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## Management's Discussion of Financial Responsibility

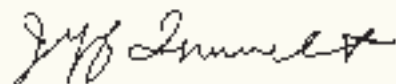
Events of 2001 have stressed the world's economy and capital markets. At GE, having well informed, confident investors is a critical management objective. We take full responsibility for this objective, adopting appropriate accounting policies and devoting our full, unyielding commitment to ensuring that those policies are applied properly and consistently. We make every effort to report in a manner that is relevant, complete and understandable. We welcome and evaluate each suggestion from those who use our reports. Management meets its responsibility for this objective in the following ways:

**Rigorous management oversight.** Members of our corporate leadership team review each of our businesses at least six times a year on matters ranging from overall strategy and financial performance to staffing and compliance. Our business leaders constantly monitor real-time financial and operating systems that enable early identification of, and responses to, opportunities and potential issues. Our Board of Directors oversees management's conduct of the business, and our Audit Committee, consisting entirely of outside directors, oversees the Company's internal system of financial controls.

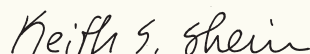
**Dedication to Controllershship.** We maintain a dynamic system of internal financial controls designed to ensure accurate financial record-keeping, protection of physical and intellectual property and efficient use of resources. We recruit and retain a world-class financial team, including more than 450 internal auditors who conduct thousands of audits each year in every geographic area and every GE business. Senior management and the Audit Committee oversee the scope and results of these reviews. We continuously reinforce key employee responsibilities around the world through our integrity policies, which require compliance with law and policy, including financial integrity and avoiding conflicts of interest. These integrity policies, published in 27 languages, are provided to each of our more than 300,000 global employees. Our internal auditors conduct extensive inquiries into compliance with these policies. Our strong compliance culture requires employees to raise any concerns and prohibits retribution for doing so. We hold all employees, including top management, accountable for compliance with our integrity policies.

**Visibility to investors.** As one of the most widely followed companies in the world, we are keenly aware of the importance of full and open presentation of our financial position and operating results. We hold more than 200 analyst and investor meetings every year and communicate all material information covered in those meetings to the public. Investors have given GE 16 first-place awards in the last five years as reported by *Investor Relations* magazine. We are in regular contact with representatives of the major rating agencies and our debt continues to receive their highest ratings. We welcome the strong oversight of our financial reporting by our independent audit firm, KPMG LLP, whose representatives have direct access to the Audit Committee. Their report for 2001 appears on page 92.

Great companies are built on the foundation of accurate financial information and compliance with the law. The financial information in this report is an important part of that foundation. We present that information proudly, with the goal that those who use it will understand GE and share our confidence in its future.



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



Keith S. Sherin  
Senior Vice President, Finance,  
and Chief Financial Officer

February 8, 2002

# Statement of Earnings

	<b>General Electric Company and consolidated affiliates</b>		
For the years ended December 31 (In millions; per-share amounts in dollars)	<b>2001</b>	2000	1999
<b>Revenues</b>			
Sales of goods	<b>\$ 52,677</b>	\$ 54,828	\$ 47,785
Sales of services	<b>18,722</b>	18,126	16,283
Other income (note 2)	<b>234</b>	436	798
Earnings of GECS before accounting changes	<b>—</b>	—	—
GECS revenues from services (note 3)	<b>54,280</b>	56,463	46,764
Total revenues	<b>125,913</b>	129,853	111,630
<b>Costs and expenses</b> (note 4)			
Cost of goods sold	<b>35,678</b>	39,312	34,554
Cost of services sold	<b>13,419</b>	12,511	11,404
Interest and other financial charges	<b>11,062</b>	11,720	10,013
Insurance losses and policyholder and annuity benefits	<b>15,062</b>	14,399	11,028
Provision for losses on financing receivables (note 13)	<b>2,481</b>	2,045	1,671
Other costs and expenses	<b>28,162</b>	30,993	27,018
Minority interest in net earnings of consolidated affiliates	<b>348</b>	427	365
Total costs and expenses	<b>106,212</b>	111,407	96,053
<b>Earnings before income taxes and accounting changes</b>	<b>19,701</b>	18,446	15,577
Provision for income taxes (note 7)	<b>(5,573)</b>	(5,711)	(4,860)
<b>Earnings before accounting changes</b>	<b>14,128</b>	12,735	10,717
Cumulative effect of accounting changes (note 1)	<b>(444)</b>	—	—
<b>Net earnings</b>	<b>\$ 13,684</b>	\$ 12,735	\$ 10,717
<b>Per-share amounts</b> (note 8)			
Per-share amounts before accounting changes			
Diluted earnings per share	<b>\$ 1.41</b>	\$ 1.27	\$ 1.07
Basic earnings per share	<b>\$ 1.42</b>	\$ 1.29	\$ 1.09
Per-share amounts after accounting changes			
Diluted earnings per share	<b>\$ 1.37</b>	\$ 1.27	\$ 1.07
Basic earnings per share	<b>\$ 1.38</b>	\$ 1.29	\$ 1.09
<b>Dividends declared per share</b>	<b>\$ 0.66</b>	\$ 0.57	\$ 0.48½

# Consolidated Statement of Changes in Share Owners' Equity

(In millions)	<b>2001</b>	2000	1999
<b>Changes in share owners' equity</b> (note 24)			
Balance at January 1	<b>\$ 50,492</b>	\$ 42,557	\$ 38,880
Dividends and other transactions with share owners	<b>(7,529)</b>	(3,044)	(4,632)
Changes other than transactions with share owners			
Increase attributable to net earnings	<b>13,684</b>	12,735	10,717
Investment securities—net	<b>(306)</b>	(552)	(1,776)
Currency translation adjustments	<b>(562)</b>	(1,204)	(632)
Derivatives qualifying as hedges	<b>(955)</b>	—	—
Total changes other than transactions with share owners	<b>11,861</b>	10,979	8,309
Balance at December 31	<b>\$ 54,824</b>	\$ 50,492	\$ 42,557

The notes to consolidated financial statements on pages 67-92 are an integral part of these statements.

GE			GECS		
2001	2000	1999	2001	2000	1999
<b>\$ 49,057</b>	\$ 45,427	\$ 39,045	<b>\$ 3,627</b>	\$ 9,408	\$ 8,740
<b>18,961</b>	18,380	16,600	—	—	—
<b>433</b>	498	856	—	—	—
<b>5,586</b>	5,192	4,443	—	—	—
—	—	—	<b>54,726</b>	56,769	47,009
<b>74,037</b>	69,497	60,944	<b>58,353</b>	66,177	55,749
<b>32,419</b>	30,782	26,578	<b>3,266</b>	8,537	7,976
<b>13,658</b>	12,765	11,721	—	—	—
<b>817</b>	811	810	<b>10,598</b>	11,111	9,359
—	—	—	<b>15,062</b>	14,399	11,028
—	—	—	<b>2,481</b>	2,045	1,671
<b>8,637</b>	8,392	7,732	<b>19,817</b>	22,767	19,433
<b>185</b>	213	179	<b>163</b>	214	186
<b>55,716</b>	52,963	47,020	<b>51,387</b>	59,073	49,653
<b>18,321</b>	16,534	13,924	<b>6,966</b>	7,104	6,096
<b>(4,193)</b>	(3,799)	(3,207)	<b>(1,380)</b>	(1,912)	(1,653)
<b>14,128</b>	12,735	10,717	<b>5,586</b>	5,192	4,443
<b>(444)</b>	—	—	<b>(169)</b>	—	—
<b>\$ 13,684</b>	\$ 12,735	\$ 10,717	<b>\$ 5,417</b>	\$ 5,192	\$ 4,443

In the consolidating data on this page, "GE" means the basis of consolidation as described in note 1 to the consolidated financial statements; "GECS" means General Electric Capital Services, Inc. and all of its affiliates and associated companies. Transactions between GE and GECS have been eliminated from the "General Electric Company and consolidated affiliates" columns on page 42.

# Statement of Financial Position

At December 31 (In millions)	General Electric Company and consolidated affiliates	
	2001	2000
<b>Assets</b>		
Cash and equivalents	\$ 9,082	\$ 8,195
Investment securities (note 9)	101,017	91,339
Current receivables (note 10)	9,590	9,502
Inventories (note 11)	8,565	7,812
Financing receivables (investments in time sales, loans and financing leases)—net (notes 12 and 13)	174,032	143,299
Insurance receivables (note 14)	27,317	23,802
Other GECS receivables	11,105	11,714
Property, plant and equipment (including equipment leased to others)—net (note 15)	42,140	40,015
Investment in GECS	—	—
Intangible assets—net (note 16)	31,649	27,441
All other assets (note 17)	80,526	73,887
<b>Total assets</b>	<b>\$ 495,023</b>	<b>\$ 437,006</b>
<b>Liabilities and equity</b>		
Short-term borrowings (note 18)	\$ 153,076	\$ 119,180
Accounts payable, principally trade accounts	18,158	14,853
Progress collections and price adjustments accrued	11,751	8,271
Dividends payable	1,787	1,589
All other current costs and expenses accrued	14,132	12,219
Long-term borrowings (note 18)	79,806	82,132
Insurance liabilities, reserves and annuity benefits (note 19)	114,223	106,150
All other liabilities (note 20)	32,921	28,494
Deferred income taxes (note 21)	9,130	8,690
Total liabilities	434,984	381,578
Minority interest in equity of consolidated affiliates (note 22)	5,215	4,936
Common stock (9,925,938,000 and 9,932,006,000 shares outstanding at year-end 2001 and 2000, respectively)	669	669
Accumulated gains/(losses)—net		
Investment securities	(232)	74
Currency translation adjustments	(3,136)	(2,574)
Derivatives qualifying as hedges	(955)	—
Other capital	16,693	15,195
Retained earnings	68,701	61,572
Less common stock held in treasury	(26,916)	(24,444)
Total share owners' equity (notes 24 and 25)	54,824	50,492
<b>Total liabilities and equity</b>	<b>\$ 495,023</b>	<b>\$ 437,006</b>

The sum of accumulated gains/(losses) on investment securities, currency translation adjustments, and derivatives qualifying as hedges constitutes "Accumulated nonowner changes other than earnings," as shown in note 24, and was \$(4,323) and \$(2,500) at year-end 2001 and 2000, respectively. The notes to consolidated financial statements on pages 67-92 are an integral part of this statement.

GE		GECS	
2001	2000	2001	2000
<b>\$ 10,447</b>	\$ 7,210	<b>\$ 7,314</b>	\$ 6,052
<b>879</b>	1,009	<b>100,138</b>	90,330
<b>9,805</b>	9,727	<b>—</b>	<b>—</b>
<b>8,295</b>	7,146	<b>270</b>	666
<b>—</b>	<b>—</b>	<b>174,032</b>	143,299
<b>—</b>	<b>—</b>	<b>27,317</b>	23,802
<b>—</b>	<b>—</b>	<b>13,267</b>	13,288
<b>12,799</b>	12,199	<b>29,341</b>	27,816
<b>28,590</b>	23,022	<b>—</b>	<b>—</b>
<b>12,932</b>	12,424	<b>18,717</b>	15,017
<b>25,986</b>	24,028	<b>55,088</b>	50,366
<b>\$ 109,733</b>	\$ 96,765	<b>\$ 425,484</b>	\$ 370,636
<b>\$ 1,722</b>	\$ 940	<b>\$ 160,844</b>	\$ 123,992
<b>6,680</b>	6,153	<b>13,705</b>	10,436
<b>11,751</b>	8,271	<b>—</b>	<b>—</b>
<b>1,787</b>	1,589	<b>—</b>	<b>—</b>
<b>14,132</b>	12,219	<b>—</b>	<b>—</b>
<b>787</b>	841	<b>79,091</b>	81,379
<b>—</b>	<b>—</b>	<b>114,223</b>	106,150
<b>16,089</b>	14,840	<b>16,647</b>	13,451
<b>1,013</b>	452	<b>8,117</b>	8,238
<b>53,961</b>	45,305	<b>392,627</b>	343,646
<b>948</b>	968	<b>4,267</b>	3,968
<b>669</b>	669	<b>1</b>	1
<b>(232)</b>	74	<b>(348)</b>	4
<b>(3,136)</b>	(2,574)	<b>(840)</b>	(957)
<b>(955)</b>	<b>—</b>	<b>(890)</b>	<b>—</b>
<b>16,693</b>	15,195	<b>5,989</b>	2,752
<b>68,701</b>	61,572	<b>24,678</b>	21,222
<b>(26,916)</b>	(24,444)	<b>—</b>	<b>—</b>
<b>54,824</b>	50,492	<b>28,590</b>	23,022
<b>\$ 109,733</b>	\$ 96,765	<b>\$ 425,484</b>	\$ 370,636

In the consolidating data on this page, "GE" means the basis of consolidation as described in note 1 to the consolidated financial statements; "GECS" means General Electric Capital Services, Inc. and all of its affiliates and associated companies. Transactions between GE and GECS have been eliminated from the "General Electric Company and consolidated affiliates" columns on page 44.

# Statement of Cash Flows

## General Electric Company and consolidated affiliates

For the years ended December 31 (In millions)	2001	2000	1999
<b>Cash flows—operating activities</b>			
Net earnings	\$ 13,684	\$ 12,735	\$ 10,717
Adjustments to reconcile net earnings to cash provided from operating activities			
Cumulative effect of accounting changes	444	—	—
Depreciation and amortization of property, plant and equipment	5,370	5,039	4,908
Amortization of goodwill and other intangibles	1,719	2,697	1,783
Earnings (before accounting changes) retained by GECS	—	—	—
Deferred income taxes	1,426	1,153	1,502
Decrease (increase) in GE current receivables	197	(537)	143
Decrease (increase) in inventories	(485)	(924)	266
Increase in accounts payable	4,676	3,297	820
Increase (decrease) in insurance liabilities and reserves	8,194	(1,009)	4,584
Provision for losses on financing receivables	2,481	2,045	1,671
All other operating activities	(5,511)	(1,806)	(1,801)
<b>Cash from operating activities</b>	<b>32,195</b>	<b>22,690</b>	<b>24,593</b>
<b>Cash flows—investing activities</b>			
Additions to property, plant and equipment	(15,520)	(13,967)	(15,502)
Dispositions of property, plant and equipment	7,345	6,767	6,262
Net increase in GECS financing receivables	(13,952)	(16,076)	(12,628)
Payments for principal businesses purchased	(12,429)	(2,332)	(11,654)
All other investing activities	(5,558)	(12,091)	(8,657)
<b>Cash used for investing activities</b>	<b>(40,114)</b>	<b>(37,699)</b>	<b>(42,179)</b>
<b>Cash flows—financing activities</b>			
Net increase (decrease) in borrowings (maturities of 90 days or less)	20,482	(8,243)	6,171
Newly issued debt (maturities longer than 90 days)	32,071	47,645	48,158
Repayments and other reductions (maturities longer than 90 days)	(37,001)	(32,762)	(27,539)
Net dispositions (purchases) of GE shares for treasury	(2,435)	469	(1,002)
Dividends paid to share owners	(6,358)	(5,401)	(4,587)
All other financing activities	2,047	12,942	622
<b>Cash from (used for) financing activities</b>	<b>8,806</b>	<b>14,650</b>	<b>21,823</b>
<b>Increase (decrease) in cash and equivalents during year</b>	<b>887</b>	<b>(359)</b>	<b>4,237</b>
Cash and equivalents at beginning of year	8,195	8,554	4,317
Cash and equivalents at end of year	\$ 9,082	\$ 8,195	\$ 8,554
<b>Supplemental disclosure of cash flows information</b>			
Cash paid during the year for interest	\$(11,125)	\$(11,617)	\$(10,078)
Cash recovered (paid) during the year for income taxes	(1,487)	(2,604)	(1,597)

The notes to consolidated financial statements on pages 67-92 are an integral part of this statement.

GE			GECS		
2001	2000	1999	2001	2000	1999
<b>\$13,684</b>	\$12,735	\$10,717	<b>\$ 5,417</b>	\$ 5,192	\$ 4,443
<b>444</b>	—	—	<b>169</b>	—	—
<b>1,919</b>	1,725	1,735	<b>3,451</b>	3,314	3,173
<b>580</b>	523	584	<b>1,139</b>	2,174	1,199
<b>(3,625)</b>	(3,370)	(2,777)	<b>—</b>	—	—
<b>564</b>	470	655	<b>862</b>	683	847
<b>207</b>	(550)	190	<b>—</b>	—	—
<b>(881)</b>	(663)	(61)	<b>396</b>	(261)	327
<b>364</b>	845	104	<b>4,804</b>	3,047	699
<b>—</b>	—	—	<b>8,194</b>	(1,009)	4,584
<b>—</b>	—	—	<b>2,481</b>	2,045	1,671
<b>3,941</b>	3,701	616	<b>(9,314)</b>	(5,901)	(2,124)
<b>17,197</b>	15,416	11,763	<b>17,599</b>	9,284	14,819
<b>(2,876)</b>	(2,536)	(2,036)	<b>(12,644)</b>	(11,431)	(13,466)
<b>—</b>	53	—	<b>7,345</b>	6,714	6,262
<b>—</b>	—	—	<b>(13,952)</b>	(16,076)	(12,628)
<b>(1,436)</b>	(1,156)	(1,594)	<b>(10,993)</b>	(1,176)	(10,060)
<b>(1,535)</b>	(234)	(432)	<b>(7,557)</b>	(12,173)	(8,283)
<b>(5,847)</b>	(3,873)	(4,062)	<b>(37,801)</b>	(34,142)	(38,175)
<b>327</b>	(1,331)	(1,230)	<b>23,634</b>	(2,121)	7,308
<b>1,303</b>	785	558	<b>30,752</b>	46,887	47,605
<b>(950)</b>	(855)	(615)	<b>(36,051)</b>	(31,907)	(26,924)
<b>(2,435)</b>	469	(1,002)	<b>—</b>	—	—
<b>(6,358)</b>	(5,401)	(4,587)	<b>(1,961)</b>	(1,822)	(1,666)
<b>—</b>	—	—	<b>5,090</b>	12,942	622
<b>(8,113)</b>	(6,333)	(6,876)	<b>21,464</b>	23,979	26,945
<b>3,237</b>	5,210	825	<b>1,262</b>	(879)	3,589
<b>7,210</b>	2,000	1,175	<b>6,052</b>	6,931	3,342
<b>\$10,447</b>	\$ 7,210	\$ 2,000	<b>\$ 7,314</b>	\$ 6,052	\$ 6,931
<b>\$ (358)</b>	\$ (388)	\$ (482)	<b>\$(10,767)</b>	\$(11,229)	\$ (9,596)
<b>(1,616)</b>	(1,804)	(1,246)	<b>129</b>	(800)	(351)

In the consolidating data on this page, "GE" means the basis of consolidation as described in note 1 to the consolidated financial statements; "GECS" means General Electric Capital Services, Inc. and all of its affiliates and associated companies. Transactions between GE and GECS have been eliminated from the "General Electric Company and consolidated affiliates" columns on page 46.

# Management's Discussion and Analysis

## Management's Discussion of Operations

### Overview

General Electric Company's consolidated financial statements represent the combination of manufacturing and nonfinancial services businesses of General Electric Company (GE) and the accounts of General Electric Capital Services, Inc. (GECS).

Management's Discussion of Operations is presented in three parts: Consolidated Operations, Segment Operations and International Operations.

### Consolidated Operations

General Electric Company achieved record earnings and cash generation in 2001, demonstrating the benefits of its diverse business portfolio and continuing emphasis on globalization, growth in services, Digitization and Six Sigma Quality.

Revenues were \$125.9 billion in 2001, a decrease of 3% from \$129.9 billion in 2000, reflecting a 6% increase in GE's industrial business revenues partially offsetting a 12% decrease at GECS. As described on page 53, GECS revenues in both years included the revenues of certain businesses significantly impacted by strategic repositioning activities. Excluding such activities, consolidated revenues increased 4%. Revenues in 2000 increased 16% from \$111.6 billion in 1999, reflecting continued growth from global activities and services.

Earnings before accounting changes increased to a record \$14,128 million in 2001, an 11% increase from \$12,735 million in 2000. Per-share earnings before accounting changes increased to \$1.41 during 2001, up 11% from the prior year's \$1.27. (Except as otherwise noted, earnings per share are presented on a diluted basis.) The cumulative effect of accounting changes related to the adoption, as of January 1, 2001, of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and the consensus of the FASB's Emerging Issues Task Force on Issue 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*. Adoption of these standards resulted in a one-time, non-cash reduction of earnings of \$444 million (\$0.04 per share). After these required accounting changes, 2001 earnings and earnings per share were \$13,684 million and \$1.37, respectively. Earnings and earnings per share in 2000 rose 19% from \$10,717 million and \$1.07, respectively, in 1999.

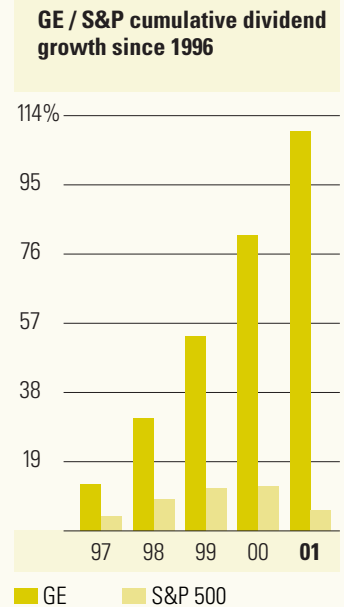
**Major provisions of new accounting standards** that may be significant to GE's financial statements in the future are described in the following paragraphs.

SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*, modify the accounting for business combinations, goodwill and identifiable intangible assets. As of January 1, 2002, all goodwill and indefinite-lived intangible assets

must be tested for impairment and a transition adjustment will be recognized. Management has not yet determined the exact amount of goodwill impairment under these new standards, but believes the non-cash transition charge to earnings will be approximately \$1.0 billion (\$0.10 per share) and recognized in the first quarter of 2002. Amortization of goodwill will cease as of January 1, 2002, and, thereafter, all goodwill and any indefinite-lived intangible assets must be tested at least annually for impairment. The effect of the non-amortization provisions on 2002 operations will be affected by 2002 acquisitions and cannot be forecast, but if these rules had applied to goodwill in 2001, management believes that full-year 2001 net earnings would have increased by approximately \$1.1 billion (\$0.11 per share).

SFAS 143, *Accounting for Asset Retirement Obligations*, requires recognition of the fair value of obligations associated with the retirement of long-lived assets when there is a legal obligation to incur such costs. This amount is accounted for like an additional element of the corresponding asset's cost, and is depreciated over that asset's useful life. SFAS 143 will be effective for GE on January 1, 2003. Management has not yet determined the effect of adopting this standard on GE's financial position and results of operations.

**Dividends declared** in 2001 amounted to \$6,555 million. Per-share dividends of \$0.66 were up 16% from 2000, following a 17% increase from the preceding year. GE has rewarded its share owners with 26 consecutive years of dividend growth. GE's dividend growth for the past five years has significantly outpaced dividend growth of companies in the Standard & Poor's 500 stock index.



**Return on average share owners' equity** was 27.1% (excluding the effect of accounting changes) in 2001, about the same as in 2000. The 2000 return on average share owners' equity improved from 26.8% in 1999.

Except as otherwise noted, the analysis in the remainder of this section presents GE results with GECS reported on an equity basis.

**GE total revenues** were \$74.0 billion in 2001, compared with \$69.5 billion in 2000 and \$60.9 billion in 1999.

- GE sales of goods and services were \$68.0 billion in 2001, an increase of 7% from 2000, which in turn was 15% higher than in 1999. Volume was about 7% higher in 2001, reflecting strong double-digit increases at Power Systems and Medical Systems, somewhat offset by decreases across most of the

# Management's Discussion and Analysis

short-cycle businesses, particularly NBC, Plastics and Specialty Materials. While overall selling prices were essentially flat in 2001, the effects of selling prices in various reporting segments differed markedly. The net effect in 2001 of exchange rates on sales denominated in currencies other than the U.S. dollar was slightly negative. Volume in 2000 was about 16% higher than in 1999, with selling price and currency effects both slightly negative.

For purposes of the financial statement display of sales and costs of sales on pages 42 and 43, "goods" is required by U.S. Securities and Exchange Commission regulations to include all sales of tangible products, and "services" must include all other sales, including broadcasting and information services activities. GE sales of both spare parts (goods) and repair services, referred to here by management as "product services revenues," constitute an important part of operations. Sales of product services were \$18.8 billion in 2001, a 13% increase over 2000. Increases in product services revenues in 2001 and 2000 were widespread, led by continued strong growth at Power Systems, Medical Systems and Transportation Systems. Operating margin from product services was approximately \$4.7 billion, up 17% from 2000 on a comparable basis. The increase reflected improvements in most product services businesses and was led by Power Systems and Medical Systems.

- GE other income, earned from a wide variety of sources, was \$0.4 billion in 2001, \$0.5 billion in 2000 and \$0.9 billion in 1999. Other income in 1999 included a pre-tax gain of \$0.4 billion resulting from the contribution of certain of NBC's media properties to NBC Internet (NBCi), a former publicly-traded company, in exchange for a noncontrolling interest in NBCi.
- Earnings of GECS before accounting changes were \$5,586 million, up 8% in 2001, following a 17% increase the year before. See page 53 for an analysis of these earnings.

**Principal costs and expenses** for GE are those classified as costs of goods and services sold, and selling, general and administrative expenses. Several GE initiatives had significant effects on costs:

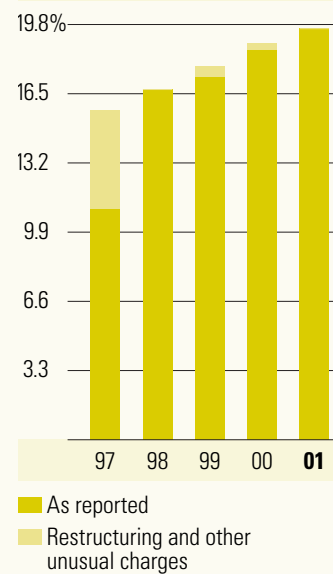
- The Six Sigma Quality initiative has lowered GE's costs by reducing rework, simplifying processes and reducing direct material costs.
- Globalization has reduced costs through sourcing of products and services in lower-cost countries.
- Digitization has also reduced costs by providing GE businesses the ability to simplify and streamline processes, while investing in internal infrastructure hardware and software, enabling them to conduct a growing portion of their business over the Internet. Benefits from this initiative include improved customer service, expanded product and service offerings and increased operating efficiency for both GE and its customers.

Primarily because of the funding status of the GE Pension Plan and other retiree benefit plans, principal U.S. postretirement benefit plans (the plans) contributed \$1,480 million, \$1,266 million and \$1,062 million to pre-tax earnings (6.8%, 6.5% and 6.5% of earnings before accounting changes) in 2001, 2000 and 1999, respectively. See notes 5 and 6 for information about funding status and actuarial assumptions of the plans. Postretirement benefit costs are expected to increase in 2002 for a number of reasons, including reduction in the assumed annual return on assets from 9.5% to 8.5%, reduction in the discount rate from 7.5% to 7.25% and effects of increases in healthcare costs. In 2002, management expects these plans to contribute approximately \$700 million to pre-tax earnings. This estimate will not affect the funding status of the GE Pension Plan; management does not anticipate GE making contributions to that Plan. The present funding status of the plans provides assurance of benefits for GE plan participants, but future effects on operating results and funding depend on economic conditions and investment performance.

Costs and expenses in 1999 included \$326 million of unusual charges, the largest of which resulted from liabilities associated with past activities at former manufacturing sites that are not part of any current business segment, and costs for rationalizing certain operations and facilities of the worldwide industrial businesses. Major elements of the restructuring program included costs for employee severance, lease termination, dismantlement and site restoration. The program was essentially complete by the end of 2000.

**Operating margin** is sales of goods and services less the costs of goods and services sold, and selling, general and administrative expenses. GE operating margin reached a record 19.6% of sales in 2001, up from a comparable 18.9% in 2000 and 17.8% in 1999. The continued improvement in operating margin in 2001 was led by Power Systems and Aircraft Engines, reflecting increasing benefits from the Digitization, product services and Six Sigma Quality initiatives. Reported operating margin was 18.6% in 2000, including the costs of a one-time retirement benefit provision associated with the labor agreement concluded in the third quarter of that year. Reported operating margin in 1999 was 17.3% of sales, including the \$326 million of unusual charges discussed in the preceding paragraph.

**GE operating margin as a percentage of sales**



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**Total cost productivity** (sales in relation to costs, both on a constant dollar basis) in 2001 was 2.2% as productivity in long-cycle businesses, particularly Power Systems and Medical Systems, was partially offset by negative productivity across several short-cycle businesses, particularly Plastics, reflecting volume declines. In 2000, total cost productivity of 3.6% reflected benefits from improvements in base cost productivity achieved through strong volume growth and the Digitization and Six Sigma Quality initiatives.

**GE interest and other financial charges** in 2001 amounted to \$817 million, about the same as 2000 and 1999. During 2001, the benefits of lower average interest rates and lower average borrowing levels were partially offset by increased provisions for interest on tax liabilities. During 2000, higher average interest rates were more than offset by lower average borrowing levels.

**Income taxes** on consolidated earnings before accounting changes were 28.3%, compared with 31.0% in 2000 and 31.2% in 1999. A more detailed analysis of differences between the U.S. federal statutory rate and the consolidated rate, as well as other information about income tax provisions, is provided in note 7.

The effective tax rate of GECS decreased to 19.8% in 2001 from 26.9% in 2000 and 27.1% in 1999. The 2001 effective tax rate reflects the effects of continuing globalization, certain transactions (see note 7), and the effect of a pre-tax charge related to the events of September 11. The pre-tax charge related to September 11 amounted to approximately \$600 million, principally at Specialty Insurance, and reduced the GECS effective tax rate by one percentage point. Management expects that trends in GECS businesses, particularly the continuing impact of globalization, are likely to result in an effective tax rate for GECS in 2002 that will be lower than the 2000 and 1999 rates, but higher than the 2001 rate.

## Segment Operations

**Revenues and segment profit for operating segments** are shown on page 51. For additional information, including a description of the products and services included in each segment, see note 27.

**Aircraft Engines** reported a 6% increase in revenues in 2001, reflecting higher volume in services, and sales of commercial engines and aero-derivative products. Operating profit was 6% higher primarily as a result of volume growth and productivity. Product services revenues following the events of September 11 have been adversely affected by reduced customer flight hours and servicing requirements. Operating profit in 2000 increased 17% on revenues that were slightly higher than in 1999. The improvement in operating profit reflected strong productivity.

In 2001, revenues from sales to the U.S. government were \$1.9 billion compared with \$1.6 billion in 2000.

Aircraft Engines received orders of \$12.1 billion in 2001 compared with \$13.5 billion in 2000. The \$11.2 billion total backlog at year-end 2001 comprised unfilled product orders of \$9.4 billion (of which 56% was scheduled for delivery in 2002) and product services orders of \$1.8 billion scheduled for 2002 delivery. Comparable December 31, 2000, total backlog was \$12.0 billion. Management believes the events of September 11 will continue to adversely affect the airline industry in 2002 with implications for existing backlog, engine servicing revenue and future new engine orders.

**Appliances** revenues were 1% lower than a year ago, as continued price erosion offset modest market share gains. Operating profit decreased by 6%, largely as a result of lower selling prices and increased program spending on new products, which more than offset the benefits of productivity. Revenues in 2000 were 4% higher than in 1999, as volume increases more than offset lower selling prices. Operating profit also increased 4% in 2000, largely as a result of productivity and higher volume from new products.

## Industrial Products and Systems

(In millions)	2001	2000	1999
<b>Revenues</b>			
Industrial Systems	\$ 4,440	\$ 4,469	\$ 4,333
Lighting	2,550	2,739	2,757
Transportation Systems	2,355	2,263	2,358
GE Supply	2,302	2,159	1,951
Total revenues	<b>\$ 11,647</b>	\$ 11,630	\$ 11,399
<b>Operating profit</b>			
Industrial Systems	\$ 795	\$ 839	\$ 760
Lighting	405	593	640
Transportation Systems	497	540	525
GE Supply	146	123	96
Total operating profit	<b>\$ 1,843</b>	\$ 2,095	\$ 2,021

**Industrial Products and Systems** revenues in 2001 were relatively unchanged from 2000 levels, as higher product services revenues at Transportation Systems, including acquisitions, more than offset selling price decreases across the segment and lower volume at Industrial Systems. Operating profit decreased 12% primarily as a result of the decline in selling prices and cost inflation. Revenues rose 2% in 2000, largely as a result of volume increases at Industrial Systems and growth in product services, including acquisitions, which more than offset lower selling prices. Operating profit increased 4%, primarily reflecting productivity and growth in product services.

Transportation Systems received orders of \$2.6 billion in 2001, compared with \$2.1 billion in 2000. The \$1.7 billion total backlog at year-end 2001 comprised unfilled product orders of \$1.2 billion (of which 51% was scheduled for delivery in 2002) and product services orders of \$0.5 billion scheduled for 2002 delivery. Comparable December 31, 2000, total backlog was \$1.4 billion.

# Summary of Operating Segments

<b>General Electric Company and consolidated affiliates</b>					
For the years ended December 31 (In millions)	<b>2001</b>	2000	1999	1998	1997
<b>Revenues</b>					
GE					
Aircraft Engines	<b>\$ 11,389</b>	\$ 10,779	\$ 10,730	\$ 10,294	\$ 7,799
Appliances	<b>5,810</b>	5,887	5,671	5,619	5,801
Industrial Products and Systems	<b>11,647</b>	11,630	11,399	11,078	10,763
Materials	<b>7,069</b>	8,020	7,118	6,796	6,934
NBC	<b>5,769</b>	6,797	5,790	5,269	5,153
Power Systems	<b>20,211</b>	14,861	10,099	8,500	7,986
Technical Products and Services	<b>9,011</b>	7,915	6,863	5,323	4,861
Eliminations	<b>(2,900)</b>	(2,101)	(1,788)	(1,420)	(1,265)
Total GE segment revenues	<b>68,006</b>	63,788	55,882	51,459	48,032
Corporate items (a)	<b>445</b>	517	619	771	3,227
Earnings of GECS before accounting changes	<b>5,586</b>	5,192	4,443	3,796	3,256
Total GE revenues	<b>74,037</b>	69,497	60,944	56,026	54,515
GECS segment revenues	<b>58,353</b>	66,177	55,749	48,694	39,931
Eliminations (b)	<b>(6,477)</b>	(5,821)	(5,063)	(4,251)	(3,606)
<b>Consolidated revenues</b>	<b>\$ 125,913</b>	\$129,853	\$111,630	\$ 100,469	\$90,840
<b>Segment profit</b>					
GE					
Aircraft Engines	<b>\$ 2,609</b>	\$ 2,464	\$ 2,104	\$ 1,769	\$ 1,366
Appliances	<b>643</b>	684	655	755	771
Industrial Products and Systems	<b>1,843</b>	2,095	2,021	1,815	1,662
Materials	<b>1,596</b>	2,015	1,725	1,649	1,627
NBC	<b>1,602</b>	1,797	1,576	1,349	1,216
Power Systems	<b>5,182</b>	2,809	1,753	1,338	1,275
Technical Products and Services	<b>1,970</b>	1,718	1,359	1,109	988
Total GE operating profit	<b>15,445</b>	13,582	11,193	9,784	8,905
Earnings of GECS before accounting changes	<b>5,586</b>	5,192	4,443	3,796	3,256
Total segment profit	<b>21,031</b>	18,774	15,636	13,580	12,161
Corporate items and eliminations (c) (d)	<b>(1,893)</b>	(1,429)	(902)	(584)	(1,351)
GE interest and other financial charges	<b>(817)</b>	(811)	(810)	(883)	(797)
GE provision for income taxes	<b>(4,193)</b>	(3,799)	(3,207)	(2,817)	(1,810)
Earnings before accounting changes	<b>14,128</b>	12,735	10,717	9,296	8,203
Cumulative effect of accounting changes	<b>(444)</b>	—	—	—	—
<b>Consolidated net earnings</b>	<b>\$ 13,684</b>	\$ 12,735	\$ 10,717	\$ 9,296	\$ 8,203

The notes to consolidated financial statements on pages 67-92 are an integral part of this statement. "GE" means the basis of consolidation as described in note 1 to the consolidated financial statements; "GECS" means General Electric Capital Services, Inc. and all of its affiliates and associated companies. The segment profit measure for GE industrial businesses is operating profit (earnings before interest and other financial charges, income taxes and accounting changes). The segment profit measure for GECS is after-tax earnings before accounting changes, reflecting the importance of financing and tax considerations to its operating activities.

(a) Includes revenues of \$944 million in 1997 from an appliance distribution affiliate that was deconsolidated in 1998. Also includes \$1,538 million gain in 1997 from an exchange of preferred stock in Lockheed Martin Corporation for the stock of a newly formed subsidiary.

(b) Principally the elimination of GECS earnings before accounting changes.

(c) Includes income, principally from licensing activities, of \$88 million, \$79 million, \$62 million, \$271 million and \$310 million in 2001, 2000, 1999, 1998 and 1997, respectively.

(d) 1999 includes unusual charges amounting to \$265 million. Of the total, amounts that relate to activities of GE operating segments were as follows: Aircraft Engines—\$42 million, Appliances—\$75 million, Industrial Products and Systems—\$12 million, Materials—\$13 million and Technical Products and Services—\$34 million. 1997 includes unusual charges of \$2,322 million. Of the total, amounts that relate to activities of GE operating segments were as follows: Aircraft Engines—\$342 million, Appliances—\$330 million, Industrial Products and Systems—\$352 million, Materials—\$63 million, NBC—\$161 million, Power Systems—\$437 million and Technical Products and Services—\$157 million. Also included in 1997 is a \$1,538 million gain associated with the Lockheed Martin Corporation transaction described in (a) above.

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## Materials

(In millions)

	2001	2000	1999
<b>Revenues</b>			
Plastics	\$ 5,252	\$ 6,013	\$ 5,315
Specialty Materials	1,817	2,007	1,803
Total revenues	\$ 7,069	\$ 8,020	\$ 7,118
<b>Operating profit</b>			
Plastics	\$ 1,257	\$ 1,603	\$ 1,366
Specialty Materials	339	412	359
Total operating profit	\$ 1,596	\$ 2,015	\$ 1,725

**Materials** revenues were 12% lower than in 2000, reflecting increased pricing pressures and lower volume at both Plastics and Specialty Materials. Plastics experienced continued softness in the automotive, optical media, telecommunication and business equipment markets while Specialty Materials was adversely affected by lower sales in the semiconductor market. Operating

profit was 21% lower, primarily as a result of lower pricing and volume, and negative base cost productivity at both Plastics and Specialty Materials. Operating profit in 2000 increased 17% on revenues that were 13% higher than in 1999. The increases in both revenues and operating profit were primarily attributable to higher volume and improved selling prices at both Plastics and Specialty Materials, which more than offset the effects of higher raw material prices.

**NBC** revenues declined 15% from the record-high levels of 2000 which were 17% higher than in 1999. Revenues in 2001 were negatively affected by a significant decline in advertising volume and pricing,

as well as lost revenue related to coverage of the events of September 11. Revenues in 2000 benefited from broadcast of the 2000 Summer Olympic Games as well as strong growth in cable operations, particularly at CNBC. Operating profit decreased 11% in 2001 reflecting adverse advertising market conditions, events of September 11, and charges resulting from dissolving the XFL, which more than offset savings from cost reduction actions. Operating profit increased 14% in 2000 as growth in owned-and-operated stations, cable operations and network operations was partially offset by higher license fees associated with the renewal of certain sports and prime-time programs.

**Power Systems** operating results throughout the last three years reflected the sharp increase in U.S. gas turbine sales of market leading "F" technology, higher prices for those turbines and base cost productivity associated with their manufacture. Secondly, and with a longer-lasting effect, the portfolio of long-term product services agreements associated with new unit sales has generated favorable operating results. Aero-derivative units revenues also benefited from increased demand in the power generation sector throughout this period. Reflecting these conditions, revenues increased 36% in 2001, following an increase of 47% in 2000. Similarly, operating profit increased 84% in 2001, following an increase of 60% in 2000.

Power Systems orders were \$24.5 billion in 2001, a 4% increase over 2000, reflecting continued strength of the power generation business and renewed growth in the oil and gas industry. The \$28.9 billion total backlog at year-end 2001 comprised unfilled product orders of \$24.1 billion (of which 75% was scheduled for delivery in 2002) and product services orders of \$4.7 billion scheduled for 2002 delivery. Comparable December 31, 2000, total backlog was \$25.1 billion. As a result of softening demand for electric power in the U.S. market, management is in discussions with certain customers regarding their equipment requirements. These discussions may result in changes to contractual agreements, including delays or cancellations. In the event of order cancellation, contractual terms require customers to pay termination fees. In all cases, such fees are expected to cover Power Systems' investment in the contracts and at least a portion has generally been received as progress collections. At least partial recovery of lost profits would also be expected.

## Technical Products and Services

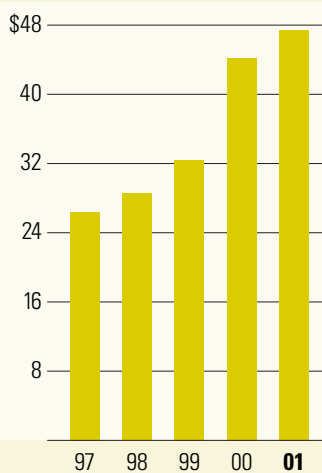
(In millions)

	2001	2000	1999
<b>Revenues</b>			
Medical Systems	\$ 8,409	\$ 7,275	\$ 6,171
Global eXchange Services	602	640	692
Total revenues	\$ 9,011	\$ 7,915	\$ 6,863
<b>Operating profit</b>			
Medical Systems	\$ 1,803	\$ 1,569	\$ 1,204
Global eXchange Services	167	149	155
Total operating profit	\$ 1,970	\$ 1,718	\$ 1,359

**Technical Products and Services** revenues rose 14% in 2001, primarily as a result of sharply higher volume at Medical Systems. Sales by businesses acquired during the last two years accounted for 5% of Medical Systems 2001 revenues. Operating profit grew 15%, largely as a result of productivity and volume growth as well as higher realized gains, principally the result of disposition in 2001 of a joint venture at Global eXchange Services. Revenues in 2000 were 15% higher than 1999 on sharply higher volume at Medical Systems. Operating profit increased 26% in 2000, largely as a result of productivity and volume increases at Medical Systems, which more than offset lower selling prices across the segment.

## GE orders backlog

(In billions)



# Management's Discussion and Analysis

Orders received by Medical Systems in 2001 were \$8.9 billion, a 17% increase over 2000. The \$4.1 billion total backlog at year-end 2001 comprised unfilled product orders of \$2.7 billion (of which 68% was scheduled for delivery in 2002) and product services orders of \$1.4 billion scheduled for 2002 delivery. Comparable December 31, 2000, total backlog was \$3.6 billion.

**GECS** businesses are categorized for management purposes into five operating activities: consumer services, equipment management, mid-market financing, specialized financing and specialty insurance.

GECS earnings before accounting changes were \$5,586 million in 2001, up 8% from \$5,192 million in 2000, with strong double-digit earnings growth in three of the five operating activities. Net earnings in 2000 increased 17% from 1999. Earnings growth throughout the three-year period resulted from origination volume and asset growth, productivity and acquisitions of businesses and

portfolios. Principal factors in the 2001 increase were strong productivity (\$0.7 billion) and lower taxes (\$0.5 billion) partially offset by GE Global Insurance Holdings (\$0.5 billion) and lower realized gains on financial instruments. Excluding effects of Paine Webber Group, Inc. (PaineWebber) in 2000 and Americom in 2001, both of which are discussed below, such pre-tax gains were lower in 2001 by \$0.5 billion (\$0.3 billion after tax). Pre-tax gains on sales of investment securities declined in 2001 by \$0.5 billion, of which \$0.4 billion related to GE Equity; other GE Equity gains were \$0.8 billion lower; while gains on securitizations were up \$0.8 billion from 2000.

On November 9, 2001, GECS exchanged the stock of Americom and other related assets and liabilities for a combination of cash and stock in SES Global, a leading satellite company. The transaction resulted in a gain of \$1,158 million (\$642 million after tax).

On December 28, 2000, Montgomery Ward, LLC (Wards), formerly a GECS subsidiary, filed for bankruptcy protection and began liquidation proceedings. Net earnings for the year 2000 included operating losses from Wards amounting to \$245 million as well as a charge, primarily to other costs and expenses, for \$815 million (\$537 million, after tax) to recognize additional associated losses.

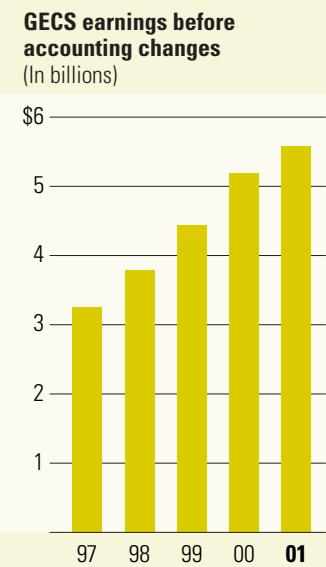
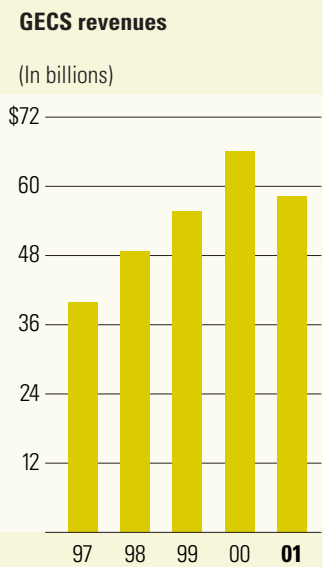
- GECS total revenues decreased 12% to \$58.4 billion in 2001, following a 19% increase to \$66.2 billion in 2000. The three principal reasons for the decrease in revenues in 2001 compared with 2000 were: the deconsolidation of Wards and resulting absence of sales in 2001 (\$3.2 billion); the effects of

rationalization of operations and market conditions at IT Solutions (\$2.9 billion); and reduced surrender fees compared with 2000 (\$1.2 billion) associated with the planned run-off of restructured insurance policies of Toho Mutual Life Insurance Company (Toho) at GE Financial Assurance (GEFA). The increase in 2000 reflected post-acquisition revenues from acquired businesses (\$6.5 billion) as well as volume growth (\$2.5 billion). Revenues in 2000 also included the gain from sale of common stock of PaineWebber (\$1.4 billion). Additional information about other revenue items is provided in the analysis of GECS operating activities beginning on page 54.

- GECS cost of goods sold declined to \$3.3 billion in 2001, compared with \$8.5 billion in 2000 and \$8.0 billion in 1999, reflecting volume declines at IT Solutions and the deconsolidation of Wards on December 28, 2000, when Wards commenced liquidation proceedings. The increase in 2000 primarily reflected the consolidation of Wards from August 2, 1999, through December 28, 2000.

- GECS interest on borrowings in 2001 was \$10.6 billion, compared with \$11.1 billion in 2000 and \$9.4 billion in 1999. The change in both years reflected the effects of both interest rates and the average level of borrowings used to finance asset growth. GECS average composite effective interest rate was 5.11% in 2001, compared with 5.89% in 2000 and 5.14% in 1999. In 2001, average assets of \$386.6 billion were 7% higher than in 2000, which in turn were 13% higher than in 1999. See page 60 for a discussion of interest rate risk management.

- GECS insurance losses and policyholder and annuity benefits increased to \$15.1 billion in 2001, compared with \$14.4 billion in 2000 and \$11.0 billion in 1999. This increase reflected effects of growth in premium volume and business acquisitions at GEFA throughout the period, and costs discussed in the analysis of Specialty Insurance and All Other GECS operating activities, partially offset by the planned run-off of restructured insurance policies at Toho.
- GECS provision for losses on financing receivables was \$2.5 billion in 2001, compared with \$2.0 billion in 2000 and \$1.7 billion in 1999. These provisions principally related to private-label credit cards, bank credit cards, personal loans and auto loans and leases as well as commercial, industrial, and equipment loans and leases, all of which are discussed on page 56 under financing receivables. The provisions throughout the three-year period reflected higher average



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receivable balances, changes in the mix of business, and the effects of delinquency rates—higher during 2001 and lower during 2000—consistent with industry experience.

- GECS other costs and expenses were \$19.8 billion, \$22.8 billion and \$19.4 billion in 2001, 2000 and 1999, respectively. Changes over the three-year period were largely the result of acquisitions and unusual charges, which were more than offset in 2001 by productivity at Consumer Services and Equipment Management. Costs and expenses in 2001 included \$0.5 billion of costs in businesses that were acquired after January 1, 2001, as well as \$0.3 billion of costs discussed in the analysis of All Other GECS operating activities. Similarly, 2000 included \$2.5 billion of costs in businesses that were acquired after January 1, 2000; charges for costs associated with Wards amounting to \$0.8 billion, as discussed previously; and \$0.5 billion of costs to rationalize certain operations discussed in the analysis of All Other GECS operating activities.

Over the last three years, market interest rates have been more volatile than GECS average composite effective interest rates, principally because of the mix of effectively fixed-rate borrowings in the GECS financing structure. GECS portfolio of fixed and floating-rate financial products has behaved similarly over that period. Consequently, financing spreads have remained relatively flat over the three-year period.

## GECS revenues and net earnings

(In millions)	2001	2000	1999
<b>Revenues</b>			
Consumer Services	\$ 23,574	\$ 23,893	\$ 18,705
Equipment Management	12,542	14,747	15,383
Mid-Market Financing	8,659	7,026	5,929
Specialized Financing	2,930	4,105	3,308
Specialty Insurance	11,064	11,878	10,643
All other	(416)	4,528	1,781
Total revenues	\$ 58,353	\$ 66,177	\$ 55,749
<b>Net earnings</b>			
Consumer Services	\$ 2,319	\$ 1,671	\$ 1,140
Equipment Management	1,607	833	683
Mid-Market Financing	1,280	1,010	822
Specialized Financing	557	1,223	1,019
Specialty Insurance	522	879	1,167
All other	(699)	(424)	(388)
Total earnings before accounting changes	5,586	5,192	4,443
Cumulative effect of accounting changes	(169)	—	—
Net earnings	\$ 5,417	\$ 5,192	\$ 4,443

Following is a discussion of revenues and earnings before accounting changes from operating activities within the GECS segment. For purposes of this discussion, earnings before accounting changes is referred to as net earnings.

## Consumer Services

(In millions)	2001	2000	1999
<b>Revenues</b>			
Global Consumer Finance	\$ 5,282	\$ 5,138	\$ 4,839
GE Financial Assurance	13,565	13,669	9,604
GE Card Services	3,947	3,891	2,478
Other Consumer Services	780	1,195	1,784
Total revenues	\$ 23,574	\$ 23,893	\$ 18,705
<b>Net earnings (a)</b>			
Global Consumer Finance	\$ 903	\$ 710	\$ 580
GE Financial Assurance	687	564	411
GE Card Services	654	495	196
Other Consumer Services	75	(98)	(47)
Net earnings	\$ 2,319	\$ 1,671	\$ 1,140

(a) Charges of \$196 million and \$107 million in 2001 and 2000, respectively, were not allocated to this activity and are included in All Other GECS operating activities.

Consumer Services revenues declined 1% in 2001, following a 28% increase in 2000. Overall, the revenue performance in both years reflected the post-acquisition revenues from acquired businesses and volume growth at GEFA, Global Consumer Finance and Card Services which were offset by decreases at Auto Financial Services and Mortgage Services, which both stopped accepting new business in 2000 (included in Other Consumer Services) and, in 2001, a decrease in surrender fee income at GEFA associated with the planned run-off of restructured insurance policies at Toho. Net earnings increased 39% in 2001 and 47% in 2000. The increase in 2001 reflected productivity benefits at Global Consumer Finance and GEFA, volume growth at Card Services and reduced residual losses at Auto Financial Services. The increase in net earnings in 2000 resulted from acquisition and volume growth at Card Services, GEFA, and Global Consumer Finance, partially offset by losses at Mortgage Services.

## Equipment Management

(In millions)	2001	2000	1999
<b>Revenues</b>			
Aviation Services (GECAS)	\$ 2,173	\$ 1,962	\$ 1,551
Americom	1,698	594	463
IT Solutions	4,180	7,073	8,380
Other Equipment Management	4,491	5,118	4,989
Total revenues	\$ 12,542	\$ 14,747	\$ 15,383
<b>Net earnings (a)</b>			
Aviation Services (GECAS)	\$ 470	\$ 474	\$ 280
Americom	896	195	150
IT Solutions	11	(197)	(66)
Other Equipment Management	230	361	319
Net earnings	\$ 1,607	\$ 833	\$ 683

(a) Charges of \$135 million and \$191 million in 2001 and 2000, respectively, were not allocated to this activity and are included in All Other GECS operating activities.

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*Equipment Management* revenues decreased 15% in 2001 following a 4% decline in 2000. The decrease in both years was primarily attributable to effects of rationalization of operations and market conditions on revenues at IT Solutions, partially offset by the gain on the disposition of Americom in 2001, and volume growth at GECAS in both years. Other *Equipment Management* revenues decreased in 2001, primarily as a result of lower volume across all of the remaining businesses. Net earnings increased 93% in 2001 and 22% in 2000, reflecting the Americom gain and productivity benefits at IT Solutions in 2001 and volume growth at GECAS in 2000. The decrease in Other *Equipment Management* net earnings in 2001 primarily reflected lower results at Transport International Pool and GE Capital Modular Space.

## Mid-Market Financing

(In millions)	2001	2000	1999
<b>Revenues</b>			
Commercial Equipment Financing	\$ 4,515	\$ 3,610	\$ 3,180
Commercial Finance	1,695	1,543	1,295
Vendor Financial Services	2,095	1,791	1,372
Other Mid-Market Financing	354	82	82
Total revenues	\$ 8,659	\$ 7,026	\$ 5,929
<b>Net earnings (a)</b>			
Commercial Equipment Financing	\$ 592	\$ 496	\$ 396
Commercial Finance	364	280	225
Vendor Financial Services	287	241	200
Other Mid-Market Financing	37	(7)	1
Net earnings	\$ 1,280	\$ 1,010	\$ 822

(a) Charges of \$52 million in 2001 were not allocated to this activity and are included in All Other GECS operating activities.

*Mid-Market Financing* revenues increased 23% in 2001, following a 19% increase in 2000, resulting from acquisition and volume growth at Commercial Equipment Finance, Vendor Financial Services and Commercial Finance, including the acquisition of Heller Financial, Inc. (Heller Financial) on October 24, 2001, (included in Other Mid-Market Financing), and increased gains on securitizations of financial assets. The increase in revenues in 2000 primarily reflected asset growth from originations across all major businesses. Net earnings increased 27% in 2001 and 23% in 2000. Growth in net earnings in 2001 reflected securitization gains and asset growth from acquisitions across all major businesses. In 2000, improvements in net earnings resulted from favorable tax effects and asset growth from originations.

## Specialized Financing

(In millions)	2001	2000	1999
<b>Revenues</b>			
Real Estate	\$ 1,919	\$ 1,977	\$ 1,582
Structured Finance Group	1,093	999	812
GE Equity	(126)	1,079	863
Other Specialized Financing	44	50	51
Total revenues	\$ 2,930	\$ 4,105	\$ 3,308
<b>Net earnings (a)</b>			
Real Estate	\$ 486	\$ 371	\$ 300
Structured Finance Group	385	344	270
GE Equity	(270)	525	416
Other Specialized Financing	(44)	(17)	33
Net earnings	\$ 557	\$ 1,223	\$ 1,019

(a) Charges of \$103 million and \$49 million in 2001 and 2000, respectively, were not allocated to this activity and are included in All Other GECS operating activities.

*Specialized Financing* revenues declined 29%, following a 24% increase in 2000, and net earnings declined 54% in 2001 following a 20% increase in 2000. The decrease in revenues and net earnings in 2001 were a result of reduced asset gains at GE Equity, partially offset by profitable origination growth at Structured Finance Group and higher asset gains and productivity benefits at Real Estate. Revenues and net earnings growth in 2000 were principally the result of origination growth across all businesses and a particularly high level of gains on equity investment sales at GE Equity.

## Specialty Insurance

(In millions)	2001	2000	1999
<b>Revenues</b>			
Mortgage Insurance	\$ 1,029	\$ 973	\$ 936
GE Global Insurance Holdings	9,453	10,223	9,013
Other Specialty Insurance	582	682	694
Total revenues	\$ 11,064	\$ 11,878	\$ 10,643
<b>Net earnings (a)</b>			
Mortgage Insurance	\$ 395	\$ 366	\$ 340
GE Global Insurance Holdings	(47)	413	625
Other Specialty Insurance	174	100	202
Net earnings	\$ 522	\$ 879	\$ 1,167

(a) Charges of \$170 million in 2001 were not allocated to this activity and are included in All Other GECS operating activities.

*Specialty Insurance* revenues decreased 7% in 2001, following a 12% increase in 2000, as a result of reduced net premiums earned at GE Global Insurance Holdings (the parent of Employers Reinsurance Corporation), reflecting the events of September 11 as discussed below, and decreased investment income, partially offset by increased premium income associated with origination volume. The increase in 2000 resulted from premium growth and increased investment income, as higher interest income more than offset a

# Management's Discussion and Analysis

decrease in net realized investment gains at GE Global Insurance Holdings. Net pre-tax realized investment gains in the marketable equity and debt securities portfolios amounted to \$572 million, \$639 million and \$811 million in 2001, 2000 and 1999, respectively. Remaining available gains in the portfolios at December 31, 2001, amounted to \$509 million before tax.

Net earnings decreased 41% and 25% in 2001 and 2000, respectively, reflecting GE Global Insurance Holdings underwriting results. Net earnings in 2001 were adversely affected by approximately \$575 million (\$386 million after tax) related to the insurance losses arising from the events of September 11. This amount, which primarily resulted from contingent premium payment provisions contained in certain retrocession agreements, comprises \$698 million recorded as a reduction in net premiums earned, and \$78 million reflecting policyholder losses, partially offset by \$201 million reflecting a reduction in insurance acquisition costs.

Historical experience related to large catastrophic events has shown that a broad range of total insurance industry loss estimates often exists following such an event and it is not unusual for there to be significant subsequent revisions in such estimates. \$575 million is management's best estimate of its existing net liability based on the information currently available, and is net of estimated recoveries under retrocession arrangements, under which a portion of losses is routinely ceded to other reinsurance entities. Substantially all of GECS retrocessionaires are large, highly rated reinsurance entities. At this time, management does not anticipate that any significant portion of its estimated recoveries will be uncollectible.

Net earnings in 2001 and 2000 were also adversely affected by the continued deterioration of

underwriting results, reflecting higher property and casualty-related losses (principally as a result of adverse development relating to prior-year loss events) and the continued effects of low premiums in the property and casualty insurance/reinsurance industry. As GE Global Insurance Holdings underwriting results in 2001 and 2000, typical of the global property and casualty industry, were realized, management began underwriting initiatives that increased premium prices for given levels of coverage. These initiatives resulted in management reconsidering and clarifying the product lines, policies, contracts and specific customers for which, given the risk, acceptable future levels of profit seem achievable. For these businesses, GECS has sought to retain or even expand its business. On the other hand, management has identified particular property

and casualty business channels from which returns do not appear to justify the risks. For these channels, new business will be significantly curtailed or exited.

The majority of the adverse development in 2001, and to a lesser extent in 2000, related to higher projected ultimate losses for liability coverages, especially in the hospital liability, nonstandard automobile (automobile insurance extended to higher-risk drivers) and commercial and public entity general liability lines of business. The increase in 2000 also reflected an increase in industry-wide loss estimates related to certain large property loss events, with the largest impact resulting from the European windstorms occurring in late 1999. The adverse development of GE Global Insurance Holdings for both years was partially mitigated by favorable experience in the Mortgage Insurance business, which resulted from favorable economic conditions, improvement in certain real estate markets and loss mitigation efforts.

## All Other GECS

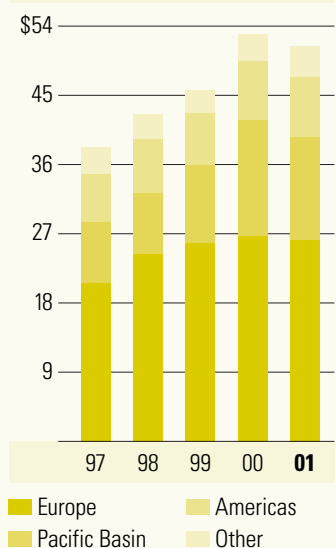
(In millions)

	2001	2000	1999
<b>Revenues</b>			
All Other GECS total revenues	<b>\$ (416)</b>	\$ 4,528	\$ 1,781
<b>Net earnings</b>			
All Other GECS net earnings	<b>\$ (699)</b>	\$ (424)	\$ (388)

*All Other GECS* operating activities includes results of operations of businesses other than those in the five operating activities as well as charges management has not allocated to those activities. In 2001, \$436 million of charges, principally for asset write-downs, resulted in a negative total for this category. Revenues in 2000 included the results of Wards through December 28, 2000; a pre-tax gain of \$1,366 million from sale of GECS investment in common stock of PaineWebber; and charges of \$238 million, principally for asset write-downs. The net loss of \$699 million for 2001 included after-tax costs of \$656 million in certain unprofitable insurance and financing product lines that are being exited; in disposing of and providing for disposition of several nonstrategic investments and other assets; and in restructuring various global operations. These costs included asset write-downs totaling \$285 million. The net loss of \$424 million for 2000 comprised the PaineWebber gain of \$848 million; charges of \$537 million related to Wards; strategic rationalization costs of \$347 million related to other operating activities, primarily for asset write-downs, employee severance and lease terminations; and operating losses from Wards of \$245 million.

*Financing Receivables* is the largest category of assets for GECS and represents one of its primary sources of revenues. The portfolio of financing receivables, before allowance for losses, increased to \$178.8 billion at the end of 2001 from \$147.3 billion at the end of 2000, as discussed in the following paragraphs. The related allowance for losses at the end of 2001 amounted to \$4.8 billion (\$4.0 billion at the end of 2000), representing management's best estimate of probable losses inherent in the portfolio.

**Consolidated international revenues by region**  
(In billions)



# Management's Discussion and Analysis

In GECS financing receivables, "nonearning" receivables are those that are 90 days or more delinquent (or for which collection has otherwise become doubtful) and "reduced-earning" receivables are commercial receivables whose terms have been restructured to a below-market yield.

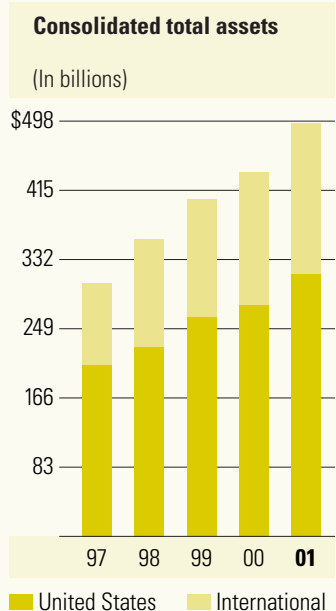
Consumer financing receivables, primarily credit card and personal loans and auto loans and leases, were \$52.3 billion at year-end 2001, an increase of \$3.5 billion from year-end 2000. Credit card and personal receivables increased \$7.0 billion, primarily from increased origination and acquisition growth, partially offset by sales and securitizations and the net effects of foreign currency translation. Auto receivables decreased \$3.5 billion, primarily as a result of the run-off of the liquidating Auto Financial Services portfolio. Nonearning consumer receivables at year-end 2001 were \$1.5 billion, about 2.9% of outstandings, compared with \$1.1 billion, about 2.3% of outstandings at year-end 2000. Write-offs of consumer receivables increased to \$1.7 billion from \$1.3 billion for

2000, reflecting the maturing of private label credit card portfolios and higher personal bankruptcies on credit card loan portfolios in Japan. Consistent with industry trends, consumer delinquency rates increased during 2001.

Other financing receivables, which totaled \$126.5 billion at December 31, 2001, consisted of a diverse commercial, industrial and equipment loan and lease portfolio. This portfolio increased \$28.0 billion during 2001, reflecting increased acquisition and origination growth, partially offset by sales and securitizations. Related nonearning and reduced-earning receivables were \$1.7 billion, about 1.4% of outstandings at year-end 2001, compared with \$0.9 billion, about

1.0% of outstandings at year-end 2000, reflecting several large bankruptcies and the current economic environment. These receivables are backed by assets and are covered by reserves for probable losses.

GECS loans and leases to commercial airlines amounted to \$21.5 billion at the end of 2001, up from \$15.3 billion at the end of 2000. GECS commercial aircraft positions also included financial guarantees, funding commitments, credit and liquidity support agreements and aircraft orders as discussed in note 17.



## International Operations

Estimated results of international activities include the results of GE and GECS operations located outside the United States plus all U.S. exports. Certain GECS operations that cannot meaningfully be associated with specific geographic areas are classified as "other international" for this purpose.

International revenues of \$51.4 billion, \$53.0 billion and \$45.7 billion in 2001, 2000 and 1999, respectively, represented about 41% of consolidated revenues in each year.

### Consolidated international revenues

(In millions)	2001	2000	1999
Europe	\$ 23,878	\$ 24,144	\$ 22,919
Pacific Basin	11,447	12,921	7,879
Americas	5,507	5,912	5,229
Other	3,456	2,842	2,136
	<b>44,288</b>	45,819	38,163
Exports from the U.S. to external customers	7,149	7,138	7,513
	<b>\$ 51,437</b>	\$ 52,957	\$ 45,676

GE international revenues grew to \$28.3 billion in 2001, an increase of \$1.6 billion (6%) over 2000. Revenues in 2000 were \$26.7 billion, \$2.7 billion (11%) higher than in 1999. The increase in 2001 was attributable to sales in operations based outside the United States, which grew 8% to \$21.2 billion. European revenues were 16% higher in 2001, led by increases at Power Systems and Medical Systems. Revenues in the Americas (North and South America, except for the United States) increased 6%, reflecting continued growth in both Canadian and Latin American operations. Pacific Basin revenues and total U.S. exports in 2001 were relatively unchanged from 2000.

GECS international revenues were \$23.1 billion in 2001, a decrease of 12% from \$26.3 billion in 2000. Revenues in the Pacific Basin decreased 19% in 2001, as 2000 revenues included surrender fee income at GEFA from the planned run-off of restructured insurance policies of Toho. Revenues in Europe decreased 12% in 2001 as acquisition and core growth at Global Consumer Finance were more than offset by reduced premiums earned, associated with a combination of lower origination volume and increased ceded premiums as a result of the events of September 11 at GE Global Insurance Holdings, and reduced revenue associated with the rationalization of certain operations at IT Solutions.

Consolidated international operating profit was \$6.1 billion in 2001, a decrease of 11% over 2000, which was 21% higher than in 1999. Additional information about operating profit by region is provided in note 28.

Total assets of international operations were \$180.0 billion in 2001 (36% of consolidated assets), an increase of 13% over 2000. GECS assets increased 23% in Europe, reflecting a mix of origination and acquisition growth. GECS also achieved significant asset growth at GECAS, which is classified as "other international" in note 28.

# Management's Discussion and Analysis

The international activities of GE and GECS span all global regions and primarily encompass manufacturing for local and export markets, import and sale of products produced in other regions, leasing of aircraft, sourcing for GE plants domiciled in other global regions and provision of financial services within these regional economies. Thus, when countries or regions experience currency and/or economic stress, GE may have increased exposure to certain risks but also may have new profit opportunities. Potential increased risks include, among other things, higher receivables delinquencies and bad debts, delays or cancellation of sales and orders principally related to power and aircraft equipment, higher local currency financing costs and a slowdown in established financial services activities. New profit opportunities include, among other things, lower costs of goods sourced from countries with weakened currencies, more opportunities for lower cost outsourcing, expansion of industrial and financial services activities through purchases of companies or assets at reduced prices and lower U.S. debt financing costs.

Financial results of GE international activities reported in U.S. dollars are affected by currency exchange. A number of techniques are used to manage the effects of currency exchange, including selective borrowings in local currencies and selective hedging of significant cross-currency transactions. Principal currencies are the euro, the Japanese yen and the Canadian dollar. GE and GECS operations in Europe are all euro-capable as of January 1, 2002.

**Regarding environmental matters,** GE's operations, like operations of other companies engaged in similar businesses, involve the use, disposal and cleanup of substances regulated under environmental protection laws.

In 2001, GE expended about \$52 million for capital projects related to the environment. The comparable amount in 2000 was \$48 million. These amounts exclude expenditures for remediation actions, which are principally expensed and are discussed below. Capital expenditures for environmental purposes have included pollution control devices—such as wastewater treatment plants, groundwater monitoring devices, air strippers or separators, and incinerators—at new and existing facilities constructed or upgraded in the normal course of business. Consistent with policies stressing environmental responsibility, average annual capital expenditures other than for remediation projects are presently expected to be about \$55 million over the next two years for new or expanded programs to build facilities or modify manufacturing processes to minimize waste and reduce emissions. This is about the same level as recent experience.

GE also is involved in a sizable number of remediation actions to clean up hazardous wastes as required by federal and state laws. Such statutes require that responsible parties fund remediation actions regardless of fault, legality of original disposal or ownership of a disposal site. Expenditures for site remediation actions amounted to approximately \$119 million in 2001, compared with \$128 million in 2000. It is presently expected that such remediation actions will require average annual expenditures in the range of \$110 million to \$150 million over the next two years.

The U.S. Environmental Protection Agency ruled in February 2002 that approximately 150,000 pounds of polychlorinated biphenyls (PCBs) must be dredged from a 40-mile stretch of the upper Hudson River in New York State. GE's December 31, 2001, Statement of Financial Position includes a liability for the estimated costs of this remediation.

**No related party transactions** had a material effect on GE's financial position, cash flows or results of operations. Certain immaterial related party transactions are discussed in the 2001 proxy statement, available from GE.

## Management's Discussion of Financial Resources and Liquidity

### Overview

This discussion of financial resources and liquidity addresses the Statement of Financial Position (page 44), Statement of Changes in Share Owners' Equity (page 42) and the Statement of Cash Flows (page 46).

Only a small portion of GECS business is directly related to other GE operations. The fundamental differences between GE and GECS are reflected in the measurements commonly used by investors, rating agencies and financial analysts. These differences will become clearer in the discussion that follows with respect to the more significant items in the financial statements.

### Statement of Financial Position

Because GE and GECS share certain significant elements of their Statements of Financial Position—property, plant and equipment, and borrowings, for example—the following discussion addresses significant captions in the “consolidated” statement. Within the following discussions, however, distinction is drawn between GE and GECS activities in order to permit meaningful analysis of each individual statement.

**Investment securities** for each of the past two years comprised mainly investment-grade debt securities held by GEFA and the specialty insurance businesses of GECS in support of obligations to annuitants and policyholders. GE investment securities were \$0.9 billion at year-end 2001, a decrease of \$0.1 billion from 2000, reflecting decreases in the fair value of equity and corporate debt securities partially offset by additional investments. GECS investment securities were \$100.1 billion in 2001, compared with \$90.3 billion in 2000. The increase of \$9.8 billion resulted from investment of premiums received, reinvestment of investment income, and the addition of securities from acquired companies, partially offset by sales and maturities as well as decreases in the fair value of certain debt and equity securities. See note 9 for further information.

# Management's Discussion and Analysis

**Working capital**, representing GE cash invested in inventories and receivables from customers less trade payables and progress payments, has improved significantly over the past three years. Working capital declined from an investment of \$5.0 billion at the beginning of 1999 to a negative \$2.4 billion at the end of 2001 on much higher progress collections from Power Systems customers. As Power Systems completes its orders backlog over the next few years, progress collections of \$11.8 billion at December 31, 2001, will be earned, affecting working capital turnover adversely. Nevertheless, working capital performance at the end of this backlog fulfillment period is expected to be improved from January 1, 1999, the result of Six Sigma and Digitization initiatives. Current receivables and inventories, two important elements of working capital, are discussed in the following paragraphs.

**Current receivables** for GE were \$9.8 billion at the end of 2001, an increase of \$0.1 billion from year-end 2000, and included \$5.9 billion due from customers at the end of 2001, compared with \$6.3 billion at the end of 2000. Turnover of customer receivables from sales of goods and services was 10.1 in 2001, compared with 10.0 in 2000. Other current receivables are primarily amounts that did not originate from sales of GE goods or services, such as advances to suppliers in connection with large contracts.

**Inventories** for GE were \$8.3 billion at December 31, 2001, up \$1.1 billion from the end of 2000. GE inventory turnover was 7.9 in 2001, a decrease from 8.5 in 2000, as a result of higher inventories in short-cycle businesses.

GECS inventories were \$270 million and \$666 million at December 31, 2001 and 2000, respectively. The decrease in 2001 primarily reflected the rationalization of certain operations at IT Solutions, as well as improved inventory management.

**Financing receivables** of GECS were \$174.0 billion at year-end 2001, net of allowance for losses, up \$30.7 billion over 2000. These receivables are discussed on page 56 and in notes 12 and 13.

**Insurance receivables** of GECS were \$27.3 billion at year-end 2001, an increase of \$3.5 billion. The increase was primarily attributable to increased recoveries under existing retrocession agreements and core growth, partially offset by the planned run-off of assets at Toho (see note 14).

**Other receivables** of GECS totaled \$13.3 billion at both December 31, 2001 and 2000, and consists primarily of nonfinancing customer receivables, accrued investment income, amounts due from GE (generally related to certain trade payable programs), amounts due under operating leases, receivables due on sales of securities and various sundry items.

**Property, plant and equipment** (including equipment leased to others) was \$42.1 billion at December 31, 2001, up \$2.1 billion from 2000. GE property, plant and equipment consists of investments for its own productive use, whereas the largest element for GECS is in equipment provided to third parties on operating leases. Details by category of investment are presented in note 15.

GE expenditures for plant and equipment during 2001 totaled \$2.9 billion, compared with \$2.5 billion in 2000. Total expenditures for the past five years were \$12.2 billion, of which 40% was investment for growth through new capacity and product development; 34% was investment in productivity through new equipment and process improvements; and 26% was investment for other purposes such as improvement of research and development facilities and safety and environmental protection.

GECS additions to property, plant and equipment (including equipment leased to others), were \$12.6 billion during 2001 (\$11.4 billion during 2000), primarily reflecting acquisitions of transportation equipment.

**Intangible assets** were \$31.6 billion at year-end 2001, up from \$27.4 billion at year-end 2000. GE intangibles increased to \$12.9 billion from \$12.4 billion at the end of 2000, principally as a result of goodwill related to acquisitions by Power Systems and Medical Systems, partially offset by amortization. GECS intangibles increased \$3.7 billion to \$18.7 billion, reflecting goodwill and other intangibles associated with acquisitions, the largest of which was the acquisition of Heller Financial, partially offset by amortization.

**All other assets** totaled \$80.5 billion at year-end 2001, an increase of \$6.6 billion from the end of 2000. GE other assets increased \$2.0 billion, principally reflecting an increase in the prepaid pension asset partially offset by a decrease in long-term receivables. GECS other assets increased \$4.7 billion as a result of additional investments in real estate and associated companies, the recognition of all derivatives at fair value in accordance with SFAS 133, and increases in deferred insurance acquisition costs, partially offset by decreases in "separate accounts" (see note 17).

**Consolidated borrowings** aggregated \$232.9 billion at December 31, 2001, compared with \$201.3 billion at the end of 2000. The major debt-rating agencies evaluate the financial condition of GE and of GE Capital (the major public borrowing entity of GECS) differently because of their distinct business characteristics. Using criteria appropriate to each and considering their combined strength, those major rating agencies continue to give the highest ratings to debt of both GE and GE Capital.

GE total borrowings were \$2.5 billion at year-end 2001 (\$1.7 billion short term, \$0.8 billion long term), an increase of \$0.7 billion from year-end 2000. GE total debt at the end of 2001 equaled 4.3% of total capital, up from 3.3% at the end of 2000.

GECS total borrowings were \$239.9 billion at December 31, 2001, of which \$160.8 billion is due in 2002 and \$79.1 billion is due in subsequent years. Comparable amounts at the end of 2000 were

# Management's Discussion and Analysis

\$205.4 billion in total, \$124.0 billion due within one year and \$81.4 billion due thereafter. A large portion of GECS borrowings (\$117.5 billion and \$94.5 billion at the end of 2001 and 2000, respectively) was issued in active commercial paper markets that management believes will continue to be a reliable source of short-term financing. Most of this commercial paper was issued by GE Capital. The average remaining terms and interest rates of GE Capital commercial paper were 46 days and 2.37% at the end of 2001, compared with 45 days and 6.43% at the end of 2000. The GE Capital ratio of debt to equity was 7.31 to 1 at the end of 2001 and 7.53 to 1 at the end of 2000.

**Insurance liabilities, reserves and annuity benefits** were \$114.2 billion, \$8.1 billion higher than in 2000. The increase was primarily attributable to the addition of reserves associated with the events of September 11, and growth in deferred annuities and guaranteed investment contracts, partially offset by the planned run-off of policyholder contracts at Toho and decreases in separate accounts. For additional information on these liabilities, see note 19.

**Interest rate and currency risk management** is important in the normal business activities of GE and GECS. Derivative financial instruments are used by GE and GECS to mitigate or eliminate certain financial and market risks, including those related to changes in interest rates and currency exchange rates. As a matter of policy, neither GE nor GECS engages in derivatives trading, derivatives market-making or other speculative activities.

The U.S. Securities and Exchange Commission requires that registrants provide information about potential effects of changes in interest rates and currency exchange. Although the rules offer alternatives for presenting this information, none of the alternatives is without limitations. The following discussion is based on so-called "shock tests," which model effects of interest rate and currency shifts on the reporting company. Shock tests, while probably the most meaningful analysis permitted, are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by their inability to include the complex market reactions that normally would arise from the market shifts modeled. While the following results of shock tests for changes in interest rates and currency exchange rates may have some limited use as benchmarks, they should not be viewed as forecasts.

- One means of assessing exposure to interest rate changes is a duration-based analysis that measures the potential loss in net earnings resulting from a hypothetical increase in interest rates of 100 basis points across all maturities (sometimes referred to as a "parallel shift in the yield curve"). Under this model with all else constant, it is estimated that such an increase, including repricing in the securities portfolio, would reduce the 2002 net earnings of GECS based on year-end 2001 positions by approximately \$189 million; the pro forma effect for GE was insignificant. Based on positions at year-end 2000, the pro forma effect on 2001 net earnings of such an increase in interest rates was estimated to be a

decrease of approximately \$124 million for GECS and was insignificant for GE.

- The geographic distribution of GE and GECS operations is diverse. One means of assessing exposure to changes in currency exchange rates is to model effects on reported earnings using a sensitivity analysis. Year-end 2001 consolidated currency exposures, including financial instruments designated and effective as hedges, were analyzed to identify GE and GECS assets and liabilities denominated in other than their relevant functional currencies. Net unhedged exposures in each currency were then remeasured assuming a 10% decrease (substantially greater decreases for hyperinflationary currencies) in currency exchange rates compared with the U.S. dollar. Under this model, management estimated at year-end 2001 that such a decrease would have an insignificant effect on 2002 earnings of either GE or GECS.

## Statement of Changes in Share Owners' Equity

Share owners' equity increased \$4.3 billion, \$7.9 billion and \$3.7 billion in 2001, 2000 and 1999, respectively. The increases were largely attributable to net earnings of \$13.7 billion, \$12.7 billion and \$10.7 billion partially offset by dividends of \$6.6 billion, \$5.6 billion and \$4.8 billion in 2001, 2000 and 1999, respectively.

Currency translation adjustments reduced equity by \$562 million, \$1,204 million and \$632 million in 2001, 2000 and 1999, respectively. Changes in the currency translation adjustment reflect the effects of changes in currency exchange rates on GE net investment in non-U.S. subsidiaries that have functional currencies other than the U.S. dollar. Over the three-year period, changes in the currency translation adjustment were largely affected by exchange rate changes in the euro and Asian currencies. The euro was relatively unchanged versus the U.S. dollar in 2001 after weakening in 2000 and 1999. Asian currencies weakened in 2001 and 2000 after strengthening in 1999. Accumulated currency translation adjustments affect net earnings only when all or a portion of an affiliate is disposed of.

Adoption of SFAS 133 in 2001 reduced equity by \$955 million, including \$827 million at the date of adoption. Further information about this accounting change is provided in note 1.

## Statement of Cash Flows

Because cash management activities of GE and GECS are separate and distinct, it is more useful to review their cash flows separately.

**GE cash and equivalents** aggregated \$10.4 billion at the end of 2001, up from \$7.2 billion at year-end 2000. GE periodically invests available cash in GECS short-term borrowings. Such amounts are classified as cash equivalents in the GE Statement of Financial Position and amounted to \$8.7 billion and \$5.1 billion at December 31, 2001 and 2000, respectively. During 2001, GE generated a record

# Management's Discussion and Analysis

\$17.2 billion in cash from operating activities, a \$1.8 billion increase over 2000 primarily due to the 11% increase in earnings before accounting changes. Of this increase, \$200 million is attributable to higher 2001 progress collections, primarily at Power Systems. Excluding progress collections in both 2001 and 2000, cash from operating activities increased 13% in 2001. The 2001 cash generation provided the necessary resources to purchase \$3.1 billion of GE common stock under the share repurchase program described below, to pay \$6.4 billion in dividends to share owners, to contribute \$3.0 billion to GECS, a portion of which was used to partially fund the acquisition of Heller Financial, to invest \$2.9 billion in plant and equipment and to make \$1.4 billion in acquisitions.

Operating activities are the principal source of GE's cash flows. Over the past three years, operating activities have provided more than \$44 billion of cash. The principal application of this cash was distributions of approximately \$24 billion to share owners, both

through payment of dividends (\$16.3 billion) and through the share repurchase program (\$7.2 billion) described below. Other applications included investment in plant and equipment (\$7.4 billion), acquisitions (\$4.2 billion) and the 2001 capital contribution of \$3.0 billion to GECS.

Under the share repurchase program initiated in December 1994, GE has purchased 1.0 billion shares of GE stock. In December 2001, GE's Board of Directors increased the amount authorized from \$22 billion to \$30 billion. Funds used for the share repurchase are expected to be generated largely from operating cash flow.

Based on past performance and current expectations, in combination with the financial flexibility that comes with a strong balance sheet and the highest credit ratings,

management believes that GE is in a sound position to complete the share repurchase program, to grow dividends in line with earnings, and to continue making selective investments for long-term growth. Expenditures for plant and equipment are expected to be about \$2.3 billion in 2002, principally for productivity and growth.

**GECS cash and equivalents** aggregated \$7.3 billion at the end of 2001, up from \$6.1 billion at year-end 2000. One of the primary sources of cash for GECS is short and long-term borrowings. Over the past three years, GECS borrowings with maturities of 90 days or less have increased by \$28.8 billion. New borrowings of \$125.2 billion having maturities longer than 90 days were added during those years, while \$94.9 billion of such longer-term borrowings were retired. GECS also generated \$41.7 billion from operating

activities, which benefited in 2001 from an increase in insurance liabilities and reserves, net of an increase in reinsurance recoverables, and a decrease from the planned run-off of policyholder contracts at Toho.

The principal use of cash by GECS has been investing in assets to grow its businesses. Of the \$110.1 billion that GECS invested over the past three years, \$42.7 billion was used for additions to financing receivables; \$37.5 billion was used to invest in new equipment, principally for lease to others; and \$22.2 billion was used for acquisitions of new businesses, the largest of which were Heller Financial and Mellon Leasing in 2001 and Japan Leasing and the credit card operations of JC Penney in 1999.

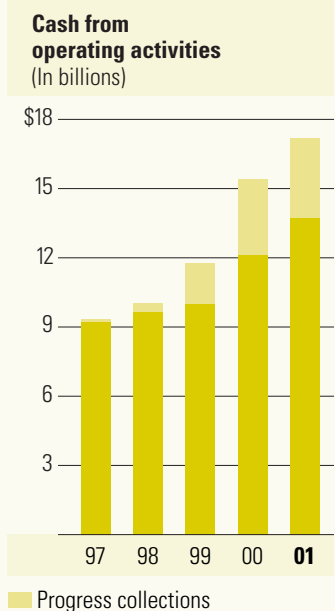
With the financial flexibility that comes with excellent credit ratings, management believes that GECS should be well positioned to meet the global needs of its customers for capital and to continue providing GE share owners with good returns.

## Liquidity

The major debt-rating agencies evaluate the financial condition of GE and of GE Capital, the major public borrowing entity of GECS, differently because of their distinct business characteristics. Factors that are important to the ratings of both include the following: cash generating ability—including cash generated from operating activities; earnings quality—including revenue growth and the breadth and diversity of sources of income; leverage ratios—such as debt to total capital and interest coverage; and asset utilization, including return on assets and asset turnover ratios. Considering those factors, as well as other criteria appropriate to GE and GECS individually, those major rating agencies continue to give the highest ratings to debt of both GE and GE Capital (long-term credit rating AAA/Aaa; short-term credit rating A-1+/P-1).

**Global commercial paper markets** are a primary source of liquidity for GE and GECS. GE Capital is the most widely-held name in those markets, with \$117.5 billion and \$94.5 billion outstanding at the end of 2001 and 2000, respectively. Money markets are extremely robust. In 2001, GE Capital's commercial paper accounted for only 2.4% of activity with maturities of less than one year in the U.S. market, the largest of the global money markets.

Management believes that alternative sources of liquidity are sufficient to permit an orderly transition from commercial paper in the unlikely event of impaired access to those markets. Funding sources on which management would rely would depend on the nature of such a hypothetical event, but include \$33 billion of contractually committed lending agreements with highly-rated global banks, medium and long-term funding, monetization and asset securitization, cash receipts from GECS lending and leasing activities, short-term secured funding on global assets, and asset sales. Strength of commercial paper markets and GE Capital's access to those markets was evidenced on and immediately after September 11, when many financial markets were closed, but GE Capital continued to issue commercial paper without interruption.



# Management's Discussion and Analysis

**Off-balance sheet arrangements** are used in the ordinary course of business to achieve improved share owner returns. One of the most common forms of off-balance sheet arrangements is asset securitization. The transactions described below are similar to those used by many financial institutions and are part of an \$800 billion annual market for asset-backed commercial paper. GE and GECS use sponsored and third-party entities as well as term execution for securitizations. As part of this program, management considers the relative risks and returns of each alternative and predominantly uses sponsored entities. Management believes these transactions could be readily executed through non-sponsored entities or term securitization at insignificant incremental cost.

In addition to improved share owner returns, special purpose entities serve as funding sources for a variety of diversified lending and securities transactions, transfer selected credit risk and improve cash flows while enhancing the ability to provide a full range of competitive products for customers.

The discussion below and on page 63 describes sponsored special purpose entities, and is organized as follows:

- *Structure* of sponsored special purpose entities and of transactions that result in gains on sales and removal of assets from the financial statements. This section describes assets in the entities as well as management prohibitions on certain types of activities.
- *Support*, both financial and operational, provided for special purpose entities. This section describes the potential risks associated with special purpose entities as well as management's measures to control risk and conclusions about its potential significance.
- *Accounting outlook* for these entities. This section briefly discusses the accounting policy deliberations that have been undertaken recently regarding special purpose entities.

**Structure.** Simply stated, GE and GECS are selling high-quality, low-yield financial assets to highly-rated entities that have financed those purchases using low-cost commercial paper. Because GECS is the sponsor of these entities and guarantees certain of their positions, management believes that the structures warrant a more complete explanation, as follows.

The first step in the securitization process uses entities that meet the accounting criteria for Qualifying Special Purpose Entities (qualifying entities). Among other criteria, a qualifying entity's activities must be restricted to passive investment in financial assets and issuance of beneficial interests in those assets. Under generally accepted accounting principles, entities meeting these criteria are not consolidated in the sponsor's financial statements. GE and GECS sell selected financial assets to qualifying entities. Examples include GECS financing and credit card receivables and GE trade receivables. On the whole, the credit quality of such assets is equal to or higher than the credit quality of similar assets owned by GE and GECS.

Qualifying entities raise cash by issuing beneficial interests—rights to cash flows from the assets—to other GECS-sponsored special purpose entities that issue highly-rated commercial paper to third-party institutional investors. These entities use commercial paper proceeds to obtain beneficial interests in the financial assets of qualifying entities, as well as financial assets originated by multiple third parties. GECS provides credit support for certain of these assets, as well as liquidity support for the commercial paper, as described on page 63. In accordance with its contractual commitments to the entities, GECS rigorously underwrites and services the associated assets, both those originated by GE or GECS, and those originated by other participants. All of the entities' assets serve as collateral for the commercial paper. These entities are not consolidated in the accompanying financial statements. Support activities include credit reviews at acquisition and ongoing review, billing and collection activities—the same support activities that GECS employs for its own financing receivables.

GECS-sponsored special purpose entities are routinely evaluated by the major credit rating agencies, including monthly reviews of key performance indicators and annual reviews of asset quality. Commercial paper issued by these entities has always received the highest available ratings from the major credit rating agencies and at year-end 2001 was rated A-1+/P-1.

The following table summarizes receivables held by special purpose entities.

December 31 (In millions)	2001	2000
Receivables—secured by		
Equipment	\$ 12,781	\$ 7,993
Commercial real estate	9,971	7,445
Other assets	7,761	6,249
Credit card receivables	9,470	6,170
Trade receivables	3,028	3,138
<b>Total receivables</b>	<b>\$ 43,011</b>	<b>\$ 30,995</b>

GE assets included in the categories above at year-end 2001 and 2000, respectively, are as follows: Equipment—\$631 million and \$269 million; Other assets—\$757 million and \$611 million; Trade receivables—\$2,396 million and \$1,733 million.

Each of the categories of assets shown in the table above represent portfolios of assets that, in addition to being highly rated, are diversified to avoid concentrations of risk. In each of the first three categories, financing receivables are collateralized by a diverse mix of assets. Examples of assets in each category follow: equipment—loans and leases on manufacturing and transportation equipment; commercial real estate—loans on diversified commercial property; other assets—diversified commercial loans; credit card receivables—more than 23 million individual accounts; trade receivables—balances of high credit quality accounts from sales of a broad range of products and services to a diversified customer base.

# Management's Discussion and Analysis

In addition to the activities discussed previously, Financial Guaranty Insurance Company (FGIC), a GECS affiliate that is a leader in the municipal bond insurance market, uses special purpose entities that offer municipalities guaranteed investment contracts with interests in high-quality, fixed-maturity, investment grade assets. FGIC actively manages these assets under strict investment criteria and GE Capital also provides certain performance guarantees. Total assets in sponsored FGIC entities amounted to \$13.4 billion and \$10.2 billion at December 31, 2001 and 2000, respectively.

None of these special purpose entities or qualifying entities is permitted to hold GE stock and there are no commitments or guarantees that provide for the potential issuance of GE stock. These entities do not engage in speculative activities of any description, are not used to hedge GE or GECS positions, and under GE integrity policies, no GE employee is permitted to invest in any sponsored special purpose entity.

**Support.** Financial support for certain special purpose entities is provided in the following ways.

- Under active liquidity support agreements, GECS has agreed to lend to these entities on a secured basis if (a) certain market conditions render the entities unable to issue new debt instruments, or (b) the entity's credit ratings were reduced below specified levels. The maximum amount of such support for commercial paper outstanding was \$43.2 billion at December 31, 2001. Under related unused liquidity support agreements, GECS has made additional liquidity support commitments of \$9.4 billion at December 31, 2001, that would be effective upon addition of qualified assets to the entities.
- Under credit support agreements, GECS provides recourse for a maximum of \$14.5 billion of credit losses in special purpose entities. \$9.1 billion of this support represents full recourse for certain assets; the balance is based on loss-sharing formulas. Assets with credit support are funded by commercial paper that is subject to the liquidity support described above. Potential credit losses are provided for in GE and GECS financial statements based on management's best estimate of probable losses inherent in the portfolio using the same methodology as for owned assets. GECS allowances for losses amounted to \$0.7 billion and \$0.6 billion at year-end 2001 and 2000, respectively.
- Performance guarantees relate to letters of credit and liquidity support for guaranteed investment contracts and are subject to a maximum of \$3.8 billion at December 31, 2001.

Management has extensive experience in evaluating economic, liquidity and credit risk. In view of this experience, the high quality of assets in these entities, the historically robust quality of commercial paper markets, and the historical reliability of controls applied both to asset servicing and to activities in the credit markets, management believes that, under any reasonable future economic developments, the likelihood is remote that any such arrangements could have a significant effect on GE or GECS operations, cash flows or financial position.

Sales of securitized assets to special purpose entities result in a gain or loss amounting to the net of sales proceeds, the carrying amount of net assets sold, the fair value of servicing rights and an allowance for losses. Securitization sales resulted in gains of \$1.3 billion and about \$0.5 billion in 2001 and 2000, respectively, and are included in GECS revenues.

**Accounting outlook.** Various generally accepted accounting principles specify the conditions that GE and GECS observe in not consolidating special purpose entities and qualifying entities. Accounting for special purpose entities is under review by the Financial Accounting Standards Board, and their non-consolidated status may change as a result of those reviews.

**Summary.** The special purpose entities described above meet GE's economic objectives for their use while complying with generally accepted accounting principles. In the event that accounting rules change in a way that adversely affects sponsored entities, alternative securitization techniques discussed on page 62 would likely serve as a substitute at insignificant incremental cost.

**Principal debt conditions** that could automatically result in remedies, such as acceleration of GE or GECS debt, are described below.

- If the short-term credit rating of GE Capital or certain special purpose entities previously discussed were to fall below A-1+/P-1, GE Capital would be required to provide substitute liquidity for those entities or to purchase the outstanding commercial paper. The maximum amount that GE Capital would be required to provide in the event of such a downgrade is \$43.2 billion at December 31, 2001.
- If the long-term credit rating of GE Capital or certain special purpose entities previously discussed were to fall below AA-/Aa3, GE Capital would be required to provide substitute credit support or liquidate the special purpose entities. The maximum amount that GE Capital would be required to substitute in the event of such a downgrade is \$14.5 billion at December 31, 2001.
- If the long-term credit rating of either GE or GECS under certain swap, forward and option contracts falls below A-/A3, certain remedies are required as discussed in note 29.
- If GE Capital's ratio of earnings to fixed charges, which was 1.72 to 1 at the end of 2001 deteriorates to 1.10 to 1 or, upon redemption of certain preferred stock, its ratio of debt to equity, which was 7.31 to 1 at the end of 2001 exceeds 8 to 1, GE has committed to contribute capital to GE Capital. GE also has guaranteed subordinated debt of GECS with a face amount of \$1.0 billion at December 31, 2001, and 2000.
- If the GE long-term credit rating were to fall below investment grade (a downgrade of 9 ratings increments), certain special purpose entities with which GE has financing arrangements would have the right to terminate those arrangements potentially requiring \$2.5 billion of secured funding.

# Management's Discussion and Analysis

None of these conditions has been met in GE or GECS history, and management believes that under any reasonable future economic developments, the likelihood is remote that any such arrangements could have a significant effect on GE and GECS operations, cash flows or financial position.

**Timing of contractual commitments** at GE and GECS, related to leases and debt, follow.

(In billions)	2002	2003	2004	2005	2006
GE	\$ 2.2	\$ 0.5	\$ 0.5	\$ 0.3	\$ 0.3
GECS					
Commercial paper	117.5	—	—	—	—
Other	44.4	26.4	15.2	10.5	6.9

## Management's Discussion of Selected Financial Data

**Selected financial data** summarized on the following page are divided into three sections: upper portion—consolidated data; middle portion—GE data that reflect various conventional measurements for such enterprises; and lower portion—GECS data that reflect key information pertinent to financial services businesses.

### GE's total research and development

expenditures were \$2,349 million in 2001, up 7% over 2000, which was 9% higher than 1999. In 2001, expenditures from GE's own funds were \$1,980 million, an increase of 6% over 2000, reflecting continuing research and development work related to new product, service and process technologies. Product technology efforts in 2001 included continuing development work on the next generation of gas turbines, further advances in state-of-the-art diagnostic imaging technologies, and development of more fuel-efficient, cost-effective aircraft engine designs. Services technologies include advances in diagnostic applications, including remote diagnostic capabilities related to repair and maintenance of medical equipment, aircraft engines, power generation equipment and locomotives. Process technologies provided improved product quality and performance and increased capacity for manufacturing engineered materials. Expenditures funded by customers (mainly the U.S. government) were \$369 million in 2001, up \$43 million from 2000.

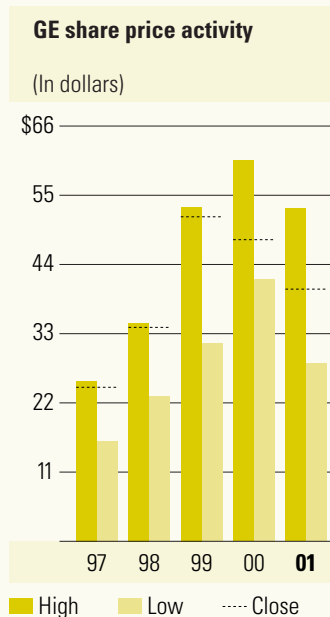
**GE's total backlog** of firm unfilled orders at the end of 2001 was \$47.4 billion, an increase of 7% over 2000, reflecting strong double-digit growth at Power Systems, Medical Systems and Transportation Systems, partially offset by lower backlog at Aircraft Engines. Of the total, \$38.9 billion related to products, of which 70% was scheduled for delivery in 2002. Product services orders, included in this reported backlog for only the succeeding 12 months, were \$8.4 billion at the end of 2001. Orders constituting this backlog may be canceled or deferred by customers, subject in certain cases to penalties. See Segment Operations beginning on page 50 for further information.

## Management's Discussion of Critical Accounting Policies

High-quality financial statements require rigorous application of high-quality accounting policies. The policies discussed below are considered by management to be critical to an understanding of GE's financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

**Losses on financing receivables** are recognized when they are incurred. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such

as delinquency rates, financial health of specific customers and market sectors, collateral value, and the present and expected levels of interest rates. GECS exposure to losses on financing receivables at year-end 2001 was approximately \$193 billion, including credit support for special purpose entities, against which an allowance for losses of approximately \$5.5 billion was provided. An analysis of changes in the allowance for losses is provided on page 56 which discusses financing receivable portfolio quality. While losses depend to a large degree on future economic conditions, management does not forecast significant adverse credit development in 2002. Further information is provided in notes 1, 12 and 13.



## Selected Financial Data

(Dollar amounts in millions; per-share amounts in dollars)

	2001	2000	1999	1998	1997
<b>General Electric Company and consolidated affiliates</b>					
Revenues	\$ 125,913	\$ 129,853	\$ 111,630	\$ 100,469	\$ 90,840
Earnings before accounting changes	14,128	12,735	10,717	9,296	8,203
Cumulative effect of accounting changes	(444)	—	—	—	—
Net earnings	13,684	12,735	10,717	9,296	8,203
Dividends declared	6,555	5,647	4,786	4,081	3,535
Earned on average share owners' equity excluding effect of accounting changes	27.1%	27.5%	26.8%	25.7%	25.0%
Per share					
Earnings before accounting changes—diluted	\$ 1.41	\$ 1.27	\$ 1.07	\$ 0.93	\$ 0.82
Cumulative effect of accounting changes—diluted	(0.04)	—	—	—	—
Earnings—diluted	1.37	1.27	1.07	0.93	0.82
Earnings before accounting changes—basic	1.42	1.29	1.09	0.95	0.83
Cumulative effect of accounting changes—basic	(0.04)	—	—	—	—
Earnings—basic	1.38	1.29	1.09	0.95	0.83
Dividends declared	0.66	0.57	0.48%	0.41%	0.36
Stock price range	52.90–28.25	60.50–41.67	53.17–31.42	34.65–23.00	25.52–15.98
Year-end closing stock price	40.08	47.94	51.58	34.00	24.46
Total assets	495,023	437,006	405,200	355,935	304,012
Long-term borrowings	79,806	82,132	71,427	59,663	46,603
Shares outstanding—average (in thousands)	9,932,245	9,897,110	9,833,478	9,806,995	9,824,075
Share owner accounts—average	625,000	597,000	549,000	534,000	509,000
<b>GE data</b>					
Short-term borrowings	\$ 1,722	\$ 940	\$ 2,245	\$ 3,466	\$ 3,629
Long-term borrowings	787	841	722	681	729
Minority interest	948	968	823	816	569
Share owners' equity	54,824	50,492	42,557	38,880	34,438
Total capital invested	\$ 58,281	\$ 53,241	\$ 46,347	\$ 43,843	\$ 39,365
Return on average total capital invested	27.0%	27.4%	25.8%	23.9%	23.6%
Borrowings as a percentage of total capital invested excluding effect of accounting changes	4.3%	3.3%	6.4%	9.5%	11.1%
Working capital (a)	\$ (2,398)	\$ 799	\$ 3,922	\$ 5,038	\$ 5,990
Additions to property, plant and equipment	2,876	2,536	2,036	2,047	2,191
Employees at year end					
United States	125,000	131,000	124,000	125,000	128,000
Other countries	94,000	92,000	86,000	82,000	81,000
Total employees	219,000	223,000	210,000	207,000	209,000
<b>GECS data</b>					
Revenues	\$ 58,353	\$ 66,177	\$ 55,749	\$ 48,694	\$ 39,931
Earnings before accounting changes	5,586	5,192	4,443	3,796	3,256
Cumulative effect of accounting changes	(169)	—	—	—	—
Net earnings	5,417	5,192	4,443	3,796	3,256
Share owner's equity	28,590	23,022	20,321	19,727	17,239
Minority interest	4,267	3,968	4,391	3,459	3,113
Borrowings from others	239,935	205,371	200,025	172,200	141,263
Ratio of debt to equity at GE Capital	7.31:1	7.53:1	8.44:1	7.86:1	7.45:1
Total assets	\$ 425,484	\$ 370,636	\$ 345,018	\$ 303,297	\$ 255,408
Insurance premiums written	15,843	16,461	13,624	11,865	9,396
Employees at year end					
United States (b)	33,000	37,000	43,000	38,000	37,000
Other countries	58,000	53,000	57,000	48,000	30,000
Total employees	91,000	90,000	100,000	86,000	67,000

Transactions between GE and GECS have been eliminated from the consolidated information.

(a) Working capital is defined as the sum of receivables from the sales of goods and services plus inventories less trade accounts payable and progress collections.

(b) Excludes employees of Montgomery Ward in 1999.

# Management's Discussion and Analysis

**Impairment of investment securities** results in a charge to operations when a market decline below cost is other than temporary. Management regularly reviews each investment security for impairment based on criteria that include the extent to which cost exceeds market value, the duration of that market decline and the financial health of and specific prospects for the issuer. GECS investment securities amounted to approximately \$100 billion at year-end 2001. Gross unrealized gains and losses included in that carrying amount related to debt securities were \$1.9 billion and \$2.3 billion, respectively. Gross unrealized gains and losses on equity securities were \$0.2 billion and \$0.4 billion, respectively. Of those securities whose carrying amount exceeds fair value at year-end 2001, and based on application of GE's accounting policy for impairment, approximately \$600 million of portfolio value is at risk of being charged to earnings in 2002. GECS actively performs comprehensive market research, monitors market conditions and segments its investments by credit risk in order to minimize impairment risks. Further information is provided in notes 1 and 9 and on page 58, which discusses the investment securities portfolio.

**Revenue recognition on long-term agreements** to provide product services (product services agreements) requires estimates of profits over the entire terms of such agreements, considering factors such as the frequency and extent of future maintenance events, cost of personnel, material and other resources required to perform the services, and future cost changes. GE management routinely reviews estimates under product services agreements; such estimates are regularly revised to adjust for changes in outlook. Revisions that affect a product services agreement's total estimated profitability will also result in an immediate adjustment of earnings. Management regularly assesses customer credit risk inherent in the carrying amounts of contract costs and estimated earnings and provides for losses when they are incurred. Such carrying amounts for product services agreements in progress at December 31, 2001 and 2000, were \$2.3 billion and \$1.7 billion, respectively. Adjustments to earnings resulting from revisions to estimates on product services agreements have been insignificant for each of the years in the three-year period ended December 31, 2001.

**Insurance liabilities and reserves** differ for short and long-duration insurance contracts. Short-duration contracts such as property and casualty policies are accounted for based on actuarial estimates of the amount of loss inherent in that period's claims, including losses for which claims have not yet been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events. Measurement of long-duration insurance liabilities (such as term and whole life insurance policies) also is based on approved actuarial techniques, but necessarily includes assumptions about mortality, lapse rates and future yield on related investments. GECS insurance liabilities, reserves and annuity benefits totaled \$114.2 billion at year-end 2001. Of that total, approximately \$27.2 billion related to unpaid claims and claims adjustment expenses for short-duration insurance coverage. As discussed on page 56, there has been a recent shift in the source of adverse loss development away from property to liability coverage. Management continually evaluates the potential for changes in loss estimates, both positive and negative, and uses the results of these evaluations both to adjust recorded provisions and to adjust underwriting criteria and product offerings. The potential for further adverse loss development in these areas is highly uncertain. Further information about insurance liabilities is provided in note 19.

**Other loss contingencies** are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will exceed the recorded provision. Contingent liabilities are often resolved over long time periods. Estimating probable losses requires analysis of multiple forecasts that often depend on judgments about potential actions by third parties such as regulators.

**Other significant accounting policies**, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. Policies related to revenue recognition, financial instruments and consolidation policy require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters are among topics currently under reexamination by accounting standards setters and regulators. Although no specific conclusions reached by these standard setters appear likely to cause a material change in GE's accounting policies, outcomes cannot be predicted with confidence. Also see note 1, Summary of Significant Accounting Policies, which discusses accounting policies that must be selected by management when there are acceptable alternatives.

# Notes to Consolidated Financial Statements

1

## Summary of Significant Accounting Policies

**Consolidation.** The consolidated financial statements represent the adding together of all affiliates—companies that General Electric Company directly or indirectly controls. Results of associated companies—generally companies that are 20% to 50% owned and over which General Electric Company, directly or indirectly, has significant influence—are included in the financial statements on a “one-line” basis.

**Financial statement presentation.** Financial data and related measurements are presented in the following categories:

- **GE.** This represents the adding together of all affiliates other than General Electric Capital Services, Inc. (GECS), whose operations are presented on a one-line basis.
- **GECS.** This affiliate owns all of the common stock of General Electric Capital Corporation (GE Capital) and GE Global Insurance Holdings Corporation (GE Global Insurance Holdings), the parent of Employers Reinsurance Corporation. GE Capital, GE Global Insurance Holdings and their respective affiliates are consolidated in the GECS columns and constitute its business.
- **Consolidated.** This represents the adding together of GE and GECS.

The effects of transactions among related companies within and between each of the above-mentioned groups are eliminated. Transactions between GE and GECS are not material.

Certain prior-year amounts have been reclassified to conform to the 2001 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

**Sales of goods and services.** Sales of goods are recorded when a firm sales agreement is in place, delivery has occurred and collectibility of the fixed or determinable sales price is reasonably assured. Sales of services are recorded when performed in accordance with contracts. For long-term product services agreements, estimated profit rates are used to record sales as work is performed. Estimates are subject to change and may result in adjustments to margins. Losses, if any, are provided for when probable. For contracts that contain multiple products and/or services, amounts assigned to each component are based on its objectively determined fair value, such as the sales price for the component when it is sold separately or competitor prices for similar components.

**GECS revenues from services (earned income).** Income on all loans is recognized on the interest method. Accrual of interest income is suspended at the earlier of the time at which collection

of an account becomes doubtful or the account becomes 90 days delinquent. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

Financing lease income is recorded on the interest method so as to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values of leased assets are based primarily on periodic independent appraisals of the values of leased assets remaining at expiration of the lease terms.

Operating lease income is recognized on a straight-line basis over the terms of underlying leases.

Origination, commitment and other nonrefundable fees related to fundings are deferred and recorded in earned income on the interest method. Commitment fees related to loans not expected to be funded and line-of-credit fees are deferred and recorded in earned income on a straight-line basis over the period to which the fees relate. Syndication fees are recorded in earned income at the time related services are performed unless significant contingencies exist.

Income from investment and insurance activities is discussed on page 68.

**Depreciation and amortization.** The cost of most of GE's manufacturing plant and equipment is depreciated using an accelerated method based primarily on a sum-of-the-years digits formula.

The cost of GECS equipment leased to others on operating leases is amortized, principally on a straight-line basis, to estimated residual value over the lease term or over the estimated economic life of the equipment. Depreciation of property and equipment used by GECS is recorded on either a sum-of-the-years digits formula or a straight-line basis over the lives of the assets.

**Recognition of losses on financing receivables.** The allowance for losses on small-balance receivables reflects management's best estimate of probable losses inherent in the portfolio determined principally on the basis of historical experience. For other receivables, principally the larger loans and leases, the allowance for losses is determined primarily on the basis of management's best estimate of probable losses, including specific allowances for known troubled accounts.

All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses. Small-balance accounts generally are written off when 6 to 12 months delinquent, although any such balance judged to be uncollectible, such as an account in bankruptcy, is written down immediately to estimated realizable value. Large-balance accounts are reviewed at least quarterly, and those accounts with amounts that are judged to be uncollectible are written down to estimated realizable value.

When collateral is repossessed in satisfaction of a loan, the receivable is written down against the allowance for losses to estimated fair value of the asset less costs to sell, transferred to

other assets and subsequently carried at the lower of cost or estimated fair value less costs to sell. This accounting method has been employed principally for specialized financing transactions.

**Cash and equivalents.** Debt securities with original maturities of three months or less are included in cash equivalents unless designated as available for sale and classified as investment securities.

**Investment securities.** Investments in debt and marketable equity securities are reported at fair value based primarily on quoted market prices or, if quoted prices are not available, discounted expected cash flows using market rates commensurate with credit quality and maturity of the investment. Substantially all investment securities are designated as available for sale, with unrealized gains and losses included in share owners' equity, net of applicable taxes and other adjustments. Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, and the financial health of and specific prospects for the issuer. Unrealized losses that are other than temporary are recognized in earnings. Realized gains and losses are accounted for on the specific identification method.

**Inventories.** All inventories are stated at the lower of cost or realizable values. Cost for virtually all of GE's U.S. inventories is determined on a last-in, first-out (LIFO) basis. Cost of other GE inventories is primarily determined on a first-in, first-out (FIFO) basis.

GECS inventories consist primarily of finished products held for sale. Cost is primarily determined on a FIFO basis.

**Intangible assets.** Goodwill is amortized over its estimated period of benefit on a straight-line basis; other intangible assets are amortized on appropriate bases over their estimated lives. No amortization period exceeds 40 years. When an intangible asset exceeds associated expected operating cash flows, it is considered to be impaired and is written down to fair value, which is determined based on either discounted future cash flows or appraised values.

**GECS insurance accounting policies.** Accounting policies for GECS insurance businesses follow.

**Premium income.** Insurance premiums are reported as earned income as follows:

- For short-duration insurance contracts (including property and casualty, accident and health, and financial guaranty insurance), premiums are reported as earned income, generally on a pro-rata basis, over the terms of the related agreements. For retrospectively rated reinsurance contracts, premium adjustments are recorded based on estimated losses and loss expenses, taking into consideration both case and incurred-but-not-reported reserves.

- For traditional long-duration insurance contracts (including term and whole life contracts and annuities payable for the life of the annuitant), premiums are reported as earned income when due.
- For investment contracts and universal life contracts, premiums received are reported as liabilities, not as revenues. Universal life contracts are long-duration insurance contracts with terms that are not fixed and guaranteed; for these contracts, revenues are recognized for assessments against the policyholder's account, mostly for mortality, contract initiation, administration and surrender. Investment contracts are contracts that have neither significant mortality nor significant morbidity risk, including annuities payable for a determined period; for these contracts, revenues are recognized on the associated investments and amounts credited to policyholder accounts are charged to expense.

**Deferred policy acquisition costs.** Costs that vary with and are primarily related to the acquisition of new and renewal insurance and investment contracts are deferred and amortized over the respective policy terms. For short-duration insurance contracts, acquisition costs consist primarily of commissions, brokerage expenses and premium taxes. For long-duration insurance contracts, these costs consist primarily of first-year commissions in excess of recurring renewal commissions, certain variable sales expenses and certain support costs such as underwriting and policy issue expenses.

- For short-duration insurance contracts, these costs are amortized pro rata over the contract periods in which the related premiums are earned.
- For traditional long-duration insurance contracts, these costs are amortized over the respective contract periods in proportion to either anticipated premium income or, in the case of limited-payment contracts, estimated benefit payments.
- For investment contracts and universal life contracts, these costs are amortized on the basis of anticipated gross profits.

Periodically, deferred policy acquisition costs are reviewed for recoverability; anticipated investment income is considered in recoverability evaluations.

**Present value of future profits.** The actuarially determined present value of anticipated net cash flows to be realized from insurance, annuity and investment contracts in force at the date of acquisition of life insurance enterprises is recorded as the present value of future profits and is amortized over the respective policy terms in a manner similar to deferred policy acquisition costs. Unamortized balances are adjusted to reflect experience and impairment, if any.

**Accounting Changes.** At January 1, 2001, GE and GECS adopted Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Under SFAS 133, all derivative instruments (including

certain derivative instruments embedded in other contracts) are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings, unless the derivatives qualify as hedges of future cash flows. For derivatives qualifying as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in equity, then recognized in earnings along with the related effects of the hedged items. Any ineffective portion of hedges is reported in earnings as it occurs. Further information about derivatives and hedging is provided in note 29.

The cumulative effect of adopting this accounting change at January 1, 2001, was as follows:

(In millions)	Earnings (a)	Share owners' equity
Adjustment to fair value of derivatives	\$(502)	\$(1,340)
Income tax effects	178	513
<b>Total</b>	<b>\$(324)</b>	<b>\$ (827)</b>

The earnings per share effect was \$0.03.

(a) For earnings effect, amount shown is net of adjustment to hedged items.

The cumulative effect on earnings comprised two significant elements. One element was associated with conversion option positions that were embedded in financing agreements, and the other was a portion of the effect of marking to market options and currency contracts used for hedging. The cumulative effect on share owners' equity was primarily attributable to marking to market forward and swap contracts used to hedge variable-rate borrowings. Decreases in the fair values of these instruments were attributable to declines in interest rates since inception of the hedging arrangements. As a matter of policy, GECS ensures that funding, including the effect of derivatives, of its lending and other financing asset positions are substantially matched in character (e.g., fixed vs. floating) and duration. As a result, declines in the fair values of these effective derivatives are offset by unrecognized gains on the related financing assets and hedged items, and future earnings will not be subject to volatility arising from interest rate changes.

In November 2000, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board reached a consensus on accounting for impairment of retained beneficial interests (EITF 99-20). Under this consensus, impairment of certain beneficial interests in securitized assets must be recognized when (1) the asset's fair value is below its carrying value, and (2) it is probable that there has been an adverse change in estimated cash flows. The cumulative effect of adopting EITF 99-20 at January 1, 2001, was a one-time reduction of net earnings of \$120 million (\$0.01 per share).

These accounting changes did not involve cash, and management expects that they will have no more than a modest effect on future results.

## 2 GE Other Income

(In millions)	2001	2000	1999
Residual licensing and royalty income	<b>\$ 75</b>	\$ 65	\$ 67
Associated companies	<b>(106)</b>	(111)	(1)
Marketable securities and bank deposits	<b>184</b>	55	105
Customer financing	<b>11</b>	22	17
Other items	<b>269</b>	467	668
	<b>\$ 433</b>	\$ 498	\$ 856

Other income in 1999 included a gain of \$388 million related to the contribution of certain of NBC's media properties to NBC Internet (NBCI), a former publicly-traded company, in exchange for a noncontrolling interest in NBCI. Assets contributed by NBC included its 100% interest in NBC.com, NBC-IN.com and VideoSeeker.com as well as a 10% interest in a fourth property, CNBC.com.

## 3 GECS Revenues from Services

(In millions)	2001	2000	1999
Time sales, loan and other income (a)	<b>\$ 22,150</b>	\$ 22,326	\$ 18,209
Operating lease rentals	<b>6,088</b>	6,183	6,022
Financing leases	<b>4,261</b>	3,688	3,587
Investment income	<b>6,593</b>	8,479	6,243
Premium and commission income of insurance businesses	<b>15,634</b>	16,093	12,948
	<b>\$ 54,726</b>	\$ 56,769	\$ 47,009

(a) Includes gains on sales of financial assets through securitizations of \$1,327 million in 2001, compared with \$489 million in 2000, which was approximately the same as the 1999 amount.

For insurance businesses, the effects of reinsurance on premiums written and premium and commission income were as follows:

(In millions)	2001	2000	1999
<b>Premiums written</b>			
Direct	\$ 9,958	\$ 9,390	\$ 7,382
Assumed	9,603	9,552	8,520
Ceded	(3,718)	(2,481)	(2,278)
	<b>\$ 15,843</b>	<b>\$ 16,461</b>	<b>\$ 13,624</b>
<b>Premium and commission income</b>			
Direct	\$ 9,912	\$ 9,026	\$ 7,002
Assumed	9,471	9,643	8,460
Ceded	(3,749)	(2,576)	(2,514)
	<b>\$ 15,634</b>	<b>\$ 16,093</b>	<b>\$ 12,948</b>

Reinsurance recoveries recognized as a reduction of insurance losses and policyholder and annuity benefits amounted to \$5,863 million, \$3,232 million and \$2,648 million for the years ended December 31, 2001, 2000 and 1999, respectively.

#### 4 Supplemental Cost Information

Total expenditures for research and development were \$2,349 million, \$2,193 million and \$2,017 million in 2001, 2000 and 1999, respectively. The Company-funded portion aggregated \$1,980 million in 2001, \$1,867 million in 2000 and \$1,667 million in 1999.

Rental expense under operating leases is shown below.

(In millions)	2001	2000	1999
GE	\$ 694	\$ 648	\$ 607
GECS	1,006	1,176	1,067

At December 31, 2001, minimum rental commitments under noncancelable operating leases aggregated \$2,608 million and \$5,179 million for GE and GECS, respectively. Amounts payable over the next five years follow.

(In millions)	2002	2003	2004	2005	2006
GE	\$ 519	\$ 410	\$ 328	\$ 277	\$ 228
GECS	997	680	601	636	407

GE's selling, general and administrative expense totaled \$8,637 million in 2001, \$8,392 million in 2000 and \$7,732 million in 1999. Insignificant amounts of interest were capitalized by GE and GECS in 2001, 2000 and 1999.

#### 5

#### Retiree Health and Life Benefits

GE and its affiliates sponsor a number of retiree health and life insurance benefit plans (retiree benefit plans). Principal retiree benefit plans are discussed below; other such plans are not significant individually or in the aggregate.

**Principal retiree benefit plans** generally provide health and life insurance benefits to employees who retire under the GE Pension Plan (see note 6) with 10 or more years of service. Retirees share in the cost of healthcare benefits. Benefit provisions are subject to collective bargaining. These plans cover approximately 250,000 retirees and dependents.

The effect on operations of principal retiree benefit plans is shown in the following table.

(In millions)	2001	2000	1999
<b>Effect on operations</b>			
Expected return on plan assets	\$ (185)	\$ (178)	\$ (165)
Service cost for benefits earned	191	165	107
Interest cost on benefit obligation	459	402	323
Prior service cost	90	49	8
Net actuarial loss recognized	60	40	45
Total cost	<b>\$ 615</b>	<b>\$ 478</b>	<b>\$ 318</b>

**Funding policy** for retiree health benefits is generally to pay covered expenses as they are incurred. GE funds retiree life insurance benefits at its discretion.

Changes in the accumulated postretirement benefit obligation for retiree benefit plans follow.

#### Accumulated postretirement benefit obligation (APBO)

(In millions)	2001	2000
Balance at January 1	\$ 6,422	\$ 4,926
Service cost for benefits earned	191	165
Interest cost on benefit obligation	459	402
Participant contributions	30	25
Plan amendments	—	948
Actuarial loss	287	534
Benefits paid	(593)	(578)
Balance at December 31 (a)	<b>\$ 6,796</b>	<b>\$ 6,422</b>

(a) The APBO for the health plans was \$4,965 million and \$4,688 million at year-end 2001 and 2000, respectively.

Changes in the fair value of assets for retiree benefit plans follow.

#### Fair value of assets

(In millions)	2001	2000
Balance at January 1	\$ 2,031	\$ 2,369
Actual return on plan assets	(163)	(85)
Employer contributions	466	300
Participant contributions	30	25
Benefits paid	(593)	(578)
Balance at December 31	\$ 1,771	\$ 2,031

Plan assets are held in trust and consist mainly of common stock and fixed-income investments. GE common stock represented 6.4% and 6.9% of trust assets at year-end 2001 and 2000, respectively.

GE recorded assets and liabilities for retiree benefit plans are as follows:

#### Retiree benefit asset/(liability)

December 31 (In millions)	2001	2000
Funded status (a)	\$ (5,025)	\$ (4,391)
Unrecognized prior service cost	909	999
Unrecognized net actuarial loss	1,393	818
Net liability recognized	\$ (2,723)	\$ (2,574)
Amounts recorded in the Statement of Financial Position:		
Prepaid retiree life plans asset	\$ 66	\$ 8
Retiree health plans liability	(2,789)	(2,582)
Net liability recognized	\$ (2,723)	\$ (2,574)

(a) Fair value of assets less APBO, as shown in the preceding tables.

**Actuarial assumptions** used to determine costs and benefit obligations for principal retiree benefit plans follow.

#### Actuarial assumptions

December 31	2001	2000	1999
Discount rate	7.25%	7.5%	7.75%
Compensation increases	5.0	5.0	5.0
Healthcare cost trend (a)	11.6	10.0	9.0
Return on assets for the year (b)	9.5	9.5	9.5

(a) For 2001, gradually declining to 5.0% after 2009.

(b) For 2002, the return on assets actuarial assumption will be 8.5%.

Increasing or decreasing the healthcare cost trend rates by one percentage point would have had an insignificant effect on the December 31, 2001, accumulated postretirement benefit obligation and the annual cost of retiree health plans.

Experience gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, are amortized over the average future service period of employees.

## 6

### Pension Benefits

GE and its affiliates sponsor a number of pension plans. Principal pension plans are discussed below; other pension plans are not significant individually or in the aggregate.

**Principal pension plans** are the GE Pension Plan and the GE Supplementary Pension Plan.

The GE Pension Plan provides benefits to certain U.S. employees based on the greater of a formula recognizing career earnings or a formula recognizing length of service and final average earnings. Benefit provisions are subject to collective bargaining. The GE Pension Plan covers approximately 503,000 participants, including 141,000 employees, 164,000 former employees with vested rights to future benefits, and 198,000 retirees and beneficiaries receiving benefits.

The GE Supplementary Pension Plan is a pay-as-you-go plan providing supplementary retirement benefits primarily to higher-level, longer-service U.S. employees.

Details of the effect on operations of principal pension plans, and the total effect on cost of postretirement benefit plans, follow.

#### Effect on operations

(In millions)	2001	2000	1999
Expected return on plan assets	\$ 4,327	\$ 3,754	\$ 3,407
Service cost for benefits earned (a)	(884)	(780)	(693)
Interest cost on benefit obligation	(2,065)	(1,966)	(1,804)
Prior service cost	(244)	(237)	(151)
SFAS 87 transition gain	—	154	154
Net actuarial gain recognized	961	819	467
Income from pensions	2,095	1,744	1,380
Retiree benefit plans cost (note 5)	(615)	(478)	(318)
Net cost reductions from postretirement benefit plans	\$ 1,480	\$ 1,266	\$ 1,062

(a) Net of participant contributions.

**Funding policy** for the GE Pension Plan is to contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts as GE may determine to be appropriate. GE has not made contributions to the GE Pension Plan since 1987 because the fully funded status of the Plan precludes a current tax deduction and because any GE contribution would require payment of excise taxes.

Changes in the projected benefit obligation for principal pension plans follow.

**Projected benefit obligation (PBO)**

(In millions)	2001	2000
Balance at January 1	\$ 28,535	\$ 25,522
Service cost for benefits earned (a)	884	780
Interest cost on benefit obligation	2,065	1,966
Participant contributions	141	140
Plan amendments	—	1,155
Actuarial loss (b)	889	970
Benefits paid	(2,091)	(1,998)
Balance at December 31	\$ 30,423	\$ 28,535

(a) Net of participant contributions.

(b) Principally associated with discount rate changes.

Changes in the fair value of assets for principal pension plans follow.

**Fair value of assets**

(In millions)	2001	2000
Balance at January 1	\$ 49,757	\$ 50,243
Actual return on plan assets	(2,876)	1,287
Employer contributions	75	85
Participant contributions	141	140
Benefits paid	(2,091)	(1,998)
Balance at December 31	\$ 45,006	\$ 49,757

Plan assets are held in trust and consist mainly of common stock and fixed-income investments. GE common stock represented 8.6% and 9.2% of trust assets at year-end 2001 and 2000, respectively.

GE recorded assets and liabilities for principal pension plans as as follows:

**Prepaid pension asset/(liability)**

December 31 (In millions)	2001	2000
Funded status (a)	\$ 14,583	\$ 21,222
Unrecognized prior service cost	1,373	1,617
Unrecognized net actuarial gain	(3,541)	(12,594)
Net asset recognized	\$ 12,415	\$ 10,245
Amounts recorded in the Statement of Financial Position:		
Prepaid pension asset	\$ 13,740	\$ 11,377
Supplementary Pension Plan liability	(1,325)	(1,132)
Net asset recognized	\$ 12,415	\$ 10,245

(a) Fair value of assets less PBO, as shown in the preceding tables.

**Actuarial assumptions** used to determine costs and benefit obligations for principal pension plans follow.

**Actuarial assumptions**

December 31	2001	2000	1999
Discount rate	7.25%	7.5%	7.75%
Compensation increases	5.0	5.0	5.0
Return on assets for the year (a)	9.5	9.5	9.5

(a) For 2002, the return on assets actuarial assumption will be 8.5%.

Experience gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, are amortized over the average future service period of employees.

## 7

## Provision for Income Taxes

(In millions)	2001	2000	1999
<b>GE</b>			
Current tax expense	<b>\$ 3,632</b>	\$ 3,331	\$ 2,555
Deferred tax expense from temporary differences	<b>561</b>	468	652
	<b>4,193</b>	3,799	3,207
<b>GECS</b>			
Current tax expense	<b>517</b>	1,229	806
Deferred tax expense from temporary differences	<b>863</b>	683	847
	<b>1,380</b>	1,912	1,653
<b>Consolidated</b>			
Current tax expense	<b>4,149</b>	4,560	3,361
Deferred tax expense from temporary differences	<b>1,424</b>	1,151	1,499
	<b>\$ 5,573</b>	\$ 5,711	\$ 4,860

GE includes GECS in filing a consolidated U.S. federal income tax return. The GECS provision for current tax expense includes its effect on the consolidated return.

Consolidated current tax expense includes amounts applicable to U.S. federal income taxes of \$2,514 million, \$3,005 million and

\$1,632 million in 2001, 2000 and 1999, respectively, and amounts applicable to non-U.S. jurisdictions of \$1,225 million, \$1,246 million and \$1,399 million in 2001, 2000 and 1999, respectively. Consolidated deferred tax expense related to U.S. federal income taxes was \$1,455 million, \$1,095 million and \$1,475 million in 2001, 2000 and 1999, respectively.

Deferred income tax balances reflect the impact of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. See note 21 for details.

Except for certain earnings that GE intends to reinvest indefinitely, provision has been made for the estimated U.S. federal income tax liabilities applicable to undistributed earnings of affiliates and associated companies. It is not practicable to determine the U.S. federal income tax liability, if any, that would be payable if such earnings were not reinvested indefinitely.

Consolidated U.S. income before taxes and cumulative effect of accounting changes was \$13.9 billion in 2001, \$12.9 billion in 2000 and \$11.3 billion in 1999. The corresponding amounts for non-U.S.-based operations were \$5.8 billion in 2001, \$5.5 billion in 2000 and \$4.3 billion in 1999.

A reconciliation of the U.S. federal statutory tax rate to the actual tax rate is provided below.

#### Reconciliation of U.S. federal statutory tax rate to actual rate

	Consolidated			GE			GECS		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Statutory U.S. federal income tax rate	<b>35.0%</b>	35.0%	35.0%	<b>35.0%</b>	35.0%	35.0%	<b>35.0%</b>	35.0%	35.0%
Increase (reduction) in rate resulting from:									
Inclusion of after-tax earnings of GECS in before-tax earnings of GE	<b>—</b>	—	—	<b>(10.7)</b>	(11.0)	(11.2)	<b>—</b>	—	—
Amortization of goodwill	<b>1.0</b>	1.1	1.1	<b>0.8</b>	0.7	0.8	<b>0.9</b>	1.1	1.0
Tax-exempt income	<b>(1.3)</b>	(1.5)	(1.7)	<b>—</b>	—	—	<b>(3.8)</b>	(4.0)	(4.4)
Tax on international activities including exports	<b>(5.4)</b>	(4.9)	(4.2)	<b>(3.2)</b>	(3.0)	(2.6)	<b>(6.7)</b>	(5.8)	(4.8)
Americom/Rollins goodwill	<b>(1.1)</b>	—	—	<b>—</b>	—	—	<b>(3.2)</b>	—	—
All other—net	<b>0.1</b>	1.3	1.0	<b>1.0</b>	1.3	1.0	<b>(2.4)</b>	0.6	0.3
	<b>(6.7)</b>	(4.0)	(3.8)	<b>(12.1)</b>	(12.0)	(12.0)	<b>(15.2)</b>	(8.1)	(7.9)
Actual income tax rate	<b>28.3%</b>	31.0%	31.2%	<b>22.9%</b>	23.0%	23.0%	<b>19.8%</b>	26.9%	27.1%

## 8

## Earnings Per Share Information

(In millions; per-share amounts in dollars)	2001		2000		1999	
	Diluted	Basic	Diluted	Basic	Diluted	Basic
<b>Consolidated operations</b>						
Earnings before accounting changes	\$ 14,128	\$ 14,128	\$ 12,735	\$ 12,735	\$ 10,717	\$ 10,717
Dividend equivalents—net of tax	12	—	11	—	8	—
Earnings before accounting changes for per-share calculation	14,140	14,128	12,746	12,735	10,725	10,717
Cumulative effect of accounting changes	(444)	(444)	—	—	—	—
Net earnings available for per-share calculation	\$ 13,696	\$ 13,684	\$ 12,746	\$ 12,735	\$ 10,725	\$ 10,717
<b>Average equivalent shares</b>						
Shares of GE common stock outstanding	9,932	9,932	9,897	9,897	9,833	9,833
Employee compensation-related shares, including stock options	120	—	160	—	163	—
Total average equivalent shares	10,052	9,932	10,057	9,897	9,996	9,833
<b>Per-share amounts</b>						
Earnings before accounting changes	\$ 1.41	\$ 1.42	\$ 1.27	\$ 1.29	\$ 1.07	\$ 1.09
Cumulative effect of accounting changes	(0.04)	(0.04)	—	—	—	—
Net earnings per share	\$ 1.37	\$ 1.38	\$ 1.27	\$ 1.29	\$ 1.07	\$ 1.09

## 9

## Investment Securities

December 31 (In millions)	2001				2000			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>GE securities</b>								
Debt—U.S. corporate	\$ 350	\$ 99	\$ —	\$ 449	\$ 364	\$ 209	\$ —	\$ 573
Equity	412	47	(29)	430	316	266	(146)	436
	762	146	(29)	879	680	475	(146)	1,009
<b>GECS securities</b>								
Debt								
U.S. corporate	47,391	880	(1,626)	46,645	39,078	459	(1,282)	38,255
State and municipal	12,518	180	(136)	12,562	13,272	499	(139)	13,632
Mortgage-backed	16,442	424	(90)	16,776	13,683	323	(160)	13,846
Corporate—non-U.S.	13,088	232	(277)	13,043	12,640	374	(168)	12,846
Government—non-U.S.	6,104	183	(124)	6,163	5,059	104	(108)	5,055
U.S. government and federal agency	1,233	25	(32)	1,226	2,106	15	(42)	2,079
Equity	3,926	178	(381)	3,723	4,392	703	(478)	4,617
	100,702	2,102	(2,666)	100,138	90,230	2,477	(2,377)	90,330
	\$ 101,464	\$ 2,248	\$ (2,695)	\$ 101,017	\$ 90,910	\$ 2,952	\$ (2,523)	\$ 91,339

A substantial portion of mortgage-backed securities shown in the table above are collateralized by U.S. residential mortgages.

**Contractual maturities of GECS investment in debt securities  
(excluding mortgage-backed securities)**

(In millions)	Amortized cost	Estimated fair value
Due in		
2002	\$ 5,184	\$ 5,244
2003–2006	17,382	17,293
2007–2011	20,858	20,600
2012 and later	36,910	36,502

It is expected that actual maturities will differ from contractual maturities because borrowers have the right to call or prepay certain obligations.

Supplemental information about gross realized gains and losses on investment securities follows.

(In millions)	2001	2000	1999
<b>GE</b>			
Gains	\$ 236	\$ 8	\$ 24
Losses	(100)	(76)	—
Net	136	(68)	24
<b>GECS</b>			
Gains (a)	1,800	3,581	1,406
Losses	(838)	(714)	(484)
Net	962	2,867	922
	\$1,098	\$2,799	\$ 946

(a) Includes \$1,366 million, in 2000, from the sale of GECS investment in common stock of Paine Webber Group, Inc.

Proceeds from securities sales amounted to \$39,950 million in 2001, \$24,748 million in 2000 and \$18,521 million in 1999.

**10**

**GE Current Receivables**

December 31 (In millions)	2001	2000
Aircraft Engines	\$ 1,976	\$ 1,840
Appliances	341	327
Industrial Products and Systems	1,140	1,246
Materials	1,008	1,126
NBC	335	384
Power Systems	3,587	3,668
Technical Products and Services	1,341	1,128
Corporate items and eliminations	439	358
	10,167	10,077
Less allowance for losses	(362)	(350)
	\$ 9,805	\$ 9,727

Receivables balances at December 31, 2001 and 2000, before allowance for losses, included \$5,893 million and \$6,323 million, respectively, from sales of goods and services to customers, and \$447 million and \$233 million, respectively, from transactions with associated companies.

Current receivables of \$270 million at year-end 2001 and \$227 million at year-end 2000 arose from sales, principally of aircraft engine goods and services, on open account to various agencies of the U.S. government, which is GE's largest single customer. About 4%, 3% and 4% of GE's sales of goods and services were to the U.S. government in 2001, 2000 and 1999, respectively.

**11**

**Inventories**

December 31 (In millions)	2001	2000
<b>GE</b>		
Raw materials and work in process	\$ 4,708	\$ 4,134
Finished goods	3,951	3,614
Unbilled shipments	312	243
	8,971	7,991
Less revaluation to LIFO	(676)	(845)
	8,295	7,146
<b>GECS</b>		
Finished goods	270	666
	\$ 8,565	\$ 7,812

LIFO revaluations decreased \$169 million in 2001, compared with decreases of \$82 million in 2000 and \$84 million in 1999. Included in these changes were decreases of \$8 million, \$6 million and \$4 million in 2001, 2000 and 1999, respectively, that resulted from lower LIFO inventory levels. There were net cost decreases in each of the last three years. As of December 31, 2001, GE is obligated to acquire certain raw materials at market prices through the year 2016 under various take-or-pay or similar arrangements. Annual minimum commitments under these arrangements are insignificant.

**GECS Financing Receivables (investments in time sales, loans and financing leases)**

December 31 (In millions)	2001	2000
<b>Time sales and loans</b>		
Consumer services	\$ 45,741	\$ 43,954
Specialized financing	16,913	14,567
Mid-market financing	57,600	35,436
Equipment management	2,391	1,385
Other	41	928
	<b>122,686</b>	96,270
<b>Investment in financing leases</b>		
Direct financing leases	49,412	46,186
Leveraged leases	6,735	4,877
	<b>56,147</b>	51,063
	<b>178,833</b>	147,333
Less allowance for losses (note 13)	(4,801)	(4,034)
	<b>\$ 174,032</b>	\$ 143,299

Time sales and loans represents transactions in a variety of forms, including time sales, revolving charge and credit, mortgages, installment loans, intermediate-term loans and revolving loans secured by business assets. The portfolio includes time sales and loans carried at the principal amount on which finance charges are billed periodically, and time sales and loans carried at gross book

**Net investment in financing leases**

December 31 (In millions)	Total financing leases		Direct financing leases		Leveraged leases	
	2001	2000	2001	2000	2001	2000
Total minimum lease payments receivable	\$ 83,316	\$ 74,960	\$ 53,870	\$ 50,556	\$ 29,446	\$ 24,404
Less principal and interest on third-party nonrecourse debt	(22,588)	(19,773)	—	—	(22,588)	(19,773)
Net rentals receivable	60,728	55,187	53,870	50,556	6,858	4,631
Estimated unguaranteed residual value of leased assets	8,996	7,314	5,544	4,602	3,452	2,712
Less deferred income	(13,577)	(11,438)	(10,002)	(8,972)	(3,575)	(2,466)
<b>Investment in financing leases (as shown above)</b>	<b>56,147</b>	51,063	<b>49,412</b>	46,186	<b>6,735</b>	4,877
Less amounts to arrive at net investment						
Allowance for losses	(679)	(646)	(606)	(558)	(73)	(88)
Deferred taxes	(9,168)	(8,408)	(4,643)	(4,496)	(4,525)	(3,912)
<b>Net investment in financing leases</b>	<b>\$ 46,300</b>	\$ 42,009	<b>\$ 44,163</b>	\$ 41,132	<b>\$ 2,137</b>	\$ 877

value, which includes finance charges. At year-end 2001 and 2000, commercial real estate loans and leases of \$25,466 million and \$21,329 million, respectively, were included in either financing receivables or GECS insurance receivables. Note 17 contains information on airline loans and leases.

Investment in financing leases consists of direct financing and leveraged leases of aircraft, railroad rolling stock, autos, other transportation equipment, data processing equipment and medical equipment, as well as other manufacturing, power generation, commercial real estate, and commercial equipment and facilities.

As the sole owner of assets under direct financing leases and as the equity participant in leveraged leases, GECS is taxed on total lease payments received and is entitled to tax deductions based on the cost of leased assets and tax deductions for interest paid to third-party participants. GECS is generally entitled to any residual value of leased assets.

Investment in direct financing and leveraged leases represents net unpaid rentals and estimated unguaranteed residual values of leased equipment, less related deferred income. GECS has no general obligation for principal and interest on notes and other instruments representing third-party participation related to leveraged leases; such notes and other instruments have not been included in liabilities but have been offset against the related rentals receivable. The GECS share of rentals receivable on leveraged leases is subordinate to the share of other participants who also have security interests in the leased equipment.

**Contractual maturities**

(In millions)	Total time sales and loans (a)	Net rentals receivable (a)
Due in		
2002	\$ 39,162	\$ 15,303
2003	22,585	13,116
2004	19,723	9,057
2005	10,247	6,284
2006	7,729	3,520
2007 and later	23,240	13,448
<b>Total</b>	<b>\$122,686</b>	<b>\$ 60,728</b>

(a) Experience has shown that a substantial portion of receivables will be paid prior to contractual maturity, and these amounts should not be regarded as forecasts of future cash flows.

Nonearning consumer receivables were \$1,540 million and \$1,139 million at December 31, 2001 and 2000, respectively, a substantial amount of which were private-label credit card loans. Nonearning and reduced-earning receivables other than consumer receivables were \$1,734 million and \$949 million at year-end 2001 and 2000, respectively.

"Impaired" loans are defined by generally accepted accounting principles as large balance loans for which it is probable that the lender will be unable to collect all amounts due according to original contractual terms of the loan agreement. An analysis of impaired loans follows.

December 31 (In millions)	2001	2000
Loans requiring allowance for losses	<b>\$ 1,041</b>	\$ 475
Loans expected to be fully recoverable	<b>574</b>	384
	<b>\$ 1,615 (a)</b>	\$ 859
Allowance for losses	<b>\$ 422</b>	\$ 166
Average investment during year	<b>1,121</b>	801
Interest income earned while impaired (b)	<b>17</b>	20

(a) Includes \$408 million of loans classified as impaired by Heller Financial, Inc., which was acquired in October 2001.

(b) Recognized principally on cash basis.

**13****GECS Allowance for Losses on Financing Receivables**

(In millions)	2001	2000	1999
Balance at January 1	<b>\$ 4,034</b>	\$ 3,708	\$ 3,223
Provisions charged to operations	<b>2,481</b>	2,045	1,671
Net transfers primarily related to acquisitions and sales	<b>564</b>	22	271
Amounts written off—net	<b>(2,278)</b>	(1,741)	(1,457)
<b>Balance at December 31</b>	<b>\$ 4,801</b>	<b>\$ 4,034</b>	<b>\$ 3,708</b>

**14****GECS Insurance Receivables**

At year-end 2001 and 2000, GECS insurance receivables included reinsurance recoverables of \$12,606 million and \$8,240 million and receivables at insurance affiliates of \$14,711 million and \$15,562 million, respectively. Receivables at insurance affiliates include premium receivables, investments in whole real estate and other loans, policy loans and funds on deposit with reinsurers.

## 15

**Property, Plant and Equipment  
(including equipment leased to others)**

December 31 (In millions)	2001	2000
<b>Original cost</b>		
<b>GE</b>		
Land and improvements	\$ 577	\$ 544
Buildings, structures and related equipment	7,281	6,982
Machinery and equipment	21,414	20,792
Leasehold costs and manufacturing plant under construction	1,960	1,871
	<b>31,232</b>	30,189
<b>GECS</b>		
Buildings and equipment	3,600	5,753
Equipment leased to others		
Aircraft	16,173	12,888
Vehicles	10,779	9,872
Railroad rolling stock	3,439	3,459
Marine shipping containers	1,618	2,196
Mobile and modular structures	1,325	1,288
Information technology equipment	1,321	1,069
Construction and manufacturing equipment	799	591
Scientific, medical and other equipment	1,001	685
	<b>40,055</b>	37,801
	<b>\$ 71,287</b>	\$ 67,990
<b>Accumulated depreciation and amortization</b>		
GE	\$ 18,433	\$ 17,990
GECS		
Buildings and equipment	1,579	2,084
Equipment leased to others	9,135	7,901
	<b>\$ 29,147</b>	\$ 27,975

Amortization of GECS equipment leased to others was \$2,958 million, \$2,620 million and \$2,673 million in 2001, 2000 and 1999, respectively. Noncancelable future rentals due from customers for equipment on operating leases at year-end 2001 totaled \$16,072 million and are due as follows: \$3,954 million in 2002; \$3,183 million in 2003; \$2,396 million in 2004; \$1,749 million in 2005; \$1,245 million in 2006; and \$3,545 million thereafter.

## 16

**Intangible Assets**

December 31 (In millions)	2001	2000
<b>GE</b>		
Goodwill	\$ 12,354	\$ 11,962
Other intangibles	578	462
	<b>12,932</b>	12,424
<b>GECS</b>		
Goodwill	15,933	11,550
Present value of future profits (PVFP)	2,198	2,780
Other intangibles	586	687
	<b>18,717</b>	15,017
	<b>\$ 31,649</b>	\$ 27,441

GE intangible assets are net of accumulated amortization of \$3,854 million in 2001 and \$3,413 million in 2000. GECS intangible assets are net of accumulated amortization of \$6,954 million in 2001 and \$5,815 million in 2000.

The amount of goodwill amortization included in net earnings (net of income taxes) in 2001, 2000 and 1999 was \$499 million, \$439 million and \$395 million for GE and \$552 million, \$620 million and \$512 million for GECS, respectively.

PVFP amortization, which is on an accelerated basis and net of interest, is projected to range from 13% to 6% of the year-end 2001 unamortized balance for each of the next five years.

December 31 (In millions)	2001	2000
<b>GE</b>		
Investments		
Associated companies (a)	\$ 2,539	\$ 2,670
Other	1,336	1,888
	<b>3,875</b>	4,558
Prepaid pension asset	13,740	11,377
Contract costs and estimated earnings	2,292	1,736
Prepaid broadcasting rights	1,108	967
Long-term receivables, including notes	909	1,987
Derivative instruments (b)	254	83
Other	3,808	3,320
	<b>25,986</b>	24,028
<b>GECS</b>		
Investments		
Associated companies (a)	14,415	12,785
Real estate	8,141	6,496
Assets acquired for resale	1,725	1,394
Other	5,222	5,207
	<b>29,503</b>	25,882
Separate accounts	10,403	11,705
Deferred insurance acquisition costs	6,768	5,815
Derivative instruments (b)	2,066	314
Servicing assets (c)	1,139	1,449
Other	5,209	5,201
	<b>55,088</b>	50,366
<b>Eliminations</b>	<b>(548)</b>	(507)
	<b>\$ 80,526</b>	\$ 73,887

(a) Includes advances to associated companies which are non-controlled, non-consolidated equity investments.

(b) Amounts at December 31, 2001, are stated at fair value in accordance with SFAS 133; corresponding amounts at December 31, 2000, are stated at amortized cost. See note 29 for a discussion of the types and uses of derivative instruments.

(c) Associated primarily with serviced residential mortgage loans amounting to \$59 billion and \$81 billion at December 31, 2001 and 2000, respectively.

In line with industry practice, sales of commercial jet aircraft engines often involve long-term customer financing commitments. In making such commitments, it is GE's general practice to require that it have or be able to establish a secured position in the aircraft being financed. Under such airline financing programs, GE had issued guarantees amounting to \$1,181 million at year-end 2001 and \$1,160 million at year-end 2000; and it had entered into commitments totaling \$1,497 million and \$1,476 million at year-end 2001 and 2000, respectively, to provide financial assistance on future aircraft engine sales. Net of reserves, the estimated fair values of the aircraft securing these guarantees exceeded the related guaranteed amounts at December 31, 2001. GECS acts as a lender and lessor to the commercial airline industry. At December 31, 2001 and 2000, the balance of such GECS loans and leases was \$21.5 billion and \$15.3 billion, respectively. In addition, at December 31, 2001, GECS had issued financial guarantees and funding commitments of \$0.9 billion (\$0.6 billion at year-end 2000), credit and liquidity support agreements to special purpose entities sponsored by GECS of \$0.9 billion (\$0.6 billion at year-end 2000) and had placed multi-year orders for various Boeing, Airbus and other aircraft with list prices of approximately \$19.9 billion (\$22.9 billion at year-end 2000).

At year-end 2001, the National Broadcasting Company had \$6,646 million of commitments to acquire broadcast material and the rights to broadcast television programs, including U.S. television rights to future Olympic Games, and commitments under long-term television station affiliation agreements that require payments through the year 2010.

In connection with numerous projects, primarily power generation bids and contracts, GE had issued various bid and performance bonds and guarantees totaling \$3,704 million at year-end 2001 and \$4,599 million at year-end 2000.

Separate accounts represent investments controlled by policyholders and are associated with identical amounts reported as insurance liabilities in note 19.

**Short-term borrowings**

December 31 (In millions)	2001		2000	
	Amount	Average rate (a)	Amount	Average rate (a)
<b>GE</b>				
Commercial paper				
Non-U.S.	\$ 266	3.87%	\$ 172	5.77%
Payable to banks, principally non-U.S.	1,160	5.58	527	11.30
Current portion of long-term debt	80	6.46	71	7.90
Other	216		170	
	<b>1,722</b>		<b>940</b>	
<b>GECS</b>				
Commercial paper				
U.S.	100,170	2.21	77,525	6.67
Non-U.S.	17,289	3.36	16,965	5.46
Current portion of long-term debt	30,952	5.08	19,283	5.95
Other	12,590		10,219	
	<b>161,001</b>		<b>123,992</b>	
Foreign currency loss (b)	(157)		—	
	<b>160,844</b>		<b>123,992</b>	
<b>Eliminations</b>	<b>(9,490)</b>		<b>(5,752)</b>	
	<b>\$ 153,076</b>		<b>\$ 119,180</b>	

**Long-term borrowings**

December 31 (In millions)	2001		2001	2000
	Average rate (a)	Maturities		
<b>GE</b>				
Industrial development/ pollution control bonds	2.53%	2003-2027	\$ 336	\$ 334
Payable to banks, principally non-U.S.	5.36	2003-2007	241	255
Other (c)			210	252
			<b>787</b>	<b>841</b>
<b>GECS</b>				
Senior notes	4.89	2003-2055	78,347	80,383
Subordinated notes (d)	7.74	2006-2035	1,171	996
			<b>79,518</b>	<b>81,379</b>
Foreign currency loss (b)			(427)	—
			<b>79,091</b>	<b>81,379</b>
<b>Eliminations</b>			<b>(72)</b>	<b>(88)</b>
			<b>\$ 79,806</b>	<b>\$ 82,132</b>

(a) Based on year-end balances and year-end local currency interest rates, including the effects of interest rate and currency swaps, if any, directly associated with the original debt issuance.

(b) Total GECS borrowings in 2001 exclude the foreign exchange effects of related currency swaps in accordance with the provisions of SFAS 133.

(c) A variety of obligations having various interest rates and maturities, including certain borrowings by parent operating components and affiliates.

(d) At year-end 2001 and 2000, \$996 million of subordinated notes were guaranteed by GE.

Borrowings of GE and GECS are addressed below from two perspectives—liquidity and interest rate risk management. Additional information about borrowings and associated swaps can be found in note 29.

**Liquidity** requirements of GE and GECS are principally met through the credit markets. Maturities of long-term borrowings (including the current portion) during the next five years follow.

(In millions)	2002	2003	2004	2005	2006
GE	\$ 80	\$ 97	\$ 203	\$ 13	\$ 101
GECS	30,795	25,713	14,630	9,907	6,469

Committed credit lines of \$4.7 billion had been extended to GE by 22 banks at year-end 2001. All of GE's credit lines are available to GECS and its affiliates in addition to their own credit lines.

At year-end 2001, GECS held committed lines of credit aggregating \$28.6 billion, including \$12.2 billion of revolving credit agreements pursuant to which it has the right to borrow funds for periods exceeding one year. Both GE and GECS compensate banks for credit facilities in the form of fees, which were insignificant in each of the past three years.

**Interest rate risk** is managed by GECS in light of the anticipated behavior, including prepayment behavior, of assets in which debt proceeds are invested. A variety of instruments, including interest rate and currency swaps and currency forwards, are employed to achieve management's interest rate objectives. Effective interest rates are lower under these "synthetic" positions than could have been achieved by issuing debt directly.

The following table shows GECS borrowing positions considering the effects of currency and interest rate swaps.

**GECS effective borrowings (including swaps)**

December 31 (In millions)	2001		2000
	Amount	Average rate	
Short-term (a)	<b>\$101,101</b>	<b>2.56%</b>	\$ 80,162
Long-term (including current portion)			
Fixed rate (b)	<b>\$105,387</b>	<b>5.59%</b>	\$ 98,905
Floating rate	<b>34,031</b>	<b>3.23</b>	26,304
Total long-term	<b>\$139,418</b>		\$ 125,209

(a) Includes commercial paper and other short-term debt.

(b) Includes fixed-rate borrowings and \$28.9 billion (\$24.5 billion in 2000) notional long-term interest rate swaps that effectively convert the floating-rate nature of short-term borrowings to fixed rates of interest.

At December 31, 2001, swap maturities ranged from 2002 to 2048.

**GECS Insurance Liabilities, Reserves and Annuity Benefits**

December 31 (In millions)	2001	2000
Investment contracts and universal life benefits	<b>\$ 39,052</b>	\$ 33,232
Life insurance benefits (a)	<b>31,198</b>	32,288
Unpaid claims and claims adjustment expenses (b)	<b>27,233</b>	22,886
Unearned premiums	<b>6,337</b>	6,039
Separate accounts (see note 17)	<b>10,403</b>	11,705
	<b>\$114,223</b>	\$ 106,150

(a) Life insurance benefits are accounted for mainly by a net-level-premium method using estimated yields generally ranging from 2% to 9% in both 2001 and 2000.

(b) Principally property and casualty reserves; includes amounts for both reported and incurred-but-not-reported claims, reduced by anticipated salvage and subrogation recoveries. Estimates of liabilities are reviewed and updated continually, with changes in estimated losses reflected in operations.

When GECS cedes insurance to third parties, it is not relieved of its primary obligation to policyholders. Losses on ceded risks give rise to claims for recovery; allowances for probable losses are established on such receivables from reinsurers as required.

The insurance liability for unpaid claims and claims adjustment expenses related to policies that may cover environmental and asbestos exposures is based on known facts and an assessment of applicable law and coverage litigation. Liabilities are recognized for both known and unasserted claims (including the cost of related litigation) when sufficient information has been developed to indicate that a claim has been incurred and a range of potential losses can be reasonably estimated. Developed case law and adequate claim history do not exist for certain claims principally due to significant uncertainties as to both the level of ultimate losses that will occur and what portion, if any, will be deemed to be insured amounts.

A summary of activity affecting unpaid claims and claims adjustment expenses, principally in property and casualty lines follows.

(In millions)	2001	2000	1999
Balance at January 1—gross	<b>\$ 22,886</b>	\$ 21,473	\$ 19,611
Less reinsurance recoverables	<b>(5,477)</b>	(4,832)	(3,483)
Balance at January 1—net	<b>17,409</b>	16,641	16,128
Claims and expenses incurred			
Current year	<b>9,199</b>	9,718	6,917
Prior years	<b>682</b>	607	248
Claims and expenses paid			
Current year	<b>(3,021)</b>	(3,704)	(2,508)
Prior years	<b>(6,694)</b>	(6,572)	(5,162)
Claims reserves related to acquired companies	<b>—</b>	488	929
Other	<b>258</b>	231	89
Balance at December 31—net	<b>17,833</b>	17,409	16,641
Add reinsurance recoverables	<b>9,400</b>	5,477	4,832
Balance at December 31—gross	<b>\$ 27,233</b>	\$ 22,886	\$ 21,473

Prior-year claims and expenses incurred in the preceding table resulted principally from settling claims established in earlier accident years for amounts that differed from expectations.

Financial guarantees and credit life risk of insurance affiliates are summarized below.

December 31 (In millions)	2001	2000
Guarantees, principally on municipal bonds and asset-backed securities	<b>\$ 215,874</b>	\$ 194,061
Mortgage insurance risk in force	<b>79,892</b>	68,112
Credit life insurance risk in force	<b>16,590</b>	19,910
Less reinsurance	<b>(41,148)</b>	(42,143)
	<b>\$ 271,208</b>	\$ 239,940

Certain GECS insurance affiliates offer insurance guaranteeing the timely payment of scheduled principal and interest on municipal bonds and certain asset-backed securities. These insurance affiliates also provide insurance to protect residential mortgage lenders from severe financial loss caused by the non-payment of loans and issue credit life insurance designed to pay the balance due on a loan if the borrower dies before the loan is repaid. As part of their overall risk management process, GECS insurance affiliates cede to third parties a portion of their risk associated with these guarantees. In doing so, they are not relieved of their primary obligation to policyholders.

This caption includes noncurrent compensation and benefit accruals at year-end 2001 and 2000 of \$6,639 million and \$6,268 million, respectively. Also included are amounts for deferred incentive compensation, deferred income, interest on tax liabilities, product warranties and a variety of sundry items.

GE is involved in numerous remediation actions to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs at each site are based on management's best estimate of undiscounted future costs, excluding possible insurance recoveries. When there appears to be a range of possible costs with equal likelihood, liabilities are based on the lower end of such range. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop a meaningful estimate of the reasonably possible aggregate environmental remediation exposure. However, even in the unlikely event that remediation costs amounted to the high end of the range of costs for each site, the resulting additional liability would not be material to GE's financial position, results of operations or liquidity.

Aggregate deferred income tax amounts are summarized below.

December 31 (In millions)	2001	2000
<b>Assets</b>		
GE	\$ 6,416	\$ 6,131
GECS	8,585	7,309
	<b>15,001</b>	13,440
<b>Liabilities</b>		
GE	7,429	6,583
GECS	16,702	15,547
	<b>24,131</b>	22,130
<b>Net deferred income tax liability</b>	<b>\$ 9,130</b>	\$ 8,690

Principal components of the net liability/(asset) representing deferred income tax balances for GE and GECS are as follows:

December 31 (In millions)	2001	2000
<b>GE</b>		
Provisions for expenses (a)	\$ (4,432)	\$(4,392)
Retiree insurance plans	(953)	(904)
Prepaid pension asset	4,809	3,982
Depreciation	932	944
Other—net	657	822
	<b>1,013</b>	452
<b>GECS</b>		
Financing leases	9,168	8,408
Operating leases	3,399	3,301
Deferred insurance acquisition costs	1,360	856
Allowance for losses	(2,139)	(1,684)
Insurance reserves	(1,397)	(1,270)
AMT credit carryforwards	(695)	(671)
Other—net	(1,579)	(702)
	<b>8,117</b>	8,238
<b>Net deferred income tax liability</b>	<b>\$ 9,130</b>	\$ 8,690

(a) Represents the tax effects of temporary differences related to expense accruals for a wide variety of items, such as employee compensation and benefits, interest on tax liabilities, product warranties and other sundry items that are not currently deductible.

Minority interest in equity of consolidated GECS affiliates includes preferred stock issued by GE Capital and by affiliates of GE Capital. The preferred stock primarily pays cumulative dividends at variable rates. Value of the preferred shares is summarized below.

December 31 (In millions)	2001	2000
GE Capital	\$ 2,600	\$ 2,600
GE Capital affiliates	1,446	1,066

Dividend rates in local currency on the preferred stock ranged from 1.62% to 6.40% during 2001 and from 4.15% to 6.82% during 2000.

Certain GECS consolidated affiliates are restricted from remitting funds to GECS in the form of dividends or loans by a variety of regulations, the purpose of which is to protect affected insurance policyholders, depositors or investors. At year-end 2001, net assets of regulated GECS affiliates amounted to \$37.4 billion, of which \$31.7 billion was restricted.

At December 31, 2001 and 2000, the aggregate statutory capital and surplus of the insurance businesses totaled \$17.7 billion and \$16.2 billion, respectively. Accounting practices prescribed by statutory authorities are used in preparing statutory statements.

(In millions)	2001	2000	1999
<b>Common stock issued</b>	<b>\$ 669</b>	\$ 669	\$ 594
<b>Accumulated nonowner changes other than earnings</b>			
Balance at January 1	<b>\$ (2,500)</b>	\$ (744)	\$ 1,664
Cumulative effect of adopting SFAS 133—net of deferred taxes of \$(513)	<b>(827)</b>	—	—
Investment securities—net of deferred taxes of \$111, \$686 and \$(614)	<b>203</b>	1,363	(1,132)
Currency translation adjustments—net of deferred taxes of \$48, \$(312) and \$(100)	<b>(562)</b>	(1,204)	(632)
Derivatives qualifying as hedges—net of deferred taxes \$(505)	<b>(690)</b>	—	—
Reclassification adjustments—Investment securities—net of deferred taxes of \$(274), \$(1,031) and \$(349)	<b>(509)</b>	(1,915)	(644)
Derivatives qualifying as hedges—net of deferred taxes of \$397	<b>562</b>	—	—
Balance at December 31	<b>\$ (4,323)</b>	\$ (2,500)	\$ (744)
<b>Other capital</b>			
Balance at January 1	<b>\$15,195</b>	\$ 10,790	\$ 6,808
Gains on treasury stock dispositions (a)	<b>1,498</b>	4,480	3,982
Adjustment for stock split	<b>—</b>	(75)	—
Balance at December 31	<b>\$16,693</b>	\$ 15,195	\$ 10,790
<b>Retained earnings</b>			
Balance at January 1	<b>\$61,572</b>	\$54,484	\$48,553
Net earnings	<b>13,684</b>	12,735	10,717
Dividends (a)	<b>(6,555)</b>	(5,647)	(4,786)
Balance at December 31	<b>\$68,701</b>	\$ 61,572	\$ 54,484
<b>Common stock held in treasury</b>			
Balance at January 1	<b>\$24,444</b>	\$22,567	\$ 18,739
Purchases (a)	<b>4,708</b>	5,342	7,488
Dispositions (a)	<b>(2,236)</b>	(3,465)	(3,660)
Balance at December 31	<b>\$26,916</b>	\$ 24,444	\$ 22,567

(a) Total dividends and other transactions with share owners reduced equity by \$7,529 million, \$3,044 million and \$4,632 million in 2001, 2000 and 1999, respectively.

In December 2001, GE's Board of Directors increased the authorization to repurchase Company common stock to \$30 billion. Funds used for the share repurchase will be generated largely from free cash flow. Through year-end 2001, 1,030 million shares having an aggregate cost of almost \$21 billion had been repurchased under this program and placed in treasury.

Common shares issued and outstanding are summarized in the following table.

#### Shares of GE common stock

December 31 (In thousands)	2001	2000	1999
Issued	<b>11,145,212</b>	11,145,212	11,145,054
In treasury	<b>(1,219,274)</b>	(1,213,206)	(1,290,526)
Outstanding	<b>9,925,938</b>	9,932,006	9,854,528

In April 2000, share owners authorized (a) an increase in the number of authorized shares of common stock from 4,400,000,000 shares each with a par value of \$0.16 to 13,200,000,000 shares each with a par value of \$0.06 and (b) the split of each unissued and issued common share, including shares held in treasury, into three shares of common stock each with a par value of \$0.06. All share data and per-share amounts have been adjusted to reflect this change.

GE has 50 million authorized shares of preferred stock (\$1.00 par value), but no such shares have been issued.

The effects of translating to U.S. dollars the financial statements of non-U.S. affiliates whose functional currency is the local currency are included in share owners' equity. Asset and liability accounts are translated at year-end exchange rates, while revenues and expenses are translated at average rates for the period.

**Stock option activity**

(Shares in thousands)	Shares subject to option	Average per share	
		Exercise price	Market price
Balance at December 31, 1998	359,784	\$ 11.59	\$34.00
Options granted	51,281	37.93	37.93
Options exercised	(61,679)	7.82	39.42
Options terminated	(8,012)	21.15	—
Balance at December 31, 1999	341,374	16.01	51.58
Options granted	46,278	47.84	47.84
Options exercised	(44,758)	8.82	53.00
Options terminated	(9,715)	28.47	—
Balance at December 31, 2000	333,179	21.03	47.94
Options granted	60,946	41.15	41.15
Options exercised	(31,801)	10.04	43.95
Options terminated	(7,871)	39.02	—
Balance at December 31, 2001	354,453	25.08	40.08

Stock option plans, stock appreciation rights (SARs), restricted stock and restricted stock units are described in GE's current Proxy Statement. With certain restrictions, requirements for stock option shares can be met from either unissued or treasury shares.

At year-end 2001, there were 131 thousand SARs outstanding at an average exercise price of \$7.68. There were 27.3 million restricted stock shares and restricted stock units outstanding at year-end 2001.

There were 538.7 million and 487.1 million additional shares available for grants of options, SARs, restricted stock and restricted stock units at December 31, 2001 and 2000, respectively. Under the 1990 Long-Term Incentive Plan, 0.95% of the Company's issued common stock (including treasury shares) as of the first day of each calendar year during which the Plan is in effect becomes available for granting awards in such year. Any unused portion, in addition to shares allocated to awards that are canceled or forfeited, is available for later years.

Outstanding options and SARs expire on various dates through December 21, 2011. Restricted stock grants vest on various dates up to normal retirement of grantees.

The following table summarizes information about stock options outstanding at December 31, 2001.

**Stock options outstanding**

(Shares in thousands)

Exercise price range	Outstanding			Exercisable	
	Shares	Average life (a)	Average exercise price	Shares	Average exercise price
\$ 5.72 – 8.50	58,324	1.6	\$ 7.63	58,324	\$ 7.63
8.51 – 13.23	65,494	2.9	9.15	65,494	9.15
13.48 – 26.10	66,065	5.2	18.13	53,465	16.94
26.42 – 39.73	81,807	7.9	34.79	24,881	32.20
41.35 – 57.31	82,763	9.0	45.91	6,908	47.45
Total	354,453	5.7	25.08	209,072	14.73

At year-end 2000, options with an average exercise price of \$11.35 were exercisable on 205 million shares; at year-end 1999, options with an average exercise price of \$9.13 were exercisable on 206 million shares.

(a) Average contractual life remaining in years.

Stock options expire 10 years from the date they are granted; options vest over service periods that range from one to five years.

Disclosures required by SFAS 123, *Accounting for Stock-Based Compensation*, are as follows:

**Option value information (a)**

(In dollars)	2001	2000	1999
Fair value per option (b)	<b>\$12.15</b>	\$15.76	\$11.23
Valuation assumptions			
Expected option term (years)	<b>6.0</b>	6.4	6.5
Expected volatility	<b>30.5%</b>	27.1%	23.7%
Expected dividend yield	<b>1.6%</b>	1.2%	1.3%
Risk-free interest rate	<b>4.9%</b>	6.4%	5.8%

(a) Weighted averages of option grants during each period.

(b) Estimated using Black-Scholes option pricing model.

**Pro forma effects (a)**

December 31 (In millions; per-share amounts in dollars)	2001	2000	1999
Net earnings	<b>\$13,388</b>	\$12,502	\$10,572
Earnings per share			
—diluted	<b>1.33</b>	1.24	1.06
—basic	<b>1.35</b>	1.26	1.08

(a) 2001 earnings and earnings per share include effects of accounting changes.

Changes in operating assets and liabilities are net of acquisitions and dispositions of principal businesses.

"Payments for principal businesses purchased" in the Statement of Cash Flows is net of cash acquired and includes debt assumed and immediately repaid in acquisitions.

"All other operating activities" in the Statement of Cash Flows consists primarily of adjustments to current and noncurrent accruals and deferrals of costs and expenses, increases and decreases in progress collections, adjustments for gains and losses on assets, increases and decreases in assets held for sale, and adjustments to assets.

Noncash transactions include the following: in 2001, the acquisition of Imatron Inc. for GE common stock valued at \$205 million; in 2000, the acquisition of Harmon Industries for shares of GE common stock valued at \$346 million; and in 1999, GE's contribution of certain media properties in exchange for a noncontrolling interest in NBCi, a former publicly-traded company (described in note 2).

Certain supplemental information related to GE and GECS cash flows is shown below.

For the years ended December 31 (In millions)

	2001	2000	1999
<b>GE</b>			
<b>Purchases and sales of GE shares for treasury</b>			
Open market purchases under share repurchase program	\$ (3,137)	\$ (2,226)	\$ (1,866)
Other purchases	(1,571)	(3,116)	(5,622)
Dispositions (mainly to employee and dividend reinvestment plans)	2,273	5,811	6,486
	<b>\$ (2,435)</b>	<b>\$ 469</b>	<b>\$ (1,002)</b>
<b>GECS</b>			
<b>Financing receivables</b>			
Increase in loans to customers	\$ (140,758)	\$ (100,938)	\$ (95,201)
Principal collections from customers—loans	121,004	87,432	86,379
Investment in equipment for financing leases	(20,315)	(15,454)	(18,173)
Principal collections from customers—financing leases	11,641	7,873	13,634
Net change in credit card receivables	(14,815)	(9,394)	(10,740)
Sales of financing receivables	29,291	14,405	11,473
	<b>\$ (13,952)</b>	<b>\$ (16,076)</b>	<b>\$ (12,628)</b>
<b>All other investing activities</b>			
Purchases of securities by insurance and annuity businesses	\$ (53,452)	\$ (35,911)	\$ (26,271)
Dispositions and maturities of securities by insurance and annuity businesses	45,403	25,960	23,979
Proceeds from principal business dispositions	2,572	(605)	279
Other	(2,080)	(1,617)	(6,270)
	<b>\$ (7,557)</b>	<b>\$ (12,173)</b>	<b>\$ (8,283)</b>
<b>Newly issued debt having maturities longer than 90 days</b>			
Short-term (91 to 365 days)	\$ 12,622	\$ 12,782	\$ 15,799
Long-term (longer than one year)	16,118	32,297	30,082
Proceeds—nonrecourse, leveraged lease debt	2,012	1,808	1,724
	<b>\$ 30,752</b>	<b>\$ 46,887</b>	<b>\$ 47,605</b>
<b>Repayments and other reductions of debt having maturities longer than 90 days</b>			
Short-term (91 to 365 days)	\$ (29,195)	\$ (27,777)	\$ (21,211)
Long-term (longer than one year)	(6,582)	(3,953)	(5,447)
Principal payments—nonrecourse, leveraged lease debt	(274)	(177)	(266)
	<b>\$ (36,051)</b>	<b>\$ (31,907)</b>	<b>\$ (26,924)</b>
<b>All other financing activities</b>			
Proceeds from sales of investment contracts	\$ 9,080	\$ 8,826	\$ 7,236
Redemption of investment contracts	(7,033)	(9,061)	(7,127)
Preferred stock issued by GECS affiliates	—	—	513
Capital contributions from GE	3,043	—	—
Cash received upon assumption of Toho Mutual Life Insurance Company insurance liabilities	—	13,177	—
	<b>\$ 5,090</b>	<b>\$ 12,942</b>	<b>\$ 622</b>

## Revenues (For the years ended December 31)

(In millions)	Total revenues			Intersegment revenues			External revenues		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
<b>GE</b>									
Aircraft Engines	\$ 11,389	\$ 10,779	\$ 10,730	\$ 1,282	\$ 687	\$ 477	\$ 10,107	\$ 10,092	\$ 10,253
Appliances	5,810	5,887	5,671	4	5	4	5,806	5,882	5,667
Industrial Products and Systems	11,647	11,630	11,399	848	634	530	10,799	10,996	10,869
Materials	7,069	8,020	7,118	21	46	38	7,048	7,974	7,080
NBC	5,769	6,797	5,790	—	—	—	5,769	6,797	5,790
Power Systems	20,211	14,861	10,099	152	144	169	20,059	14,717	9,930
Technical Products and Services	9,011	7,915	6,863	21	19	15	8,990	7,896	6,848
Eliminations	(2,900)	(2,101)	(1,788)	(2,328)	(1,535)	(1,233)	(572)	(566)	(555)
Total GE segment revenues	68,006	63,788	55,882	—	—	—	68,006	63,788	55,882
Corporate items	445	517	619	—	—	—	445	517	619
GECS earnings before accounting changes	5,586	5,192	4,443	—	—	—	5,586	5,192	4,443
Total GE revenues	74,037	69,497	60,944	—	—	—	74,037	69,497	60,944
<b>GECS segment revenues</b>	<b>58,353</b>	<b>66,177</b>	<b>55,749</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>58,353</b>	<b>66,177</b>	<b>55,749</b>
Eliminations	(6,477)	(5,821)	(5,063)	—	—	—	(6,477)	(5,821)	(5,063)
<b>Consolidated revenues</b>	<b>\$125,913</b>	<b>\$ 129,853</b>	<b>\$ 111,630</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$125,913</b>	<b>\$ 129,853</b>	<b>\$ 111,630</b>

GE revenues include income from sales of goods and services to customers and other income. Sales from one Company component to another generally are priced at equivalent commercial selling prices.

(In millions)	Assets			Property, plant and equipment additions (including equipment leased to others)			Depreciation and amortization (including goodwill and other intangibles)		
	At December 31			For the years ended December 31			For the years ended December 31		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
<b>GE</b>									
Aircraft Engines	\$ 9,711	\$ 9,816	\$ 9,204	\$ 402	\$ 416	\$ 368	\$ 340	\$ 330	\$ 382
Appliances	3,100	2,775	2,463	246	213	151	188	142	147
Industrial Products and Systems	8,372	7,647	6,524	382	495	408	425	416	416
Materials	10,154	9,783	9,477	814	573	477	611	558	578
NBC	5,359	4,965	5,243	64	99	94	137	120	126
Power Systems	13,169	11,618	9,865	774	657	514	375	306	285
Technical Products and Services	6,654	6,016	5,048	213	211	164	278	219	230
Total GE segments	56,519	52,620	47,824	2,895	2,664	2,176	2,354	2,091	2,164
Investment in GECS	28,590	23,022	20,321	—	—	—	—	—	—
Corporate items and eliminations (a)	24,624	21,123	14,438	94	55	58	145	157	155
Total GE	109,733	96,765	82,583	2,989	2,719	2,234	2,499	2,248	2,319
<b>GECS segment</b>	<b>425,484</b>	<b>370,636</b>	<b>345,018</b>	<b>13,744</b>	<b>11,434</b>	<b>15,432</b>	<b>4,590</b>	<b>5,488</b>	<b>4,372</b>
Eliminations	(40,194)	(30,395)	(22,401)	—	—	—	—	—	—
<b>Consolidated totals</b>	<b>\$495,023</b>	<b>\$ 437,006</b>	<b>\$ 405,200</b>	<b>\$ 16,733</b>	<b>\$ 14,153</b>	<b>\$ 17,666</b>	<b>\$ 7,089</b>	<b>\$ 7,736</b>	<b>\$ 6,691</b>

Additions to property, plant and equipment include amounts relating to principal businesses purchased.

(a) Depreciation and amortization includes \$64 million of unallocated RCA goodwill amortization in 2001, 2000 and 1999 that relates to NBC.

**Basis for presentation.** The Company's operating businesses are organized based on the nature of products and services provided. Certain GE businesses do not meet the definition of a reportable operating segment and have been aggregated. The Materials segment consists of Plastics and Specialty Materials. The Industrial Products and Systems segment consists of Industrial Systems, Lighting, Transportation Systems and GE Supply. The Technical Products and Services segment consists of Medical Systems and Global eXchange Services. Segment accounting policies are the same as described in note 1.

Details of segment profit by operating segment can be found on page 51 of this report. A description of operating segments for General Electric Company and consolidated affiliates follows.

**Aircraft Engines.** Jet engines and replacement parts and repair and maintenance services for all categories of commercial aircraft (short/medium, intermediate and long-range); for a wide variety of military aircraft, including fighters, bombers, tankers and helicopters; and for executive and commuter aircraft. Products and services are sold worldwide to airframe manufacturers, airlines and government agencies. Also includes aircraft engine derivatives, used as marine propulsion and industrial power sources; the latter is also reported in Power Systems.

**Appliances.** Major appliances and related services for products such as refrigerators, freezers, electric and gas ranges, dishwashers, clothes washers and dryers, microwave ovens, room air conditioners and residential water system products. Products and services are sold in North America and in global markets under various GE and private-label brands. Distributed to both retail outlets and direct to consumers, mainly for the replacement market, and to building contractors and distributors for new installations.

**Industrial Products and Systems.** Lighting products (including a wide variety of lamps, lighting fixtures and wiring devices); electrical distribution and control equipment (including power delivery and control products such as transformers, meters, relays, capacitors and arresters); transportation systems products and maintenance services (including diesel and electric locomotives, transit propulsion equipment, motorized wheels for off-highway vehicles, and railway signaling communications systems); electric motors and related products; a broad range of electrical and electronic industrial automation products (including drive systems); installation, engineering and repair services, which includes management and technical expertise for large projects such as process control systems; and GE Supply, a network of electrical supply houses. Markets are extremely diverse. Products and services are sold to commercial and industrial end users, including utilities, to original equipment manufacturers, to electrical distributors, to retail outlets, to railways and to transit authorities. Increasingly, products and services are developed for and sold in global markets.

**Materials.** High-performance engineered plastics used in applications such as automobiles and housings for computers and other business equipment; ABS resins; silicones; superabrasive industrial diamonds; quartz products; and laminates. Products are sold worldwide to a diverse customer base consisting mainly of manufacturers.

**NBC.** Principal businesses are the furnishing of U.S. network television services to more than 220 affiliated stations, production of television programs, operation of 13 VHF and UHF television broadcasting stations, operation of four cable/satellite networks around the world, and investment and programming activities in the Internet, multimedia and cable television.

**Power Systems.** Power plant products and services, including design, installation, operation and maintenance services. Markets and competition are global. Gas turbines and aircraft engine derivatives and related services are sold separately and as part of packaged power plants for electric utilities, independent power producers and for industrial cogeneration and mechanical drive applications. Steam turbine-generators and related services are sold to electric utilities and, for cogeneration, to industrial and other power customers. Also includes portable power plants, nuclear reactors and fuel and support services for GE's new and installed boiling water reactors, and equipment to support the distribution of oil and gas products.

**Technical Products and Services.** Medical imaging systems such as magnetic resonance (MR) and computed tomography (CT) scanners, x-ray, nuclear imaging and ultrasound, as well as diagnostic cardiology and patient monitoring devices; related services, including equipment monitoring and repair, computerized data management and customer productivity services. Products and services are sold worldwide to hospitals and medical facilities. Also includes a full range of computer-based information and data interchange services for both internal and external use to commercial and industrial customers.

**GECS.** The operating activities of the GECS segment follow.

*Consumer Services*—private-label credit card loans, personal loans, time sales and revolving credit and inventory financing for retail merchants, auto leasing and inventory financing, mortgage servicing, retail business and consumer savings and insurance services.

*Equipment Management*—leases, loans, sales and asset management services for portfolios of commercial and transportation equipment, including aircraft, trailers, auto fleets, modular space units, railroad rolling stock, data processing equipment, and marine shipping containers.

*Mid-Market Financing*—loans, financing and operating leases, and other services for middle-market customers, including manufacturers, distributors and end users, for a variety of equipment that includes vehicles, corporate aircraft, data processing equipment, medical and diagnostic equipment, and equipment used in construction, manufacturing, office applications, electronics and telecommunications activities.

*Specialized Financing*—loans and financing leases for major capital assets, including industrial facilities and equipment, and energy-related facilities; commercial and residential real estate loans and investments; and loans to and investments in public and private entities in diverse industries.

*Specialty Insurance*—U.S. and international multiple-line property and casualty reinsurance; certain directly written specialty insurance and life reinsurance; financial guaranty insurance, principally on municipal bonds and asset-backed securities and private mortgage insurance.

Very few of the products financed by GECS are manufactured by GE.

The table below presents data by geographic region.  
Revenues and operating profit shown below are classified

according to their country of origin (including exports from such areas). Revenues classified under the caption "United States" include royalty and licensing income from non-U.S. sources.

(In millions)	Revenues								
	For the years ended December 31								
	Total revenues			Intersegment revenues			External revenues		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
United States	\$ 89,876	\$ 90,981	\$ 78,970	\$ 3,877	\$ 3,518	\$ 2,690	\$ 85,999	\$ 87,463	\$ 76,280
Europe	23,878	24,144	22,919	2,009	1,212	1,081	21,869	22,932	21,838
Pacific Basin	11,447	12,921	7,879	1,258	1,218	924	10,189	11,703	6,955
Other (a)	8,963	8,754	7,365	1,107	999	808	7,856	7,755	6,557
Intercompany eliminations	(8,251)	(6,947)	(5,503)	(8,251)	(6,947)	(5,503)	—	—	—
Total	\$125,913	\$ 129,853	\$ 111,630	\$ —	\$ —	\$ —	\$ 125,913	\$ 129,853	\$ 111,630

(In millions)	Segment operating profit (b)			Assets			Long-lived assets (c)		
	For the years ended December 31			At December 31			At December 31		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
United States	\$ 18,055	\$ 15,455	\$ 13,391	\$315,179	\$ 277,818	\$ 264,129	\$ 18,593	\$ 19,180	\$ 21,612
Europe	1,297	2,062	1,886	93,963	80,282	83,358	6,176	5,870	6,101
Pacific Basin	1,857	1,754	1,092	41,385	42,281	28,214	1,888	1,936	2,017
Other (a)	1,210	1,406	909	44,683	36,804	29,687	15,519	13,076	11,329
Intercompany eliminations	(8)	9	11	(187)	(179)	(188)	(36)	(47)	(37)
Total	\$ 22,411	\$ 20,686	\$ 17,289	\$495,023	\$ 437,006	\$405,200	\$ 42,140	\$ 40,015	\$ 41,022

(a) Includes the Americas other than the United States and operations that cannot meaningfully be associated with specific geographic areas (for example, commercial aircraft leased by GE Capital Aviation Services).

(b) Excludes GECS income taxes of \$1,380 million, \$1,912 million and \$1,653 million in 2001, 2000 and 1999, respectively, which are included in the measure of segment profit reported on page 51.

(c) Property, plant and equipment (including equipment leased to others).

Assets and liabilities that are reflected in the accompanying financial statements at fair value are not included in the following disclosures; such items include cash and equivalents, investment securities, separate accounts and, beginning in 2001, derivative financial instruments. Other assets and liabilities—those not carried at fair value—are discussed in the following pages. Apart from certain borrowings by GE and GECS and certain marketable securities, few of the instruments discussed below are actively traded and their fair values must often be determined using models. Although management has made every effort to develop the fairest representation of fair value for this section, it would be unusual if the estimates could actually have been realized at December 31, 2001 or 2000.

A description of how fair values are estimated follows.

**Borrowings.** Based on market quotes or comparables.

**Time sales and loans.** Based on quoted market prices, recent transactions and/or discounted future cash flows, using rates at which similar loans would have been made to similar borrowers.

**Investment contract benefits.** Based on expected future cash flows, discounted at currently offered discount rates for immediate annuity contracts or cash surrender values for single premium deferred annuities.

**Financial guarantees and credit life.** Based on expected future cash flows, considering expected renewal premiums, claims, refunds and servicing costs, discounted at a current market rate.

**All other instruments.** Based on comparable market transactions, discounted future cash flows, quoted market prices, and/or estimates of the cost to terminate or otherwise settle obligations.

## Financial instruments

December 31 (In millions)	2001				2000			
	Notional amount	Assets (liabilities)			Notional amount	Assets (liabilities)		
		Carrying amount (net)	Estimated fair value			Carrying amount (net)	Estimated fair value	
			High	Low			High	Low
<b>GE</b>								
Investments and notes receivable (b)	\$ (a)	\$ 570	\$ 568	\$ 568	\$ (a)	\$ 2,012	\$ 2,060	\$ 2,026
Borrowings (c)(d)	(a)	(2,509)	(2,509)	(2,509)	(a)	(1,781)	(1,781)	(1,781)
Recourse obligations for receivables sold	471	(45)	(45)	(45)	589	(42)	(42)	(42)
Financial guarantees	3,605	(49)	(49)	(49)	3,065(g)	—	—	—
Financing commitments	1,497	(47)	(47)	(47)	1,492	—	—	—
Liquidity support	362	—	—	—	—	—	—	—
<b>GECS</b>								
Assets								
Time sales and loans	(a)	118,584	119,986	117,930	(a)	92,912	93,539	92,360
Mortgages acquired for resale	(a)	1,596	1,631	1,596	(a)	1,267	1,250	1,245
Other financial instruments	(a)	9,496	9,671	9,599	(a)	10,940	11,130	11,102
Liabilities								
Borrowings (c)(d)	(a)	(240,519)	(244,069)	(244,069)	(a)	(205,371)	(207,670)	(207,670)
Investment contract benefits	(a)	(32,427)	(32,192)	(31,815)	(a)	(27,575)	(26,144)	(26,144)
Insurance—financial guarantees and credit life (e)	271,208	(2,941)	(2,983)	(3,091)	239,940	(2,759)	(2,797)	(2,910)
Other financial instruments	4,678	(629)	(590)	(590)	2,982	(1,184)	(1,114)	(1,114)
Special purpose entity support								
Credit and liquidity (f)	43,176	(712)	(712)	(712)	31,197	(630)	(630)	(630)
Credit and liquidity—unused	9,404	—	—	—	6,470	—	—	—
Performance guarantees	3,759	—	—	—	2,870(h)	—	—	—
—unused	441	—	—	—	1,330(h)	—	—	—
Swap guarantees and other guarantees	8,506	—	—	—	7,415(h)	—	—	—
Other firm commitments								
Ordinary course of business lending commitments	9,636	—	—	—	9,450	—	—	—
Unused revolving credit lines								
Commercial	27,770	—	—	—	19,372(i)	—	—	—
Consumer—principally credit cards	222,929	—	—	—	188,421	—	—	—

(a) These financial instruments do not have notional amounts.

(b) Amounts in 2000 include \$1.0 billion related to Lockheed Martin note, which was prepaid in 2001.

(c) Includes effects of interest rate and currency swaps.

(d) See note 18.

(e) See note 19.

(f) Includes credit support of \$14,496 million and \$9,784 million at December 31, 2001 and 2000, respectively.

(g) Reported as \$2,345 million in 2000.

(h) Reported, in total, as \$7,895 million in 2000.

(i) Reported as \$11,278 million in 2000.

**Derivatives and Hedging.** GE and GECS global business activities routinely deal with fluctuations in interest rates, in currency exchange rates and in commodity and other asset prices. GE and GECS apply strict policies to managing each of these risks, including

prohibitions on derivatives trading, derivatives market-making or other speculative activities. These policies require the use of derivative instruments in concert with other techniques to reduce or eliminate these risks.

On January 1, 2001, GE adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as discussed in note 1. The paragraphs that follow provide additional information about derivatives and hedging relationships in accordance with the requirements of SFAS 133.

**Cash flow hedges.** Under SFAS 133, cash flow hedges are hedges that use simple derivatives to offset the variability of expected future cash flows. Variability can appear in floating rate assets, floating rate liabilities or from certain types of forecasted transactions, and can arise from changes in interest rates or currency exchange rates. For example, GECS often borrows funds at a variable rate of interest. If GECS needs the funds to make a floating rate loan, there is no exposure to interest rate changes, and no hedge is necessary. However, if a fixed rate loan is made, GECS will contractually commit to pay a fixed rate of interest to a counterparty who will pay GECS a variable rate of interest (an "interest rate swap"). This swap will then be designated as a cash flow hedge of the associated variable rate borrowing. If, as would be expected, the derivative is perfectly effective in offsetting variable interest in the borrowing, changes in its fair value are recorded in a separate component in equity and released to earnings contemporaneously with the earnings effects of the hedged item. Further information about hedge effectiveness is provided below.

GE uses currency forwards and options to manage exposures to changes in currency exchange rates associated with commercial purchase and sale transactions. These instruments permit GE to eliminate the cash flow variability, in local currency, of costs or selling prices denominated in currencies other than the functional currency. In addition, GE and GECS use these instruments, along with interest rate and currency swaps, to optimize borrowing costs and investment returns. For example, currency swaps and non-functional currency borrowings together provide lower funding costs than could be achieved by issuing debt directly in a given currency.

Adoption of SFAS 133 resulted in a reduction of share owners' equity of \$827 million at January 1, 2001. Of that amount, \$259 million was transferred to earnings in 2001 along with the earnings effects of the related forecasted transactions for no net impact on earnings. At December 31, 2001, amounts related to derivatives qualifying as cash flow hedges amounted to a reduction of equity of \$955 million, of which \$665 million was expected to be transferred to earnings in 2002 along with the earnings effects of the related forecasted transactions. In 2001, there were no forecasted transactions that failed to occur. At December 31, 2001, the maximum term of derivative instruments that hedge forecasted transactions was 24 months.

**Fair value hedges.** Under SFAS 133, fair value hedges are hedges that eliminate the risk of changes in the fair values of assets, liabilities and certain types of firm commitments. For example, GECS will use an interest rate swap in which it receives a fixed rate of interest and pays a variable rate of interest to change the cash flow profile of a fixed rate borrowing to match the variable rate

financial asset that it is funding. Changes in fair value of derivatives designated and effective as fair value hedges are recorded in earnings and are offset by corresponding changes in the fair value of the hedged item.

GE and GECS use interest rate swaps, currency swaps and interest rate and currency forwards to hedge the effect of interest rate and currency exchange rate changes on local and nonfunctional currency denominated fixed-rate borrowings and certain types of fixed-rate assets. Equity options are used to hedge price changes in investment securities and equity-indexed annuity liabilities at GECS.

**Net investment hedges.** The net investment hedge designation under SFAS 133 refers to the use of derivative contracts or cash instruments to hedge the foreign currency exposure of a net investment in a foreign operation. At GE and GECS, currency exposures that result from net investments in affiliates are managed principally by funding assets denominated in local currency with debt denominated in that same currency. In certain circumstances, such exposures are managed using currency forwards and currency swaps.

**Derivatives not designated as hedges.** SFAS 133 specifies criteria that must be met in order to apply any of the three forms of hedge accounting. For example, hedge accounting is not permitted for hedged items that are marked to market through earnings. GE and GECS use derivatives to hedge exposures when it makes economic sense to do so, including circumstances in which the hedging relationship does not qualify for hedge accounting as described in the following paragraph. GE and GECS also will occasionally receive derivatives, such as equity warrants, in the ordinary course of business. Under SFAS 133, derivatives that do not qualify for hedge accounting are marked to market through earnings.

GE and GECS use option contracts, including caps, floors and collars, as an economic hedge of changes in interest rates, currency exchange rates and equity prices on certain types of assets and liabilities. For example, GECS uses equity options to hedge the risk of changes in equity prices embedded in insurance liabilities associated with annuity contracts written by GE Financial Assurance. GECS also uses interest rate swaps, purchased options and futures as an economic hedge of the fair value of mortgage servicing rights. GE and GECS occasionally obtain equity warrants as part of sourcing or financing transactions. Although these instruments are considered to be derivatives under SFAS 133, their economic risk is similar to, and managed on the same basis as, other equity instruments held by GE and GECS.

**Earnings effects of derivatives.** The table that follows provides additional information about the earnings effects of derivatives. In the context of hedging relationships, "effectiveness" refers to the degree to which fair value changes in the hedging instrument offset corresponding fair value changes in the hedged item. Certain elements of hedge positions cannot qualify for hedge accounting

under SFAS 133 whether effective or not, and must therefore be marked to market through earnings. Time value of purchased options is the most common example of such elements in instruments used by GE and GECS. Earnings effects of such items are shown in the following table as “amounts excluded from the measure of effectiveness.”

December 31 (In millions)	Cash flow hedges	Fair value hedges
Ineffectiveness	\$ 1	\$ 26
Amounts excluded from the measure of effectiveness	\$ (1)	\$(16)

At December 31, 2001, the fair value of derivatives in a gain position and recorded in “All other assets” is \$2.3 billion and the fair value of derivatives in a loss position and recorded in “All other liabilities” is \$3.8 billion.

The following table provides fair value information about derivative instruments for the year 2000. Following adoption of SFAS 133 on January 1, 2001, all derivative instruments are reported at fair value in the financial statements and similar disclosures for December 31, 2001, are not relevant.

December 31 (In millions)	2000		
	Notional amount	Assets (liabilities)	
		Carrying amount (net)	Estimated fair value
<b>GE</b>			
Assets			
Investment related			
Cancelable interest rate swap	\$ 1,046	\$ 6	\$ 4
Liabilities			
Borrowings related instruments			
Interest rate swaps	786	—	(38)
Currency swaps	172	—	(4)
Other firm commitments			
Forwards and options	6,961	37	30
<b>GECS</b>			
Assets			
Integrated swaps	22,911	(44)	(771)
Purchased options	9,832	105	164
Options, including “floors”	21,984	202	208
Interest rate swaps and futures	2,798	29	38
Liabilities			
Interest rate swaps	52,681	—	(208)
Currency swaps	24,314	—	(957)
Currency forwards	27,902	—	381
Other firm commitments			
Currency forwards	1,585	8	47
Currency swaps	647	292	275

**Counterparty credit risk.** The risk that counterparties to derivative contracts will be financially unable to make payments to GE or GECS according to the terms of the agreements is counterparty credit risk. Counterparty credit risk is managed on an individual counterparty basis, which means that gains and losses are netted for each counterparty to determine the amount at risk. When a counterparty exceeds credit exposure limits in terms of amounts due to GE or GECS, typically as a result of changes in market conditions (see table below), no additional transactions are executed until the exposure with that counterparty is reduced to an amount that is within the established limit. All swaps are executed under master swap agreements containing mutual credit downgrade provisions that provide the ability to require assignment or termination in the event either party is downgraded below A3 or A-. If the downgrade provisions had been triggered at December 31, 2001, GE and GECS could have been required to disburse up to \$2.9 billion and could have claimed \$0.8 billion from counterparties—the net fair value losses and gains. At December 31, 2001 and 2000, gross fair value gains amounted to \$3.3 billion and \$3.2 billion, respectively. At December 31, 2001 and 2000, gross fair value losses amounted to \$5.4 billion and \$4.0 billion, respectively.

As part of its ongoing activities, GECS enters into swaps that are integrated into investments in or loans to particular customers. Such integrated swaps not involving assumption of third-party credit risk are evaluated and monitored like their associated investments or loans and are not therefore subject to the same credit criteria that would apply to a stand-alone position. Except for such positions, all other swaps, purchased options and forwards with contractual maturities longer than one year are conducted within the credit policy constraints provided in the table below. Foreign exchange forwards with contractual maturities shorter than one year must be executed with counterparties having an A-1+/ P-1 credit rating and the credit limit for these transactions is \$150 million.

#### Counterparty credit criteria

	Credit rating	
	Moody's	Standard & Poor's
Term of transaction		
Between one and five years	Aa3	AA-
Greater than five years	Aaa	AAA
Credit exposure limits		
Up to \$50 million	Aa3	AA-
Up to \$75 million	Aaa	AAA

(Dollar amounts in millions; per-share amounts in dollars)	First quarter		Second quarter		Third quarter		Fourth quarter	
	2001	2000	2001	2000	2001	2000	2001	2000
<b>Consolidated operations</b>								
Earnings before accounting changes	<b>\$ 3,017</b>	\$ 2,592	<b>\$ 3,897</b>	\$ 3,378	<b>\$ 3,281</b>	\$ 3,180	<b>\$ 3,933</b>	\$ 3,585
Cumulative effect of accounting changes	<b>(444)</b>	—	<b>—</b>	—	<b>—</b>	—	<b>—</b>	—
Net earnings	<b>2,573</b>	2,592	<b>3,897</b>	3,378	<b>3,281</b>	3,180	<b>3,933</b>	3,585
Per-share amounts before accounting changes								
Diluted earnings per share	<b>\$ 0.30</b>	\$ 0.26	<b>\$ 0.39</b>	\$ 0.34	<b>\$ 0.33</b>	\$ 0.32	<b>\$ 0.39</b>	\$ 0.36
Basic earnings per share	<b>0.30</b>	0.26	<b>0.39</b>	0.34	<b>0.33</b>	0.32	<b>0.40</b>	0.36
Per-share amounts after accounting changes								
Diluted earnings per share	<b>0.26</b>	0.26	<b>0.39</b>	0.34	<b>0.33</b>	0.32	<b>0.39</b>	0.36
Basic earnings per share	<b>0.26</b>	0.26	<b>0.39</b>	0.34	<b>0.33</b>	0.32	<b>0.40</b>	0.36
<b>Selected data</b>								
GE								
Sales of goods and services	<b>15,850</b>	14,370	<b>17,588</b>	16,414	<b>16,359</b>	15,578	<b>18,221</b>	17,445
Gross profit from sales	<b>4,960</b>	4,520	<b>5,677</b>	5,372	<b>5,245</b>	4,675	<b>6,059</b>	5,693
GECS								
Total revenues	<b>14,723</b>	15,681	<b>14,399</b>	16,470	<b>13,298</b>	16,444	<b>15,933</b>	17,582
Operating profit	<b>1,839</b>	1,746	<b>1,855</b>	1,697	<b>1,512</b>	2,020	<b>1,760</b>	1,641
Earnings before accounting changes	<b>1,401</b>	1,210	<b>1,477</b>	1,277	<b>1,301</b>	1,478	<b>1,407</b>	1,227

For GE, gross profit from sales is sales of goods and services less costs of goods and services sold. For GECS, operating profit is "Earnings before income taxes and accounting changes."

Earnings-per-share amounts for each quarter are required to be computed independently. As a result, their sum does not equal the total year earnings-per-share amounts in 2000.

## Independent Auditors' Report

### To Share Owners and Board of Directors of General Electric Company

We have audited the accompanying statement of financial position of General Electric Company and consolidated affiliates as of December 31, 2001 and 2000, and the related statements of earnings, changes in share owners' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements appearing on pages 42-47, 51, and 67-92 present fairly, in all material respects, the financial position of General Electric Company and consolidated affiliates at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, the Company in 2001 changed its method of accounting for derivative instruments and hedging activities and impairment of certain beneficial interests in securitized assets.

**KPMG LLP**

KPMG LLP  
Stamford, Connecticut

February 8, 2002

