

GENERAL ELECTRIC CAPITAL CORP
Form 10-K
March 03, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM
10-K**

(Mark One)

**þ Annual Report Pursuant to Section 13 or
15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2005
or**

**.. Transition Report pursuant to Section 13 or
15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission file number 1-6461

General Electric Capital Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
or organization)

13-1500700
(I.R.S. Employer Identification No.)

**260 Long Ridge Road, Stamford,
Connecticut**
(Address of principal executive offices)

06927
(Zip Code)

203/357-4000
(Registrant's telephone number,
including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
7.875% Guaranteed Subordinated Notes Due December 1, 2006	New York Stock Exchange
6.625% Public Income Notes Due June 28, 2032	New York Stock Exchange

**6.10% Public Income Notes Due
November 15, 2032
5.875% Notes Due February 18, 2033
Step-Up Public Income Notes Due
January 28, 2035**

**New York Stock Exchange
New York Stock Exchange
New York Stock Exchange**

Securities Registered Pursuant to Section 12(g) of the Act:

Title of each class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Aggregate market value of the outstanding common equity held by nonaffiliates of the registrant as of the last business day of the registrant's recently completed second fiscal quarter: None.

At March 2, 2006, 3,985,403 shares of voting common stock, which constitute all of the outstanding common equity, with a par value of \$14 were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The consolidated financial statements of General Electric Company, set forth in the Annual Report on Form 10-K of General Electric Company for the year ended December 31, 2005 are incorporated by reference into Part IV hereof.

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM 10-K WITH THE REDUCED DISCLOSURE FORMAT.

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PART I

Item 1. Business.

General Electric Capital Corporation

General Electric Capital Corporation (GE Capital or GECC) was incorporated in 1943 in the State of New York under the provisions of the New York Banking Law relating to investment companies, as successor to General Electric Contracts Corporation, which was formed in 1932. Until November 1987, our name was General Electric Credit Corporation. On July 2, 2001, we changed our state of incorporation to Delaware. All of our outstanding common stock is owned by General Electric Capital Services, Inc. (GE Capital Services or GECS), formerly General Electric Financial Services, Inc., the common stock of which is in turn wholly-owned, directly or indirectly, by General Electric Company (GE Company or GE). Financing and services offered by GE Capital are diversified, a significant change from the original business of GE Capital, that is, financing distribution and sale of consumer and other GE products. GE manufactures few of the products financed by GE Capital.

We operate in four of GE's operating segments described below. These operations are subject to a variety of regulations in their respective jurisdictions.

Our services are offered primarily in North America, Europe and Asia. Our principal executive offices are located at 260 Long Ridge Road, Stamford, Connecticut 06927-1600. At December 31, 2005, our employment totaled approximately 77,500.

Our financial information, including filings with the U.S. Securities and Exchange Commission (SEC), is available at www.ge.com/secreports. Copies are also available, without charge, from GE Corporate Investor Communications, 3135 Easton Turnpike, Fairfield, CT, 06828-0001. Reports filed with the SEC may be viewed at www.sec.gov or obtained at the SEC Public Reference Room in Washington, D.C.

Operating Segments

In the fourth quarter of 2005, GE completed a Genworth Financial, Inc. (Genworth) secondary public offering, which reduced our ownership in Genworth to 18%. We have reported Genworth as discontinued operations for all periods presented. Genworth was previously reported in the GE Commercial Finance segment. Also, during the fourth quarter of 2005, our insurance activities, previously reported in the GE Commercial Finance segment, were transferred to GECC corporate items and eliminations for all periods presented.

For purposes of our segment discussions throughout this document, the financial services businesses (Equipment Services, Aviation Financial Services, Energy Financial Services and Transportation Finance), are reported in the GE Industrial and GE Infrastructure segments based on the approach management uses to allocate resources and assess performance. Although management's approach to segments combines industrial businesses with financial services businesses, the financial services businesses will continue to be reported in the GECC financial statements. We will herein provide business descriptions for these specific financial services businesses. We will also continue our longstanding practice of providing supplemental information for certain businesses within the segments.

GE Commercial Finance

GE Commercial Finance (36.1%, 38.1% and 40.0% of total GECC revenues in 2005, 2004 and 2003, respectively)

offers a broad range of financial services worldwide. We have particular mid-market expertise and offer loans, leases and other financial services to customers, including manufacturers, distributors and end-users for a variety of equipment and major capital assets. These assets include industrial-related facilities and equipment; commercial and residential real estate; vehicles; corporate aircraft; and equipment used in many industries, including the construction, manufacturing, telecommunications and healthcare industries.

During 2005, we made a number of acquisitions, the most significant of which were the Transportation Financial Services Group of CitiCapital; the Inventory Finance division of Bombardier Capital; Antares Capital Corp., a unit of Massachusetts Mutual Life Insurance Co.; and ING's portion of Heller AG.

We operate in a highly competitive environment. Our competitors include commercial banks, investment banks, leasing companies, financing companies associated with manufacturers, and independent finance companies. Competition related to our lending and leasing operations is based on price, that is interest rates and fees, as well as deal structure and terms. Profitability is affected not only by broad economic conditions that affect customer credit quality and the availability and cost of capital, but also by successful management of credit risk, operating risk and market risks such as interest rate and currency exchange risks. Success requires high quality risk management systems, customer and industry specific knowledge, diversification, service and distribution channels, strong collateral and asset management knowledge, deal structuring expertise and the ability to reduce costs through technology and productivity.

Our headquarters are in Stamford, Connecticut with offices throughout North America, South America, Europe, Australia and Asia.

For further information about revenues, segment profit and total assets for GE Commercial Finance, see the Segment Operations section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and note 17.

Capital Solutions

Capital Solutions offers a broad range of financial services worldwide, and has particular mid-market expertise, offering loans, leases, inventory finance and other financial services to customers, including manufacturers, dealers and end-users for a variety of equipment and major capital assets. These assets include retail facilities; vehicles; corporate aircraft; and equipment used in many industries, including the construction, transportation, technology, and manufacturing industries.

Real Estate

Real Estate operates globally, both directly and through joint ventures. Our Real Estate business finances, with both equity and loan structures, the acquisition, refinancing and renovation of office buildings, apartment buildings, retail facilities, industrial properties, parking facilities and franchise properties. Our typical Real Estate loans are intermediate term, may be either senior or subordinated, fixed or floating-rate, and are secured by existing income-producing commercial properties. Our originations of low loan-to-value loans are conducted for term securitization within one year. We invest in, and provide restructuring financing for, portfolios of mortgage loans, limited partnerships and tax-exempt bonds.

GE Consumer Finance

GE Consumer Finance (35.0%, 31.4% and 30.6% of total GECC revenues in 2005, 2004 and 2003, respectively)

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offers credit and deposit products and services to consumers, retailers, brokers and auto dealers in over 50 countries. We offer a broad range of financial products, including private-label credit cards; bank cards; Dual Cards™; corporate travel and purchasing cards; personal loans; auto loans; leases and inventory financing; residential mortgages; home equity loans; debt consolidation loans; current and savings accounts and insurance products related to consumer finance offerings for customers on a global basis.

In 2005, as part of our continued global expansion, we made a number of acquisitions, the most significant of which was a 25.5 percent voting stake in Garanti Bank, a full service bank in Turkey.

Our operations are subject to a variety of bank and consumer protection regulations, including regulations controlling data privacy. Further, a number of countries have ceilings on rates chargeable to consumers in financial service transactions. We are subject to competition from various types of financial institutions including commercial banks, leasing companies, consumer loan companies, independent finance companies, manufacturers' captive finance companies, and insurance companies. Industry participants compete on the basis of price, servicing capability, promotional marketing, risk management, and cross selling. The markets in which we operate are also subject to the risks from fluctuations in retail sales, interest and currency exchange rates, and the consumer's capacity to repay debt.

Our headquarters are in Stamford, Connecticut and our operations are located in North America, South America, Europe, Australia and Asia.

For further information about revenues, segment profit and total assets for GE Consumer Finance, see the Segment Operations section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and note 17.

GE Industrial

GE Industrial (11.9%, 13.1% and 8.2% of total GECC revenues in 2005, 2004 and 2003, respectively) produces and sells products including consumer appliances, industrial equipment and plastics, and related services. We also finance business equipment for a wide variety of customer applications.

Our operations are located in North America, Europe, Asia and South America.

For further information about revenues and segment profit for GE Industrial, see the Segment Operations section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and note 17.

Equipment Services

Equipment Services helps customers manage, finance and operate a wide variety of business equipment worldwide. We provide rentals, leases, sales and asset management services of commercial and transportation equipment, including tractors, trailers, railroad rolling stock, modular space units, intermodal shipping containers and, primarily through an associated company, marine containers. Our operations are conducted in highly competitive markets. Economic conditions, geographic location, pricing and equipment availability are important factors in this business. Future success will depend upon our ability to maintain a large and diverse customer portfolio, optimize asset mix, maximize asset utilization and manage credit risk. In addition, we seek to understand our customers and to meet their needs with unique, efficient and cost effective product and service offerings.

GE Infrastructure

GE Infrastructure (9.1%, 8.6% and 9.1% of total GECC revenues in 2005, 2004 and 2003, respectively) produces, sells, finances and services equipment for the air transportation and energy generation industries. We also produce, sell and service equipment for the rail transportation and water treatment industries.

Our operations are located in North America, Europe, Asia and South America.

For further information about revenues and segment profit for GE Infrastructure, see the Segment Operations section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and note 17.

Aviation Financial Services

Aviation Financial Services is a global commercial aviation financial services business that offers a broad range of financial products to airlines, aircraft operators, owners, lenders, investors and airport developers. Financial products include leases, aircraft purchasing and trading, loans, engine/spare parts financing, pilot training, fleet planning and financial advisory services. We operate in a highly competitive environment. Our competitors include aircraft manufacturers, banks, financial institutions, and other finance and leasing companies. Competition is based on lease rates and terms, as well as aircraft delivery dates, condition and availability.

The U.S. commercial aviation industry continues to face challenges and financial pressure that affect a portion of our commercial aviation business. Many carriers are experiencing major restructuring and reorganization, including bankruptcies. These companies have experienced marginal returns and in some cases losses resulting from competitive pressures and increased fuel costs.

Energy Financial Services

Energy Financial Services offers structured equity, leveraged leasing, partnerships, project finance and broad-based commercial finance to the global energy and water industries. We operate in a highly competitive environment. Our competitors include banks, financial institutions, energy companies, and other finance and leasing companies. Competition is based on price, that is interest rates and fees, as well as deal structure and terms. As we compete globally, our success is sensitive to the economic and political environment of each country in which we do business.

Discontinued Operations

In May 2004, we completed the initial public offering of Genworth, our formerly wholly-owned subsidiary that conducted most of our consumer insurance business, including life and mortgage insurance operations. Throughout 2005, we continued to reduce our ownership in Genworth, currently at 18%. We intend to continue to dispose of our remaining shares in 2006, subject to market conditions. We reported Genworth as discontinued operations for all periods presented.

Regulations and Competition

Our activities are subject to a variety of U.S. federal and state regulations including, at the federal level, the Consumer Credit Protection Act, the Equal Credit Opportunity Act and certain regulations issued by the Federal Trade Commission. A majority of states have ceilings on rates chargeable to customers on retail loan transactions,

installment loans and revolving credit financing. Our insurance activities are regulated by various state insurance commissions and non-U.S. regulatory authorities. We are a unitary diversified savings and loan holding company by virtue of owning a federal savings bank in the U.S.; as such, we are subject to holding company supervision by the Office of Thrift Supervision. Our global operations are subject to regulation in their respective jurisdictions. To date, compliance with such regulations has not had a material adverse effect on our financial position or results of operations.

The businesses in which we engage are highly competitive. We are subject to competition from various types of financial institutions, including banks, thrifts, investment banks, broker-dealers, credit unions, leasing companies, consumer loan companies, independent finance companies, finance companies associated with manufacturers and insurance and reinsurance companies.

Business and Economic Conditions

Our businesses are generally affected by general business and economic conditions in countries in which we conduct business. When overall economic conditions deteriorate in those countries, there generally are adverse effects on our operations, although those effects are dynamic and complex. For example, a downturn in employment or economic growth in a particular national or regional economy will generally increase the pressure on customers, which generally will result in deterioration of repayment patterns and a reduction in the value of collateral. However, in such a downturn, demand for loans and other products and services we offer may actually increase. Interest rates, another macro-economic factor, are important to our businesses. In the lending and leasing businesses, higher real interest rates increase our cost to borrow funds, but also provide higher levels of return on new investments. For our operations, such as the insurance activities, that are linked less directly to interest rates, rate changes generally affect returns on investment portfolios.

Forward-Looking Statements

This document contains “forward-looking statements” - that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” or “will.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties which could adversely or positively affect our future results include: the behavior of financial markets, including fluctuations in interest rates and commodity prices; strategic actions, including dispositions; future integration of acquired businesses; future financial performance of major industries which we serve, including, without limitation, the air and rail transportation, energy generation, media, real estate and healthcare industries; and numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive and regulatory nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

Item 1A. Risk Factors.

The following discussion of risk factors contains “forward-looking statements,” as discussed in Item 1. These risk factors may be important to understanding any statement in this Annual Report on Form 10-K or elsewhere. The following information should be read in conjunction with Management’s Discussion and Analysis (MD&A), and the consolidated financial statements and related notes included in this report.

Our businesses routinely encounter and address risks, some of which will cause our future results to be different - sometimes materially different - than we presently anticipate. Discussion about the important operational

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risks that our businesses encounter can be found in the MD&A section and in the business descriptions included in the Business section of this Form 10-K. Below, we have described our present view of certain important strategic risks. Our reactions to material future developments as well as our competitors' reactions to those developments will determine our future results.

Our global growth is subject to a number of economic, political and regulatory risks

We conduct our operations in virtually every part of the world. Global economic and regulatory developments affect businesses such as ours in many ways. Operations are subject to the effects of global competition. Particular local jurisdiction risks include regulatory risks arising from local laws and from local liquidity regulations, including risks of not being able to retrieve assets. Our global business is affected by local economic environments, including inflation, recession and currency volatility. Political changes, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. While some of these risks can be hedged using derivatives or other financial instruments and some are insurable, such attempts to mitigate these risks are costly and not always successful.

Our credit ratings are important to our cost of capital

The major debt agencies routinely evaluate our debt and have given their highest debt ratings to us. One of our strategic objectives is to maintain these "Triple A" ratings as they serve to lower our borrowing costs and facilitate our access to a variety of lenders. Failure to maintain our Triple A debt rating could adversely affect our cost of funds and related margins.

The disposition of businesses that do not fit with our evolving strategy can be highly uncertain

We will continue to evaluate the potential disposition of assets and businesses that may no longer help us meet our objectives. Our decision to sell Genworth is a recent example of a disposition decision. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of our strategic objectives, or we may dispose of a business at a price or on terms which are less than we had anticipated. In addition, there is a risk that we sell a business whose subsequent performance exceeds our expectations, in which case our decision would have potentially sacrificed enterprise value. Correspondingly, we may be too optimistic about a particular business's prospects, in which case we may be unable to find a buyer at a price acceptable to us and therefore may have potentially sacrificed enterprise value.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We conduct our business from various facilities, most of which are leased. The locations of our primary facilities are described in Item 1. Business.

Item 3. Legal Proceedings.

In January 2005, the Boston District Office of the U.S. Securities and Exchange Commission (SEC) informed GE that it had commenced an investigation and requested that GE and GECC voluntarily provide certain documents and information with respect to the use of hedge accounting for derivatives by GE and GECC. The SEC Staff advised GE in August 2005 that the SEC had issued a formal order of investigation in connection with this matter, which GE believes to be a common step in the process in such matters. GE and GECC have continued to voluntarily provide documents and information to the SEC Staff and we are cooperating fully with its investigation.

On June 14, 2005, GE received a subpoena from the U.S. Attorney's Office for the Southern District of New York seeking documents relating to finite risk insurance. The subpoena is general in nature. GE received a similar subpoena from the Northeast Regional Office of the SEC on April 29, 2005. We are cooperating fully with the SEC and the U.S. Attorney's Office.

Item 4. Submission of Matters to a Vote of Security Holders.

Not required by this form.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

See note 15 to the consolidated financial statements. Our common stock is owned entirely by GE Capital Services and, therefore, there is no trading market in such stock.

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Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with our financial statements and the related Notes to Consolidated Financial Statements.

<i>(In millions)</i>		2005		2004		2003		2002		2001
Revenues	\$	55,515	\$	50,093	\$	41,605	\$	38,432	\$	38,393
Earnings from continuing operations before accounting changes		8,666		7,818		6,070		5,339		4,716
Earnings from discontinued operations, net of taxes		928		442		1,396		1,215		1,294
Earnings before accounting changes		9,594		8,260		7,466		6,554		6,010
Cumulative effect of accounting changes		-		-		(339)		(1,015)		(1)
Net earnings		9,594		8,260		7,127		5,539		6,009
Shareowner's equity		50,188		53,958		46,692		40,126		31,739
Minority interest		2,212		2,325		2,512		1,834		1,650
Short-term borrowings		149,679		147,293		146,865		120,859		152,626
Long-term borrowings		206,206		201,392		162,541		138,452		76,140
Return on average shareowner's equity ^(a)		18.32%		17.29%		14.75%		16.32%		17.14%
Ratio of earnings to fixed charges		1.66		1.82		1.71		1.62		1.56
Ratio of earnings to combined fixed charges and preferred stock dividends		1.66		1.81		1.71		1.61		1.55
Ratio of debt to equity		7.09:1		6.46:1		6.63:1		6.46:1		7.21:1
Financing receivables - net	\$	284,567	\$	279,588	\$	245,503	\$	195,322	\$	169,615
Total assets of continuing operations		472,292		462,837		407,194		350,080		298,852
Total assets		475,273		566,885		506,773		439,434		381,065

(a) Represents earnings from continuing operations before accounting changes divided by average total shareowner's equity, excluding effects of discontinued operations (on an annual basis, calculated using a five-point average). Average total shareowner's equity, excluding effects of discontinued operations, as of the end of each of the years in the five-year period ended December 31, 2005, is described in the Supplemental Information section.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operations

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the U.S. Securities and Exchange Commission (SEC) rules. For such measures, we have provided supplemental explanations and reconciliations in the Supplemental Information section.

We present Management's Discussion of Operations in four parts: Overview of Our Earnings from 2003 through 2005, Global Risk Management, Segment Operations and Global Operations.

Overview of Our Earnings from 2003 through 2005

Our results over the last several years reflect the global economic environment in which we operate. During these years, the economy has grown, but at a rate that, in historic terms, has been relatively modest. Long-term interest rates have been stable. We also experienced a weaker, but recently strengthening, U.S. dollar, escalating energy costs and higher fossil fuel-related raw material prices. Market developments in the commercial aviation industry also had significant effects on our results. We had 1,405 commercial aircraft on lease at December 31, 2005, an increase of 63 aircraft from last year. All of our aircraft were on lease at the end of 2005, and at that time we held \$10.6 billion (list price) of multiple-year orders for various Boeing, Airbus and other aircraft, including 73 aircraft (\$4.8 billion list price) scheduled for delivery in 2006, all under agreement to commence operations with commercial airline customers. As the following pages show, our diversification and risk management strategies enabled us to continue to grow revenues and earnings to record levels during this challenging time.

GE Commercial Finance and GE Consumer Finance (together, 70% and 84% of total three-year revenues and total segment profit, respectively) are large, profitable growth businesses in which we continue to invest with confidence. In a challenging economic environment, these businesses grew earnings by a combined \$1.2 billion and \$0.9 billion in 2005 and 2004, respectively. GE Commercial Finance and GE Consumer Finance have delivered strong results through solid core growth, disciplined risk management and successful acquisitions. The most significant acquisitions affecting GE Commercial Finance and GE Consumer Finance results in 2005 were the commercial lending business of Transamerica Finance Corporation; WMC Finance Co. (WMC), a U.S. wholesale mortgage lender; Australian Financial Investments Group (AFIG), a residential mortgage lender in Australia; and the Transportation Financial Services Group of CitiCapital. These acquisitions collectively contributed \$1.9 billion and \$0.2 billion to 2005 revenues and net earnings, respectively.

Overall, acquisitions contributed \$3.0 billion, \$3.3 billion and \$2.3 billion to total revenues in 2005, 2004 and 2003, respectively. Our total net earnings in 2005, 2004 and 2003 included approximately \$0.3 billion, \$0.5 billion and \$0.3 billion, respectively, from acquired businesses. We integrate acquisitions as quickly as possible. Only revenues and earnings from the date we complete the acquisition through the end of the fourth following quarter are attributed to such businesses. Dispositions also affected our operations through lower revenues of \$1.4 billion, \$2.4 billion and \$1.7 billion in 2005, 2004 and 2003, respectively. This resulted in lower earnings of \$0.4 billion and \$0.3 billion in 2005 and 2004, respectively, and higher earnings of \$0.1 billion in 2003.

Significant matters relating to our Statement of Earnings are explained below.

Insurance Exit. In 2005, we reduced our exposure to insurance in a disciplined fashion and our exit is now in sight.

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In May 2004, we completed the initial public offering of Genworth Financial, Inc. (Genworth), our formerly wholly-owned subsidiary that conducted most of our consumer insurance business, including life and mortgage insurance operations. Throughout 2005, we continued to reduce our ownership in Genworth, currently at 18%. We intend to continue to dispose of our remaining shares in 2006, subject to market conditions. We reported Genworth as discontinued operations for all periods presented. Unless otherwise indicated, we refer to captions such as revenues and earnings from continuing operations simply as “revenues” and “earnings” throughout this Management’s Discussion and Analysis. Similarly, discussion of other matters in our consolidated financial statements relates to continuing operations unless otherwise indicated.

Interest on borrowings amounted to \$14.1 billion, \$11.0 billion and \$9.7 billion in 2005, 2004 and 2003, respectively. Changes over the three-year period reflected increased average borrowings and increased interest rates. Our average borrowings were \$338.1 billion, \$311.4 billion and \$297.0 billion in 2005, 2004 and 2003, respectively. Our average composite effective interest rate was 4.2% in 2005, compared with 3.6% in 2004 and 3.3% in 2003. Proceeds of these borrowings were used in part to finance asset growth and acquisitions. In 2005, our average assets of \$464.7 billion were 9% higher than in 2004, which in turn were 12% higher than in 2003. See the Financial Resources and Liquidity section for a discussion of interest rate risk management.

Income taxes are a significant cost. As a global commercial enterprise, our tax rates are affected by many factors, including our global mix of earnings, legislation, acquisitions, dispositions and tax characteristics of our income. Our tax returns are routinely audited and settlements of issues raised in these audits sometimes affect our tax provisions.

Our effective tax rate decreased to 9.8% in 2005 from 15.3% in 2004 and 15.4% in 2003. The 2005 rate reflects the net benefits, discussed below, of a reorganization of our aircraft leasing business; and an increase in lower-taxed earnings from global operations. Together, these items more than account for the 8.0 percentage point decrease in rate from 2004 reflected in the line “Tax on global activities including exports” in note 13. Partially offsetting these benefits was the nonrecurrence of the benefits from 2004 favorable settlements with the U.S. Internal Revenue Service (IRS) and the low-taxed disposition of a majority interest in Gecis, our business process outsourcing operation (now Genpact). The lack of counterparts to these items increased the 2005 tax rate by 2.2 percentage points.

The effective tax rate of 15.3% in 2004 and 15.4% in 2003 also reflected the net benefits, discussed below, of a reorganization of our aircraft leasing business, which decreased the 2004 effective tax rate 1.7 percentage points and is included in the line “Tax on global activities including exports” in note 13; tax benefits from favorable IRS settlements, which decreased the 2004 effective tax rate 1.3 percentage points and is included in the line “All other - net” in note 13; and the low-taxed disposition of a majority interest in Genpact which decreased the 2004 effective tax rate 0.9 percentage points, and is included in the line “Tax on global activities including exports” in note 13. Offsetting these benefits was the effect of higher pre-tax income.

As a result of the repeal of the extraterritorial income (ETI) taxing regime as part of the American Jobs Creation Act of 2004 (the Act), our aircraft leasing business no longer qualifies for a reduced U.S. tax rate. However, the Act also extended to aircraft leasing, the U.S. tax deferral benefits that were already available to other GE non-U.S. active operations. These legislative changes, coupled with a reorganization of our aircraft leasing business and a favorable Irish tax ruling, decreased our effective tax rate 3.2 percentage points in 2005 and 1.7 percentage points in 2004.

Global Risk Management

A disciplined approach to risk is important in a diversified organization such as ours in order to ensure that we are executing according to our strategic objectives and that we only accept risk for which we are adequately compensated. It is necessary for us to manage risk at the individual transaction level, and to consider aggregate risk at the customer, industry, geography and collateral-type levels, where appropriate.

Our Board of Directors oversees the risk management process, and approves directly or by delegation all significant acquisitions and dispositions as well as borrowings and investments. All participants in the risk management process must comply with approval limits established by the Board.

The Chief Risk Officer is responsible, through the Corporate Risk Function, for establishing standards for the measurement, reporting and limiting of risk; for managing and evaluating risk managers; for approving risk management policies; and for reviewing major risk exposures and concentrations across the organization. Our Corporate Risk Function analyzes certain business risks and assesses them in relation to aggregate risk appetite and approval limits set by our Board of Directors.

Threshold responsibility for identifying, quantifying and mitigating risks is assigned to our individual businesses. Because the risks and their interdependencies are complex, we apply a Six Sigma-based analytical approach to each major product line that monitors performance against external benchmarks, proactively manages changing circumstances, provides early warning detection of risk and facilitates communication to all levels of authority. Other corporate functions such as Financial Planning and Analysis, Treasury, Legal and our Corporate Audit Staff support business-level risk management. Businesses that, for example, hedge financial risk with derivative financial instruments must do so using our centrally-managed Treasury function, providing assurance that the business strategy complies with our corporate policies and achieves economies of scale. We review risks periodically with business-level risk managers, senior management and our Board of Directors.

We employ about 11,000 dedicated risk professionals, including 6,600 involved in collection activities and 400 specialized asset managers who evaluate leased asset residuals and remarket off-lease equipment.

We manage a variety of risks including liquidity, credit, market and event risks.

• **Liquidity risk** is the risk of being unable to accommodate liability maturities, fund asset growth and meet contractual obligations through access to funding at reasonable market rates. Additional information about our liquidity and how we manage this risk can be found in the Financial Resources and Liquidity section and in notes 11 and 18.

- **Credit risk** is the risk of financial loss arising from a customer or counterparty failure to meet its contractual obligations. We face credit risk in our lending and leasing activities (see the Financial Resources and Liquidity and Critical Accounting Estimates sections and notes 1, 6, 7 and 20) and derivative financial instruments activities (see note 18).

• **Market risk** is the potential loss in value of investment and other asset and liability portfolios, including financial instruments, caused by changes in market variables, such as interest and currency exchange rates and equity and commodity prices. We are exposed to market risk in the normal course of our business operations as a result of our ongoing investing and funding activities. We attempt to mitigate the risks to our various portfolios arising from changes in interest and currency exchange rates in a variety of ways that

often include offsetting positions in local currencies or selective use of derivatives. Additional information about how we mitigate the risks to our various portfolios from changes in interest and currency exchange rates can be found in the Financial Resources and Liquidity section and in note 18.

Event risk is that body of risk beyond liquidity, credit and market risk. Event risk includes the possibility of adverse occurrences both within and beyond our control. Examples of event risk include natural disasters, availability of necessary materials, guarantees of product performance and business interruption. This type of risk is often insurable, and success in managing this risk is ultimately determined by the balance between the level of risk retained or assumed and the cost of transferring the risk to others. The decision as to the appropriate level of event risk to retain or cede is evaluated in the framework of business decisions. Additional information about certain event risk can be found in note 20.

Segment Operations

Operating segments comprise our four businesses focused on the broad markets they serve: GE Commercial Finance, GE Consumer Finance, GE Industrial and GE Infrastructure. For segment reporting purposes, certain financial services businesses are included in the industrial operating segments that actively manage such businesses and report their results for internal performance measurement purposes. These include Aviation Financial Services, Energy Financial Services and Transportation Finance reported in the GE Infrastructure segment, and Equipment Services reported in the GE Industrial segment.

In the fourth quarter of 2005, we commenced reporting Genworth, which was previously reported in the GE Commercial Finance segment, as discontinued operations for all periods presented. Also, during the fourth quarter of 2005, our insurance activities, previously reported in the GE Commercial Finance segment, were transferred to GECC corporate items and eliminations for all periods presented.

GECC corporate items and eliminations include the effects of eliminating transactions between operating segments; results of our insurance activities remaining in continuing operations; results of liquidating businesses such as consolidated, liquidating securitization entities; underabsorbed corporate overhead; certain non-allocated amounts determined by the Chief Executive Officer; and a variety of sundry items. GECC corporate items and eliminations is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements.

The Chief Executive Officer allocates resources to, and assesses the performance of operations at the consolidated GE-level. GECC operations are a portion of those segments. We present below in their entirety the four GE segments that include financial services operations. We also provide a one-line reconciliation to GECC-only results, the most significant component of which is the elimination of GE businesses that are not financial services businesses. In addition to providing information on GE segments in their entirety, we have also provided supplemental information for certain businesses within the GE segments. Our Chief Executive Officer does not separately assess the performance of, or allocate resources among, these product lines.

Segment profit is determined based on internal performance measures used by the Chief Executive Officer to assess the performance of each business in a given period. In connection with that assessment, the Chief Executive Officer may exclude matters such as charges for restructuring; rationalization and other similar expenses; in-process research and development and certain other acquisition-related charges and balances; technology

development costs; certain gains and losses from dispositions; and litigation settlements or other charges, responsibility for which preceded the current management team.

Segment profit always excludes the effects of principal pension plans and results reported as discontinued operations and accounting changes. Segment profit excludes or includes interest and other financial charges and income taxes according to how a particular segment's management is measured - excluded in determining segment profit, which we refer to as "operating profit," for GE Healthcare, GE NBC Universal and the industrial businesses of the GE Industrial and GE Infrastructure segments; included in determining segment profit, which we refer to as "net earnings," for GE Commercial Finance, GE Consumer Finance, and the financial services businesses of the GE Industrial segment (Equipment Services) and the GE Infrastructure segment (Aviation Financial Services, Energy Financial Services and Transportation Finance).

For additional information about our segments, see Item 1, Business and note 17.

Summary of Operating Segments

<i>(In millions)</i>	2005	2004	2003
Revenues			
GE Commercial Finance	\$ 20,646	\$ 19,524	\$ 16,927
GE Consumer Finance	19,416	15,734	12,845
GE Industrial	32,631	30,722	24,988
GE Infrastructure	41,803	37,373	36,569
Total segment revenues	114,496	103,353	91,329
GECC corporate items and eliminations ^(a)	4,400	4,439	5,050
Total revenues	118,896	107,792	96,379
Less portion of GE revenues not included in GECC	(63,381)	(57,699)	(54,774)
Total revenues in GECC	\$ 55,515	\$ 50,093	\$ 41,605
Segment profit			
GE Commercial Finance	\$ 4,290	\$ 3,570	\$ 2,907
GE Consumer Finance	3,050	2,520	2,161
GE Industrial	2,559	1,833	1,385
GE Infrastructure	7,769	6,797	7,362
Total segment profit	17,668	14,720	13,815
GECC corporate items and eliminations	(55)	880	271
Less portion of GE segment profit not included in GECC	(8,947)	(7,782)	(8,016)
Earnings in GECC from continuing operations before accounting change			