



*GE Annual Report*

*2000*



## GE Values

### *All of us... always with unyielding integrity...*

- Are passionately focused on driving customer success
- Live Six Sigma Quality... ensure that the customer is always its first beneficiary... and use it to accelerate growth
- Insist on excellence and are intolerant of bureaucracy
- Act in a boundaryless fashion... always search for and apply the best ideas regardless of their source
- Prize global intellectual capital and the people that provide it... build diverse teams to maximize it
- See change for the growth opportunities it brings... e.g., "e-Business"
- Create a clear, simple, customer-centered vision... and continually renew and refresh its execution
- Create an environment of "stretch," excitement, informality and trust... reward improvements... and celebrate results
- Demonstrate... always with infectious enthusiasm for the customer... the "**4-E's**" of *GE leadership*: the personal **Energy** to welcome and deal with the speed of change... the ability to create an atmosphere that **Energizes** others... the **Edge** to make difficult decisions... and the ability to consistently **Execute**

## Financial Highlights

### General Electric Company and consolidated affiliates

(Dollar amounts in millions; per-share amounts in dollars)	2000	1999	1998
Revenues	<b>\$129,853</b>	\$111,630	\$100,469
Net earnings	<b>12,735</b>	10,717	9,296
Dividends declared	<b>5,647</b>	4,786	4,081
Per share			
Net earnings	<b>1.27</b>	1.07	0.93
Dividends declared	<b>0.57</b>	0.48 <sup>2/3</sup>	0.41 <sup>2/3</sup>
GE ongoing operating margin rate (a)	<b>18.9%</b>	17.8%	16.7%

Per-share amounts have been adjusted to reflect the 3-for-1 stock split effective on April 27, 2000.

(a) "Ongoing operating margin" here and elsewhere in this report excludes unusual charges in 2000 and 1999.

## To Our Customers, Share Owners and Employees

**2000 was a memorable year for GE:**

**It was a year of record-breaking business**

**performance; a year that saw the proposal**

**to acquire and integrate the businesses**

**of Honeywell; and a year that began the**

**transition to a new leadership team.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Integrity**

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

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



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

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

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

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

## **Relishing Change**

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

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

## **The Customer**

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

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

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

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

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

## **Using Size**

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

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

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

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

## **Annihilating Bureaucracy**

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

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

## **Self-Confidence, Simplicity and Speed**

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

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

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

## **Leadership**

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

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

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

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

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

## Training

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

## People

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

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

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

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

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

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

## Informality

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

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

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

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

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

That's the value of the informal culture of GE—a culture that breeds an endless search for ideas that stand or fall on their merits, rather than on the rank of their originator, a culture that brings every mind into the game.

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

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

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

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

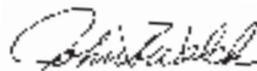
The GE operating system, which we have illustrated in the pages that follow our letter, is not a bureaucratic series of reviews, budget drills, reports and dog-and-pony shows, but a regular series of sessions devoted to learning and to sharing the best ideas and practices from across the Company and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

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

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

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

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



Chairman of the Board  
and Chief Executive Officer



President and Chairman-Elect



Vice Chairman of the Board  
and Executive Officer



Vice Chairman of the Board  
and Executive Officer

February 9, 2001