GENERAL ELECTRIC CAPITAL CORP
Form 10-K/A
May 06, 2005

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

FORM 10-K/A

Amendment No. 1 to Form 10-K

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

For the fiscal year ended December 31, 2004
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	**New York Stock Exchange**
5.875% Notes Due February 18, 2033	**New York Stock Exchange**
	New York Stock Exchange

Step-Up Public Income Notes Due
January 28, 2035

Securities Registered Pursuant to Section 12(g) of the Act:
Title of each class
None.

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 **þ** 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. **þ**

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ¨ No **þ**

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 February 28, 2005, 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 Amendment No. 1 to the Annual Report on Form 10-K/A of General Electric Company for the year ended December 31, 2004 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.

(1)

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2005 Restatement

Overview

We are filing this amendment to General Electric Capital Corporation (GECC) Annual Report on Form 10-K for the year ended December 31, 2004, to amend and restate financial statements and other financial information for the years 2004, 2003 and 2002 and financial information for the year 2001 and for each of the quarters in the years 2004 and 2003 with respect to the accounting for certain derivatives transactions. These transactions relate to treasury operations at GECC. The effect of the restatement on our statement of financial position at the end of the reported periods is immaterial and the restatement has no effect on our cash flows.

Cumulatively through December 31, 2004, and separately in first quarter 2005, this non-cash restatement had the following earnings effects:

		Effects of Correction	
(In millions)	**Total**	**Quarter ending March 31, 2005**	**Cumulative through December 31, 2004**
Increase (decrease) in earnings before accounting changes	$ 381	$ (78)	$ 459
Accounting changes	157	-	157
Increase (decrease) net earnings	$ 538	$ (78)	$ 616

We have also determined that a control deficiency related to this subset of derivatives giving rise to the restatement constituted a material weakness in our internal control over financial reporting. The material weakness related to accounting for derivatives that were entered into prior to August of 2003 (except for one immaterial transaction), and there were no subsequent transactions of this sort. We have fully remediated that weakness as of the date of this report. See "Item 9A - Controls and Procedures."

Internal Audit

In the course of a regularly scheduled audit, our internal corporate audit staff identified errors with respect to GECC's use of hedge accounting for certain transactions under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133). Descriptions of these errors follow:

- The first errors were in accounting for interest rate and currency swaps at GECC that included fees paid or received at inception. These swaps related to about 14% of our overall borrowings at January 1, 2001, and about 6% of our overall borrowings at December 31, 2004. Our initial accounting viewed these fees as immaterial. KPMG LLP, our independent registered public accounting firm, reviewed this initial accounting in connection with their 2001 audit. In 2003, we discontinued use of such swaps, except for one immaterial transaction, but continued the previous accounting for those already in place. Because of the swap fees, however, the fair values of the swaps were not zero at inception as required by SFAS 133 and, accordingly, we were required to, but did not, test periodically for effectiveness.

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- The second errors arose from a hedge accounting position related to a portfolio of assets consolidated by GECC in July 2003 at implementation of Financial Accounting Standards Board Interpretation No. (FIN) 46, *Consolidation of Variable Interest Entities*. This portfolio included assets equal to 2% and 1% of GE's total assets at consolidation and at December 31, 2004, respectively. We entered into interest rate swaps in 2003 to adjust the economic yield on these newly-consolidated fixed-rate assets from a fixed to a floating rate. Adhering to our hedge documentation at the 2003 inception of these swaps, we did not perform subsequent periodic testing of their effectiveness. We determined as a result of the internal audit that the prepayment penalties in the underlying assets, which penalties had not been identified by us or KPMG LLP at implementation, were not appropriately mirrored in the associated swaps, as required in order to avoid periodic testing of effectiveness under SFAS 133. Accordingly, periodic effectiveness testing was required under SFAS 133 for these swaps.

- In the course of the internal audit, GE's internal audit staff also identified other errors under SFAS 133 with respect to other aspects of certain swaps and other derivative instruments. Adjustments to correct the accounting for these transactions also are included in our restated results of operations. We do not believe these other adjustments are material, individually or in the aggregate, to our financial position or our results of operations for any reported period.

During its audit, the internal audit staff reported its findings to GE and GECC management, to KPMG LLP and to the Audit Committee of the Board of Directors of GE. After initial discussions with the Audit Committee, GE and GECC management reviewed these matters in further detail, and after completing its analysis on May 5, 2005, recommended to the Audit Committee that previously reported financial results be restated to reflect correction of these errors. The Audit Committee agreed with this recommendation. Pursuant to the recommendation of the Audit Committee, the Board of Directors of GE and the Board of Directors of GECC determined at their respective meetings on May 5, 2005, that previously reported results for GECC be restated to eliminate hedge accounting for these swaps, and, in light of the restatement, that the financial statements and other information referred to above should no longer be relied upon.

Based on information to date, our personnel did not use these accounting issues to influence incentive or other compensation in the past. Going forward, adjustments in the restated financial results will not be used to influence positively any person's compensation.

Restatement

In response to the issues raised by the internal audit relating to the derivatives transactions described above:

- we have completed a review of the documentation and accounting for interest rate and currency swaps with respect to the types of hedging transactions affected by the restatement at GECC treasury operations;

- we are taking action to adjust our interest rate and currency swaps thereby eliminating any significant volatility associated with these swaps; and

- we have reversed the effects of incorrect hedge accounting by restating our previously issued financial statements.

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Effects of Restatement

The following tables set forth the effects of the restatement relating to derivatives transactions on affected line items within our previously reported Statements of Earnings and for the years 2004, 2003, 2002 and 2001 and for each of the quarters in the years 2004 and 2003. The restatement has an immaterial effect on our Statements of Financial Position at the end of each of the restated periods and has no effect on the timing or amount of operating cash flows.

Effects of Statements of Earnings

(Income (expense);in millions)	**Total**	**2004**	**2003**	**2002**	**2001**
Revenues	$ 930	$ 503	$ 454	$ 16	$ (43)
Interest	(170)	(129)	(67)	65	(39)
Provision for income taxes	(301)	(148)	(153)	(32)	32
Earnings before accounting changes	459	226	234	49	(50)
Cumulative effect of accounting changes	157	-	-	-	157
Net earnings	$ 616	$ 226	$ 234	$ 49	$ 107

		2004			
(Income (expense);in millions)	**Total**	**First quarter**	**Second quarter**	**Third quarter**	**Fourth quarter**
Revenues	$ 503	$ 242	$ (254)	$ 64	$ 451
Interest	(129)	(33)	(33)	(31)	(32)
Provision for income taxes	(148)	(83)	114	(13)	(166)
Net earnings	$ 226	$ 126	$ (173)	$ 20	$ 253

		2003			
(Income (expense);in millions)	**Total**	**First quarter**	**Second quarter**	**Third quarter**	**Fourth quarter**
Revenues	$ 454	$ 441	$ 775	$ (703)	$ (59)
Interest	(67)	33	(30)	(34)	(36)
Provision for income taxes	(153)	(187)	(295)	291	38
Net earnings	$ 234	$ 287	$ 450	$ (446)	$ (57)

Reversal of these cumulative adjustments will affect net earnings negatively over the terms of the underlying assets and debt, but to a degree that we do not expect to be significant in any individual period given the terms of the arrangements and our plan to reduce the accounting volatility by replacing volatile swaps not qualifying for hedge accounting.

For additional information relating to the effect of the restatement, see the following items:

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In light of the restatement, readers should no longer rely on our previously filed financial statements and other financial information for the years and for each of the quarters in the years 2004, 2003, 2002 and 2001.

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 key 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, 2004, our employment totaled approximately 76,300.

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

2004 was a year of portfolio transition. As described in our report last year, we simplified our organization on January 1, 2004, by realigning certain businesses within our segment structure. Certain prior-period amounts in this financial section have been reclassified to reflect this reorganization.

Commercial Finance

Commercial Finance (38.4%, 38.4% and 39.5% of total revenue in 2004, 2003 and 2002, respectively) offers a broad range of financial services worldwide. We have particular expertise in the mid-market, 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 and energy-related facilities and equipment; commercial and residential real estate; vehicles; aircraft; and equipment used in many industries, including the construction, manufacturing, telecommunications and healthcare industries.

During 2004, we acquired the commercial lending business of Transamerica Finance Corporation; the U.S. leasing business of IKON Office Solutions; Sophia S.A., a real estate company in France; and Benchmark Group PLC, a U.K.-listed real estate property company.

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 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.

For further information about revenues, net earnings and assets for Commercial Finance, see page 20 and note 18.

We provide additional information on two of our segment product lines, Real Estate (commercial real estate financing) and Aviation Services (commercial aircraft financing). Each of these product lines finances a single form of collateral, and each has understandable concentrations of risk and opportunities.

Real Estate

Our Real Estate product line 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, self storage facilities, 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.

Aviation Services

Our Aviation Services product line is a global commercial aviation financial services business that offers a broad range of financial products to airlines, aircraft operators, owners, lenders and investors. Financial products include leases, aircraft purchasing and trading, loans, engine/spare parts financing, pilot training, fleet planning and financial advisory services.

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

Consumer Finance

Consumer Finance (26.3%, 23.9% and 20.1% of total revenue in 2004, 2003 and 2002, respectively) is a leading provider of credit products and services to consumers, retailers and auto dealers in 41 countries. We offer a broad range of financial products, including private-label credit cards; personal loans; bank cards; auto loans, leases and inventory financing; residential mortgages; corporate travel and purchasing cards; debt consolidation loans; home equity loans; and credit and other insurance products for customers on a global basis.

In 2004, as part of our continued global expansion, we acquired Australian Financial Investments Group (AFIG), a residential mortgage lender in Australia; WMC Finance Co. (WMC), a U.S. wholesale mortgage lender; and the private-label credit card portfolio of Dillard’s Inc.

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 of declining retail sales, changes in interest and currency exchange rates, and increases in personal bankruptcy filings.

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

For further information about revenues, net earnings and assets for Consumer Finance, see page 21 and note 18.

Equipment & Other Services

Equipment & Other Services (16.2%, 10.2% and 11.7% of total revenue in 2004, 2003 and 2002, respectively) helps customers manage, finance and operate a wide variety of business equipment worldwide. We provide rentals, leases, sales, asset management services and loans for portfolios of commercial and transportation equipment, including tractors, trailers, railroad rolling stock, modular space units, intermodal shipping containers and 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.

In December 2004, we sold a majority interest in Gecis, our global business processing operation, to two leading private investment firms. We retained a 40% investment in Gecis.

Also included in the segment are activities and businesses that are not measured within one of our other segments - for example, corporate expenses, liquidating businesses and other non-segment aligned operations.

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

For further information about revenues, net earnings and assets for Equipment & Other Services, see page 22and note 18.

Insurance

Insurance (19.1%, 27.5% and 28.7% of total revenue in 2004, 2003 and 2002, respectively) offers a broad range of insurance and investment products that provide reinsurance and primary commercial insurance products to insurance companies, Fortune 100 companies, self-insurers and healthcare providers, and help consumers create and preserve personal wealth, protect assets and enhance their life styles. For lenders and investors, we provide protection against the risks of default on low-down-payment mortgages.

Our Insurance businesses are subject to intense competition. We believe the principal competitive factors in the sale of our products are service, brand, product features, price, commission structure, marketing and distribution arrangements, reputation and financial strength ratings. In the commercial sector, we are well positioned to compete in select niche insurance and reinsurance segments given our expertise, analytics capabilities and service. In the consumer sector, we are well positioned to benefit from developing demographic, governmental and market trends, including aging U.S. populations with growing retirement income needs, growing lifestyle protection gaps and increasing global opportunities for mortgage insurance.

Our headquarters are in Kansas City, Missouri with offices throughout North America, Europe, South America, Australia and Asia.

In May 2004, we completed an initial public offering of Genworth Financial, Inc. (Genworth), our formerly wholly-owned subsidiary that conducts most of our consumer insurance business, including life and mortgage insurance operations. We sold approximately 30% of the common shares of Genworth to the public, and we expect (subject to market conditions) to reduce our ownership over the next two years as Genworth transitions to full independence.

For further information about revenues, net earnings and assets for Insurance, see page 24 and note 18.

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 time sales transactions, installment loans and revolving credit financing. Our insurance operations 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, which is also our consolidated supervisor under the EU Financial Conglomerates Directive. 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 operations, 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 b nature address matters that are, to different degrees, uncertain. For us, particular uncertainties arise from the behavior of financial markets, including fluctuations in interest rates and commodity prices, from future integration of acquired businesses, from future financial performance of major industries which we serve, including, without limitation, the air and rail transportation, energy generation and healthcare industries, from unanticipated loss development in our insurance businesses, and from numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive or 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 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.

U.S. Securities and Exchange Commission Subpoena

On April 29, 2005, the Company received a subpoena from the Northeast Regional Office of the Securities and Exchange Commission. This subpoena requires the Company to produce documents related to "certain loss mitigation insurance products," such as finite risk reinsurance. The Company will cooperate fully with the SEC.

GE Insurance Solutions has made limited use of reinsurance with finite risk characteristics to manage the risks of catastrophic events, such as storms or hurricanes, and to protect itself from the volatility inherent in its business. Based on its numerous reviews of GE Insurance Solutions' reinsurance agreements with finite risk characteristics in the past several years, the Company believes that the agreements have been properly structured and accounted for, with appropriate risk transfer, and properly disclosed.

After we commenced the work for an internal audit in connection with GECC's treasury operations, GE received a letter in January 20, 2005 from the Boston District Office of the U.S. Securities and Exchange Commission, indicating that it was conducting an informal investigation and requesting that GE and GECC voluntarily provide certain documents and information with respect to the use of hedge accounting for derivatives by GE and GECC. In response to the staff's request, GE and GECC have voluntarily provided documents and other information and we intend to continue to cooperate fully with them in their ongoing investigation.

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

Not required by this form.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

See note 16 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.

Item 6. Selected Financial Data.

The selected financial data set forth in this Item 6 have been restated to reflect adjustments to our consolidated financial statements and other financial information contained in our Annual Report on Form 10-K for the year ended December 31, 2004, originally filed with the U.S. Securities and Exchange Commission on March 1, 2005. The following selected financial data should be read in conjunction with our restated financial statements and the related Notes to Consolidated Financial Statements.

	Year ended December 31				
(In millions)	**2004 (Restated)**	**2003 (Restated)**	**2002 (Restated)**	**2001 (Restated)**	**2000**
Revenues	$ 59,850	$ 53,370	$ 48,835	$ 49,005	$ 54,799
Earnings before accounting changes	8,260	7,466	6,554	6,010	4,289
Cumulative effect of accounting changes	-	(339)	(1,015)	(1)	-
Net earnings	8,260	7,127	5,539	6,009	4,289
Return on average shareowner's equity	16.74%	16.99%	19.13%	21.64%	17.90%
Ratio of earnings to fixed charges	1.89	1.86	1.66	1.73	1.52
Ratio of earnings to combined fixed charges and preferred stock dividends	1.88	1.85	1.65	1.71	1.50
Ratio of debt to equity	6.53:1	6.66:1	6.51:1	7.26:1	7.53:1
Financing receivables - net	$ 279,588	$ 245,503	$ 195,322	$ 169,615	$ 138,832
Total assets	566,885	506,773	439,434	381,065	332,636
Borrowings	352,326	311,097	261,162	230,411	196,258
Minority interest	6,105	2,512	1,834	1,650	1,344
Shareowner's equity	53,958	46,692	40,126	31,739	26,073

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

Restatement

As discussed in note 1, we are restating financial statements and other financial information for the years 2004, 2003 and 2002 and financial information for the year 2001 and for each of the quarters in the years 2004 and 2003 with respect to the accounting for certain derivatives transactions. These transactions relate to treasury operations at GE Capital Corporation (GECC).

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The errors identified in our internal audit related to the accounting for certain derivative instruments used in meeting our objective of managing exchange rate and interest rate risks. Because we conduct business in diverse markets around the world and local funding is not always efficient, we use derivatives including swaps to eliminate certain market and financial risks. In addition, swaps are used to adjust the debt we are issuing to match the fixed or floating nature of the assets we are acquiring. When interest rate and currency swaps are effective as accounting hedges under the technical requirements of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133), they offset the variability of expected future cash flows or changes in the fair values of assets and liabilities, both economically and for financial reporting purposes. GE has historically used such instruments to effectively mitigate financial and market risks, as evidenced by the analysis of the potential effects of changes in interest rates and currency exchange rates presented on page 40. The effect of our inability to apply hedge accounting for the swaps requiring restatement is that changes in their fair values must be recorded in earnings each reporting period. As a result, reported results of operations will be directly influenced by changes in interest rates and currency rates.

The following table sets forth the effects of the errors in accounting for debt interest rate and currency swaps with fees, asset swaps with prepayment penalties and certain other derivatives, as more fully described in the Explanatory Statement beginning on page 3, on our previously reported earnings for the years 2001 through 2004, and each of the quarters in the years 2003 and 2004. The effect of the restatement on our Statements of Financial Position at the end of each of the restated periods is immaterial and the restatement had no effect on our cash flows.

(In millions)	**Increase (decrease) in Earnings Before Accounting Changes**				
	2004	**2003**	**2002**	**2001**	**2001 Accounting Change**[a]
Debt swaps with fees					
Interest rate	$ 77	$ (35)	$ 198	$ (14)	$ 167
Currency	125	87	(154)	(45)	(7)
Asset swaps with prepayment penalties	15	125	-	-	-
Other, net	9	57	5	9	(3)
Total adjustment	$ 226	$ 234	$ 49	$ (50)	$ 157
Previously reported earnings before accounting changes	$ 8,034	$ 7,232	$ 6,505	$ 6,060	
Percent variation from previously reported accounting changes	2.81%	3.24%	0.75%	(0.83)%	

(a) Represents the cumulative effect on earnings as of January 1, 2001, the date we adopted SFAS 133

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(In millions)	**Increase (decrease) in Net Earnings**[a]								
	2005	**2004**				**2003**			
Quarter	**1st Qtr.**	**4th Qtr.**	**3rd Qtr.**	**2nd Qtr.**	**1st Qtr.**	**4th Qtr.**	**3rd Qtr.**	**2nd Qtr.**	**1st Qtr.**
Debt swaps with fees									
Interest rate	$ (153)	$ 144	$ 142	$ (436)	$ 227	$ (61)	$ (650)	$ 448	$ 228
Currency	28	84	(20)	69	(8)	8	74	(1)	6
Asset swaps with prepayment penalties	82	13	(102)	198	(94)	(5)	130	-	-
Other, net	(35)	12	-	(4)	1	1	-	3	53
Total adjustment	$ (78)	$ 253	$ 20	$ (173)	$ 126	$ (57)	$ (446)	$ 450	$ 287
Previously reported earnings before accounting changes	$ 2,155	$ 2,555	$ 2,250	$ 1,576	$ 1,653	$ 2,009	$ 2,001	$ 1,604	$ 1,618
Percent variation from previously reported accounting changes	(3.6)%	9.9%	0.9%	(11.0)%	7.6%	(2.8)%	(22.3)%	28.1%	17.7%

(a) See also note 22 to the Notes to Consolidated Financial Statements - Quarterly Information (Unaudited), as restated

Changes to our previously reported earnings detailed above reflect the increased volatility arising from factors outside our control - changes in interest rates and currency rates, and prepayments of fixed-rate loans by customers. We experienced such changes over the affected period of 2001 through the first quarter of 2005, with generally lower interest rates and the resultant increase in loan prepayments, and a U.S. dollar that was relatively strong in the early part of that period but weakened steadily thereafter.

We used interest rate and asset swaps to convert the economics of underlying debt and assets from fixed to floating interest rates. Values of swaps themselves change as interest rates change. Declines in rates generally tend to cause positive earnings effects from revaluation of associated debt swaps, the larger of our swap positions, but negative earnings effects from revaluation of asset swaps, the smaller position. Interest rates generally trended downward during the period from 2001 to the present, explaining the overall positive effect on earnings from this accounting error correction. But interest rates were sometimes volatile within the years - for example increasing sharply in the third quarter of 2003 and second quarter of 2004, resulting in an overall negative earnings effect.

Those effects combined to produce a cumulative earnings increase of $0.5 billion through December 31, 2004. Of that amount, $0.4 arose from interest rate swaps, which were used throughout the affected period; $0.1 from asset swaps, which were first used in 2003 after which rates were somewhat volatile, but moved slightly higher; and no effect from currency swaps, where increases and decrease to earnings offset over the affected period. Reversal of these cumulative adjustments will affect net earnings negatively over the terms of the underlying assets and debt, but to a degree that we do not expect to be significant in any individual period given the terms of the arrangements and our plan to reduce the accounting volatility by replacing volatile swaps not qualifying for hedge accounting.

Operations

We present Management's Discussion of Operations in four parts: Overview of Our Earnings from 2002 through 2004, Global Risk Management, Segment Operations and Global 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 SEC rules; those rules require the supplemental explanations and reconciliations provided on page 39.

2004 was a year of portfolio transition. As described in our report last year, we simplified our organization on January 1, 2004, by realigning certain businesses within our segment structure. Certain prior-period amounts in this financial section have been reclassified to reflect this reorganization.

In May 2004, we completed an initial public offering of Genworth Financial, Inc. (Genworth), our formerly wholly-owned subsidiary that conducts most of our consumer insurance business, including life and mortgage insurance operations. We sold approximately 30% of the common shares of Genworth to the public, and we expect (subject to market conditions) to reduce our ownership over the next two years as Genworth transitions to full independence. This transaction resulted in a second quarter pre-tax loss of $0.6 billion ($0.3 billion after tax), recognized in the Insurance segment.

In December 2004, we sold a majority interest in Gecis, our global business processing operation, to two leading private investment firms. We received cash proceeds of $0.5 billion and retained a 40% investment in Gecis. This transaction resulted in a fourth quarter pre-tax gain of $0.4 billion ($0.3 billion after tax), recognized in the Equipment & Other Services segment.

Overview of Our Earnings from 2002 through 2004

The global economic environment must be considered when evaluating our results over the last several years. Important factors for us included slow global economic growth, a weakening U.S. dollar, lower global interest rates, a mild U.S. recession that did not cause significantly higher credit losses and developments in the commercial aviation industry, an industry significant to us. As the following pages show in detail, our diversification and risk management strategies enabled us to continue to grow during this challenging time. Our results were affected by a combination of factors, both positive and negative, as follows:

- Commercial and Consumer Finance (in total, 62% and 80% of total three-year revenues and earnings before accounting changes, respectively) are large, profitable growth businesses in which we continue to invest with confidence. In a challenging economic environment, these businesses grew earnings by $0.7 billion and $1.1 billion in 2004 and 2003, respectively. Solid core growth, disciplined risk management and successful acquisitions have delivered these strong results.

- Equipment & Other Services (13% and 3% of total three-year revenues and earnings before accounting changes, respectively) is particularly sensitive to economic conditions and consequently was affected adversely by the U.S. recession in 2002 and by slow global growth in developed countries. Higher capacity, in combination with declining or weak volume growth in many of these industries serviced by this business, resulted in fierce competitive price pressures.

Acquisitions and dispositions played an important role in our growth strategy. We integrate acquisitions as quickly as possible and only revenues and earnings from the date we complete the acquisition through the end of the fourth following quarter are attributed to such businesses. Acquisitions contributed $3.3 billion, $2.3 billion and $3.7 billion to consolidated revenues in 2004, 2003 and 2002, respectively. Our consolidated net earnings in 2004, 2003 and 2002 included approximately $0.5 billion, $0.3 billion and $0.4 billion, respectively, from acquired businesses. Dispositions affected our operations through lower revenues and earnings in 2004 of $2.8 billion and $1.1 billion, respectively, and in 2003 through lower revenues of $1.7 billion and higher earnings of $0.1 billion.

Significant matters relating to our Statement of Earnings, which appears on page 41, are explained below.

Restated interest on borrowings amounted to $11.2 billion, $10.0 billion and $9.5 billion in 2004, 2003 and 2002, respectively and included $0.1 billion in 2004 and 2003, and a reduction of $0.1 billion in 2002, related to the 2005 restatement. Changes over the three-year period reflected increased average borrowings, partially offset by the effects of lower interest rates. Average borrowings were $312.9 billion, $299.0 billion and $240.5 billion in 2004, 2003 and 2002, respectively. Our average composite effective interest rate was 3.6% in 2004, compared with 3.3% in 2003 and 4.0% in 2002. Proceeds of these borrowings were used in part to finance asset growth and acquisitions. In 2004, average assets of $526.6 billion were 12% higher than in 2003, which in turn were 15% higher than in 2002. See page 30 for a discussion of interest rate risk management.

Income taxes are a significant cost. As a global commercial enterprise, our tax rates are strongly 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. Because of the number of variables affecting our reported tax results, we have prepared this section to facilitate an understanding of our income tax rates.

Income taxes on earnings before accounting changes were 17.4% in 2004, compared with 18.9% in 2003 and 13.1% in 2002. The 2004 rate reflects the net benefits, discussed below, of legislation and a partial reorganization of our aircraft leasing operation, which decreased the effective tax rate 1.6 percentage points and is included in the line “Tax on global activities including exports” in note 13; tax benefits from favorable U.S. Internal Revenue Service (IRS) settlements, which decreased the effective tax rate 1.2 percentage points and are included in the line “All other - net” in note 13; and the low-taxed disposition of a majority interest in Gecis which decreased the effective tax rate 0.8 percentage points, and is included in the line “Tax on global activities including exports” in note 13.

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), the aircraft leasing operations of Commercial Finance no longer qualify for a reduced U.S. tax rate. However, the Act also extended to foreign aircraft leasing, the U.S. tax deferral benefits that were already available to GE’s other active foreign operations. As stated above, these legislative changes, coupled with a partial reorganization of our aircraft leasing business and a favorable Irish tax ruling, decreased our effective tax rate 1.6 percentage points.

The increase in the effective tax rate from 2002 to 2003 reflects the absence of a current year counterpart to the 2002 IRS settlements discussed below.

The 2002 effective tax rate reflects the effects of lower taxed earnings from global operations and favorable tax settlements with the IRS. During 2002, as a result of revised IRS regulations, we reached a settlement with the IRS allowing the deduction of previously realized losses associated with the prior disposition of Kidder Peabody. Also during 2002, we reached a settlement with the IRS regarding the treatment of certain reserves for obligations to policyholders on life insurance contracts in Insurance. See note 13.

Global Risk Management

A disciplined approach to risks 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 risks 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, including the approval of all significant acquisitions and dispositions and the establishment of borrowing and investment approval limits delegated to the Investment Committee of the Board, the Chairman, the Chief Financial Officer and the Chief Risk Officer. All participants in the risk management process must comply with these approval limits.

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 warn