with its bias for action — are increasingly a way of life, the third operating principle — **stretch** — is a natural outgrowth.

Stretch, in its simplest form, says, "Nothing is impossible," and the setting of stretch targets inspires people and captures their imaginations.

Stretch . . . *A stretch atmosphere replaces a grim, heads-down determination to be as good as you **have** to be, and asks, instead, how good **can** you be?*

Target setting at GE begins when business leaders at the beginning of the year set their stretch goals for things like income, cash flow and market share — given the contemporary circumstances of competition, the economy and all other external variables. Because this management team has been together for a long time, trust has grown, and trust is an indispensable ingredient that allows a business to set big stretch targets. GE business leaders do not walk around all year regretting the albatross of an impossible number they hung around their own necks. At the end of the year, the business is measured, not on whether it hit the stretch target, but on how well it did against the prior year, given the circumstances. Performance is measured against the world as it turned out to be: how well a business anticipated change and dealt with it, rather than against some “plan” or internal number negotiated a year earlier.

Stretch **does not** mean “commitments are out.” Stretch can only occur in an environment where everyone is totally committed to a rigid set of core values — integrity, trust, quality, boundaryless behavior — and to outperforming every one of our global competitors in every market environment.

Stretch **does** mean we are not fixated on a meaningless, internally derived, annual budget number that does nothing but make bureaucrats comfortable.

A stretch atmosphere replaces a grim, heads-down determination to be as good as you **have** to be, and asks, instead, how good **can** you be?

“How good can we be?” was the question in 1991 when the Company set two big stretch targets: 10 inventory turns and 15% operating margins by the end of 1995. At that time, those two numbers represented big stretches — after all, it had taken over a century — since Edison’s time — and we still hadn’t reached five turns and had barely achieved an 11% operating margin.

Well, 1995 is upon us, and 10 turns may be just beyond our reach, but by year’s end we’ll be over **nine**. In GE today, this is not a “miss,” a “broken commitment” or a “black eye” — but a triumph to be celebrated, an achievement that is providing the cash to finance the acquisitions we want and a stock buyback.

As for the 15% operating margin stretch target by 1995, it’s possible, and we’re all focused on reaching for it.

The point is, whether we hit our targets or not is not the issue. What **does** matter is that we’ve broken out of a 110-year pattern with stretch thinking, and we’re on to new targets. The point is made even clearer when we read our letters to share owners from just a few years back. We now cringe at numbers we once crowed about, as they pale beside today’s. And the most exciting thing is knowing that tomorrow’s “stretches” will make today’s numbers look anemic in light of where the Company will be at the time of the 1996 or 1997 letter.

Simplification . . . *We are going to de-complicate everything we do and make at GE.*

As we look to 1995, we have launched a Company-wide campaign to overlay our three initiatives, and everything else we do, with something we’ve talked about for years: **Simplification**. We are going to de-complicate everything we do and make at GE. Our communications with each other will be increasingly straightforward, our presentations to each other and to our customers will be simpler. Their richness will come from the dialogue, not the complexity of the charts. Our engineers will use less-convoluted processes, and fewer parts, to produce designs whose elegance will be measured by their simplicity; and that simplicity will improve their quality, their cost and their speed in reaching the marketplace.

Competitiveness . . . *What we have done has barely scratched the surface. It turns out that there is, in fact, unlimited juice in that lemon. The fact is that none of this is about squeezing anything at all — it is about tapping an ocean of creativity, passion and energy that, as far as we can see, has no bottom and no shores.*

The unfortunate part of 1994 was that the many achievements and terrific performance of GE people were often overshadowed by the well-chronicled problems with Kidder, Peabody.

The Kidder story, and its \$1.2 billion loss, is not a pleasant one; and it is tempting to simply relegate it to the past — but we can't.

Whether or not it was a good idea to buy Kidder in 1986 is academic — in the end, it simply didn't work out. In 1994, weak trading markets lowered Wall Street earnings by billions of dollars from the levels of 1993, and Kidder was not immune to the weaknesses in these markets. But Kidder had another problem: a phantom trading scheme by a single employee, directed not against customers but against the firm itself, which cost it \$210 million in net income. The combination of the two circumstances — a downturn in earnings, and an employee's wrongdoing — made it clear to us that it was time to get out; thus the sale of the brokerage assets of Kidder to PaineWebber, in return for 25% equity in that firm, and the liquidation of the trading operation.

None of this is to say it couldn't have been done better, but the bottom line is that the type of business Kidder had become — a cyclical trading business — was simply not the place for GE to be.

The tragedy of businesses that are not market leaders, that don't have a broadly based competitive edge — be they brokerage houses or manufacturing plants — is exactly the same; and it goes beyond "one-time charges" — dollars and cents. It's the people — the factory or office workers — who can't just "go down the street" — like traders

and managers can — for another job. This human toll reminds us, once again, that nothing we do is more important than staying competitive — keeping that winning edge. Nothing.

Increasing our competitiveness is at the heart of all this "soft stuff" — boundaryless behavior, increasing our speed and stretch, with an overlay of simplification. And the excitement they produce is, obviously, in the hard results they generate, but even more importantly, it is in the knowledge that what we have done *has barely scratched the surface*. It turns out that there is, in fact, unlimited juice in that lemon. The fact is that none of this is about squeezing anything at all — it is about tapping an ocean of creativity, passion and energy that, as far as we can see, has no bottom and no shores.

Using 100% of the minds and passion of 100% of our people in implementing the best ideas from everywhere in the world is a formula, we believe, for endless excitement, endless growth and endless renewal.

We now have a Company that is faster, more confident and higher-spirited than at any time in its history — a Company of people who believe in themselves, in each other and in their infinite capacity to improve everything.

Clearly, our best days are ahead — starting with 1995.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer

Paolo Fresco
Vice Chairman of the Board
and Executive Officer

February 10, 1995

To Our Share Owners

1993 was a very good year for your Company, a year when our soft initiatives turned increasingly into hard results. Despite economic weakness in several of our global markets, we posted our best business results in a Company history that stretches back more than a century.

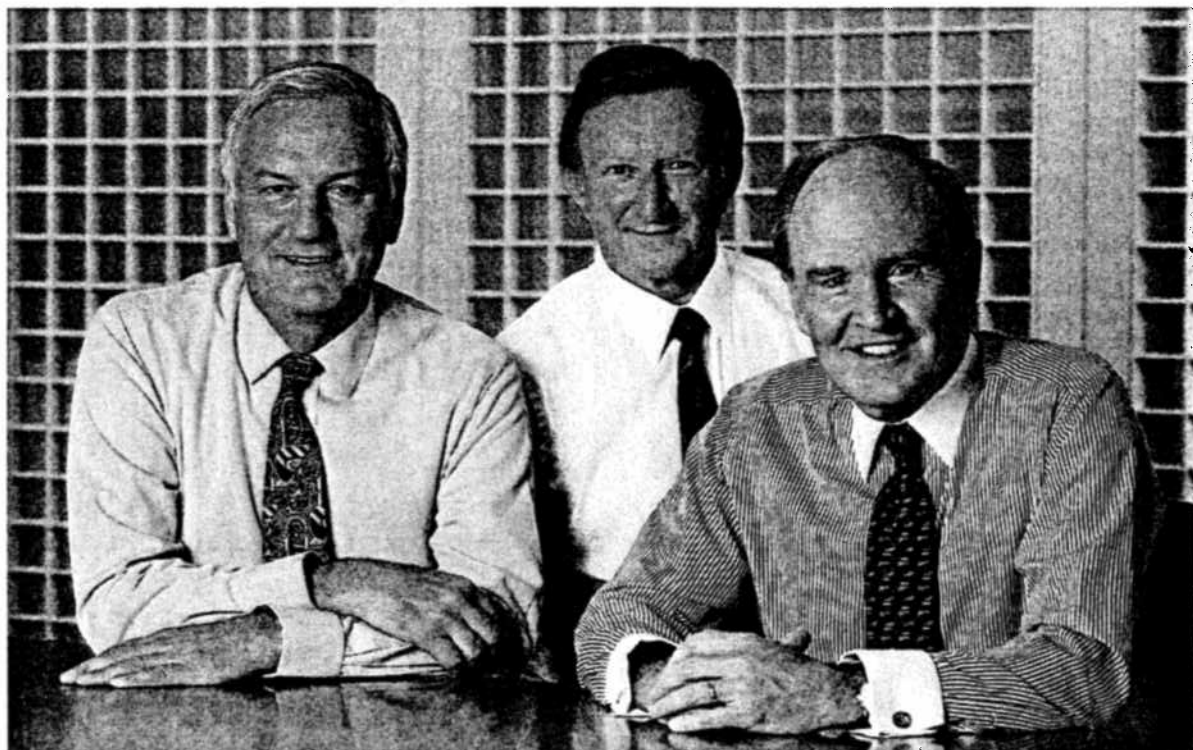
- Consolidated revenues were up 6% to \$60.6 billion.
- Earnings, before a mandated accounting change for employee benefits, were up 10% to nearly \$5.2 billion, and, more importantly, the 12 businesses remaining after our Aerospace divestiture grew earnings 16% before restructuring provisions.
- Ten of our 12 businesses had double-digit earnings growth. Only Aircraft Engines, suffering from the effects of a weak commercial engine market and declining defense expenditures, had lower earnings; but even this business had a good year in a difficult market, gaining market share and still producing about \$800 million in operating profit.
- The earnings increases were led by GE Capital Services, NBC, Plastics and Power Generation.

Kidder, Peabody had its third straight year of record earnings, and two highly visible strategic European acquisitions — Tungsram, the Hungarian lighting business, and GE Medical Systems-Europe — had major turnarounds, generating nearly \$100 million more in net income than in 1992.

- Operating margin from ongoing operations grew a full point to 12.5%, a historic high, but just another step toward our stretch target of 15%. All of our businesses other than Aircraft Engines had increases of more than one point.
- Inventory turns, a key measure of speed, rose almost a full point to 6 turns on the way to our stretch target of 10 turns.
- Free cash flow, after dividends and capital expenditures, was \$2.3 billion, the second consecutive year of cash flow over \$2 billion.
- Productivity was 3.8% and, excluding Aircraft Engines, was more than 5% for the other businesses combined.

The market responded to these results and rewarded our share owners with a 26% return on their investment in 1993.

The reason for this level of performance and,



Chairman and Chief Executive Officer John F. Welch, Jr. (right), Vice Chairman and Executive Officer Paolo Fresco (left) and Executive Vice President Frank P. Doyle from GE's Corporate Executive Office.

more importantly, for this accelerating momentum is not some complex business strategy, some unique technology breakthrough, or some new market trend. It's much simpler than that.

We run this Company on a simple premise: the only way to win, in the brutally competitive global environment in which we operate, is to get **more output** from **less input** in all 12 of our businesses and, by doing so, become the lowest-cost producer of high-quality goods and services in the world.

We believe the only way to gain more output from less input — to grow and win — is to engage **every** mind within our businesses — exciting, energizing, involving and rewarding **everyone**. That is the foundation and philosophy upon which our Company is now operating. While we

among ourselves and between ourselves and the outside world. The progress we've made so far has released a flood of ideas that is improving every operation in our Company. We've adapted new product introduction techniques from Chrysler and Canon, effective sourcing techniques from GM and Toyota, and approaches to quality from Motorola and Ford. We've moved more effectively into the immense potential markets of China with advice and best practices from pioneers like IBM, Johnson & Johnson, Xerox and others.

The removal of those walls means we involve suppliers as participants in our design and manufacturing processes rather than treat them as vendors, left to cool their heels in waiting rooms. It means having major launch customers like British Airways, Tokyo Electric Power or CSX in the room and involved in the design of a new jet engine, a revolutionary gas turbine or a new AC locomotive, or a panel of doctors helping us develop a new ultrasound system.

Internally, boundaryless behavior means piercing the walls of 100-year-old fiefdoms and empires called finance, engineering, manufacturing, marketing, and gathering teams from all those functions in one room, with one shared coffee pot, one shared vision and one consuming passion — to design the world's best jet engine, or ultrasound machine, or refrigerator.

Boundaryless behavior shows up in the actions of a woman from our Appliances business in Hong Kong helping NBC with contacts needed to develop a satellite television service in Asia. On a larger scale, it means labor and management joining hands in the unprofitable Appliance Park complex in Louisville in a joint effort to "Save the Park," with a combination of labor practice changes and GE investment — not two people making a "deal," but 10,721 making a commitment.

And finally, boundaryless behavior means exploiting one of the unmatched advantages a multibusiness GE has over almost every other company in the world. Boundaryless behavior combines 12 huge global businesses — each number one or number two in its markets — into a vast laboratory whose principal product is new ideas, coupled with a common commitment to spread them throughout the Company.

Boundaryless behavior . . . means exploiting one of the unmatched advantages a multibusiness GE has over almost every other company in the world.

have a long way to go before philosophy becomes total reality, our progress has come faster than the most optimistic among us expected.

We are betting everything on our people — empowering them, giving them the resources and getting out of their way — and the numbers tell us that this focus has not only pointed us in the right direction but is providing us with a momentum that is accelerating.

With this objective of involving everyone, we use three operating principles to define the atmosphere and behavior at GE:

- **Boundaryless** ... in all our behavior;
- **Speed** ... in everything we do;
- **Stretch** ... in every target we set.

Boundaryless behavior is the soul of today's GE. We've described it to you in past years. Simply put, people seem compelled to build layers and walls between themselves and others, and that human tendency tends to be magnified in large, old institutions like ours. These walls cramp people, inhibit creativity, waste time, restrict vision, smother dreams and, above all, slow things down.

The challenge is to chip away at and eventually break down these walls and barriers, both

Leadership . . . The highest compliment you could give GE managers a few years ago was to say they were "on top of things" or had gotten "their arms around them." These techniques, more useful in tackling people than coaching them, are difficult to get rid of.



Work-Out, the GE process for empowering employees and breaking boundaries, is generating ideas in offices and on factory floors. Here at Appliance Park in Louisville, Ky., for example, employees like utility operator Leo Porter (left) and shop steward Ron Rowe of IUE Local 761 are constantly coming up with ideas — and putting them into action — to "Save the Park."

Some have argued that single-product businesses have a focus that gives them an advantage over multibusiness companies like our own — and perhaps they would have, but only if we neglect our own overriding advantage: the ability to share the ideas that are the result of wide and rich input from a multitude of global sources.

GE businesses share technology, design, compensation and personnel evaluation systems, manufacturing practices, and customer and country knowledge. Gas Turbines shares manufacturing technology with Aircraft Engines; Motors and Transportation Systems work together on new locomotive propulsion systems; Lighting and Medical Systems collaborate to improve x-ray tube processes; and GE Capital provides innovative financing packages that help all our businesses around the globe. These are just a few of the thousands of examples of how our businesses work together. Supporting all this is a management system that fosters and rewards this sharing and teamwork, and, increasingly, a

culture that makes it reflexive and natural at every level and corner of our Company.

When we began our pursuit of boundarylessness, we believed that the boundaries just described — the walls, if you will — would be the most difficult to eliminate, while the hierarchical management layers would be the easiest because they could simply be taken out by directive. The big, visible layers at the top of the Company — Sectors, Groups and the like — were easy to get rid of, but deeper within the businesses, the layers — formal and informal — are not only hard to remove, they are often hard to find. The compulsion to manage, to control, to direct, is a powerful one, reinforced by a century-old tradition at GE of measuring one's self-worth by how many people "work for you" and whether or not the word "manager" appears in your title. The highest compliment you could give GE managers a few years ago was to say they were "on top of things" or had gotten "their arms around them." These techniques, more useful in tackling people than coaching them, are difficult to get rid of.

What we are looking for today at GE are leaders at every level who can energize, excite and coach rather than enervate, depress and control. And never has this atmosphere been more critical. Today, everyone must be engaged if we are to win. The kind of people we need in this Company are those unwilling to "put in their time" in the bowels of the bureaucracy, or grunt along under the heel of some autocrat for years, before they get a chance to make decisions, try something and be rewarded in their souls as well as their wallets.

In some difficult cases this means parting company with some impressive people — Heisman Trophy candidates, to use an American football expression — who won't block for others or play as part of a team. Their debilitating effect on the team can outweigh the benefits of their individual talent. Leaders at GE are now subject to what we call a 360° evaluation, meaning they are rated not just by those above them, but by their peers and their subordinates as well. This has become a powerful tool for detecting and changing those who "smile up and kick down." To be blunt, the two quickest ways to part company with GE are, one, to commit an integrity violation, or, two, to be a controlling,

turf-defending, oppressive manager who can't change and who saps and squeezes people rather than excites and draws out their energy and creativity. We can't force that creativity and energy from our teams — they have to give it — but we have to have it to win.

To this end, we have also become boundaryless in our rewards and recognition systems. Stock options, once awarded to just a few hundred executives, are now in the hands of more than 15,000 GE employees whose contributions have become visible because of team-like work environments and flatter organizations. Speakers at big Company meetings are selected based on what they know that can be shared, borrowed and expanded on — rather than on their title or rank. Just a few years ago we said that “the people clos-

management layers, bureaucracy, and formality cleared, the organization automatically accelerates. Where we once relied on “moonshot” development programs that took years to reach the market, new GE products are now coming out with drumbeat rapidity. There is now a new product announcement at Appliances every 90 days — unthinkable years ago. The GE90, the world's most powerful commercial jet engine, was designed and built in one-half the normal time, by a boundaryless team. Another team developed a breakthrough ultrasound innovation in less than a year-and-a-half. We designed and built a new AC locomotive in 18 months. We're developing an absolute cascade of new energy-efficient lighting products, plastics for the construction industry, and revolutionary turbines that extend the limits of thermodynamics and materials.

While speed has had its most striking impact on our New Product Introduction process — the driver of tomorrow's top-line growth — its most immediate quantitative impact has been on our asset management. Focusing on the speed of our Order-to-Remittance cycle — from time of order to when we get paid — has increased our inventory turns 27% in two years, throwing off almost \$2 billion in cash in the process. Every single-digit improvement in inventory turns produces \$1 billion in cash to reinvest for tomorrow.

Speed “redefines capacity,” reducing plant and equipment investment. In the past three years, our faster pace has freed up nearly five million square feet of manufacturing space across the Company. To a business like Plastics, that has meant a savings of nearly one-half billion dollars that would have been required for new capacity — like getting a new plant, free.

Speed is allowing us to shift the center of gravity of the Company rapidly toward the high-growth areas of the world, particularly in Asia. Forty percent of our sales now come from outside the United States, up from 30% just five years ago. GE's non-U.S. sales have grown at a compounded rate of almost 10% over the past five years. Lighting, one of our oldest businesses, which less than five years ago had 21% of its sales outside the U.S., today sells 38% in the non-U.S. global market.

And finally, speed, in the form of a technique called Quick Market Intelligence, originally

New Product Introduction . . . Where we once relied on “moonshot” development programs that took years to reach the market, new GE products are now coming out with drumbeat rapidity.

est to the work know it best,” and we said it as if we had produced some deep insight. Today, it's just a common assumption across the Company.

In a boundaryless atmosphere, a good idea sprouts and blossoms and is nurtured by all, and no one cares where the seed came from. You can feel the explosion of energy and creativity that flows over every process in a business when “not-invented-here” is swept aside, and in its place the behavior that brings reward and recognition is instead the execution or transfer or improvement of a good idea, no matter what its source.

Ideas are now judged at GE on the basis of their quality rather than the altitude of their origin. The status-defining tie on a manager at a GE plant is now about as fashionable as a leisure suit. And because informality is warming every corner of our Company, today's GE has become both a lot more fun to work at — and a lot **faster**.

Speed is the second element we are after in every one of our operations. A fast organization has the advantage of relishing change because of the constant opportunity it presents. The faster the pace of change, the bigger the advantage.

With the drag and nonsense of boundaries,

Boundaryless, Speed, Stretch . . . Putting this all together: boundaryless people, excited by speed and inspired by stretch dreams, have an absolutely infinite capacity to improve everything.

learned from Wal-Mart and evolved and adapted in our businesses, has GE leadership at all levels of the Company, in every business, living in the field with customers. The center of gravity in all our businesses is not only shifting from the U.S. to the world; it's shifting, everywhere, from the office to the field.

The speed generated by a boundaryless organization makes possible, and leads naturally to, our third operating principle — which we call stretch, or reach.

Stretch is a concept that would have produced smirks, if not laughter, in the GE of three or four years ago, because it essentially means using dreams to set business targets — with no real idea of how to get there. If you **do** know how to get there — it's not a stretch target. We certainly didn't have a clue how we were going to get to 10 inventory turns when we set that target. But we're getting there, and as soon as we **become** sure we can do it — it's time for another stretch. The CEO of Yokogawa, our Japanese partner in the Medical Systems business, calls this concept "bullet-train thinking," i.e., if you want a ten-miles-per-hour increase in train speed, you tinker with horsepower — but if you want to **double** its speed, you have to break out of both conventional thinking **and** conventional performance expectations.

Stretch allows organizations to set the bar higher than they ever dreamed possible. Whether it be a 100-fold improvement in quality, 10-fold reduction in product development time or margin rates never before dreamed of — the openness, candor and trust of a boundaryless, fast company allows us to hang those dreams out there, in view of everyone, so that we can all reach for them together.

We used to timidly nudge the peanut along, setting goals of moving from, say, 4.73 inventory turns to 4.91, or from 8.53% operating margin to 8.92%; and then indulge in time-consuming, high-level, bureaucratic negotiations to move the number a few hundredths one way or the other. The point is — it didn't matter. Arguing over these petty numbers in conference rooms certainly didn't inspire the people on the shop or office floor who had to deliver them — in most cases, they never even **heard** of them. We don't do that anymore. In a boundaryless organiza-

tion with a bias for speed, decimal points are a bore. They inspire or challenge no one, capture no imaginations. We're aiming at **10** inventory turns, at **15%** operating margins, and at the introduction of more new products in the next **two** years than we've developed in the last **ten**. In a company that now rewards progress toward stretch goals, rather than punishing shortfalls, the setting of these goals, and quantum leaps toward them, are daily events.

Across this Company, stretch targets are making seemingly impossible goals exciting, bringing out the best from our teams; and the pizza delivery people are getting rich as our people celebrate each milestone along the way to those targets. Celebrating success is a critical element in creating it, and we expect our teams to celebrate, celebrate, and celebrate again.

Putting this all together: boundaryless people, excited by speed and inspired by stretch dreams, have an **absolutely infinite capacity to improve everything**. While we are still learning as we go, and are under no illusions that we have all the answers, we really do have more than two hundred thousand people who get up every morning and come to work intent on finding a better way — every day.

The performance, the standards, the targets, the excitement levels at GE have all been moved to a higher plane than those of the Company you invested in just a few years ago. We are raising the bar of performance and changing the basis of competition in every game we play. That is why we refer to your Company as "the new GE," and why, as our pace accelerates and our reach lengthens, we will, no doubt, be describing another "new GE" for you in the years ahead.

We enter 1994 with 222,000 self-confident people, proud of our past, excited by our future, seeing change as opportunity and, most importantly, convinced that our best days are ahead of us.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer

Paolo Fresco
Vice Chairman of the Board
and Executive Officer

February 11, 1994

To Our Share Owners

1992 was another strong year for GE in a difficult global economic environment. There is nothing like hard times to try out soft concepts; nothing like reality to test rhetoric.

We have produced our fair share — maybe more — of rhetoric over the recent past, discussing soft values with you in this report and struggling among ourselves at all levels of GE to distill just what the characteristics of a winning company are, what makes work exciting and fulfilling rather than just tedious drudgery, and what kind of leadership traits will galvanize and inspire an organization.

In 1992, these soft values continued to produce hard numbers, and much of our rhetoric rolled into action.

- Consolidated revenues were \$62.202 billion, up 3%.
- Earnings were \$4.725 billion in 1992, up \$290 million or 7%.
- Earnings per share were \$5.51, up 8%.
- Total cost productivity, despite the recession, was 4 1/2%, three times the level achieved during

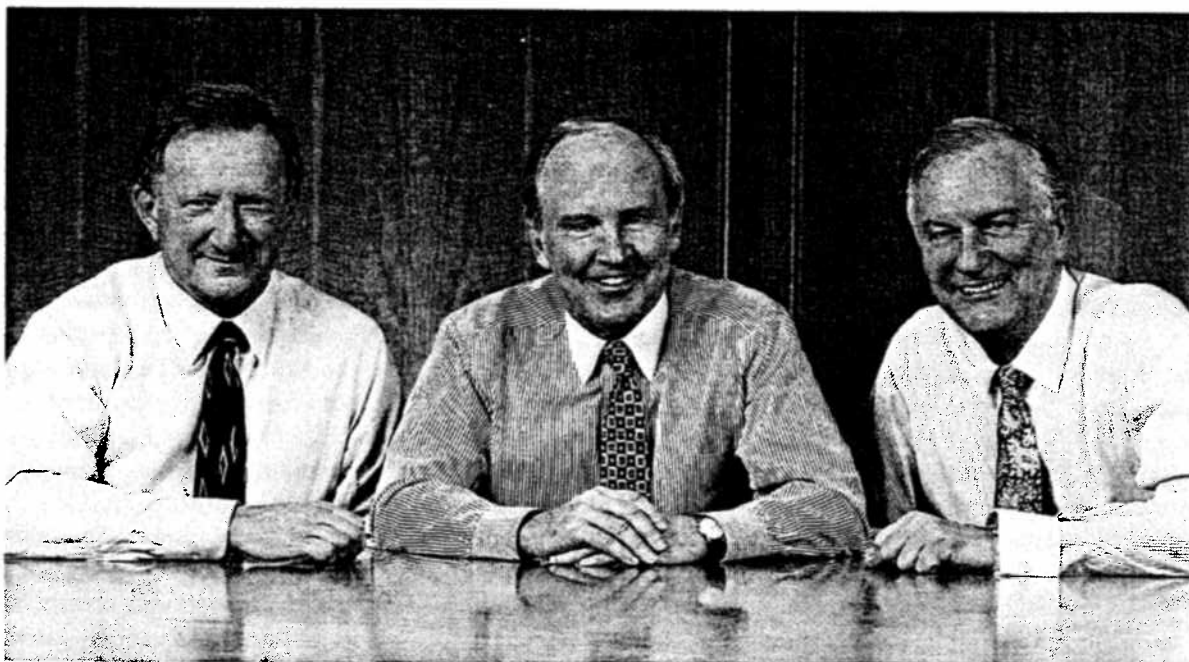
the last recession of the early 1980s. This level of productivity maintains the two-to-threefold improvement we've been seeing since we started a cultural thrust called Work-Out several years ago.

- The quickening of the pace of the Company, a staple of our rhetoric in past years, has turned into the reality of faster inventory turns across the businesses, producing \$5.3 billion in cash flow from operations — an all-time record for GE.

- Industrial and Power Systems, Plastics and Medical Systems turned in double-digit earnings growth; and the 22 entrepreneurial businesses of GE Capital Services continued their powerful growth in leasing, credit card services, property management, reinsurance, and scores of value-added, "non-banking" activities, producing 18% growth in net earnings. Kidder, Peabody had its second consecutive year of record earnings.

- Our exports of \$8.8 billion enabled us to make a nearly \$6 billion positive contribution to the U.S. balance of trade.

- The reality of the global marketplace as our true arena was reinforced by a major shift of



Chairman and Chief Executive Officer John F. Welch, Jr. (center) with Vice Chairman and Executive Officer Paolo Fresco (right) and Executive Vice President Frank P. Doyle.

senior management and resources toward India, Southeast Asia, China and Mexico — the megamarkets of the 21st century and the opportunities of today. We continue to move the center of gravity of GE in the direction of these high-growth markets.

- In November, we agreed to combine our Aerospace business with that of Martin Marietta, creating the world's number-one aerospace electronics company, a new competitor with double the assets and a fraction of the overhead of its two components. When this combination is approved in 1993, GE will have a one-billion-dollar investment in the new company.

These events and numbers were looked on favorably by the market and — along with two divi-

“putting it in channels,” “running it up the flagpole” and, worst of all, the polite deference to the small ideas that too often come from big offices in big companies.

Everyone in a small company knows the customers — their likes, dislikes and needs — because the customer's thumbs up-or-down means the difference between a small company becoming a bigger company tomorrow — or no company at all.

It comes down to something very simple: small companies have to face into the reality of the market every day, and when they move, they have to move with speed. Their survival is on the line.

We come back again and again to that small company advantage: *speed*. Speed, which brings with it an urgency, an exhilaration and a focus on what really matters, is a vaccine against bureaucracy and lethargy. It is the simple ingredient that drives small companies, and it is the lack of speed that gets big companies in trouble.

But “big” does have its advantages. Big allows us, for example, to spend billions on developing the new GE90 jet engine, or the next-generation gas turbine, or Positron Emission Tomography (PET) diagnostic imaging machines — products that sometimes take years of investment before they begin producing returns.

Size gives us staying power through market cycles in big, promising businesses. It permitted us to invest heavily in Power Systems during several down years in the 1980s, which allowed the business to emerge healthy and ready to capitalize on the global boom now in progress. Size will allow continued heavy investment in new products as GE Aircraft Engines goes through an early 1990s down-cycle, and will permit that business to maintain global leadership throughout that cycle and into the 21st century.

Size gives us the resources to invest over a half-billion dollars a year on education: cultivating, at every level in the organization, the human capital we must have to win.

Offshore, “big” permits us to form partnerships with the best of the large companies, and large countries, and to invest for the long term in nations such as India, Mexico and the emerging

Small companies . . . What we are trying relentlessly to do is get that small-company soul — and small-company speed — inside our big-company body.

dend increases during the year — rewarded GE share owners with a return of 15%.

Over the years we've analyzed our own Company, with as much objectivity as we can muster, and we've studied and visited hundreds of companies around the globe — either in acquisition efforts or just to learn from them. In doing so, we find that while we like some of the attributes of big companies — particularly their scale and marketplace reach — it is small companies that create excitement while big companies, too often, just impress.

What do we like about small companies?

Most small companies are uncluttered, simple, informal. They thrive on passion and ridicule bureaucracy. Small companies grow on good ideas — regardless of their source. They need everyone, involve everyone, and reward or remove people based on their contribution to winning. Small companies dream big dreams and set the bar high — increments and fractions don't interest them.

We love the way small companies communicate: with simple, straightforward, passionate argument rather than jargon-filled memos,

Boundarylessness . . . is a behavior definer,
a way of getting people outside of their organizational boxes
and offices and working together, faster.



Work-Out sessions like this one led by Lloyd Trotter, president and CEO of GE Electrical Distribution and Control, are helping GE eliminate boundaries and improve productivity. Shown (left to right) are George Zippel, Jim Yuan, Lloyd Trotter, Claire Schroeder, Sam Eskridge, Michael Jack, Chris Fuselier and Ellie Murphy.

industrial powers of South Asia — while still putting billions of dollars into the research and development of products that will be in demand in tomorrow's markets.

But size is no longer the trump card it once was in today's brutally competitive world marketplace — a marketplace that is unimpressed with logos and sales numbers but demands, instead, value and performance.

What we are trying relentlessly to do is get that small-company *soul* — and small-company *speed* — inside our big-company body.

But how do you get that speed in a \$60 billion company with 230,000 employees competing all over the earth? Before you begin to accelerate an organization, you have to take the brakes off. The brakes in our case are the boundaries, the barriers, the fiefdoms, the remnants of a bureaucracy that slow us down.

That's what that cumbersome word "boundaryless" is all about and why we focus on it so much in this letter and in every hour of our work

day. "**Boundarylessness**" is a behavior definer, a way of getting people outside of their organizational boxes and offices and working together, faster. It also gets us closer to our customers, our suppliers — closer to all of the constituencies upon which we depend.

This behavior definer led us to a process called Work-Out that we've been using for four years now to capture good ideas and run with them — whether their originator is a crane operator on the line or some company on the other side of the earth. Work-Out has been the vehicle that has allowed us to act on a series of innovative ways of removing barriers — always with an eye to becoming faster — becoming better.

These boundaryless initiatives are changing the way our businesses operate. For example:

- **Quick Response.** This is a cycle-time reduction technique we adapted from our Canadian affiliate, which found it in an appliance company in New Zealand, which got it from who-knows-where. Quick Response erases most of the barriers between the functions of our businesses — manufacturing, finance, etc. — and the customers, and has taken GE Appliances from an 18-week order-to-delivery cycle to a 3½-week cycle at the present — on the way to **three days**. Quick Response has reduced average inventory in GE Appliances 50%, or almost \$400 million, and will allow it to break through the 10-turn barrier in 1993 — almost double the rate of 1989.

- **Co-location.** Co-location is the ultimate boundaryless behavior and is as unsophisticated as can be: We tear all the walls down and put teams from all functions together in one room to bring new products to life. One room, one coffee-pot, one team, one shared mission.

The standard lament of manufacturing — "What idiot designed this thing?" — is no longer heard because the product is now designed *with* manufacturing, with marketing, with suppliers, and often with the customers themselves.

GE Medical Systems is using this boundaryless technique to design and manufacture its new ultrasound products. The Profile appliance line was developed this way, as was the GE90 jet engine. Before long it will be the way GE develops *everything* it makes, and every service it sells.

We are finding that once people leave their cherished offices, work as a team and share the excitement and rewards that belong to winning teams, they never want to go back.

• **Quick Market Intelligence.** Too many people in big companies come through the gate each morning to serve the internal bureaucracy. Customers — if they are thought of at all — are some vague abstraction. QMI changes all that. It is a process that gives every salesperson direct access, every Friday, to the key managers and the CEO of the business, to lay out customer problems and needs. The product of the meeting is not deep or strategic in nature, but action — a response to the customer right away. The QMI routine turns

Quick Market Intelligence . . . *That QMI rhythm — that weekly pulsing of customer needs — will become the rhythm of GE in the years to come and one of the key drivers of our top-line growth.*

the face of everyone in the organization toward that marketplace and, by doing so, makes the bureaucracy stand out for what it really is: silly, irrelevant and even malevolent in its interference in the process of serving customers.

Quick Market Intelligence is our term for the magnificent boundary-busting technique pioneered by Wal-Mart that allows the entire Company to understand, to sense, to touch the changing desires of the customer and to act on them in almost real time. The rhythm of the Wal-Mart intelligence-action cycle encourages experimentation, because whatever doesn't work is never in place for more than a week.

QMI has rooted quickly in long-cycle and short-cycle businesses as diverse as Medical Systems, Lighting, Plastics and Power Systems, and it is dramatically increasing the speed of those businesses. That QMI rhythm — that weekly pulsing of customer needs — will become the rhythm of GE in the years to come and one of the key drivers of our top-line growth. The secret of Wal-Mart is that it keeps its small-company speed and behavior as it grows bigger. QMI is a chance for us to get bigger — by acting smaller.

• **Rewards.** In small companies the punishments and rewards of the marketplace come quickly. If the product doesn't win, the team doesn't eat. If the product wins big, the rewards are substantial — often the stuff of legend.

Stock options are the most powerful tool we have in the Company to approximate small-company incentive systems. In the early 1980s, only 400 of our senior executives held them. We've also broken that barrier, and today, more than 13,000 of our top performers, from foremen to secretaries to newly hired engineers and salespeople, hold stock options. These options are a key part of the linkage we are trying to forge between what a person does on the job every day and winning in the marketplace — and between that winning and the rewards that come with it — rewards felt in the soul as well as the wallet.

Boundaries are crashing down everywhere around this Company. Every day people from finance, manufacturing and sales are taking off their functional uniforms and teaming up to meet common challenges. The face of the customers, and the customers' needs, have become as real, as vivid and as urgent to everyone in the organization as they are to the salespeople who meet with them.

Nowhere can we quantify the results of boundaryless behavior better than in **productivity** and **globalization**.

The removal of functional barriers within our businesses — and between our businesses and their suppliers and customers — has produced productivity figures over the last five years double or triple those of the early 1980s.

In globalization, the overcoming of geographic and cultural barriers has given us, over the past five years, a double-digit average annual growth rate in revenues outside the United States.

Of course, we haven't rid ourselves of all our turf battles and barriers; and, sure, some boundaries remain. And there is one boundary that we continue to maintain, strengthen and make clear to everyone — the boundary that says that no matter how hard we compete — here and around the world — not one foot must ever step outside the line of absolute integrity.

But all the other boundaries are fair game,

Parochialism . . . "Not Invented Here" — is dead at GE — it has been for a while. We don't claim to be the global fountainhead of management thought, but we may be the world's thirstiest pursuer of big ideas — from whatever their source — and we're not shy about adopting and adapting them.

and *the biggest has already fallen*: the one between us and the world full of good ideas we didn't happen to come up with. Parochialism — "Not Invented Here" — is dead at GE — it has been for a while. We don't claim to be the global fountainhead of management thought, but we may be the world's thirstiest pursuer of big ideas — from whatever their source — and we're not shy about adopting and adapting them. Whether it's QMI from Wal-Mart, or co-location from garage shops, or the "Quick Response" technique from New Zealand, or some blinding insight from some formerly quiet machine operator at a Work-Out session — if it looks like it might make us faster — we try it. And if it works, we spread it across every business in this Company — *fast*.

As we look, eagerly, toward '93 and beyond, we ask every person in every business to ask the tough questions leaders must ask themselves every day:

- Am I facing reality? Am I seeing the situation the way it really is — or the way I wish, or hope, it were? Am I painting flattering self-portraits, or looking honestly in that cold mirror? And when I have grasped the reality, then comes the big, defining question: Am I *acting* on it fast enough?

- Do I see a competitor beating us with lower prices and mutter nervously that "he's nuts" or "he's dumping" — when the real answer is: "he's got lower costs, and I better get my costs down now, or I'm gone"?

- Do I see other competitors racing one new product after another into the marketplace and take comfort in deducing they're "spending too much on product development"? Or do I focus on what they are really doing — increasing the speed of their product development cycle, and beating me to the marketplace?

- Do I wait in hope of some dozing manager suddenly springing into action when he hasn't moved in 10 years? Do I "wish" that the autocrat who sits on people all morning and puts barriers between them all afternoon will change his spots? Or is the reality that I lack the courage to make the tough personnel calls that I know I have to make if we're going to win?

- Do I shrug in resignation at slow growth, and wait for new government bureaucrats to replace

old government bureaucrats and "fix the economy"? Or is the reality that slow growth is largely a mindset that is unknown in start-up businesses and must be unacceptable in big ones?

- Above all, do I recognize the pace of change, which is making obsolete and wrong today what was contemporary and right yesterday? Do I welcome change for the opportunity it always brings — or am I frightened and paralyzed by it?

When most of us look at our careers, if we are honest with ourselves about decisions we've made, changes we've brought about, we have to acknowledge that there was much wishing and hoping and temporizing that has slowed us in coming to grips with reality. But beyond that, our biggest regrets — sometimes our most bitter ones — are often that once we defined reality, and brought it into focus — we didn't act fast enough, boldly enough.

That's what the best companies do best, and our challenge at GE for '93 and beyond is clear — to ignite this big Company with passion, hunger, appetite for change, customer focus, and, above all, the speed to see *reality* more clearly and to act on it *faster*.

Translating the need for speed, for reality, into the language and practices that change people's behavior, that encourage them to renew themselves, to walk through that door every day as if it were Monday morning on a new job — that's what leadership in this Company is all about. No matter how many ideas we try, it all comes back to people — their ideas, their motivation, their passion to win.

Our unending drive to build a boundaryless, high-spirited Company is moving us faster every day in the direction of what we want passionately to become — the world's most competitive global enterprise.

Thanks for your support.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer



Paolo Fresco
Vice Chairman of the Board
and Executive Officer

February 12, 1993

To Our Share Owners

1991 was a tough, terrific year for GE.

For the past few years, those of you who invest in our Company, and share our interest in and affection for it, have patiently read letters from us that dealt only minimally with traditional business data and focused instead on soft concepts and values. We wrote of our belief in simplicity as a critical component of business plans and communications. We defined self-confidence in our people as the catalyst that would release the ideas and energy we craved. We spoke endlessly about what we believe to be the ultimate virtue of a company — speed. We used a big, clumsy word like “bound-arylessness” to describe a mindset that breaks bureaucratic barriers and draws teams closer. And, finally, we described, in largely promissory terms, a concept called Work-Out — our vehicle for pursuing a total transformation of a century-old Company culture, in pursuit of a future of virtually unlimited productivity.

This emphasis on the **software** of our Company followed the **hardware** changes — the restructuring we had undertaken during the early 1980s — that produced excellent results — a 22% average annual return on share owner investment during the decade. But those were good times, and we, like our contemporaries, were helped substantially by the prosperity that characterized much of the 1980s.

But in 1991, all our rhetoric, our 1980s restructuring and our cultural changes were put to their first **real** test when much of the global economy settled into a full year of steady decline.

So how did we do?

- Our revenues grew 3% to over \$60.2 billion.
- Our earnings grew 3% to \$4.435 billion, and our earnings per share grew 5%.
- We adopted a new accounting rule for retiree health and life insurance benefits, which reduced earnings by \$1.8 billion but used no cash.
- We repurchased a billion dollars worth of our stock while keeping a solid Triple-A debt rating.
- Total cost productivity grew 4%, more than twice the rate it did during the comparable recession of 1981-82. Return on equity was close to 20%.
- GE Financial Services had another terrific year, with a 17% increase in earnings. Seventeen



Chairman and Chief Executive Officer John F. Welch, Jr. (left) and Vice Chairman and Executive Officer Edward E. Hood, Jr.

of its 22 businesses grew earnings — 11 of them with strong double-digit growth.

• Industrial and Power Systems, Lighting, Medical Systems and Information Services compiled powerful double-digit sales increases, much of it offshore. GE exports increased 21% to \$8.6 billion, making a strong positive contribution to the U.S. balance of trade.

• And our share owners were rewarded with a 38% total return in '91, including an 8% increase in the dividend.

There were other significant achievements. Most of our businesses overcame much of the negative effect of weak markets with strong productivity, but we did have a few misses as well.

NBC saw a decline in ratings, and that, in combination with a soft advertising market, made for a significant decline in earnings. Motors and Plastics, because of weak markets and poor productivity, also had a very difficult year. And, finally, two of GE Financial Services' 22 businesses — Commercial Real Estate and Corporate Finance (leveraged buyouts) — were not immune to the endemic problems in those investment areas. Real estate produced only a small profit and LBOs incurred a modest loss.

But enough of the numbers from '91. It's over.

1991 did, however, once again remind us how absolutely critical productivity growth is in the brutally Darwinian global marketplaces in which virtually all of our businesses compete. We are aware, for instance, that if we had the same productivity growth in '90 and '91 that we had in '80 and '81, our '91 earnings would have been more like \$3 billion rather than \$4.435 billion. We also are acutely aware that, without productivity growth, it is possible to lose in 24 months businesses that took a half-century, or a century, to build. Productivity growth is essential to industrial survival.

But to increase productivity, you first have to clear away all the impediments that keep you from its achievement — primarily the manage-

Layers . . . insulate. They slow things down. They garble. Leaders in highly layered organizations are like people who wear several sweaters outside on a freezing winter day. They remain warm and comfortable but are blissfully ignorant of the realities of their environment. They couldn't be further from what's going on.

ment layers, functional boundaries and all the other trappings of bureaucracy.

We've been trumpeting the removal of bureaucracy and layers at GE for several years now — and we did take out "Sectors," "Groups" and other superstructure — but much more remains; and, unfortunately, it is still possible to find documents around GE businesses that look like something out of the National Archives, with five, 10 or even more signatures necessary before action can be taken. In some businesses, you might still encounter many layers of management in a small area — boiler operators reporting to the supervisor of boilers, who reports to the utility manager, who reports to the manager of plant services, who reports to the plant manager, and so on.

Layers insulate. They slow things down. They garble. Leaders in highly layered organizations are like people who wear several sweaters outside on a freezing winter day. They remain warm and comfortable but are blissfully ignorant of the real-

ities of their environment. They couldn't be further from what's going on.

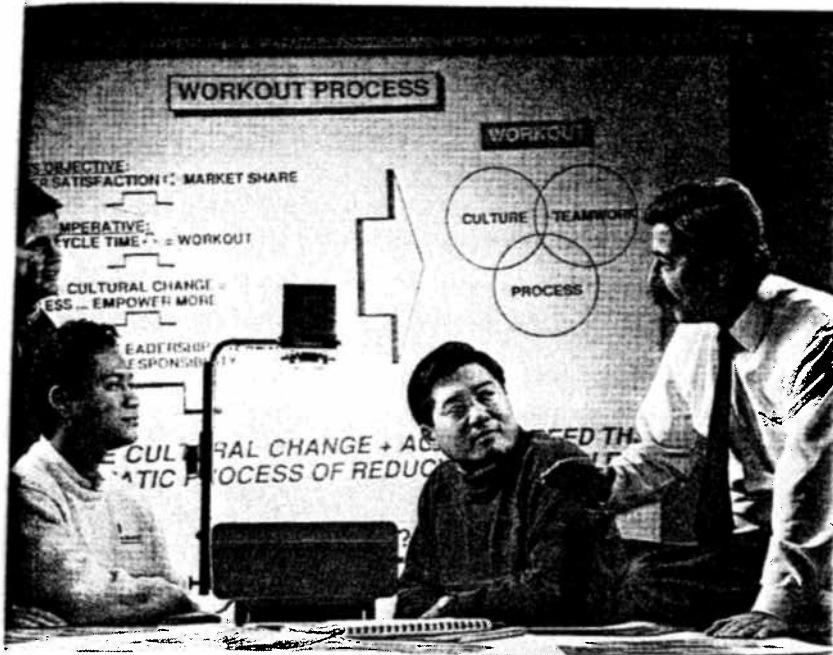
Layers are symptoms of a century-old tradition at GE of rewarding people with titles. Giving someone a "manager" title could be likened to suing a building permit — the functional walls and management floors begin construction, procedural cement is poured, the no-trespass signs are posted. Today, more and more, we're cutting back on useless titles, and we're rewarding people based on what they contribute — quality of their ideas and their ability to implement them — rather than on what they contribute.

We've made our most significant progress in breaking down the horizontal barriers that interrupt the flow within and among businesses. I wrote last year of a remarkable method of compressing product cycle times that we discovered in an appliance company in New Zealand, tested in our Canadian affiliate and then brought to a huge appliance operation in Louisville. That effort, which we call Quick Response, has been an astonishing success in which every function in the business — finance, distribution, consumer service, marketing and manufacturing — worked together to reduce average inventory by \$200 million, to speed up the order-to-delivery cycle time from 18 weeks to five weeks and to move that team closer toward a shared vision — building appliances virtually to order — a three-day cycle. And as this effort was unfolding, GE teams from all of our other manufacturing businesses moved to Louisville for up to a year, became deeply involved in the project and now are home using their experience to accelerate their own processes.

Barriers are coming down all around the Company. In Medical Systems, our ultrasound technology is advancing rapidly because of an influx of sonar experts from Aerospace, and scores of military aircraft engineers have moved from Aircraft Engines to help Power Systems cope with the explosive worldwide demand for our advanced gas turbines.

Finally, last year saw the transfer of leadership in four of our 13 big businesses, with the new leaders coming from other GE businesses, bringing with them fresh, recently tested ideas and proven team-building skills.

Speed . . . tends to propel ideas and drive processes right through functional barriers, sweeping bureaucrats and their impediments aside in the rush to get to the marketplace.



Discussing global Work-Out strategies for GE Medical Systems are (left to right) Nobuko Schlough, Steve Patscot and Wendel Barr of the United States, Yoshiaki Fujimori of Japan and Shereyar Vakil of India.

Whether the flow is people from Aerospace to Medical or technology from Aircraft Engines to Power Systems or key management transfers, the objective is the same — mining the enormous value that exists all over the Company. GE's diversity creates a huge laboratory of innovation and ideas that reside in each of the businesses, and mining them is both our challenge and an awesome opportunity. Boundaryless behavior is what integrates us and turns this opportunity into reality, creating the real value of a multibusiness company — the big competitive advantage we call Integrated Diversity.

Boundary-busting does something else for us. It makes us **faster**.

There is something about speed that transcends its obvious business benefits of greater cash flow, greater profitability, higher share due to greater customer responsiveness and more capacity from cycle time reductions.

Speed exhilarates and energizes. Whether it be fast cars, fast boats, downhill skiing or a business process, speed injects fun and excitement into an

otherwise routine activity. This is particularly true in business, where speed tends to propel ideas and drive processes right through functional barriers, sweeping bureaucrats and their impediments aside in the rush to get to the marketplace. Speed helps force a company "outside of itself" and prevents the inward focus that institutions tend to develop as they get bigger. In some businesses, the bureaucracy can warp priorities to the point that a pat on the back from the "boss" and a stick in the eye from a customer amount to a pretty good day for an employee.

We say "some" businesses — but not all. In 1991, we shared best practices with a number of great companies. We learned something everywhere, but nowhere did we learn as much as at Wal-Mart. Sam Walton and his strong team are something very special. Many of our management teams spent time there observing the speed, the bias for action, the utter customer fixation that drives Wal-Mart; and despite our progress, we came back feeling a bit plodding and ponderous, a little envious, but, ultimately, fiercely determined that we're going to do whatever it takes to get that fast.

And Work-Out is still the process that will help get us there.

Work-Out began three years ago with baby steps: a series of New England-style town meetings with people of every conceivable rank and function chipping away at the bureaucratic barnacles and nonsense that develop on all institutions as they age and grow — wasteful paperwork, duplication, unnecessary approvals and the like. After the initial stages and modest progress, we began to move cautiously into team analyses of how specific functions and processes within businesses could be done better and, above all, faster. Customers were eventually invited into the process as were suppliers.

For a couple of years, we resisted the traditional GE predilection to quantify and measure Work-Out, and, in truth, there was little beyond the anecdotal and atmospheric to report. For a year or so, individual Work-Out environments seemed to just sit there, as one observer noted, like popcorn kernels in a warm pan. The cynics no doubt believed the warmth came only from the hot air

of Company rhetoric. **But all that time, trust was building, confidence was growing and teams were coming together.** Then, suddenly, things began to pop, here and there, with big ideas, process breakthroughs; and today they roar almost everywhere, with both radical transformations in the way we do business and with tangible business results. The Quick Response breakthrough at our Appliances operation would still be years away — perhaps unreachable — without the cooperative team approach Work-Out creates.

In Lynn, Mass., a century-old GE location that traditionally has been a sore spot in labor-management relations, Work-Out has begun to

Values . . . *Too often all of us have looked the other way — tolerated these "Type 4" managers because "they always deliver" — at least in the short term.*

transform the climate into a much more productive atmosphere of mutual respect and cooperation. "We versus them" is increasingly coming to mean GE versus the competition. In 1987, at the Lynn plant, a combustor — a key part of a jet engine — took 30 weeks to make. Through Work-Out, that process was down to eight weeks in early '91; now it's four weeks, and the teams that run it are talking **10 days**. Hardware product cycles are now down an average of 20% across the business, with 50% clearly in sight.

And in our Schenectady turbine plant, another site with a century-old tradition of mistrust between labor and management, Work-Out has grown a team effort that is improving productivity beyond anything we ever envisioned. Just to name one area, in the critical steam turbine bucket machinery center, teams of hourly employees now run, without supervision, \$20 million worth of new milling machines that they specified, tested and approved for purchase. The cycle time for the operation has dropped 80%. It is embarrassing to reflect that for probably 80 or 90 years, we've been dictating equipment needs and managing people who knew how to do things much better and faster than we did.

All around this Company in large plants like

Schenectady, Lynn and Louisville and in scores of smaller sites like Florence and Salisbury in the Carolinas, Decatur, Ala., and in many other places, compulsive managing and mutual mistrust are giving way to real teamwork. GE has become faster and more energized than any of us ever thought possible.

If one vignette typifies how Work-Out has transformed how we work together in this Company, it is this: Late in '91 at a best practices session at our management school at Crotonville, N.Y., two of the key lecturers on the subject of productivity were two of the toughest union officers we face across any table. One of these leaders told the group he used to have three clearly defined enemies in his life — the IRS, Russians and GE management — but with the way things had changed, only the IRS retains that status. Both GE management and the Russians are doing a lot better.

The transformation that is sweeping our Company is not complicated in theory or even original. Much of the intellectual underpinning of Work-Out consists of ideas like worker involvement, trust and empowerment — shopworn and even platitudinous concepts. The difference is that our whole organization is, in fact, living them ... every day! Most of our 284,000-member Company are, in fact, using soft concepts today as competitive weapons and are winning with them, rather than just inscribing them on coffee mugs and T-shirts.

Yes, there are pockets where things haven't changed, and no, not everyone has been empowered, but the momentum is unmistakable, and we are determined to make it irreversible.

This is a long road we are on, and a difficult one. Trust and respect take years to build, and no time at all to destroy. In the first half of the 1980s, we restructured this Company and changed its physical make-up. That was the easy part. In the last several years, our challenge has been to change **ourselves** — an infinitely more difficult task that, frankly, not all of us in leadership positions are capable of.

Over the past several years, we've wrestled at all levels of this Company with the question of what we are and what we want to be. Out of these

Leadership . . . we know that without leaders who "walk the talk," all of our plans, promises and dreams for the future are just that — talk.

discussions, and through our experiences, we've agreed upon a set of values we believe we will need to take this Company forward, rapidly, through the 1990s and beyond.

In our view, leaders, whether on the shop floor or at the tops of our businesses, can be characterized in at least four ways.

The first is one who delivers on commitments — financial or otherwise — and shares the values of our Company. His or her future is an easy call. Onward and upward.

The second type of leader is one who does not meet commitments and does not share our values. Not as pleasant a call, but equally easy.

The third is one who misses commitments but shares the values. He or she usually gets a second chance, preferably in a different environment.

Then there's the fourth type — the most difficult for many of us to deal with. That leader delivers on commitments, makes all the numbers, but doesn't share the values we must have. This is the individual who typically forces performance out of people rather than inspires it: the autocrat,

the big shot, the tyrant. Too often all of us have looked the other way — tolerated these "Type 4" managers because "they always deliver" — at least in the short term.

And perhaps this type was more acceptable in easier times, but in an environment where we must have every good idea from every man and woman in the organization, we cannot afford management styles that suppress and intimidate. Whether we can convince and help these managers to change — recognizing how difficult that can be — or part company with them if they cannot will be the ultimate test of our commitment to the transformation of this Company and will determine the future of the mutual trust and respect we are building. In 1991, we continued to improve our personnel management to achieve much better balance between values and "numbers." That balance will change further in '92 and beyond, because we know that without leaders who "walk the talk," all of our plans, promises and dreams for the future are just that — talk.

In the first week of 1992, 450 men and women who lead our Company convened from around the world to share best practices and review our course for the coming year. It was a very special event, with a unique and spontaneous atmosphere — one we had never quite felt before. It is striking that coming off one of the most brutal economic years most of us can remember, the mood at that meeting was one of exhilaration and boundless confidence. The commitment to speed and boundarylessness was at a new high.

We put our values, our people and our Company to the test in '91. By our measure, at least, we passed with flying colors. We grew during a bad recession, and as we see recovery on the horizon, it is difficult not to be very, very optimistic about our future.

Thanks for your support.



John F. Welch, Jr.

Chairman of the Board
and Chief Executive Officer

Edward E. Hood, Jr.

Vice Chairman of the Board
and Executive Officer

GE Values . . . GE Leaders throughout the Company:

- *Create a clear, simple, reality-based, customer-focused vision and are able to communicate it straightforwardly to all constituencies.*
- *Have, or have the capacity to develop, global brains and global sensitivity and are comfortable building diverse global teams.*
- *Understand accountability and commitment and are decisive ... set and meet aggressive targets ... always with unyielding integrity.*
- *Stimulate and relish change ... are not frightened or paralyzed by it. See change as opportunity, not just a threat.*
- *Have a passion for excellence ... hate bureaucracy and all the nonsense that comes with it.*
- *Have enormous energy and the ability to energize and invigorate others. Understand speed as a competitive advantage and see the total organizational benefits that can be derived from a focus on speed.*
- *Have the self-confidence to empower others and behave in a boundaryless fashion ... believe in and are committed to Work-Out as a means of empowerment ... are open to ideas from anywhere.*

February 14, 1992

To Our Share Owners

General Electric had another strong year in 1990.

- Revenues climbed 7% to \$58.4 billion; earnings per share were \$4.85, up 11% for the fourth consecutive year of double-digit growth; and net earnings grew to \$4.303 billion, up 9%. The performance of our long-cycle businesses such as Industrial and Power Systems, Aircraft Engines and Medical Systems, in addition to Financial Services, more than overcame the softness in short-cycle businesses such as NBC and Plastics.

- Strong productivity growth continued, reaching 5.4% in 1990, the fourth consecutive year we have grown our productivity in the 4-6% range — an improvement central to our competitiveness in the world marketplace.

- Our positive contribution to the U.S. balance of trade in 1990 — approximately \$4.5 billion, up 15% from the year before — is a clear measure of this global competitiveness.

- Operating margin, another gauge of increasing strength, hit an all-time high of 11.6%.

- Working capital turnover, a measure of efficiency and process speed, improved for the fifth consecutive year to 4.7 turns, and we are targeting 5 turns in 1991. These recent improvements in working capital turnover have freed up a total of \$2.3 billion in cash.



Chairman and Chief Executive Officer John F. Welch, Jr. (center); Vice Chairman and Executive Officer Edward E. Hood, Jr. (left); Vice Chairman and Executive Officer Lawrence A. Bossidy (right).

- All of these improvements combined to produce a record return on equity of 20.2%.

- Revenues from international operations grew to \$15.4 billion, up 18% from 1989.

- Our total R&D expenditures increased 9% in 1990 to a record amount, \$4.3 billion, and a record percentage of sales, 9.9%, demonstrating our confidence in the Company's technological future.

- Our stock buyback continued in 1990 with the repurchase of 37.9 million shares at a cost of \$2.4 billion.

- And finally, GE's balance sheet remains strong with a debt-to-capital ratio of 23.6% and a Triple-A rating.

Those are the numbers, and we are pleased with them.

For the remainder of our letter, we would like to share with you the progress we continue to make in turning our 1980s vision into reality and the promise we see in the vision we outlined last year for our Company in the 1990s.

Our vision of the 1980s has been described to you for a decade. We believed that only businesses that were number-one or number-two in their markets could win in the increasingly competitive global arena. Those that could not were to be fixed, closed or sold. Consistent with this view, we

divested \$10 billion worth of those that could not meet the number-one or number-two criterion and made \$19 billion of acquisitions to strengthen the world-class businesses that could.

These moves during the 1980s, and our focused investment, have shaped the 13 businesses we have today, each at, or very close to, the top in its global markets.

In 1990, the process continued. GE Lighting, Mr. Edison's 112-year-old business, was, up until 14 months ago, almost totally a U.S. business, with less than 2% market share in Europe. When the Iron Curtain lifted, and the EC created pan-European markets, we moved. First we acquired a majority interest in the Hungarian lighting company Tungsram, and then, in early 1991, a majority of the THORN Light Source business in the United Kingdom. We now have the number-one lamp business in the world, with close to a 20% market share in Western Europe.

Also consistent with our number-one or number-two strategy was our sale in 1990, for \$515 million, of a nonstrategic business, Ladd Petroleum.

While restructuring our Company in the 1980s, we spent much of our time talking about the accelerating pace of change: in world politics, in technology, in product introduction and in the increasing demands of customers. We don't have to

From that pursuit of speed — from the understanding that it is the indispensable ingredient of success in this decade — came our vision for the 1990s: a boundaryless Company.

do that anymore. Change is in the air. Newspapers and networks hammer it home daily. GE people today understand the pace of change, **the need for speed**, the absolute necessity of moving more quickly in everything we do, from inventory turnover, to product development cycles, to a faster response to customer needs. They understand that slow-and-steady is a ticket to the boneyard in the 1990s. What they need, and what we must provide, are the power, the freedom and the tools that will allow them to achieve that speed in everything we do.

From that pursuit of speed — from the understanding that it is the indispensable ingredient of success in this decade — came our vision for the 1990s: **a boundaryless Company.**

What that boundaryless vision means, and where we are headed with it, is something we'd like to share with you.

"Boundaryless" is an uncommon word — perhaps even an awkward one

— but it has become a word we use constantly, one that describes a whole set of behaviors we believe are necessary to achieve speed.

In a boundaryless company, suppliers aren't "outsiders." They are drawn closer and become trusted partners in the total business process. Customers are seen for what they are — the lifeblood of a company. Customers' vision of their needs and the company's view become identical, and every effort of every man and woman in the company is focused on satisfying those needs.

In a boundaryless company, internal functions begin to blur. Engineering doesn't design a product and then "hand it off" to manufacturing. They form a team, along with marketing and sales, finance and the rest. Customer service? It's not somebody's job. It's everybody's job. Environmental protection in the plants? It's not the concern of some manager or department. Everyone's an environmentalist.

Perhaps the biggest stride we've made recently in boundary-busting has been

our progress in wringing out not-invented-here — NIH — from our culture. Increasingly, GE people are now searching, around the world, for better ways of doing things.

For example, two years ago one of our people spotted a truly innovative method of compressing product cycle times in an appliance company in New Zealand and tested it successfully in our Canadian appliance affiliate.

The methodology has now been transferred to our largest appliance complex in Louisville, Kentucky, where it is revolutionizing processes, reducing the time it takes to produce products, increasing our responsiveness to customers and reducing inventory levels by hundreds of millions of dollars a year.

Teams from all of our manufacturing businesses are now living in Louisville and learning these techniques in real time. The objective: to take this New Zealand-to-Montreal-to-Louisville experience to every business in GE and, by doing so, to raise the bar of excellence yet another notch around this Company.

It is this elimination of boundaries between businesses and the transferring of ideas from one place in the Company to another that is at the heart of what we call **integrated diversity**. It is this concept that we believe sets us apart from both single-product companies and from conglomerates.

Integrated diversity, for us, means the drawing together of our 13 different businesses by sharing ideas, by finding multiple applications for technological advancements and by moving people across businesses to provide fresh perspectives and to develop broad-based experience. Integrated diversity gives us a Company that is considerably greater than the sum of its parts.

Integrating diversity only works when the elements of the diversity — in our case our 13 global businesses — are strong in their own right. A critical mass of competitive advantage cannot be achieved by leaning small businesses on large ones or weaklings on winners. That is why our work of the 1980s — creating strong, stand-alone businesses — was the indispensable forerunner of integrating them in the 1990s.

But the walls that separate our businesses from one another are not the only ones we are removing.

Even the barriers between GE work life and community life have come down. The GE management society, whose chapters for 63 years met and talked shop and discussed investment funds, has turned its face outward to the needs of the community, and the results are something of which we are more than proud. Hundreds of GE volunteers from the society are serving as mentors and tutors in inner city

and rural school systems; and, as a result of their efforts, thousands of underprivileged but promising young men and women will attend college who otherwise would not have had the opportunity. Just a few months ago, Harvard University presented its prestigious Dively Award for Corporate Public Initiative to GE because of the efforts of these volunteers.

So we have knocked

taken out a lot of structure — staff, span-breakers, planners, checkers, approvers — and yet we have by no means removed it all. Those who have ever cleaned out an attic and returned a year later are often shocked to see what they left as “essential” — the pairs of old pants that would never be worn for the painting that would never be done, the boxes of moldy *National Geographics* that would never again be read.

fewer management positions than we have today — not necessarily fewer people, but fewer titles with their perceived mandates to “manage” rather than facilitate and contribute.

But the root cause of many of bureaucracy’s ills — the turf battles, the parochialism and the rest — is deeper and more subtle. It is people’s insecurity. Insecurity makes people resist change because they see it only as a

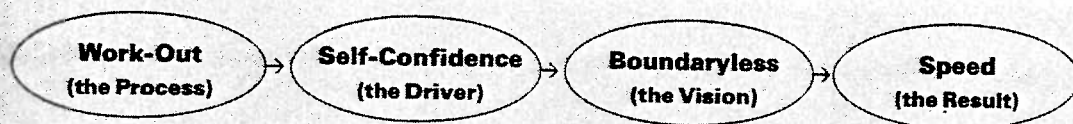
another, a process we believe will eventually lead to widespread self-confidence across the Company.

“**Work-Out**” is the name of the process. As we’ve described it to you before, Work-Out began around the Company with assemblies patterned after the New England town meeting — the ultimate boundaryless event. They are attended by a disparate group of people — hourly, salaried, managers, union leaders — people who often had no occasion to speak to one another during the workday.

The sessions quickly became a shooting gallery, with the more egregious manifestations of bureaucracy as targets — 10 signatures on a minor requisition, nonsensical paperwork, wasteful work practices, artificial dress codes, pomposity. Most of these were abolished or reformed on the spot, not put “in channels.”

For the first time in their work lives, people began seeing action match rhetoric — their trust in the process grew — and the ideas began to come in waves. People who had never been asked for anything other than their time and their hands now saw their minds, their views sought after. And in listening to their ideas, it became even more clear to everyone that the people who are closest to the work really do know it better.

Work-Out is two years old now and it’s moving steadily up the learning curve. Today, suppliers and custom-



down a few boundaries inside the Company and around it, but the walls within a big, century-old Company don’t come down like Jericho’s when management makes some organizational changes — or gives a speech. There are too many persistent habits propping them up. Parochialism, turf battles, status, “functionalitis,” and, most important, the biggest sin of a bureaucracy, the focus on itself and its inner workings, are always in the background. This is no reflection on people but simply a product of the way large organizations have evolved.

We’ve been pulling the dandelions of bureaucracy for a decade, but they don’t come up easily and they’ll be back next week if you don’t keep after them. Yes, we’ve

We feel the same way every time we revisit our management system — our processes — and see the barriers that insulate us from each other and from our only reason for existence as an institution — serving customers and winning in the marketplace.

For decades, business has been rewarding people with not only money and promotions — which is appropriate — but with titles as well, the most common of which is “manager” of this or that. Managers, logically enough, see their mandate as managing: controlling, measuring and getting on top of things. Often, by doing so, they unconsciously carve out fiefdoms and then feel compelled to defend them. By the end of this decade, we will have one-third

threat, never an opportunity. It’s that insecurity, that resistance to change, that must be dealt with.

The antidote to insecurity is **self-confidence**. Some people get it at their mother’s knee, others through scholastic, athletic or other achievement. Some tiptoe through life without it. If we are to create this boundaryless Company, we have to create an atmosphere where self-confidence can grow in each of the 298,000 of us.

So how do we grow self-confidence, not just at the top, or in the middle, but everywhere in the Company?

We designed a process to give people a voice, a say, to get them talking to one another and trusting one

ers are part of many of the sessions, exploring new ways of working together. Sessions are becoming more complex as cross-functional teams map the most complicated business processes and compare them with the very best we can find from companies around the world. Work-Out, incident-

you want about Work-Out and boundaryless, but the boss still calls the shots." And they are right. Yes, after all the dialogue and input and debate, priorities must be set, resources allocated and final decisions made by the leadership at every level. The difference — a very big difference — is that the in-

Work-Out is allowing self-confidence to flourish around our Company. As that self-confidence grows, the boundaries are beginning to fall; and as they fall, GE is picking up speed, and with that speed a competitive advantage.

tally, has proved indispensable to the implementation of the revolutionary cycle-time reduction effort in our appliance business.

Work-Out is building trust, teamwork and self-confidence around this Company.

Now, as we write this, we are conscious that across the Company there are still too many people for whom much of this bears little resemblance to the reality of their lives — people who are still trapped in the web of bureaucracy or work in a place where measurement and reward systems still run counter to the very concept of boundarylessness.

There are others as well who say, "You can talk all

put and ideas upon which those decisions are based will come from many, not a few.

Leaders in the 1990s must delegate more, facilitate more and listen more. They must trust and be trusted. Leadership will always have responsibility for the final call, but it will have an equal responsibility to make the decision rational to those who provided the input. The successful leaders of the 1990s will be those whose decisions, however difficult, will be understood, accepted and rallied around by a highly involved work force.

Work-Out is allowing self-confidence to flourish around our Company. As that self-confidence grows, the boundaries are beginning to fall; and as they fall, GE is picking up speed, and with that speed a competitive advantage.

Some people are uncomfortable with this soft stuff and press us to quantify it, to measure its progress. It would be easy to quote numbers of Work-Out sessions, best-practice teams, suggestions implemented, money spent on training, and the like; but we've resisted because the last thing this effort needs is its own bureaucracy and measurement systems. But we can tell you it is working. We see it working in people's faces and we hear it in the confidence in their voices. And we are beginning to see its results in some of those numbers we gave you at the beginning of our letter: working capital turnover, operating margins and, above all, productivity growth.

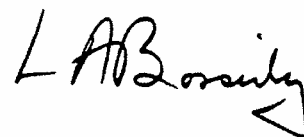
These are numbers that couldn't be improved as significantly as they have been by the actions of the top one hundred, or one thousand, or even five thousand people in a company our size. They can only be moved by the contributions of tens of thousands of people who are coming to work every day looking for a better way.

We enter a year fraught with global uncertainty, but

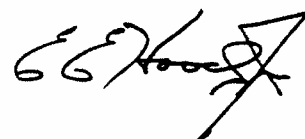
we do so confidently, with 13 globally positioned businesses and an increasingly clear vision of what we can become — a boundaryless Company with a boundless future.



John F. Welch, Jr.
Chairman of the Board
and Chief Executive Officer



Lawrence A. Bossidy
Vice Chairman of the Board
and Executive Officer



Edward E. Hood, Jr.
Vice Chairman of the Board
and Executive Officer

February 15, 1991

To Our Share Owners

Nineteen eighty-nine was another excellent year for General Electric — a record year in a decade of accelerating performance. We begin the 1990s with a profoundly transformed Company, and while we are culturally opposed to dwelling on the past, it is important to outline the degree of change we have experienced because in many ways it suggests the direction in which we are headed in the new decade and beyond.

GE entered the 1980s with a strong balance sheet that gave us the financial strength and flexibility to effect dramatic change decisively yet compassionately. Much of that change was aimed at creating a business mix and a system of managing it that would allow us to grow much more rapidly than the world economies in which we operate.

We begin the 1990s with a Company vastly different from the one that existed in the early 1980s:

- In 1980, two-thirds of GE's revenues came from slow-growth core manufacturing and non-strategic businesses like natural resources. Today, two-thirds of our revenues comes from high-growth technology and services.

- In 1980, of our strategic businesses, only two were truly global — GE Plastics and GE Aircraft Engines. We begin the 1990s with a significant global presence in virtually all of our businesses. Our operating profits from outside the United States have grown 30% per year since 1987 and, at \$2.8 billion in 1989, amounted to 40% of the Company total. Our exports helped us increase our positive contribu-

tion to the U.S. balance of trade to \$4.8 billion in 1989, up from \$3.1 billion in 1988 and \$2.1 billion in 1987.

- We began the 1980s with a bureaucracy of as many as nine management layers in some businesses. Today, all our businesses have significantly reduced layers, some to as few as four, and now we *move* a lot faster — not yet with the speed of the best small companies but with that goal always in our sights and closer every day.

- Our productivity growth in the early 1980s was representative of the United States — in the range of 1-2% a year. We enter the 1990s approaching the 6% level.

- Earnings grew for 40 consecutive quarters in the 1980s. As the decade progressed, this growth climbed from high single digits to consistent double digits, and we finished the decade with a strong 1989 — earnings of \$3.9 billion, up 16% from 1988, and 2.6 times the 1980 level. Operating margins are at historic highs; revenues, at \$54.6 billion, are double the 1980 level.



Chairman of the Board and Chief Executive Officer John F. Welch, Jr. (right); Vice Chairman of the Board and Executive Officer Lawrence A. Bossidy (center); Vice Chairman of the Board and Executive Officer Edward E. Hood, Jr. (left).

■ The stock market looked favorably on these moves and changes and the performance they produced. In 1980, we had a total market value of \$12 billion, which ranked us 11th among American companies. We left the decade ranked second, with a year-end market value of \$58 billion, and that \$46 billion increase during the 1980s was the largest of any company in the United States.

In sum, it was a great decade for GE. We are proud of what we did well and smarter for some of the things we didn't do so well. Not every new acquisition worked, although \$16 billion out of the \$17 billion we spent on acquisitions will add to 1990s earnings. Not every new product was right — as the refrigerator compressor failure demonstrated. And we discovered in mid-decade that we needed to upgrade substantially our systems for complying with government procurement laws.

And finally, as bold and transformational as we think we have been — as we acquired, sold, restructured and reorganized — it is clear in hindsight that we could have been faster, bolder and less incremental. We will be all of these in the years ahead.

But before we take that look ahead, we would like to share a few thoughts about the type of enterprise your Company has become.

People sometimes grapple with what to call GE. An electrical equipment manufacturer? Sure. But that description ignores two-thirds of our earnings.

Are we a conglomerate? No, not that there's anything wrong with being a conglomerate. We simply aren't one. We're not a collection of stand-alone enterprises, and this label misses the very essence of what makes this Company work so well.

We know what we are: an *integrated, diversified company*. And we'd like to explain what that means and, more important, why we think it positions us uniquely to take on the challenges of the 1990s.

We entered the 1980s with a widely diverse set of businesses and major product lines — as many as 350 — that we subjected to a strategic test. Diversity, we felt, could only be a real strength if each business was number one or number two in its particular market. For those that were not, we had a very specific prescription — they were to be fixed, sold or closed.

In line with this simple strategy, we sold businesses that made up 25% of our 1980 sales, including natural resources, consumer electronics, housewares and scores of others that could not become number one or number two. During the same period, we invested \$17 billion in acquisitions — NBC as a free-standing business; the Aerospace business of RCA added to GE Aerospace; Borg-Warner Chemicals added to GE Plastics; Employers Reinsurance, Montgomery Ward Credit and Kidder, Peabody as well as many others added to GE Financial Services; the French medical equipment company, CGR, added to GE Medical Systems; and, most recently, Tungsram of Hungary added to GE Lighting — just to name a few. We committed the research and development and plant and equipment investment necessary to keep our current businesses in leading positions, and we undertook the initiatives to ensure that these businesses became global in their scope and reach.

We enter the 1990s with 13 businesses, each number one or number two in the global markets in which they compete, each with strong

■ *In 1980, we had a total market value of \$12 billion, which ranked us 11th among American companies. We left the decade ranked second, with a year-end market value of \$58 billion, and that \$46 billion increase during the 1980s was the largest of any company in the United States.*

distribution networks, each in industries requiring enormous capital, technology and human resources for entry.

But diversity, even when based on strong individual businesses, each making significant contributions, is not in itself enough. To truly maximize the strength of our businesses, we had to achieve what we call "*integrated diversity*." To get that, we had to dismantle the multiple layers of management that so smoothly ran the Company in a more predictable era but that had, over time, served to garble communication and hobble action. We removed sectors, groups, span-breakers and much of the other superstructure that we had once used to manage our diversity. The role of staff was turned 180°, from checker, inquisitor and authority figure to facilitator, helper and supporter of "the field" — our 13 businesses. Today, all 13 report directly to the three of us. Important communications are oral. The passion of our business leaders is not diluted by filters, briefers and rewriters. We have put in place a management system that integrates our diversity more simply, allows us to allocate resources more effectively than we ever believed possible and lets us move faster.

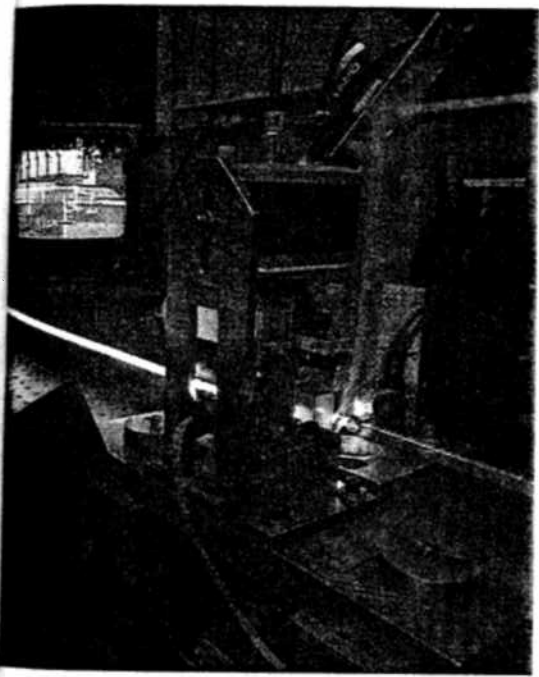
Obviously, the 1990s will be as full of unknowns and surprises as the 1980s were, but in our view, some things are dead certain: The pace of change will be faster. Globalization will be more pervasive. Competition will intensify. The need for continuous employee education at all levels will be even greater. Protecting the environment will become a total commitment of every employee at GE.

In the 1980s, we built a management system ideally suited to deal with these 1990s issues — a system that brings the leaders of our 13 businesses together quarterly over a two-day period, not for a parade of sterile, polished business reviews but to grapple together with common problems and share insights and initiatives that are valuable to all.

While our seemingly diverse businesses range from a television network to financial services, from plastics to jet engines, there is a unique common thread — *shared management practices* — that binds them together and creates what we call integrated diversity. All must deal with the urgency of globalization, the need for cultural change, the protection of the environment and the sudden opportunities in Eastern Europe, where, for example, the experience of a business like GE Lighting, which moved quickly into Hungary, is shared and leveraged across all the businesses.

When one leaves these dynamic sessions, it is impossible to be complacent, impossible to be comfortable with the status quo. The need for faster, more aggressive, more global action comes alive and is obvious to all.

The same dynamics occur every day at our Management Development Institute at Crotonville, N.Y., where 5,000 employees a year, from every business in the Company, share the very best they have observed in areas like customer service, environmental protection and compressing the product development cycle. All these issues and countless others are wrestled with by men and women eager to find a better way of doing things — from anywhere — and translate it into a more productive way back home.



Scientists at the GE Research and Development Center in Schenectady, N.Y., are making technological breakthroughs in materials, artificial intelligence, medical diagnostics, manufacturing systems and the advanced electronic systems (above) needed for aerospace and other GE businesses.

The effect of this constant sharing of common management issues is a reinforcement in the minds of all of the need for speed, continuous experimentation and action.

We've seen, as we shed our bureaucracy and created this integrated diverse enterprise, the enormous benefits of sharing best practices, of helping each other, of asking questions and, above all, of listening. In the 1980s, these practices tended to concentrate in the upper levels of the Company. We are now committed to a decade-long campaign to drive them *throughout* the enterprise.

Our dream for the 1990s is a boundary-less Company, a Company where we knock down the walls that separate us from each other on the inside and from our key constituencies on the outside.

The boundary-less Company we envision will remove the barriers among engineering, manufacturing, marketing, sales and customer service; it will recognize no distinctions between "domestic" and "foreign" operations — we'll be as comfortable doing business in Budapest and Seoul as we are in Louisville and Schenectady. A boundary-less organization will ignore or erase group labels such as "management," "salaried" or "hourly," which get in the way of people working together.

A boundary-less Company will level its *external* walls as well, reaching out to key suppliers to make them part of a single process in which they and we join hands and intellects in a common purpose — satisfying customers.

This is an admittedly grand vision, requiring unprecedented cultural change, and we are nowhere near achieving it. But we have an idea of how to get there — an idea that is rapidly becoming reality across the Company. It's called Work-Out.

Work-Out is a fluid and adaptable concept, not a "program." It generally starts as a series of regularly scheduled "town meetings" that bring together large cross sections of a business — people from manufacturing, engineering, customer service, hourly, salaried, high and lower levels — people who in their normal routines work within the boxes on their organization charts and have few dealings with one another.

The initial purpose of these meetings is simple — to remove the more egregious manifestations of bureaucracy: multiple approvals, unnecessary paperwork, excessive reports, routines, rituals. Ideas and opinions are often, at first, voiced hesitantly by people who never before had a forum — other than the water cooler — to express them. We have found that after a short time those ideas begin to come in a torrent — especially when people see *action* taken on the ones already advanced.

With the desk largely cleared of bureaucratic impediments and distractions, the Work-Out sessions then begin to focus on the more challenging tasks: examining the myriad processes that make up every business, identifying the crucial ones, discarding the rest, and then finding a faster, simpler, better way of doing things. Next, the teams raise the bar of excellence by testing their improved processes against the very best from around the Company and from the best companies around the world.

■ *While our seemingly diverse businesses range from a television network to financial services, from plastics to jet engines, there is a unique common thread — shared management practices — that binds them together and creates what we call integrated diversity.*

■ *Our dream for the 1990s is a boundary-less Company, a Company where we knock down the walls that separate us from each other on the inside and from our constituencies on the outside.*

We have progressed well into the first stage of Work-Out in most of our businesses, and some are beginning the transition into the second — or best-practices — phase; but we are under no illusions that this is anything less than a decade-long crusade. We have hardly scratched the surface of the enormous mine of productivity and innovation that we *know* exists in the intelligence and imagination of our 300,000 employees, but we are excited beyond measure by what we are discovering. The natural cynicism that accompanies the announcement of new corporate campaigns and slogans has largely been dissipated as progress and momentum have begun to grow. Work-Out is working.

The hardware of this Company — its businesses and its management structure — is now largely the way we want it. Work-Out is our decade-long vehicle for the *software*. Restructuring is a road, not a destination. A company can boost productivity by restructuring, removing bureaucracy and downsizing, but it cannot *sustain* high productivity growth without cultural change, without totally involving the individual who is closest to the work and therefore knows it better than those who “manage” it. The individual is the fountainhead of creativity and innovation, and we are struggling to get all our people to accept the countercultural truth that often the best way to manage people is just to get out of their way. Only by releasing the energy and fire of our employees can we achieve the decisive, continuous productivity advantages that will give us the freedom to compete and win in any business anywhere on the globe.

We end this decade with enormous confidence in the future of GE. Last November, we announced our intent to repurchase \$10 billion worth of our stock over the next five years. This decision was made possible by our earnings and our debt capacity and by the significant cash flows generated by our business restructurings and productivity growth during the 1980s.

The repurchase in no way impinges on investment in the Company. R&D investment is the highest in our history, as are capital expenditures. The businesses, even during the repurchase period, will be given the resources to make modest-size complementary acquisitions, and should a very large acquisition opportunity surface, we have the flexibility to suspend the repurchase program and move decisively.

Our Company will be making exciting business moves in the 1990s — ventures, new product lines, acquisitions, alliances — but the most important campaign will be the daily one we wage to inspire and enlist our employees in the cause of shared excellence and winning.

In the 1980s, we changed the Company. We also challenged the bureaucracy and generally got the better of it. In the 1990s, our task will be to challenge each other and, in doing so, to get the very best out of ourselves. The cool efficiency that many have always associated with business leadership must give way to personal skills and traits like empowering, listening, passion, energy and the capacity to transmit that energy to others. Being “on top of things,” controlling them, must give way to sharing, trusting. Most of the bureaucracy that infects business institutions — the reviews, layers, routines and reports — stems largely from a lack of trust. We have seen, with the demolition of the control superstructure we once imposed on our business, and we are *beginning* to see even more clearly as Work-Out starts to blossom, that

controlling people doesn't motivate them. It stifles them. We've found that people perform better, even heroically, when they see that what they do every day makes a difference.

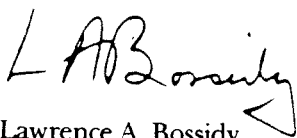
When they see that — when they are allowed to make real contributions to win — they quickly develop increased *self-confidence*. That self-confidence in turn promotes *simplicity* — of action, of design, of process, of communication — because there is no longer a psychic need to wrap oneself in the complexity, trappings and jargon that, in a bureaucracy, signify sophistication and status. And that simplicity will radically increase the *speed* of our businesses and their ability to react to a world whose pace of change will become astonishing in the 1990s. Speed, simplicity and self-confidence will be the operative characteristics of the winning companies of the 1990s and beyond.

We want GE to become a company where people come to work every day in a rush to try something they woke up thinking about the night before. We want them to go home from work wanting to talk about what they did that day, rather than trying to forget about it. We want factories where the whistle blows and everyone wonders where the time went, and someone suddenly wonders aloud why we need a whistle. We want a company where people find a better way, every day, of doing things; and where by shaping their own work experience, they make their lives *better* and your Company *best*.

Far-fetched? Fuzzy? Soft? Naive? Not a bit. This is the type of liberated, involved, excited, boundary-less culture that is present in successful start-up enterprises. It is unheard of in an institution our size; but we want it, and we are determined we will have it.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer



Lawrence A. Bossidy
Vice Chairman of the Board and
Executive Officer



Edward E. Hood, Jr.
Vice Chairman of the Board and
Executive Officer

February 16, 1990

To Our Share Owners

Nineteen eighty-eight was another exciting and successful year for GE. Earnings per share grew 17%. Earnings were \$3.386 billion on revenues of \$50.089 billion. The fourth quarter was the first in which GE's reported net earnings broke the one-billion-dollar mark. Return on equity was 19.4%, up almost a point. Operating margins grew, as did total cost productivity, which is now gaining at three times the national average and accelerating.

The year was punctuated by several key acquisitions, alliances and joint ventures that strengthened the Company's position around the globe. The results of these and other globalization efforts were apparent as revenues from international operations approached \$11 billion, producing an operating profit of \$2 billion — up more than 50% from the level of just two years ago and accounting for more than one-third of GE's total operating profit in 1988. The strong demand for our products around the world helped GE make a \$3.1 billion positive contribution to the U.S. balance of trade in 1988, 50% greater than in 1987.

By virtually every measurement, it was a great year. But, as is usually the case in most years, a few thorns can be found among the roses — two, to be exact.

The first was a problem we've experienced with a new type of rotary compressor in certain models of our large refrigerators. There is no safety issue involved, and we are in the midst of an active campaign to replace every one of these compressors with minimum inconvenience to our customers. Our aim is to come out of this situation with our reputation for customer support and satisfaction not only intact but — if anything — enhanced. While the cost to the Company will be substantial, we have set up reserves to cover the estimated cost of the fix — and we still had a record performance in 1988.

The second disappointment of 1988 is one you, as share owners, are quite familiar with: the price of our stock. Those who have held GE shares from the early 1980s have been rewarded handsomely. Appreciation and yield provided a return averaging 20% per year, compounded from 1981 to 1988, even with the October 1987 correction, compared with a return of 15% for the S&P 500. But that's yesterday's performance. In 1988, the stock appreciation didn't keep pace with the Company's performance.

We're not sure why this is the case, but it occurs to us that perhaps the pace and variety of our activity appear unfocused to those who view it from the outside. The general media and the financial press have, for the most part, been more than favorable in their appraisal of our performance, but as we've picked up the tempo, especially in

1988, we began hearing: GE is "too difficult to understand" and "portfolio managing." We even heard ourselves described by the "C" word — conglomerate — with its usual pejorative corollary: "Who knows what they'll buy or sell next?"

You get the idea.

Perhaps a strategy that appears to us crystal clear and consistent — because we live by it — seems less so to some of our key constituencies in the media and financial community.

This is more likely a failure of our communication efforts rather than one of understanding, so we have decided to use a good part of this letter to explain again, without adornment, the operative premises and world view that have guided, without exception, every major move we've made since 1981.

There is no denying we are a diverse company. We are not a computer, or oil, or auto, or steel monolith. Those who track us in the financial analyst community or financial press have much more homework than do those who watch and report on our peers. We have businesses ranging from plastics to network broadcasting to the manufacture of jet engines to reinsurance. But the strategy, the management philosophy that drives the Company, is the essence of simplicity.

We have two basic premises. The first is that we will run only businesses that are number one or number two in their global markets — or, in the case of services, that have a substantial position — and are of scale and potential appropriate to a \$50 billion enterprise. Currently, there are 14 of these businesses, highly diverse in their pursuits but closely knit by common values, shared technology and substantial resources; and they draw upon a pool of management talent we believe is unequaled in the world.

The second premise is that in addition to the strength, resources and reach of a big company, which we have already built, we are committed to developing the sensitivity, the leanness, the simplicity and the agility of a small company. We want the best of both.

These premises shape and explain everything we do.

In acquisition philosophy, for example, being number one or number two dictates that we will only acquire companies that are a direct and enhancing graft onto one of our 14 key businesses or that are large, freestanding and in a position of leadership in their marketplaces. The RCA acquisition, while old news, illustrates this principle very

well. NBC was a part of RCA and the nation's number one network. We kept it and added it to our other leadership businesses.

The RCA Aerospace group, on the other hand, was a natural fit with our own GE Aerospace business, so we merged them, strengthening our overall aerospace position. Several discrete RCA businesses that were not strategic to us, such as the carpet company, were neither graftable to our 14 key businesses nor large and freestanding, so we disposed of them almost immediately.

But, for some reason, our trade of the merged GE/RCA television manufacturing business to Thomson of France in exchange for its medical diagnostic business and cash provoked some puzzling responses. Suddenly, the manufacture of televisions became something quintessentially American, like baseball. Some felt we had betrayed our heritage in our compulsion to "do deals." We heard phrases like: "Un-American," "giving up on manufacturing," "exporting jobs."

The facts were these: The combined GE/RCA television business lost \$125 million in the 1980s, was a cash drain and was number three or four in the global market with no way in sight of getting to number one or two. Thomson's TV business, while profitable, was in a similar market-share situation — stuck in the middle of the pack. Our trade with Thomson produced the following results. Thomson, including its new employees from GE, broke out of the pack, doubled its volume and moved into a number one or two position in the industry. GE, by acquiring Thomson's medical business, with its \$1 billion in sales, and grafting it onto the already strong GE Medical Systems business, became number one in a game central to our strategy. Exporting jobs? Some 21,000 of the 31,000 jobs in the TV business had been overseas for a decade or more. Hurting employees? The employees in that business, formerly endangered by being part of an also-ran in a global market, now have the reach and volume that gives them a real shot at winning.

We think it is one of the most important, logical and universally beneficial moves made anywhere in the 1980s — a win for the employees of the GE/RCA television business, a good deal for Thomson and a key victory for a high-technology GE manufacturing business — Medical Systems — that is now the global technology and market leader.

The divestitures we've made in the 1980s have produced \$9 billion in cash, which has been used for acquisitions to strengthen our 14 key businesses. In 1988, we purchased Borg-Warner's chemicals businesses to expand GE Plastics' global market basket. In addition, we bought

the Roper Corporation to strengthen the position of GE Appliances in the domestic range market. GE Financial Services (GEFS) acquired the credit card business of Montgomery Ward, a move that effectively doubled our private-label credit card assets and enhanced our number one position in that market segment. GEFS' 1988 integration of the 1987 Gelco acquisition created a leading position in automotive fleet leasing as well as in the cargo shipping container business.

In all, we've invested some \$16 billion in the 1980s on acquisitions. We would argue that some \$15 billion of these funds has been very successfully invested. Only two niche electronics acquisitions — amounting to about \$400 million — didn't pan out and were sold. Another \$600 million invested in Kidder, Peabody has thus far had — for a variety of reasons — difficulty in reaching its potential. Even so, Kidder increased its 1988 earnings 20% to \$46 million — admittedly a small part of the total GEFS net of \$788 million; nevertheless, we see Kidder as a business with important synergies across GEFS that should become more significant in the 1990s.

This track record gives us confidence in the acquisition process as one of the means to strengthen our global leadership positions.

In addition to acquisitions, we continue to invest in alliances and joint ventures with other companies all over the globe to enhance our 14 key businesses. In 1988 alone, we concluded alliances between GE Lighting and Toshiba of Japan and between GE Motors and Bosch of West Germany, and we expanded an alliance between GE Electrical Distribution and Control and Fuji.

Finally, in early 1989, we signed a series of historic agreements with GEC of the United Kingdom that will open the door to increased European participation by four of our 14 businesses — Medical Systems, Appliances, Industrial and Power Systems, and Electrical Distribution and Control. This move appears complicated on the surface because there are four businesses involved, but it is driven, once again, by the simple strategy dictating that we advance our 14 businesses, on a global basis, whenever we can, consistent with a consistent strategy.

In addition to acquiring, divesting and forming alliances to support these key businesses, we continue to supply them with resources to propel their internal growth — investing close to \$16 billion since 1981. In 1988, we made a multiyear, \$1.8 billion commitment to build a Spanish plastics complex that will supply the European market, we committed another billion dollars to further fuel the strong growth of GE Financial Services, and we spent a total of more than \$1.8 billion on new plant and equipment. Another \$3.6 billion — about \$1.2 billion funded by the Company — was spent on research and development, almost exclusively in support of these 14 key businesses.



Chairman of the Board and Chief Executive Officer John F. Welch, Jr. (center) is flanked by Vice Chairman of the Board and Executive Officer Lawrence A. Bossidy (left) and Vice Chairman of the Board and Executive Officer Edward E. Hood, Jr. (right).

To those who perceive us as institutionally fickle, we would point to two of our key 14 businesses — Transportation Systems, which is mainly locomotives, and Industrial and Power Systems. Both went through purgatory in the 1980s, in the bottom of market troughs of several years' duration that saw few orders in locomotives and none in large steam turbines.

Instead of closing or selling these businesses, we reduced their costs consistent with the market, invested to make them more competitive (\$300 million in locomotives alone) and stuck with them through the lean years — not out of sentimentality or inertia but because they are large, world-leading businesses with big potential and because doing so fits our strategy. And in 1988, we saw a significant market revival under way in locomotives and the approaching dawn of a revival in areas of the turbine business.

That, then, is the first part of our strategy: Creating a company consisting only of world-class global businesses that can compete and win in the 1990s and beyond. The focus of our R&D, investment, acquisitions and alliances — everything we do — is ensuring the growth and vitality of those businesses.

The second part of the strategy, as we mentioned, is making this \$50 billion enterprise as lean, as agile and as light on its feet as a small company — a big company with the heart and hunger of a small one.

We've been grappling with how to achieve this unbeatable amalgam for the entire decade, and, while we haven't yet achieved it, our progress is accelerating. Once again, the actions we have taken are totally consistent with our oft-stated theory of the case.

We believed layers of management were "big-company" encumbrances — so we reduced ours from nine to as few as four, from us in the Corporate Executive Office to the factory floor of any given business. In the mid-1980s, we made a calculated gamble and removed the entire second and third echelons of management in the Company — layers we called sectors and groups. The 14 key businesses now report not, as often in the past, to senior vice presidents who report to executive vice presidents — all with staff entourages — but directly to us three. This arrangement is dependent for its success on the quality of leadership at the business level. We gambled that we had that quality, and we won. The new arrangement has proved breathtakingly clean, simple and effective. Ideas, initiatives and decisions move, often at the speed of sound — voices — where once they were muffled and garbled by a gauntlet of approvals and the oppressive ministrations of staff reviews.

Secondly, we found ourselves in the early 1980s with corporate and business staffs that were viewed — and

viewed themselves — as monitors, checkers, kibitzers and approvers. We changed that view and that mission to the point where staff now sees itself as facilitator, advisor and partner of operations — with a growing sense of satisfaction and cooperation on both sides. Territoriality has given way to a growing sense of unity and common purpose.

The third step toward a small-company management system began in 1988 when we formulated and began planning a project we call "work-out." This will be an intense and continuing program, conducted within the businesses and with support from the Company's management institute, to "liberate" the employees of our Company from the cramping artifacts that pile up in the dusty attics of century-old companies: the reports, meetings, rituals, approvals, controls and forests of paper that often seem necessary until they are removed.

As we succeed over the next three years in ridding our Company of the tentacles of ritual and bureaucracy, we are now better able to attack the final, and perhaps the most difficult, challenge of all. And that is the empowering of our 300,000 people, the releasing of their creativity and ambition, the direct coupling of their jobs with some positive effect on the quality of a product or service. We want each man and woman in this Company to see a connection between what he or she does all day — and winning in the marketplace. Their roles, responsibilities and rewards must become clear to them and to everyone. Small companies thrive and grow on that sense of contribution and reward. We want it as well, and everything we do to evolve our management system will be consistent with getting it.

Liberation and empowerment, as we use the concept, stems from what we believe is a very solidly grounded view of winning and losing around the world. We, as a globally competing company, have some serious disadvantages as we line up against our foreign competitors. Some of those competitors enjoy protection from foreign inroads into their markets; others are financially supported by their governments. Some are beneficiaries of nationally focused R&D in key technologies. Others are part of regimented, paternalistic cultures that serve them well.

We complain, on occasion, about all of this, but it is we who have the ultimate advantage, one that few of us, if pressed, would ever wish to trade. It is the fact that we are,

despite our mix of global cultures and enterprises, an American company; and, as such, our system, while providing no guarantees, also has the fewest barriers to innovation, boldness and risk-taking — the stuff that will propel the real winners in the 1990s.

And that's the "why" behind our program of liberation and empowerment — more fulfilling work for all and greater competitiveness for our Company. The worst thing we could do is to stifle with bureaucracy our employees — the Americans and Germans, the French and Japanese, and the scores of other nationalities that are now part of the global GE. If we did, we would then have none of the advantages of our competitors — and many of the encumbrances that burden them all. We won't let that happen.

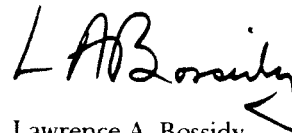
If we can become that big-company/small-company hybrid while pursuing our global strategies and encouraging even more boldness in the leadership of our businesses, we will be within striking distance of the goal we set out in pursuit of eight years ago: We will be a more contemporary, more accessible, more responsive company, in touch with our customers, firmly in control of our own destiny, driven by more-fulfilled people in control of theirs.

We are on the brink of the most exciting and opportunity-rich decade in world business history. We approach it with a strategy that has been both consistent and very successful during the 1980s. If this summary of the strategy we have once again presented in this letter is clear, you will have no difficulty understanding everything we do in the 1990s.

And we intend to do a lot.



John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer



Lawrence A. Bossidy
Vice Chairman of the Board and
Executive Officer



Edward E. Hood, Jr.
Vice Chairman of the Board and
Executive Officer

February 10, 1989

To Our Share Owners

The events of 1987 reaffirmed our belief in the strategy your Company has followed throughout the 1980s. GNP growth remained modest; global competition continued to intensify; large transnational alliances became a key ingredient to success throughout the world; and the inextricable relationship of the world's economies and financial markets was clearly demonstrated.

Against this backdrop, GE's 14 key businesses all performed well and, more importantly, demonstrated that GE is well-positioned for strong earnings growth in any reasonably good economic scenario.

At the beginning of the decade, we said the world economy would be characterized by slower growth with stronger global competitors going after a smaller pie. That analysis became the cornerstone of what we set out to do. It led to a strategy of being number one or number two in market share in large key businesses that we grouped into technology, services and core manufacturing.

Within that framework, we sold or exited businesses and product lines that were not central to our strategy, and became much more cost-effective in those that were by consolidating facilities and by investing \$16.7 billion to develop new products and improve productivity. Our financial strength allowed us to do this in ways that were fair and compassionate to the employees involved. Long notification periods, equitable severance packages, retraining and placement centers were used when business realities caused us to close plants.

As we sold or exited businesses not central to our strategy, we acquired others that would either improve the competitiveness of an existing key GE business or would stand strongly alone in a promising market in which we want to participate.

In our view, a key criterion of strength is being number one or number two in market position; and number one or number two, for us, refers to *world* market position. In 1987, we continued to establish strong global positions for our businesses through acquisitions, cross-sourcing partnerships, asset exchanges and other arrangements with Asian and European companies whose strengths and assets complement our own.

Of GE's strategic moves in 1987, the one that best demonstrates our global business leadership direction is the business exchange we made with

Thomson, S.A. of France. In this transaction, we acquired CGR, a European-based medical diagnostic imaging business, and cash from Thomson; in return, Thomson received GE's consumer electronics business.

This move greatly strengthened our global Medical Systems business and allowed us to divest a business that was not strategically important to us. Thomson, which views consumer electronics as central to its strategy, strengthened its ability to compete globally in this industry. In this win-win transaction, both companies became stronger in businesses they feel are key to their future.

Adding CGR's strength in Europe and Latin America, particularly in x-ray products, will complement GE's already strong engineering, marketing and manufacturing operations in the United States and in Japan, where we hold a 75% stake in Yokogawa Medical Systems.

In the exchange with Thomson, we built upon decades of globalization initiatives by several other GE businesses that have long realized that a strong market presence in the major areas of world commerce will be a decisive advantage in the intensely competitive and highly concentrated markets of the 1990s.

Many of our fastest-growing businesses have had their growth fueled by innovative, transnational alliances where each partner's unique assets are shared in return for greater world-market access.

GE Aircraft Engines, for example, has used its 16-year-old partnership with SNECMA of France to help forge a pre-eminent position in world markets, winning the leading share of the world's large commercial engine orders in 1987. GE Plastics, with nearly half its sales outside the United States, has grown 16% annually over the last five years by developing applications in one part of the world, and then multiplying their value through global technology, manufacturing and marketing organizations. Our Factory Automation business, which struggled for years by itself to fulfill a dream of world leadership, now sees that dream becoming a reality via GE Fanuc Automation Corporation, a 50-50 joint venture with FANUC Limited of Japan that includes subsidiaries in Europe, Japan and the United States.

Actions like these are under way in virtually every GE business. Each business understands clearly that an important road to growth is through globalization and through sharing individual strengths such as market access, technology and capital availability. In this "share-to-gain" approach, our businesses are expanding product



Chairman and Chief Executive Officer John F. Welch, Jr. (right), Vice Chairman and Executive Officer Lawrence A.

Bossidy (center), Vice Chairman and Executive Officer Edward E. Hood, Jr. (left).

lines, opening new markets, becoming more competitive in existing markets, and reducing the investment and time it takes to bring products to customers and potential customers.

During the past seven years, consistent application of GE's strategy has produced consistent growth for our investors:

- ▶ Earnings have risen 10% a year compounded since 1980, about 40% faster than the GNP over the same period and triple the rate of growth of the S&P 400 companies.
- ▶ Our stock, through appreciation and yield, has grown 19% a year compounded, even with last fall's market correction, versus 11% for the S&P 400.

▶ We have shifted our earnings mix to where we now obtain about 75% of our key business earnings from faster growing technology and services businesses compared with about 50% in 1980, even though earnings in our core manufacturing businesses have grown at an average of 6% a year over the same period.

By any measure, 1987 was a very strong year for your Company. All of GE's key businesses met their business plans. And, for the third year in a row, virtually all of our key businesses increased their market share.

Overall, net earnings were \$2.915 billion, an increase of 17% from \$2.492 billion in 1986. Earnings per share were \$3.20 for 1987 compared with \$2.73 for 1986, reflecting the April 1987 stock split. In 1987, the Company had two accounting changes which resulted in one-time net earnings gains of about \$720 million. These gains were more than offset by business restructuring of about \$750 million after taxes. Thus, our 1987 earnings growth of 17% was independent of these unusual items, but the restructuring will enhance GE's competitiveness in 1988 and beyond.

Sales for 1987, the first full year in which the RCA businesses are included, were \$39.31 billion, up 12% from 1986's \$35.21 billion.

We again ended the year in excellent financial condition. Cash, marketable securities and funds held for business development aggregated about \$2.8 billion at December 31, 1987 compared with \$2.3 billion a year earlier. GE's short- and long-term debt, which carries the highest credit ratings, improved to a ratio of 25.1% of total capital, down from 28.7% at the end of 1986. Return on share owners' equity improved significantly, to 18.5% from 17.3% for 1986. Measurements of capital efficiency such as return on investment and working capital turnover also were improved.

Our commitment to research and development remained strong. R&D expenditures were \$3 billion. In February 1987, GE donated the RCA David Sarnoff Research Center in Princeton, N.J., to SRI International and made a five-year, \$250 million commitment to fund research there. This move preserved Sarnoff Labs as one of the nation's foremost research centers, a position that might have been jeopardized had we tried to combine it with GE's existing research operations.

Expenditures for plant and equipment during 1987 were \$1.8 billion, with significant capacity and productivity investments in Aircraft Engines, Plastics, Lighting and Appliances.

The major contributors to 1987's earnings

growth were Aircraft Engines, Financial Services, Medical Systems, NBC and Plastics.

Adding to our internally generated growth is our record with acquisitions. Several large recent acquisitions — for example, Employers Reinsurance, NBC and RCA — have provided net additions to our earnings in their first year of GE ownership and have added significantly since then.

Kidder, Peabody, 80% of which was acquired by GE in 1986, had some difficulties in 1987, including admission by a former employee to securities violations that occurred prior to GE's acquisition; a subsequent settlement with the SEC; and the effects of stock and bond market volatility. Kidder, Peabody was a strong contributor to GE's 1986 earnings, but the 1987 difficulties put Kidder's contribution to GE at about breakeven for the first 18 months of ownership. Kidder is taking the decisive steps needed to weather turbulent times, and it remains an important part of our Financial Services business.

We have had a good track record with major acquisitions; and, although we have the resources for another, we have no set timetable to do one. Our past acquisitions were successful because they were a fit with our long-term strategy. We will continue to be selective, knowing that when the right opportunity presents itself, we have the financial strength and management depth to act quickly.

Our outlook for GE businesses in 1988 is optimistic. While the worldwide collapse in stock markets in the last quarter of 1987 was of concern, we believe that the directions our management team has been emphasizing — agility, quicker response to markets, globalization — will serve GE well during this period of change and uncertainty. Your Company is positioned for strong earnings growth in any reasonably good economy. We made a 1986 prediction of two-year double-digit earnings growth, given approximately 2-3% GNP growth. We have achieved that growth in 1987 and, given about the same economic scenario, we're confident we can do it again in 1988.

Your Company has a vitality, a sense of confidence, a bias for action that even the most optimistic of us could not envision just a few years ago. The sharing, open, adaptive culture we have worked so hard to grow is well-suited to the ever more complex world we face.

None of this has been brought about by more management, but rather by *less* management. Layers have been peeled away, and with them the reviews and the filters have also gone. Approval

authority has been delegated downward. Thus, the bureaucratic paraphernalia that often slows and impedes communications and discourages the innovator and the risk-taker has been swept aside; in its place a faster-moving, more action-oriented and personally more satisfying environment has taken shape. We have removed, in addition, the saddle of a corporate bureaucracy from the backs of our businesses and have encouraged them to run in directions, and at speeds, they choose — and run they have.

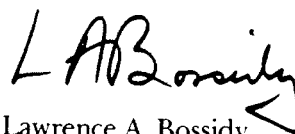
With the reduction of "management" and the dismantling of bureaucracy, leaders have moved quickly to the front, creating a vision for each business and articulating that vision so clearly and compellingly and consistently that an entire organization can rally around it and turn it into reality. Leadership of that caliber is abundant in this Company and we see it shining from deeper and deeper in the structure of each of our businesses.

Communication, above all other factors, is driving this progress. We will never be satisfied with our performance, but we are proud of the gains we are achieving. Communication, for us, is more than newsletters and speeches and videotapes. It means sharing all the facts, with all the people, all the time. It is, we find, a simple concept but one requiring patience and persistence to imbed in the culture.

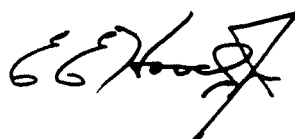
Our businesses are on the move — driven by people who talk, listen and share with one another, forging commitments that include everyone. For those businesses individually, and for the Company as a whole, 1987 was a terrific year. We continue to believe your Company has a future unmatched anywhere in the world. And the people of GE remain committed to seizing that future.



John F. Welch, Jr.
Chairman and Chief Executive Officer



Lawrence A. Bossidy
Vice Chairman and Executive Officer



Edward E. Hood, Jr.
Vice Chairman and Executive Officer

February 12, 1988

By almost any measure, 1986 was a strong year for your

Company — record sales, record earnings, several successful acquisitions and excellent positioning for the future. But to put 1986 in full perspective, one has to go back to 1981 when we first enunciated the strategy that has guided GE through the 1980s.

In 1981, we said that the world was going to get much more competitive, characterized by slower growth with more companies after a smaller pie. That analysis became the cornerstone of what we set out to do. It led to the strategy of being number one or number two in our large key businesses, which we have grouped into technology, services and core manufacturing.

Within that framework, we sold or exited businesses and product lines that weren't central to our strategy, and became much more cost-effective in what we own by consolidating facilities, where needed, and by investing \$11.6 billion in our businesses to develop new products and improve productivity.

At the same time, we reduced our work force by more than 100,000, but the strength of our balance sheet allowed us to do so in ways that were fair and compassionate to those involved. Lengthy notification periods, equitable severance packages, retraining and placement centers were used whenever business realities caused us to close a plant or exit a business.

We have also accelerated the use of alliances and joint ventures; 12 of them were either started or expanded in 1986 alone. We view alliances as a means to expand product lines, to open new markets, to become more competitive with existing products in existing markets, and to reduce the investment and time it takes to bring good ideas to our customers.

Our acquisitions — the most visible being Employers Reinsurance Corporation, RCA and Kidder, Peabody — plus internal growth during the past six years have helped shift the overall GE mix toward faster-growing services and technology businesses. In 1986, 70% of our key business net earnings were in technology and services compared to 50% in 1981. Significantly, this shift was accomplished while earnings grew 30% in core manufacturing over these years.

Our positioning for the future has also produced significant

growth for investors. For example:

- Earnings have risen 9% a year compounded since 1981, 32% faster than the GNP over the period.
- Our stock, through appreciation and yield, has grown 29% a year compounded. And we have moved from number 10 in market value among all U.S. corporations to number three.

- We absorbed restructuring costs for plant consolidation and employee assistance without taking any one-time restructuring charges of a size that could have broken our string of steady earnings increases.

The acquisition of RCA in 1986 was a significant step in

the continuation of our strategy. RCA has been a member of the GE family since June, and GE and RCA managers, working together, have accomplished much:

- We have added to GE an important new business in NBC, an enterprise with \$3 billion in annual revenues and a leadership position in the broadcasting industry.
- In several business areas where GE already participated — aerospace and defense, communications and services, consumer electronics, and semiconductor — integration plans have been defined, management teams put in place and actions initiated that will obtain the greatest advantage from our combined strengths.
- RCA's record company, carpet business and insurance firm, none of which fit GE's long-term strategy, and notes from RCA's 1984 sale of CIT were sold for a total of more than \$1.3 billion.
- Corporate staffs have been combined and streamlined, making sure that qualified people in both organizations were retained.

RCA added 14 cents per share to GE's earnings in 1986, even after allowing for all acquisition costs. And we expect the RCA contribution to increase in 1987.

“As we look to the future, we see a growing confidence within GE. Confidence in the prospects of the key businesses and confidence in the men and women who run these businesses.”

Looking at GE's three groups of key businesses at the end

of 1986, we believe we have accomplished much of what we set out to do in 1981 — developing one of the most competitive and winning sets of businesses in the world by the end of the decade.

GE's five technology businesses — Aircraft Engine, Aerospace, Plastics, Medical Systems and Factory Automation — all have the ability to reach beyond today's boundaries and to anticipate tomorrow's needs. During the 1981-86 period, earnings in these businesses grew at an average annual rate of 26%. For the future, the combination of GE and RCA in Aerospace creates a formidable competitor in the industry. Our other technology businesses are all using alliances to add significantly to their already strong worldwide positions. Some of these alliances are Aircraft Engine's long-term alliance with SNECMA of France and newer alliances involving Plastics with PPG Industries and others, Medical Systems with Yokogawa of Japan, and Factory Automation with FANUC of Japan.

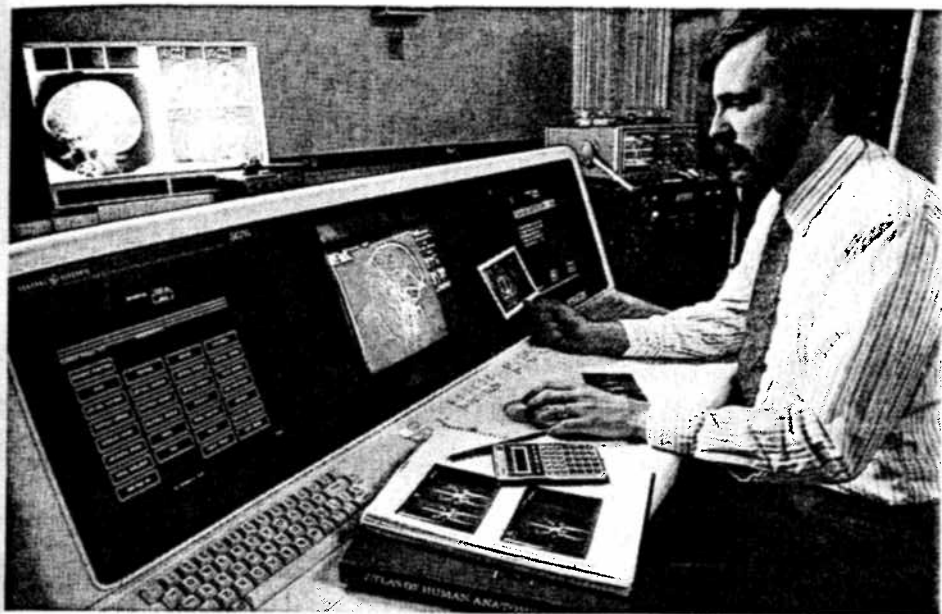
The mix of our services businesses has changed markedly since 1981, and they have grown from providing 20% of key business earnings at the start of the period to 29% in 1986. NBC brings to GE its role as a premier provider of TV programming and its current



Chairman and Chief Executive Officer John F. Welch, Jr. (center), Vice Chairman and Executive Officer Edward E. Hood, Jr. (left), Vice Chairman and Executive Officer Lawrence A. Bossidy (right).

R&D in 1986 was aimed mainly at advancing aircraft engine, aerospace, plastics, medical systems and factory automation technologies. For example, Dr. Charles L. Dumoulin (below) of the R&D

Center in Schenectady, N.Y., helped develop an improved approach, now in clinical trials, that uses the GE Signa® MR scanner for diagnosing diseases linked to arteriosclerosis and stroke.



position as the top network. GE Financial Services has been strengthened by the addition of Kidder, Peabody to an already strong lineup including General Electric Credit Corporation (GECC) and Employers Reinsurance Corporation, which we acquired in 1984. In just six months, Kidder, Peabody added 4 cents per share to GE's earnings, after accounting for acquisition costs, and is an excellent fit with GECC in several areas, such as providing distribution capability for GECC's growing nationwide origination capability. Communications and Services combines several RCA and GE operations to form a business with almost \$2 billion in annual revenues.

Our six core manufacturing businesses — Major Appliance, Lighting, Power Systems, Con-

struction Equipment, Transportation Systems and Motor — have maintained commanding or leading market positions by striving to become the low-cost, high-quality global competitors. Since 1981, earnings of these businesses as a group have increased at an average annual rate of 8%, while investments of more than \$2.6 billion have been made to help ensure continued strength into the next decade.

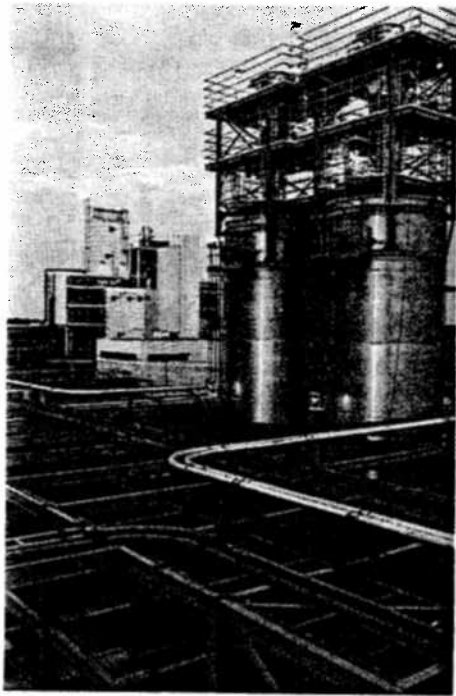
Among our support businesses, Consumer Electronics combines RCA and GE operations to provide a leadership position in a very visible, but difficult, market. A talented business team in the GE/RCA Consumer Electronics business has the Company's full support as it undertakes a concerted effort to succeed in a volatile worldwide environment. Our other support businesses — Semiconductor, Ladd Petroleum,

Corporate Trading Operations and International — also help GE businesses to win in world markets. In the international arena, Canadian General Electric, for example, has posted strong gains in an important national market and continues to develop unique products to serve global markets.

Looking specifically at 1986 performance, some of our businesses had excellent years, but a number of our key markets were characterized by severe global competition and sluggish growth. Overall, net earnings were \$2.492 billion, an increase of 9% from \$2.277 billion in 1985. Earnings per share were \$5.46 for 1986 compared to \$5.00 for 1985. Sales for 1986, which reflect RCA for the last seven months, were \$35.21 billion, about 24% more than 1985's \$28.29 billion.

Our strong performance has been accompanied by continuing investment in the future of our businesses. Research and development expenditures in 1986, excluding RCA, were \$2.9 billion, up 14% from 1985. Expenditures for plant and equipment were about \$2 billion.

Several key businesses had excellent years. Aerospace, Aircraft Engine, Financial Services, Major Appliance, Medical Systems, NBC and Plastics, for example, all achieved double-digit growth in earnings. On the other hand, extremely difficult markets in Power



Representing an investment of \$325 million, this new Lexan® polycarbonate manufacturing facility is nearing completion at

Burkville, Ala. It is GE's largest single investment in the Plastics business.

Systems, Motor, Construction Equipment and Transportation Systems have caused these businesses to consolidate operations and to redesign products to become even more cost-competitive in anticipation of a time when demand rises. In Power Systems, a sharp downturn in shipments in what historically had been one of GE's most profitable businesses resulted in a negative earnings swing of more than \$150 million in 1986, but the growth of other GE businesses allowed the Company to have a record year.

In 1986, GE continued its commitment to ensuring ethical behavior by all employees in business dealings with the government. New policies and procedures instituted in 1985 — including establishment of a Compliance Review Board and an ombudsman — were emphasized with Companywide communication and training. We continue our policy of voluntary disclosure of problems to appropriate governmental authorities, and the government continues to cooperate in our efforts to ensure compliance in the complex area of government contracting.

GE also participated in an industry initiative that produced a set of six principles of business ethics and conduct for the defense industry. These principles were incorporated into the final report given to the President by the blue-ribbon commission headed by David Packard, former deputy secretary of defense, which was charged with suggesting reforms for the nation's defense procurement system. To date, 37 companies representing about half of all defense procurement dollars spent have pledged to implement these principles. We are optimistic that the work of the Packard Commission will result in a more cost-effective, less adversarial system of meeting the nation's defense needs.

Our outlook for the economy during the next couple of years is for modest growth in the GNP.

Our businesses are positioned to do well in such an environment. We expect eight of them — Aerospace, Aircraft Engine, Factory Automation, Financial Services, Major Appliance, Medical Systems, NBC and Plastics — to grow faster than the GNP over the next five years. And we anticipate they will account for about 80% of our earnings by 1991 — up from 73% in 1986. We expect the remainder of our key businesses, those in more difficult markets, to grow at about the GNP rate.

The competitiveness of many of our businesses — and indeed much of American industry — is linked

inextricably to their ability to trade freely in world markets.

Protectionist trade legislation will again be debated in 1987. It is our view that open, free trade is one of the main engines of economic growth, prosperity and jobs. While we strongly support the government's efforts to improve exports through a more competitive dollar and other export initiatives, we oppose measures that endanger the international trading system and ultimately drive up the cost of domestic manufacturing.

As we look to the future, we see a growing confidence within GE. Confidence in the prospects of the key businesses that will carry us forward and confidence in the men and women who run these businesses.

Leadership at GE means creating a vision for, and within, each business. It means articulating that vision so clearly that an entire organization can rally around it and, more important still, achieve its goals.

This kind of leadership — vision plus achievement — is not reserved for only those businesses doing well. In some cases, the people in our most beleaguered businesses understand the realities of their markets even better than those in

At GE's Management Development Institute in Ossining, N.Y., new facilities and expanded curricula for new managers like those below as well as for experienced

executives are helping assure the excellence of GE's future leaders.



businesses that, for the present, are growing rapidly.

Leadership is also not restricted to any one level of the Company. It's an engineer in our Aerospace business seizing an opportunity for new business, gathering a team and pursuing the order — potentially more than a \$1 billion order — until it is won. It's a production worker who shuts down a Major Appliance production line upon spotting a potential quality problem. It's a Power Systems manager who makes the difficult, but necessary, decision to close a marginal operation and who then uses the financial strength of the Company to soften the landings for those affected.

While we derive strength from the diversity of GE's

businesses, we are also proud that the men and women who lead them share a strong set of values:

- They accept that change is a constant and that success is measured by how well we shape tomorrow.
- They recognize that customers' needs, not internal bureaucracy, are the real drivers of our activities.
- They practice open, candid, interactive, continuous communication up, down and sideways in our organizations — and externally to all our publics — convinced that this is the only way to gain trust and commitment.
- They understand that moral, legal and ethical behavior at all levels is a fundamental prerequisite for working at GE.

In summary, GE is a unique set of different businesses run by a unique group of people with different talents — united by the Company's shared values and strengthened by its human, technical and financial resources. Whether it is Financial Services' ability to adapt to its market environment, or Medical Systems' technology leadership, or Aircraft Engine's and Plastics' use of creative alliances, GE's key businesses are all leaders in the markets in which they participate. We believe your Company has a future unmatched anywhere in the world. And the people of GE are committed to seizing that future.

John F. Welch, Jr.
Chairman and
Chief Executive Officer

Lawrence A. Bossidy
Vice Chairman and
Executive Officer

Edward E. Hood, Jr.
Vice Chairman and
Executive Officer

February 13, 1987



Chairman and Chief Executive Officer John F. Welch, Jr. (seated) is flanked by Vice Chairman and Executive Officer Lawrence A. Bossidy (left) and Vice Chairman and Executive Officer Edward E. Hood, Jr. (right).

During the past five years, we've shared with you our assessment of the increasingly more competitive 1980s — and our strategy for winning in this era of greatly intensified worldwide competition. In an environment of accelerated technological and market change and slower worldwide growth, a company — and its businesses — must change faster than the world around it. That's why General Electric embarked five years ago on a long-term strategy to become the most competitive enterprise in the world — not only in the 1980s, but in the 1990s and beyond.

Central to our strategy is being number one or two in market share in 15 critical businesses which we've grouped into three circles: core manufacturing, technology and services.

In core manufacturing, we have six large businesses — lighting, major appliance, motor, turbine, transportation, construction equipment — that have a commanding or leading market position. In the past five years, we've invested more than \$2 billion in these businesses to help ensure they'll be as strong in the 1990s as they are in the 1980s. The payoff from this investment is encouraging. Over the past five years — despite the cost of the heavy investment, one of the worst postwar recessions, and increased foreign competition (aided by a strong dollar) that battered much of America's manufacturing sector — the earnings of these businesses as a group have increased at an average annual rate of 7%. Equally important, they are well-positioned for the future.

In GE's large technology businesses — medical systems, aircraft engine, aerospace, materials, factory automation — our strategy is to make certain these businesses continue to improve their competitiveness through a combination of synergistic acquisitions and substantial investments in research and development. R&D expense in these businesses was \$7.8 billion in the past five years; plant and equipment investment, \$3.6 billion. During the 1981-85 period, earnings in these businesses as a group grew at an average annual rate of 19%.


In our services businesses — financial services, construction and engineering, nuclear services, information services — businesses where ideas overwhelm investment — our strategy is to grow by adding entrepreneurial people, individuals who by themselves can create new ventures, and by making related acquisitions. Employers Reinsurance Corporation, for example, was acquired in 1984 for \$1.1 billion and made a positive contribution to earnings in its very first year — even after allowing for all acquisition costs. Our four services businesses — led by financial services — have grown earnings during the past five years at an average annual rate of 16%.

Outside the circles are three businesses — semiconductor, Ladd Petroleum, the General Electric Trading Company — that provide support to the businesses within the circles.

Also outside the circles are GE's ventures — such as our ceramics business and Calma, our interactive graphics affiliate. These ventures represent businesses that have a chance to play a big role in what we estimate to be large markets in the 1990s. At GE today, they're run by entrepreneurs with their own boards — but with all the technological and financial resources that come with being part of a larger company.

Outside these circles, as well, are other businesses: Some have performed very well in small or low-growth markets; some have performed marginally; others are simply a poor strategic fit with the Company. In general, the managerial performance in these businesses was outstanding in 1985 — and just as important to the Company's short-term results as the performance of our more strategic businesses.

In 1980, GE's earnings were about equally divided between core manufacturing — on one hand — and technology and services — on the other. Today, while core manufacturing has grown in absolute terms, about 70% of 1985 earnings came from technology and services.



As part of the ongoing implementation of our strategy, we signed in late 1985 a definitive merger agreement whereby GE will pay approximately \$6.3 billion in cash, or \$66.50 a share for common stock, to merge with RCA. After this merger, GE will generate about 80% of its earnings from technology and services — and still have a very strong, competitive and growing manufacturing segment.

RCA's services and technology businesses — the NBC network, the broadcast stations, the aerospace and defense businesses, communications and the RCA Service Company — will complement our own businesses and help improve our global competitiveness.

General Electric already competes successfully in world markets, and we consistently rank among the nation's largest

exporters. Our 1985 total exports were \$4.0 billion, and our net exports were \$2.6 billion positive in a U.S. economy that had almost a \$150 billion merchandise trade deficit.

Because of the strong dollar, and our commitment to maintain worldwide share, much of our export sales in recent years had low or no profit margins. But we were able to compete because our strong domestic businesses could support our exports during the period of dollar imbalance. The merger with RCA — with its strong domestic businesses — will greatly improve our already significant global competitiveness by increasing the staying power of an American company, with American workers.

The merger was approved by RCA's share owners on February 13, 1986. During the next few months, it will be subject to review or approval by the Federal Communications Commission, the Justice Department and other governmental authorities. We anticipate the merger will be completed in the second half of 1986.

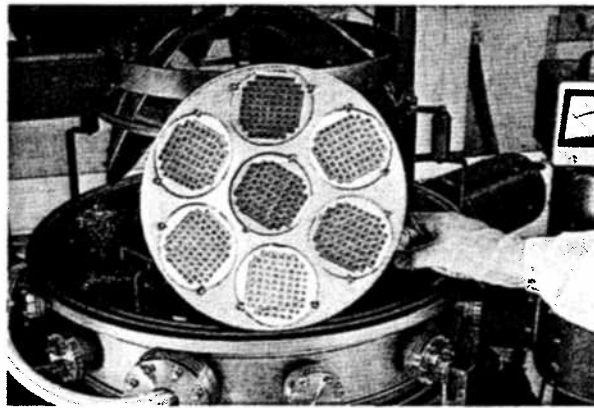
Our positioning for the future was accompanied by significant growth during the past five years:

- Earnings have grown 10% a year compounded.
- Our stock, through appreciation and yield, has grown 25% a year compounded.
- We've outperformed, from the standpoint of both earnings growth and stock appreciation, any group of peers — including the S&P 400, the "Blue Chip" (triple A-rated) companies, and the electrical equipment industry.

Looking more specifically at 1985,

some of our businesses had an excellent year, but a number of our key markets were flat or down, reflecting the general sluggishness in the U.S. economy. Overall, net earnings were \$2.336 billion, an increase of 2% from \$2.280 billion in 1984. Earnings per share were \$5.13 for 1985 compared with \$5.03 for 1984. Sales for 1985 were \$28.29 billion, about 1% more than 1984's \$27.95 billion. Contributing to the modest improvement in earnings were better operating margins which, at 10.4% of sales, exceeded last year's record 10.2% rate.

In 1985, we also made significant additional progress toward our long-term goal of disposing of businesses that don't fit GE's future and of strengthening the productive capabilities of those that do. Total value of transactions involving sales of assets during 1985 amounted to about \$700 million, bringing the five-year total to \$5.6 billion. The money from these asset



Research and development expenditures hit a record \$2.6 billion in 1985. The Company's R&D Center in Schenectady, N.Y., continued key thrusts at strengthening GE technology in materials, automation, computer science and microelectronics. Current work on the advanced very large scale integrated circuits shown here, for example, is being done to give GE a competitive edge in aerospace and other businesses.

sales has been essential to our restructuring efforts — enabling us to invest in our key businesses and to help make such acquisitions as Employers Reinsurance and RCA.

Also looking to the future, research and development expenditures from Company and customer funds totaled \$2.6 billion in 1985, up from 1984's \$2.3 billion. R&D expenditures equaled 9% of 1985 sales compared with 8.2% in 1984. Expenditures for plant and equipment were about \$2 billion. The five-year investment in GE's future growth — in plant and equipment and in research and development — totaled more than \$20 billion.

Some key businesses did better than we anticipated in 1985, some did about what we expected, and some didn't quite measure up to our expectations. Aircraft engine, aerospace, financial services, factory automation, nuclear services, construction equipment, transportation and the trading company performed better than our expectations. Major appliance, lighting, motor, medical systems, materials, information services, Ladd Petroleum, semiconductor, and construction and engineering were about on plan. Turbine, because of the severely depressed worldwide market for electrical generating equipment, suffered a significant erosion in earnings. Outside the circles, very strong performances from Canadian General Electric and power delivery were, unfortunately, overwhelmed by the disappointment in consumer electronics, which had a negative swing of more than \$50 million in earnings.

Our factory automation business became profitable during 1985 — an achievement



Customer satisfaction received renewed emphasis throughout GE during 1985 as the Company initiated new programs and approaches designed to give all customers — from individual homeowners to multinational companies — a better quality of service.

of special significance for us. We began this venture five years ago; went through one of the worst postwar recessions; and, as with most new ventures, made several mistakes and invested more money than we had planned. But our staying power, and confidence in the reindustrialization of America, has been rewarded. Today, we have a growing, profitable business in less time than it took us to do so in either plastics or commercial aircraft engine — two other GE technology ventures that are now billion-dollar-plus businesses.

GE business highlights for 1985 are discussed on pages 8-24. They include technology and marketing achievements for our plastics, medical systems, major appliance, lighting, aircraft engine, aerospace and locomotive businesses and the continued strong growth of several businesses, led by financial services. Another highlight — one that crosses several businesses — was the selection of GE in a Gallup poll of U.S. consumers as the first company that comes

to mind when they consider worldwide companies associated with high quality.

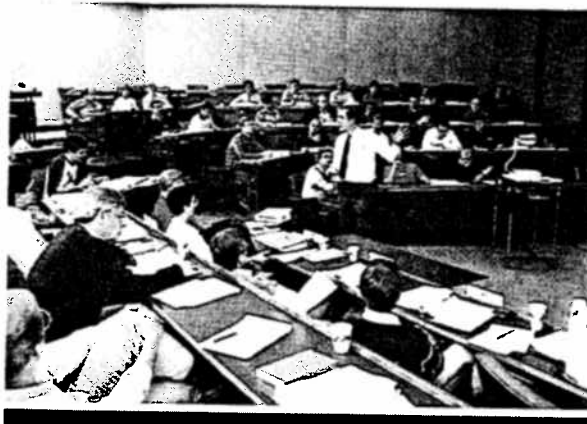
Our biggest disappointment in 1985 was not operational. It was the indictment and guilty plea in a case involving improper timecard charges on a defense contract back in 1980. This incident was very difficult and painful for the men and women of General Electric, but we learned much from it. We implemented significantly more stringent financial and management controls in our defense-related businesses — including a new corporate policy, a Compliance Review Board and an ombudsman. We are firmly committed to reducing the possibility of future transgressions and to finding — and reporting to the government — transgressions that may have occurred in the past.

In lifting the government's suspension of the Company as a government contractor, then-Air Force Secretary Verne Orr acknowledged the depth of our commitment by stating: "General Electric has been very forthright in uncovering, investigating and reporting to appropriate governmental agencies potential past violations of government procurement regulations. This cooperative self-policing effort provides a means for effectively discovering and resolving problems promptly and constructively."

Another disappointment during the past year was our inability to make the case for the crucial linkages among incentives for productive capital investment, worldwide competitiveness and America's standard of living. Since the 1981 federal tax plan went into effect, with its provisions for investment tax credit and accelerated cost recovery, General Electric and its financial

services subsidiary have invested \$22 billion in our own plants and in the factories, utilities, airlines and railroads of America, creating or preserving at least 250,000 jobs. While we paid \$5.6 billion in taxes other than federal income taxes during the past five years, the \$22 billion investment deferred much of our federal income tax liability — a fact that has been misunderstood by some advocates of tax reform.

Although that pro-investment 1981 tax plan helped GE and other companies to modernize and automate their factories and to become more competitive in world markets, current tax reform proposals would reduce or eliminate the incentives that facilitated such investment and would seriously impair the ability of American companies to compete with foreign firms that are strongly supported by their countries' fiscal and trade policies. While we accept the reality that a system in which profitable corporations do not appear to pay taxes is politically unacceptable, we will continue to speak out on the critical need for incentives for productive capital investment.



Leadership — the ability to inspire others through vision, courage and commitment — is a critical asset being taught to GE managers attending courses at the Company's Management Development Institute in Ossining, N.Y.

The economic outlook for 1986 is

mixed. Although a few positives have emerged, some negatives stubbornly persist. Interest rates are lower than a year ago, but inflation-adjusted "real rates" are still very high by most yardsticks. The trade-weighted dollar did start to fall in 1985, but still ended the year almost 50% above its 1980 level. Even at today's exchange rates, Japanese wage costs are only about 60% of the U.S. manufacturing average, and Korean worker compensation is about 10% of the U.S. average. Other restraining forces are the still-unsettled state of U.S. tax reform and the seemingly intractable federal deficit problem.

Against this backdrop, our economists are looking for a modest rebound in the U.S. economy, and operating plans of GE's businesses for 1986 reflect — prudently, we believe — a relatively low-growth scenario with modest earnings growth. Should the economy be more in line with the consensus forecast of close to 4% real GNP growth, we are well-positioned for good earnings growth.

The removal of an entire layer of

upper management structure in late 1985 gives significantly more responsibility to the leaders of GE's various businesses, freeing them to compete more effectively in world markets. We were able to make this major organizational change because of the growing recognition by GE people that, while we profit from the cultural diversity of our many businesses, we are governed by common policies and united by shared values. Our shared values include a recognition that:

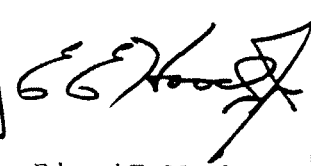
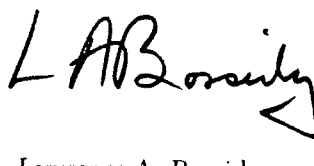
- Excellence can be measured only in terms of customer satisfaction.

- Change must be accepted as the rule rather than the exception.
- Open, candid, interactive, continuous communication up, down and across the Company is the key to gaining trust and commitment.
- Effective leadership involves the acceptance and management of paradox. For example, we must function collectively as one Company and individually as many businesses at the same time. Similarly, we must meet our short-term commitments while investing for long-term success.
- Our resource allocation process must be dynamic. Sometimes a business benefits as a net importer of dollars, ideas and talent while at other times the same business will be called upon to be a net exporter for the benefit of the Company as a whole.

As we look to the next five years, our combination of different business cultures and shared values gives GE the ability — and flexibility — to win in world markets. It provides the bond that stimulates our people, the most important asset of any organization, to pursue a common goal — achieving excellence in everything we do.



John F. Welch, Jr.
Chairman and
Chief Executive Officer



Lawrence A. Bossidy
Vice Chairman and
Executive Officer

Edward E. Hood, Jr.
Vice Chairman and
Executive Officer

February 14, 1986

To Our Share Owners

As we sat down to write this letter, we looked back on what we said a year ago. The numbers have changed, in large part because 1984 was another good year for General Electric, but the direction of your Company — its programs, its dreams, its ambitions — hasn't changed. And rather than write a new letter, with a new theme, we chose to take the same letter and update the results and the outlook.

Strategy evolution: Over the past four years, in this discussion of our strategy, we've talked about accelerated technological and market change in an era of slower worldwide growth and greatly intensified competition. In such an environment, a company — and its businesses — must change faster than the world around it. Winners and losers are clearly more definable; you are either the very best at what you do, or you don't do it for very long. That's why General Electric formulated a strategy to become the most competitive enterprise in the world by

being number one or number two in market share in every business we are in.

This strategy has evolved to where we are focusing on being number one or two in 15 critical businesses which we've grouped into three circles: high technology, services and our leadership core businesses. Outside the circles are three businesses (semiconductor, Ladd Petroleum and the General Electric Trading Company) that provide support to the businesses within the circles. Outside, as well, are other businesses: Some have performed marginally; some are in low-growth markets; others are simply a poor strategic fit with the Company. For these other businesses, we have a fix, sell or close strategy.

Each of GE's six core businesses (lighting, major appliance, motor, turbine, transportation, construction equipment) is large, is profitable and has strong market leadership. Our challenge is, through reinvestment in productivity



Chairman and Chief Executive Officer John F. Welch, Jr. (left) and Vice Chairmen and Executive Officers Edward E. Hood, Jr. (center) and Lawrence A. Bossidy (right) form General Electric's Corporate Executive Office.

and quality, to be sure this same statement can be made a decade from now. Over the four-year period, 1981-1984, we spent about \$2 billion to rebuild, modernize and reconceptualize these attractive, enduring businesses. The payoff from this investment is apparent. Over the past two years, these businesses, as a group, had a 39% earnings increase.

In GE's large, high-tech businesses (medical systems, aircraft engine, aerospace, materials, industrial electronics), our strategy is to make certain these businesses stay on the leading edge through a combination of synergistic acquisitions and substantial investments in research and development. R&D expense in these five businesses increased 42% in the past two years, some five times the two-year inflation rate.

In our services businesses (financial services, construction and engineering, nuclear services, information services), our strategy is to grow these opportunities by adding outstanding people, who often can create new ventures all by themselves, and by making contiguous acquisitions. In 1984, we made acquisitions and other investments in services of approximately \$1.3 billion.

The three elements are interrelated. Our core businesses need the most advanced process technology and strong service offerings to improve their leading positions. Similarly, in high technology, where customers are seeking not just products, but solutions to problems, the linkage with services is key to higher earnings growth. And, to be competitive, our services businesses must use the latest technologies.

With our strategy focused on these three critical pieces of our Company, there emerges this snapshot of General Electric: In 1980, the core represented 40% of Company earnings; by the end of 1984, even though it grew significantly, the core represented 34% of Company earnings. GE's high-technology piece grew from 25% to 31%. And services grew from 21% to 24%.

In 1984, we supported our strategy with record expenditures for plant and equipment totaling \$2.5 billion, an increase of 45%. In addi-

tion, expenditures for research and development were a record \$2.3 billion, an increase of about \$200 million. The GE-funded portion of this R&D was up 13% over 1983.

This spending for the future came on top of significant earnings growth. Following 1983's earnings increase of 11%, GE continued to achieve strong gains in 1984. Earnings of \$2.280 billion — \$5.03 per share — were 13% ahead of 1983. Sales of \$27.95 billion were up 4%. When the sales figure is adjusted to reflect the 1984 disposition of our housewares business and most of our natural resources business, sales were up 10%. Our operating margin rose to a record 10.2% of sales, compared with 9.5% in 1983, as productivity investments in our core businesses produced the intended leverage.

Some of our 18 key businesses did better than we anticipated in 1984, some did about what we expected, and some didn't quite measure up to our expectations. Major appliance, lighting, aircraft engine, aerospace, financial services, materials and semiconductor performed well beyond our expectations. Turbine, motor, construction equipment, medical systems, nuclear, information services, Ladd Petroleum and the trading company were about on plan.

We also suffered three disappointments. In transportation, the market didn't grow as rapidly as we had expected as customer productivity and lower demand reduced the need for domestic locomotive purchases — a market miss. In industrial electronics, the increased acceptance of our electronic product offerings and record sales were not translated into earnings — a management execution miss. And finally, in construction and engineering services, the weakened economies in the Middle East and Latin America resulted in dramatically lower earnings in 1984 — a market and management miss on the international scene.

New business development, consistent with our strategy, was stepped up in 1984. Among the highlights were:

- The \$1.1 billion acquisition by our financial services business of Employers Reinsurance

Corporation, which is already proving itself an excellent fit with our financial services strategy.

- Two innovative partnerships — with Ungermann Bass in networking and Coherent, Inc. in lasers — that complement and advance our strategy in industrial electronics.
- A new ceramics business, still in its infancy, but with a chance of playing a big role in an estimated billion-dollar electronics packaging market in the 1990s.
- The graphics processor venture — a highly leveraged means of substituting silicon for software in image generation that could provide a key advantage to our aerospace and computer-aided design businesses.
- A new affiliate, General Electric (USA) China Company Ltd., designed to serve as the focal point for all GE business activities with the People's Republic of China. These activities have increased markedly and now involve the aircraft engine, plastics, motor, drive systems, transportation and power generation businesses. The 1984 highlight was the shipment, on schedule, of 220 locomotives ordered in late 1983.
- The commitment of more than \$600 million to expand plastics production facilities around the world. In the wake of strong sales and high market enthusiasm for 1982's introduction of Ultem®, 1984 saw the introduction of Lomod® resin, our first entry into the market for thermoplastic elastomers. 1984 also saw the opening of a \$25 million Plastics Technology Center in Pittsfield, Mass., designed to increase our customers' role in applications development and test processes.
- New orders for commercial aircraft engines, in combination with strong military orders, that will raise the backlog in the aircraft engine business to \$8 billion by the end of 1985.

We continued our drive in 1984 to divest those businesses throughout the Company that, while good businesses in themselves, don't fit our strategy.

We completed the sale of our natural resources subsidiary, Utah International Inc., to

The Broken Hill Proprietary Company Ltd. of Australia; the sale of our housewares business to Black & Decker; and the sale of Family Financial Services, a second-mortgage subsidiary of General Electric Credit Corporation (GECC), to the Philadelphia Saving Fund Society. In total, these three transactions were valued at \$3.3 billion.

These dispositions reflect our strategy to focus GE's unique technological, financial and managerial strengths in our 18 key businesses where we believe we can add the most value. The evolution of this strategy has led us to complete 152 additional dispositions totaling more than \$1.6 billion over the 1981-1984 period.

The cash from dispositions has given us the flexibility to fund what we've wanted to do internally — new business activities, quality and productivity investments, record amounts of research and development, and new plant and equipment. It has also allowed us to spend more than \$1.4 billion, in 1984 alone, on 52 acquisitions, joint ventures and other equity investments, including Employers Reinsurance.

Looking at 1985: With the 2½% to 3½% real GNP growth we see for 1985, we expect our earnings growth to come mainly from nine Company businesses: lighting and construction equipment, from margin expansion; materials, from increased market penetration; aerospace, aircraft engine, and nuclear fuel and services,



General Electric's largest acquisition during 1984 was the \$1.1 billion cash purchase of Employers Reinsurance Corporation. ERC, with headquarters

(above) in Overland Park, Kan., is one of the three largest property and casualty reinsurance companies in the United States.

from increased backlogs; industrial electronics and construction and engineering, from volume increases being translated into profitable growth; and financial services, from continued asset growth.

On the international trade front, we'd like to think a turnaround is likely, but the past three years have cautioned us against anticipating a more trade-competitive dollar. Instead, we accept the reality that we're going to have to do more ourselves: We're going to have to cut costs; do more offshore sourcing and make more offshore investment; enter creative alliances and joint ventures; and step up our marketing efforts to be more competitive in international markets.

Beyond 1985, the macro issues are:

(1) Will the government face up to the federal budget deficit? While there is disagreement over the extent to which the current high real interest rates are due to the U.S. budget deficits, there is a strong presumption that interest rates would be lower — and the dollar would be more trade-competitive — if the outlook for reducing deficits were improved.

(2) Will America continue to reinvest in productivity-enhancing technology so as to enjoy what we have called a "quality recovery" — one with sustainable, long-term gains in productivity and real income? Increased foreign competition makes it critical for U.S. companies to have the most productive, internationally competitive factories conceivable.

Competitiveness, jobs and taxes: Over the past several years, the Congress has enacted a series of incentives to direct badly needed investment capital into America's aging factories and to improve the worldwide competitiveness of American corporations. These incentives permit your Company and others to defer or reduce their federal income tax payments when they invest in new plant and equipment.

In the past four years alone, these incentives helped GE invest a total of \$18 billion in our own factories and — through GECC's leasing activities — in new equipment for other companies. This investment created or preserved more than

Increased research and development expenditures are enabling GE to continue enhancing its technological strength in electronics, energy, materials and many other fields. For example, this silicon molecular beam epitaxy system, valued at nearly \$1 million, is one of the newest tools of research. It is allowing scientists at the Company's R&D Center in Schenectady, N.Y., to create unique microelectronic structures and devices that feature very high operating speeds and other desirable characteristics.

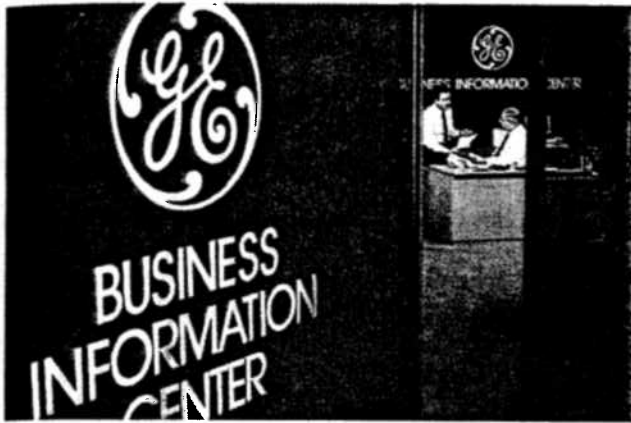


250,000 jobs, many of them in small and medium-sized businesses. In the nation as a whole, the rate of growth of spending on new plant and equipment in this economic recovery has been more than double that of previous cycles — an indication these capital formation incentives are working.

Now these incentives are in jeopardy — and there is uninformed criticism of companies, such as GE, that are said to have "avoided" the payment of federal income taxes. We don't welcome this misrepresentation. We are proud of the capital investments which have made us and the companies we have helped finance more competitive. The jobs created or sustained by these investments have made a contribution to the nation's economic recovery.

During the congressional debate on tax reform, we will describe America's critical capital investment need and emphasize the major role capital-formation incentives have played in increasing the worldwide competitiveness of U.S. corporations.

Company culture: As we said a year ago, successfully implementing a strategy to become the world's most competitive enterprise demands a special company culture — one that's strongly cohesive, fostering a high level of understanding of what General Electric is trying to



GE began a major business-to-business marketing campaign in 1984 that included the opening of the Business Information Center (above). Staffed by

Company experts, the Center helps make GE more accessible and responsive to businesses looking for commercial or industrial products and services.

do and be. We are advancing a culture that has a sense of urgency, that demands the very best and that emphasizes how crucial an individual's contribution can be to the success of our enterprise.

The challenge for us, as indeed for many companies as this recovery continues, is to emerge more competitive at the end of the cycle than we were at the beginning. The competitive values — easy to hone in a recession — must become a way of life, sustainable over decades.

At GE, we're driving to be lean and agile, to move faster, to pare away bureaucracy. We're subjecting every activity, every function, to the most rigorous review, distinguishing between those things which we absolutely need to do and know versus those which would be merely nice to do and know.

But while we challenge and shrink the non-essentials in our Company, our main goal is to expand — expand the climate for excellence, to create an atmosphere where more and more people do what even they thought they couldn't do.

Excellence means rewarding those who win, and rewarding those who try — the fuel for entrepreneurship in a large company. Nurturing entrepreneurship at GE means expunging the punitive aspects of failure from the good try and, instead, focusing on rewards for those willing to dream, to reach, to dare.

Nowhere in our Company has this spirit, this culture, been more vivid than in some of our most beleaguered businesses. We learned something about our culture in 1984, and we learned it from our "other" businesses — the ones outside our 18 key businesses.

These businesses have been under an intense internal spotlight. And as their futures are continually scrutinized, we have marveled at the truly heroic efforts of the GE people in them — at their ability to communicate with each other and their communities, at their ability to gain understanding and support for the reality of their competitive position.

These men and women have shown us how to create a spirit of can-do and agility in difficult atmospheres where the reality of the marketplace causes the competitive juices to flow at a rate difficult to achieve in some of our larger, more successful businesses. Our challenge is to create this same heightened sense of urgency and candor throughout General Electric.

Across your Company, a strategy has been formulated, with a clear focus on our key businesses and where they're going. The resources are in place to get them there. And most important, an atmosphere, a culture, is being created where concepts like agility, excellence and entrepreneurship — the real stuff of world competitiveness — are coming to life.

John F. Welch, Jr.
Chairman and
Chief Executive Officer

Lawrence A. Bossidy
Vice Chairman and
Executive Officer

Edward E. Hood, Jr.
Vice Chairman and
Executive Officer

February 15, 1985

To our share owners

This year, we've expanded our letter to highlight:

- ▶ General Electric's long-term strategy.
- ▶ 1983 results and some significant new business activities.
- ▶ Company culture.

Strategy evolution: Over the past three years, in this discussion of our strategy, we've talked about accelerated technological and market change in an era of slower worldwide growth and greatly intensified competition. In such a world, winners and losers are clearly more definable. You're either the very best at what you do, or you don't do it for very long. That's why General Electric formulated a strategy to become the most competitive enterprise in the world by being number one or number two in market share in every business we are in.

Today, this strategy has evolved to where we are focusing on being number one or two in 15 critical businesses in three distinct areas: high technology, services and our leadership core businesses.

Six core businesses (major appliance, lighting, turbine, transportation, motor, contractor equipment) form the heart of our Company. Each is very big, very profitable and has strong market leadership. Our challenge is, through reinvestment in productivity and quality, to be sure that same statement can be made a decade from now. Over the five years, 1981-85, we expect to spend nearly \$2.5 billion to renew, restructure and reconceptualize these attractive, enduring businesses. Since 1980, unit volume breakeven levels have been reduced by an average of 17%, with the leverage from expanding margins expected to provide strong earnings growth.

In GE's large, high-tech businesses (medical systems, materials, industrial electronics, aerospace, aircraft engine), our strategy is to make certain these businesses stay on the leading edge through a combination of synergistic acquisitions and substantial investments in research and development. R&D in these five businesses increased 27% in 1983, some seven times the inflation rate.

In our key services businesses (financial services, information services, construction and engineering, nuclear services), our strategy is to grow these opportunities by adding outstanding people, who often can create new ventures all by themselves, and by making contiguous acquisitions. In 1983, we made acquisitions and other investments in services of approximately \$650 million.

The three elements are interrelated. Our core businesses need the most advanced process technology and strong service offerings to improve their leading positions. Similarly, in high technology, where customers are seeking not just products, but solutions to problems, the linkage with services is key to higher earnings growth. And, to be competitive, our services businesses must use the latest technologies.

With our strategy focused on these three critical pieces of our Company, there emerges this snapshot of General Electric: In 1980, the core represented 40% of Company earnings; by the end of 1983, even though it grew significantly, the core represented 32% of Company earnings. GE's high-technology piece grew from 25% to 29%. And services grew from 18% to 31%.

In 1983, we supported our overall strategy with record expenditures for research and development — consisting of GE and customer funds totaling \$2.1 billion, an *increase* of about \$400 million, or 23%, over 1982. In addition, expenditures for plant and equipment increased 7%, to \$1.7 billion.

General Electric Chairman and Chief Executive Officer John F. Welch, Jr. (left), Vice Chairman and Executive Officer Edward E. Hood, Jr. (center) and Vice Chairman and Executive Officer John F. Burlingame.



This spending for the future came on top of significant earnings growth. Following a strong 1982, with earnings up 10% despite a recession, GE continued to achieve strong gains as the recovery began in 1983. Earnings of \$2.024 billion — \$4.45 per share — were 11% ahead of 1982. Sales of \$26.8 billion were up 1%. Our operating margin rose to 9.5% of sales, compared with 9.1% in 1982, as productivity investments in our core businesses produced the intended leverage.

In the consumer-led first stage of the recovery, substantial earnings growth was seen in GE consumer businesses, such as major appliance, and in those businesses which serve consumer industries, such as our high-tech materials operations. Also posting sharp gains were medical systems and General Electric Credit Corporation (GECC), reflecting growth in high technology and services; and our aerospace and aircraft engine businesses, which benefited from increased defense spending.

Our biggest disappointment in 1983 came in Latin America, where extraordinary economic difficulties resulted in an earnings decline of about \$90 million and an aggregate operating loss for our affiliates in Mexico, Venezuela and Brazil.

New business development, consistent with our strategy, was stepped up in 1983. Discussed in the sector summaries following this letter, this included:

- The introduction of MR (magnetic resonance) — a non-invasive medical diagnostic system that can produce detailed images of the body's organs and tissues.
- Supportive of our services strategy, 1983 saw acquisitions and expansions by GECC in major equipment remarketing, municipal bond insurance, mortgage insurance, and investment banking and real estate syndication activities.
- The commitment of resources to strengthen GE's historical relationship with the People's Republic of China. This was evidenced not only by an order for 220 diesel-electric locomotives, but also by market development in aircraft engines and such major infrastructure arenas as power generation and transmission.
- Expansion of our presence in cogeneration, involving a number of GE businesses from turbines to construction and engineering services. A highlight was our joint venture with Houston's Big Three Industries to build, operate and own one of the country's largest cogeneration projects.
- In support of our high-tech industrial electronics strategy, we are using our experience — no other company has a greater variety of manufacturing plants than



Funding for research and development increased 23% in 1983. Among the many significant projects at the Company's R&D Center in Schenectady, N.Y., are ongoing programs in microelectronics (shown here), robotics, medical systems, information and communication systems, materials and energy conversion.



GE is spending billions to renew, restructure and reconceptualize its core businesses. This includes a \$38 million investment in the Louisville dishwasher factory.

GE — to focus on factory automation. In this market, estimated to reach \$30 billion by 1990, we increased our capability in total systems, gained share in programmable controls, shipped the first production units of our state-of-the-art numerical control system, strengthened our software offerings and opened the Company's first robotics manufacturing plant.

- General Electric Trading Company, formed in 1982, is now among the country's largest, taking on more obligations to serve more markets for GE products through, among other tools, the sophisticated use of barter and countertrade.
- In early 1984, the U.S. Air Force and Navy selected GE's Aircraft Engine Group to supply its F110 engine for future F-16 and F-14 fighters — awards potentially worth \$8-11 billion over the remaining production life of the aircraft.

We accelerated our drive in 1983 to divest those businesses throughout the Company that, while good businesses in themselves, don't fit our strategy.

We expect to complete, in the spring, the sale of our natural resources subsidiary, Utah International, to The Broken Hill Proprietary Company Ltd. of Australia, and the sale of our housewares business to Black & Decker. Last month, we completed the sale of Family Financial Services, a second-mortgage subsidiary of GECC, to the Philadelphia Saving Fund Society. We received about \$600 million for Family Financial Services and will receive \$2.4 billion for Utah (less the value of certain properties we may retain) and \$300 million for housewares.

These dispositions reflect our strategy to focus GE's unique technological, financial and managerial strengths in our 15 key businesses where we believe we can add the most value. The evolution of this strategy has led us to complete 118 additional dispositions totaling more than \$1.1 billion over the 1981-83 period.

Apart from dispositions, your Company's cash position was further increased in 1983 by a 10% improvement in the productivity of our working capital assets — freeing up about \$620 million of cash during the year.

With our increased cash reserves from the sale of Utah and other dispositions, plus improved working capital turnover, the question has been raised: What will we do with the money? The short answer is: It's not going to burn a hole in our pocket.

The cash has given us the flexibility to fund what we've wanted to do internally — new business activities, quality and productivity investments, record amounts of research and development, and new plant and equipment. It has also allowed us to spend more than a half-billion dollars, in 1983 alone, on 62 acquisitions, joint ventures and other equity investments.

Still, some have wondered why we haven't made the *big* acquisition. Frankly, the temptation — and in some ways the easiest route — is to pay too much too fast. In 1983, we undertook a major study of large acquisitions, reviewing in depth more than 100 candidates. We analyzed the premium we'd be paying versus the synergy to be gained. To this we compared the opportunities available internally and in smaller acquisitions, where the synergies overwhelm the market premium. We believe a large acquisition may, in fact, take place; but, at the time of this writing, we've been unable to find the one that would clearly provide real value to GE share owners beyond the transitory excitement it might create in the marketplace.

Looking at 1984: We are expecting 1984 to be a very strong year. GE is well-positioned to take advantage of growth in a number of high-technology and services markets and in consumer spending. Capital spending, which grew only slightly in 1983, is expected to join the recovery, with GE in a position to benefit as a major participant in the industrial equipment and factory automation markets. Internationally, while we don't anticipate a significant upturn in Latin America, we also don't expect our affiliates there to experience the negative year-to-year change some had in 1983. On the trade front, we'd like to think a turnaround is likely, but the past two years have cautioned us against *anticipating* a more trade-competitive dollar.



As part of its drive for excellence, GE is expanding its role on college campuses. The Company has increased donations of equipment and the GE Foundation has increased fellowship programs for engineering and science students.

Beyond 1984, the macro issues are:

- (1) Will America continue to reinvest in productivity-enhancing technology so as to enjoy what we have called a "quality recovery" — one with sustainable, long-term gains in productivity and real income? By 1985, with many U.S. manufacturers nearing capacity, it will be critical to *expand* industrial capacity with the most productive, internationally competitive factories conceivable.
- (2) Will the United States, in its own long-term interests, pursue non-protectionist trade policies which create international financial equilibrium and preserve the free and fair trading system?

In our view, the ability of the United States to deal favorably with these issues depends ultimately on lower real interest rates. While there is disagreement over the extent to which the current high real interest rates are due to the U.S. budget deficits, there is a strong presumption that interest rates would be lower if the outlook for containing looming deficits were improved.

Company culture: Successfully implementing a strategy to become the world's most competitive enterprise demands a special company culture — one that's strongly cohesive, fostering a high level of understanding of what General Electric is trying to do and be. We are advancing a culture that has a sense of urgency, that demands the very best and that emphasizes how crucial an individual's contribution can be to the success of our enterprise.

The challenge for us, as indeed for many companies as we face this recovery, is to emerge more competitive at the end of the cycle than we were at the beginning. The competitive values — easy to hone in a recession — must become a way of life, sustainable over decades.

At GE, we're driving to be *lean and agile*, to move faster, to pare away bureaucracy. We're subjecting every activity, every function, to the most rigorous review, distinguishing between those things which we absolutely *need* to do and know versus those which would be merely *nice* to do and know.

But while we challenge and shrink the non-essentials in our Company, our main goal is to expand — expand the climate for *excellence*, to get more and more people to do what even *they* thought they couldn't do.

Excellence means rewarding those who win — *and* rewarding those who try: the fuel for *entrepreneurship* in a large company. Nurturing entrepreneurship at GE means expunging the punitive aspects of failure from the good try and, instead, focusing on rewards for those willing to dream, to reach, to dare.

Across your Company, a strategy has been formulated, with a clear focus on our three elements and where they're going. The resources are in place to get them there. And most important, an atmosphere, a cultural feeling, has been created where concepts like agility, excellence and entrepreneurship — the real stuff of world competitiveness — are coming to life.

John F. Welch, Jr.
Chairman & Chief Executive Officer

John F. Burlingame
Vice Chairman & Executive Officer

Edward E. Hood, Jr.
Vice Chairman & Executive Officer

To our share owners

Despite deep and prolonged worldwide recession, General Electric is financially stronger today than a year ago, with both earnings and balance sheet significantly improved.

GE earnings of \$1.817 billion — \$8.00 per share — were 10% ahead of 1981, on slightly lower sales of \$26.50 billion.

The Company's return on equity was 18.8%. Return on sales rose to 6.9%. Debt-to-capital ratio at year end was reduced to 16.5%.



Chairman and Chief Executive Officer John F. Welch, Jr. (seated) and Vice Chairmen and Executive Officers Edward E. Hood, Jr. (standing) and John F. Burlingame (right) constitute General Electric's Corporate Executive Office.

In this letter, the Corporate Executive Office would like to highlight some of the actions we are taking to position GE for the future — steps toward our goal of making our businesses Number One or Number Two in their markets, of making General Electric the most competitive enterprise in the world.

Major moves can be seen in four areas:

First, the shifting mix of GE businesses toward high-technology products and high-growth services — supported by heavy R&D investment and an accelerated rate of acquisitions and dispositions.

Second, record investments in productivity, combined with cutting overhead costs, to meet higher margin expectations.

Third, our efforts in the public-policy arena aimed at creating an atmosphere of free and fair trade — a critical element for a healthy, growing U.S. economy.

And fourth, creating a climate throughout the Company that not only attracts the most talented people, but also permits their talents to grow. A climate where the organization can move as quickly as a good idea can carry it.

Looking at 1983, we believe GE is well-positioned to take advantage of any improvement in the economy. Our major concern about the economy lies with interest rates. Uncertainty over fiscal and monetary policy in the face of increasing deficits could lead to higher interest rates and stall recovery in its early stages.

GE's shifting mix: Our strong position for 1983 and beyond derives from GE's unique strengths — its people and its technical and financial resources — which are being focused increasingly on high-technology products and high-growth services markets to meet the world's changing needs. Increasing in relative importance to GE sales and earnings are such high-technology businesses as medical systems, aerospace, plastics and other proprietary materials; and such service businesses as General Electric Credit Corporation, General Electric Information Services Company, and construction, engineering and nuclear services.

The last decade has seen a dramatic shift in our business mix — from the old to the new, from relatively mature businesses to those in their high-growth stages. At the start of the 1970s, three-fourths of our earnings came from traditional electrical manufacturing businesses. By year-end 1982, our dependence on these for earnings had been reduced to under 40%. Their contribution is still substantial and, in absolute terms, the earnings from these businesses grew since 1970 from \$200 million to \$600 million.

But GE's greatest earnings growth has come from such non-traditional businesses as services, providing 21% of Company earnings in 1982, compared with 14% in 1970;

materials, 28% of earnings last year, compared with 8% in 1970; and aircraft engines, 9% of earnings last year, versus virtually no contribution in 1970.

Our emphasis on fast-growing high-technology and services markets has led GE to make both acquisitions and dispositions at an accelerated rate. Over the past two years, we have completed 118 transactions involving acquisitions, joint ventures and formations of new companies, including the acquisition of Intersil and Calma to support our efforts to become the world leader in factory automation. There were also dispositions of 71 businesses that didn't fit our strategy. These transactions involved \$1.5 billion: roughly \$1 billion for acquisitions and \$500 million received for dispositions.

The most significant transaction — announced in late January 1983 — is the proposed sale, for about \$2.4 billion, of most of GE's holdings in Utah International Inc. to The Broken Hill Proprietary Company Ltd. (BHP), an Australian industrial and natural resources company. This transaction provides a unique strategic opportunity for both companies. For GE, it will enable us to focus our unique strengths on fast-growing high-technology and services markets. For BHP, it will broaden both product and geographic base, and it will increase Australian ownership of one of that nation's important natural resources.

Last year's heavy expenditures for research and development support our increasing shift to high technology. While the total was about equal to 1981's record levels, the long-range "futures" part of our R&D was up more than 20%. This work is carried out mainly at the corporate Research and Development Center in Schenectady, N. Y., where we just completed a \$130 million expansion, including construction of an advanced electronics laboratory. In 1982, we also completed our microelectronics research, development and production unit at Research Triangle Park, N. C., and our industrial electronics facility in Charlottesville, Va.

Productivity investments: While our shift to high technology has been significant, we have also been upgrading our core businesses. During 1982 there were strong cost-improvement efforts and major plant and equipment expenditures to increase productivity and assure the competitiveness of these important traditional GE businesses.

We have reduced our costs to lower break-even points — an important factor in producing 1982's earnings growth. But most of the benefits from reduced costs will come in future years, both quantitatively as volume picks up and, above all, qualitatively as we become a leaner, more competitive company with early responses to market changes.

Although 21% below 1981, plant and equipment investments of \$1.6 billion in 1982 included continuing record levels of expenditures for productivity improvements.

The most significant were factory-automation investments to strengthen the future cost and quality competitiveness of such important core businesses as locomotives, turbines, motors, lighting and major appliances.

Free and fair trade: Inextricably tied to our efforts to make GE the most competitive enterprise in the world is the necessity to make America more competitive. Regaining world-class competitiveness, in our view, is one of the most pressing challenges for the U.S. today.

While we continue to expand our international position in a wide range of products and services, and in innovations like the newly formed General Electric Trading Company, we also need U.S. public policies consistent with world-wide competitiveness — notably free and fair trade. Rising pressures for protectionism both here and abroad threaten this nation's ability to compete in world markets, one of the main engines of economic growth, prosperity and jobs.

Helping to create public understanding and support for policies that will allow America to be more competitive in world markets — thereby creating more jobs at home — is an important responsibility for our Company.

Our people: In the end, though, General Electric's own competitive strength rests with our people. How competitive we are depends upon the climate we create for them — their eagerness to dream, their willingness to dare.

Whether it's bringing new technologies and services to the marketplace or revitalizing our strong core businesses, we want GE to be a place where the bias is toward action — a high-spirited, world-class enterprise that uses the resources of a large company but moves with the agility of the youngest and smallest.

Of all the values we seek to foster, personal excellence is the most important to the success of our Company. We have great expectations for what can take place when people are challenged — challenged to take what they have that is good, and make it better. Then make the better best.



John F. Welch, Jr.
Chairman and
Chief Executive Officer



John F. Burlingame
Vice Chairman and
Executive Officer

Edward E. Hood, Jr.
Vice Chairman and
Executive Officer

February 18, 1983

To our share owners

Your Company's underlying strength and resiliency were reflected in its 1981 performance and year-end financial position.

Sales of \$27.24 billion were up 9% over 1980. Earnings of \$1.65 billion — \$7.26 a share — were also 9% ahead of 1980. Total assets exceeded \$20 billion for the first time: our debt-to-capital ratio was 19.4%; cash and marketables increased 12%, to almost \$2.5 billion.

These 1981 earnings were produced in the face of weak economic conditions in the United States and most foreign markets; they also came on top of record levels of expenditures for research and development (\$1.7 billion) and Company investments in plant and equipment (\$2 billion). A number of electronics and computer software companies were acquired, strengthening General Electric in two areas targeted for high growth.

In April of last year, Reginald H. Jones retired after eight years as GE Chairman and Chief Executive Officer. Mr. Jones left us a healthy Company, one with a strong balance sheet and a record of sustained earnings growth. His other legacy, to us and to the business community, was the recognition that public policy and social responsibility are not mere adjuncts to business management, but are central to it. We miss him, but are confident we can build upon the strong foundation of financial and social stewardship he left to us. (See inside back cover.)

Rather than focus on the economic environment for 1982, which we see as a continuation of many of the difficulties faced around the world during 1981, we'd like this Annual Report to cover our financial performance, and to communicate the *positioning* we did last year that is designed to serve us well in the future.

First, and most critical, was *people positioning* — making the best possible fits between our managers and the business challenges. Second were *portfolio priorities* — channeling funds into high-growth opportunities in both our new and old businesses. Third were *program investments* — enhancing the technical strengths that must underlie our drive for worldwide market leadership. And fourth was *attitudinal positioning* — Company climate-setting designed to bring out the best in GE people.

People positioning occurred in the major Company reorganization on September 1, 1981 (see page 18). The people and the structures were selected both to capitalize



On April 1, 1981, John F. Welch, Jr., (center) became Chairman and Chief Executive Officer of General Electric upon the retirement of Reginald H. Jones. Edward E. Hood, Jr., (left) and John F. Burlingame are Vice Chairmen and Executive Officers and, with Mr. Welch, make up the Corporate Executive Office.

on growth opportunities and to deal with problem businesses. These are different but equally important management challenges, and we are committed to reward successful execution in both environments. This focus on the selection and reward of people will be uppermost in your Corporate Executive Office priorities.

Portfolio repositioning takes two forms: strengthening our core businesses and developing new, fast-growth businesses. We are revitalizing our cash-generating core businesses by pointing their products and services toward changing market directions and dimensions.

With our core businesses serving as solid, income-producing platforms, our major focus is on developing strong positions in the more vital sectors of the world economy: engineered materials, information services, financial services, construction services, medical systems and natural resources. The challenge to the managers and their entire organizations in these high-growth businesses is "how big and how fast?"

Program investments increasingly have gone toward enhancing our computer software and electronics technology. This will enable us to serve, for example, the emerging megamarket of factory automation — the so-called "factory of the future." We have made the long-term commitments to achieve decisive leadership in this market by applying state-of-the-art technologies in areas where GE experience is second to none.

As for attitudinal positioning, there are three basic concepts we are emphasizing as part of the GE culture.

The first is *reality*. A sure grasp of marketplace realities and a clear understanding of corporate social responsibilities are essential in today's environment. Social expectations rightfully remain high, yet business faces intensified world competition and more rapid shifts in market structures. In this environment, a company must be a lean, low-cost producer of quality goods and services in order to survive, let alone prosper.

Corporate social responsibility in the '80s begins with a healthy company, derived from satisfying customers with quality products and services. Worldwide competitiveness leads to jobs and job security and the ability to support effectively social, educational and cultural en-

deavors — support that is impossible without a healthy corporate balance sheet.

A second basic concept is *excellence*. This means reaffirming and enhancing the Company's tradition for quality goods and quality services in an increasingly skeptical and quality-conscious age. And it means excellence in people — calling for the best in all of us — in some cases being even better than we thought possible.

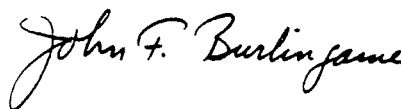
The third concept we describe as *ownership* — the call for GE employees to assume full responsibility for the decisions they make on behalf of you and the Company. It means moving more decision-making power to operations — to managers who know their markets best.

We intend to make *reality*, *excellence* and *ownership* the basis for a pervasive operational atmosphere in which people will dare to try new things, where their own creativity and drive will determine how far and how fast they move. Whether in revitalized core businesses, or in the newer growth businesses, the result will be an organization more high-spirited, more adaptable and more agile than companies a fraction of our size.

This decentralized entrepreneurial energy will be aligned and augmented by the very considerable central strengths of General Electric — not just *financial* (a very strong balance sheet), but also *technical* (a research laboratory that is a model of excellence worldwide), and *human* (a manpower development system acknowledged to be among the very best) — all bonded further by the unifying power of the GE monogram — our trademark and most enduring asset.



John F. Welch, Jr.
Chairman and
Chief Executive Officer

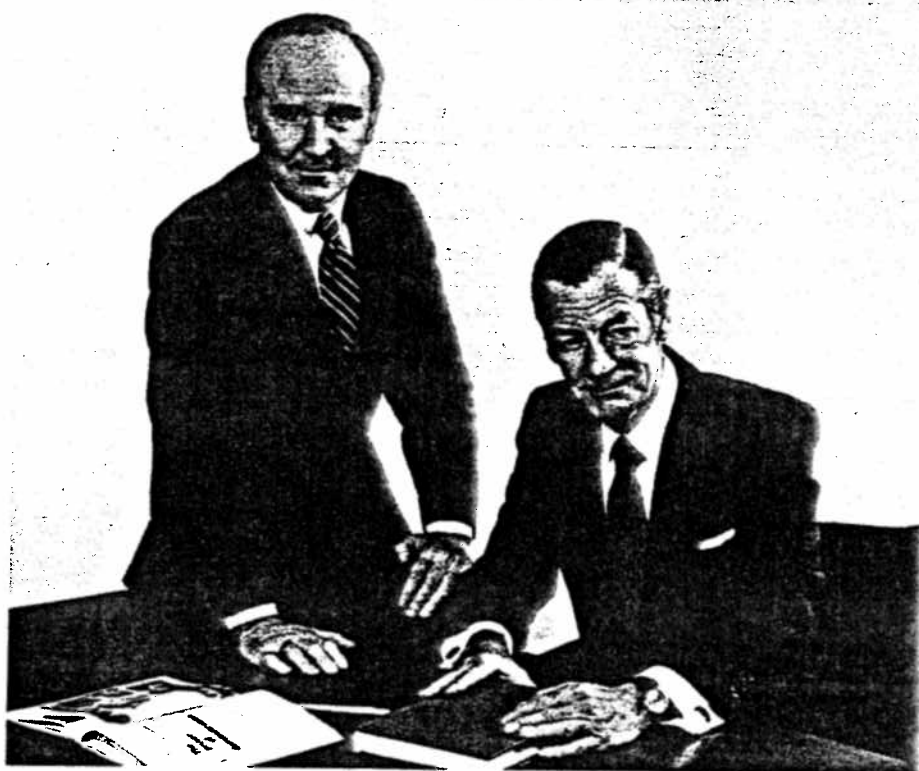


John F. Burlingame
Vice Chairman and
Executive Officer



Edward E. Hood, Jr.
Vice Chairman and
Executive Officer

"Innovation and self-renewal: these are themes that characterize General Electric as we enter a new era."



The joint signing of these comments signals the approaching change of executive leadership at General Electric. On the retirement of Reginald H. Jones (right) on April 1, 1981, John F. Welch, Jr., will become Chairman and Chief Executive Officer of your Company. He will be the eighth person to hold that office since the founding of GE in the nineteenth century.

John F. Burlingame (middle left) and Edward E. Hood, Jr., continue as Vice Chairmen and Executive Officers with expanded responsibilities for realigned staff and operations.

General Electric's diversity and financial strengths enabled it to turn in a solid performance in 1980 despite adverse economic conditions in the U.S. and many foreign markets. Sales of \$24.96 billion represented an 11% increase over 1979. Earnings of \$1.5 billion, or \$6.65 per share, were 7% above 1979 levels.

The significance of these sales and earnings is not merely that they set new levels in a year when profits for industry generally declined. More importantly, they were achieved in a year when your Company sharply increased investments in new plant and equipment, new technology, new product development and new business ventures.

U.S. business today finds itself challenged by aggressive overseas competitors. National productivity has been declining and, in industry after industry, product leadership is moving to other nations. Companies that refuse to renew themselves, that fail to cast off the old and embrace new technologies, could well find themselves in serious decline in the 1980s.

We are determined that this shall not happen to General Electric.

Self-renewal. Your Company is engaged in a process of internal change that will transform the ways we design, manufacture and distribute our products and services in the 1980s. We are encouraging our people to probe constantly for new markets, new techniques and new business opportunities.

This stress on innovation has been gathering momentum and is perhaps best illustrated by the change in our sources of earnings, as emphasized in last year's Annual Report. As the 1970s began, 80% of your Company's earnings came from its traditional businesses in the manufacture of electrical and electronic equipment. These businesses remain healthy and growing, although they now provide less than half of our earnings. The majority of our earnings are presently derived from growth businesses in man-made materials, natural resources, aerospace and transportation equipment, services and other new lines of opportunity. And 42% of our earnings now come from international activities, compared with only 16% a decade ago.

The status of our current businesses is detailed in the pages of this Annual Report, but to give our share owners a "feel" for the present mood of self-renewal at General Electric, let us



comment on the Company's response to several fundamental challenges of the 1980s.

Electronics. There is wide agreement that the new electronics will be the dominant technological force of the 1980s. And so we have been engaged in a Companywide effort to apply the new microelectronics and the related information-based technologies to every possible product, service and process in GE.

The corporate commitment is embodied in hundred-million-dollar investments in the construction and acquisition of new electronics laboratories and manufacturing centers. We have established an Industrial Electronics Group and an Information and Communications Systems Group. GE training programs are under way to bring the thinking of our managers and technical people up to the state of the art in the new electronics, and we are vigorously recruiting more electronic engineers.

The proposed purchase of Calma Company, a leading producer of interactive graphics equipment, and the acquisition of Intersil, a maker of advanced microelectronic chips, are consistent with our intention to be at the leading edge of new technology.

Your management is determined to be a leader in the electronics revolution.

Productivity. After a decade of slow productivity growth, U.S. industry is poised for a major surge of investment in new equipment—the so-called “re-industrialization of America.” For GE the process has already begun.

Your Company has invested almost \$6 billion over the past five years, including nearly \$2 billion in 1980, to upgrade its productive capabilities. Interactive graphics for computer-assisted design, manufacture and test; robotics; programmable electronic controls; energy-efficient drives: these are among the advanced technologies that are transforming our factories into some of the most productive, quality-controlled operations in the world.

And what we develop for our own factories we will then sell to our industrial customers—a productivity-improvement market that is growing well over 20% per annum. With our own factories as a worldwide laboratory for the development of advanced manufacturing systems, and a customer base that urgently feels the need for productivity breakthroughs, GE expects to be a leader in equipping the automated factories of the future.

Energy. From its beginnings, General Electric has been a producer of energy-conversion equipment for electric utilities. But that is now just a modest proportion of our total involvement in the rapidly growing energy field.

Through Utah International's coal mines and Ladd Petroleum's oil and gas wells, as well as our nuclear fuel operations, we are suppliers of basic fuel. Our equipment powers machinery in the mines and drilling fields, our diesel-electric locomotives haul the coal, and our gas turbines power the pipelines.

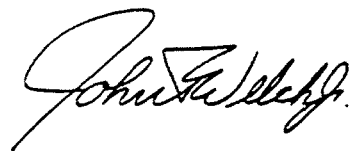
And as the world strives to reduce its excessive dependence on one energy source—petroleum—GE's research activities seek commercial breakthroughs in significant new energy technologies such as systems to convert coal into clean synthetic fuel gas.

Another profitable facet of the energy market is the redesign of our products to conserve energy—from energy-efficient lamps, appliances and motors to fuel-saving jet engines.

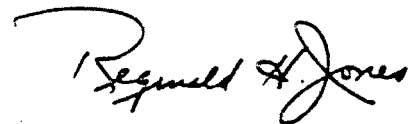
Innovation. Perhaps your Company's commitment to broad-based innovation is best expressed by its rising investment in research and development. Since 1977, we have increased GE-funded R & D expenditures 85% to \$760 million. Total R & D expenditures, with external funding, reached \$1.6 billion in 1980.

General Electric is not merely in the electrical business, or any other particular business. This Company has moved forward to a new dimension of industrial capability that investors are only beginning to recognize. *We are in the business of creating businesses* to anticipate and serve the needs of a changing world.

This is, at least in scale, something rare. And it can make a constructive contribution to a world that is striving desperately for accelerated economic and social development.



John F. Welch, Jr.
Chairman-elect



Reginald H. Jones, Chairman
and Chief Executive Officer

February 20, 1981