CtW Investment Group

April 15, 2019

Mr. Thomas W. Horton
Lead Independent Director
General Electric Company
41 Farnsworth Street
Boston, MA 02210

Dear Lead Independent Director Horton,

In recent years, General Electric (the "Company") has faced concerns over its financial performance, internal controls, and overall long term stability. Misguided capital allocation strategies and multiple shareholder derivative lawsuits, coupled with the Company's ongoing relationship with its long time auditor KPMG, have led to a significant erosion in shareholder confidence in the Company's stock price and cast doubt over the Company's financial health. To restore investor confidence, the Board should commit to revise its capital allocation strategy and adopt best practices of audit oversight prior to this year's annual meeting on May 8, 2019.

While we recognize that the Board's composition has been overhauled in the last year, we are concerned over the Company's strategy following its failed buyback plan and disappointed that more aggressive steps have not been taken to refresh the Company's auditor, despite over 35% shareholder opposition to the Company's auditor ratification in 2018. To reassure its investors that the Board has taken adequate steps to remedy the financial, regulatory, and reputational costs of their business decisions over the last several years, the Board should:

- Retain the Finance & Capital Allocation Committee, which the Board intends to dissolve at the Company's 2019 Annual Meeting.
- Create a fund for investments into the Company's employees, for example, to fund training programs or per capita bonuses, to rebalance any future stock repurchases.
- Commit to a new auditor conducting the 2020 Company audit and a mandatory external auditor rotation every 10 years.
- Bolster oversight and quality of the external audit by:
    - Providing a supplemental Audit Committee report for 2018;
    - Expanding disclosure in the external auditor report beyond the required critical audit matters ("CAMs")[1]; and
    - Engaging an independent monitor for the Company's external auditor.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 5.5 million members, to enhance long term shareholder value through active ownership. These funds invest over $250 billion in the global capital markets and are substantial investors of the Company. We previously called for a vote against the former Audit

[1] "Critical audit matters" are defined by the PCAOB as any matter arising from the current period's audit of the financial statements that was communicated or required to be communicated to the audit committee and that (a) relates to accounts or disclosures that are material to the financial statements, and (b) involved especially challenging, subjective, or complex auditor judgment.

Committee Chairman, Douglas Warner, related to the Company's long standing relationship with KPMG in 2013.

GE's Failed Capital Allocation Strategy

The Company's prolonged decline over the last decade is well documented. Following the sale of most of GE Capital in 2015 that generated about $200 billion in cash, the Board decided to pursue the buyback plan while GE's stock was priced at a level that would prove to be higher than GE's average price over the subsequent three years, repurchasing stock at an average per share price of $30 in 2016 and $19.65 in 2017. Since then the Company stock price has plummeted 74% from January 2016 to January 2019, the Company has lost its "A" credit rating, and last fall it cut its dividend for the second time to a mere penny. In total, the Company has spent nearly $29 billion in buybacks, which could have been allocated to reducing the Company's approximately $110 billion in debt or fully funding the GE Pension Plan's unfunded liability of $12.4 billion. Put more bluntly, if GE had not initiated this buyback program, the Company could have reduced its debt to equity ratio from the current 212% to 154%; alternatively the Company could have eliminated the GE Pension Plan's underfunding entirely and still had over $16 billion to spare.

Adding to the repercussions of the Company's ill-considered buyback strategy was the decision to pursue a series of acquisitions and strategic transactions that have stretched the Company's cash reserves to the limit. This included the Board's approval of the purchase of Alstom SA for $10 billion in 2015 that resulted in a $22 billion write down, disclosed in October 2018. More recently the Company bought a majority stake in Baker Hughes in 2017, an oil and gas company, yet the Company announced it would be divesting its holding just one year after GE's acquisition. The Company has now announced a restructuring, including the eventual spin off of GE Healthcare. GE Healthcare and Baker Hughes are considered to be among the few bright spots in GE's portfolio, both of which are considered relatively profitable. Meanwhile, GE Power has cut 12,000 jobs and 30 percent of facility space, but the Company has not clearly articulated its plans for where the cash generated by these changes will be allocated. Had the Company not misallocated its capital for the last three years, it would not be forced into what now appears to be a fire sale with some of its more profitable business lines.

Audit and Accounting Concerns Have Eroded Confidence in the Company

In addition to the Company's poor capital allocation strategy, GE is only now beginning to confront its problematic relationship with its 110 year old auditor, KPMG. Despite the fact that under KPMG's watch, GE executives signed off on allegedly overly aggressive accounting tactics that resulted in a $50 million SEC fine in 2009, the Company continued to retain its auditor. Investor concern peaked in early 2018 when the Securities and Exchange Commission ("SEC") began to investigate the Company's undisclosed liabilities at Genworth and problematic accounting practices related to GE Power's long term service contracts. The SEC and Department of Justice ("DOJ") have since expanded the scope of their investigation into the Company's aggressive accounting tactics to include the Alstom write down. The Company also agreed in 2018 to settle an investigation launched in 2015 by DOJ into its now defunct subprime mortgage business, "WMC," for $1.5 billion. We now urge the Board to reconsider its strategies related to capital allocation and its external auditor.

The Board Should Retain its Finance & Capital Allocation Committee

While the Company has understood the need for a sufficiently independent board with fresh perspectives, we worry that the elimination of the Finance & Capital Allocation Committee may lead to a less effective means of providing the requisite amount of oversight over the Company's capital allocation plans and strategic transactions at precisely the time when the Company needs it most. Although the Company created a dedicated Finance & Capital Allocation Committee in December 2017, the Board has determined that in light of its smaller size, this Committee should be eliminated and oversight for the Company's capital allocation strategies should be returned to the full Board as well as the Audit Committee.

The full Board was previously responsible for the Company's corporate strategies and largely failed at monitoring both the Company's buyback authorization, but also its ill-timed transactions and ballooning debt. CEO and Chair Larry Culp himself has stated that 2019 is expected to be a "reset" year for the Company, one which will require a careful balancing act of disposition of assets, consolidations, and strategic capital allocation. Further, the Company has a newly constituted Audit Committee as a result of GE's board refreshment process and is currently facing scrutiny over its auditing practices, which will take a significant amount of the new Audit Committee members' time. While engaging the full Board remains important, having a dedicated committee to address the Company's liquidity, dispositions, capital structure risks, and pension liabilities would ensure that an adequate amount of attention is being paid to these critical issues.

The Board Should Revise its Capital Allocation Policy

Although we believe that buybacks are a poor use of the Company's assets, we believe that any future buybacks should go hand-in-hand with a strategy to enhance long term shareholder value, which includes an effective and enlightened approach to human capital management. The Company would benefit from a policy that balances future stock buybacks with a matching fund for employees to encourage training or to fund a per capita bonus pool. While the fund need not be matched dollar for dollar with a share repurchase plan, we believe that the fund should allow investors to have some sense as to how much cash the Company plans to make available for value building investments, such as training programs or initiatives to reduce employee turnover. Stock buybacks effectively redirect cash away from employee compensation, R&D, and paying down company debt. We believe by implementing a policy to balance future buyback plans against worker pay or training, the Company could mitigate some of the downside risks related to share repurchases and promote long-term shareholder value.

We note that the Company's most recent Sustainability Report shows that the Company has received a significant uptick in reports of unfair employment practices reported by GE employees to the Company's various ombudsmen between 2015-2017, with a decline in the number of employees during the same time period. GE was once considered to be the pinnacle of leadership training; however, recent reports on Glass Door demonstrate a downturn in employee satisfaction from September 2017 until now, particularly in the areas of career opportunities and reviews of senior management. The decision to enter into share repurchase plans suggests that the Board prioritized maximizing free cash flow in the short term over enhancing the Company's work force as an appreciable long term asset, and the Company's highly skilled workforce has not been insulated from the impact of this decision.

The Company Should Commit to a New Auditor for 2020 and add Mandatory Auditor Rotation

KPMG has been mired in scandals for several years, related to its poor auditing practices as well as serious ethical breaches by senior audit leadership. Among other concerns:

- Two former KPMG partners and an executive director have been convicted of or plead guilty to a criminal conspiracy to gain advance notice of the Public Company Accounting Oversight Board's ("PCAOB") inspection selections, including the former head of KPMG's national office, David Middendorf. It is hard to believe that none of these people ever played a role in the Company's audits, particularly given GE's importance within KPMG's portfolio.
- The PCAOB's most recent two inspection reports, for years 2016 and 2017, identified serious deficiencies in almost half the audits inspected. The *Wall Street Journal* reported that some of these deficiencies involved KPMG's approach to auditing revenue and assumptions related to acquired assets, both areas of concern for GE's pending investigations. Investors have no assurances that these issues will not manifest in the Company's audit.
- In January 2019, the PCAOB determined that KPMG failed to address several quality control concerns identified in prior inspections, including in other areas that are critical to GE's audit, such as testing the design and operating effectiveness of internal control over financial reporting. Some of KPMG's investments in new audit methodology and technology will not go into effect until 2020.[2] If the PCAOB has tested other changes that have been implemented, investors are in the dark as to whether they are effective.

These are material facts that call into question KPMG's independence, fitness, and competency to conduct GE's 2019 audit. The Audit Committee's report acknowledges some of them, but essentially asks for a pass while the Company is "completing planned portfolio actions," which the Company itself has stated could be a multi-year process (and presumably while KPMG is getting its house in order). The Audit Committee offers *no* credible plan to deliver a reliable audit in 2019 or future years, which threatens market confidence as to whether the Audit Committee is up to the task and depletes shareholder value. The Company should firmly commit to a new independent auditor to conduct the Company's 2020 audit without qualifications, and to adopting an Audit Committee charter amendment to rotate the Company's auditor every 10 years.

The Company Should Provide Additional Transparency and Oversight Over its Auditors

We find the Audit Committee's decision to retain KPMG as the Company's auditor highly problematic and believe a supplemental Audit Committee report for 2018 is warranted. For example, the 2018 Audit Committee report highlights "Big 4 peer reviews" as an illustration of why KPMG continues to maintain independence, and therefore strong audit quality. It is hard to believe the Audit Committee even read PricewaterhouseCooper's ("PWC") peer review report on KPMG. First, the report makes clear that the peer review program excludes audits that are subject to PCAOB inspections, such as GE's. In any event, PWC's report hardly supports retention of KPMG. Reflecting the extraordinary malfeasance of KPMG's former audit leadership, the report gives KPMG's non-public company audit practice a "pass with deficiency" because that conduct "could have created a situation…in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional

[2] PCAOB Release on KPMG Quality Control Remediation Submissions, January 25, 2019.

standards...."[3] Additionally, gaps in the Audit Committee's report raise serious concerns related to KPMG's audit quality, leaving investors with several unanswered questions. They include: whether any of the approximately 400 partners on GE's audit were involved in the deficiencies found by the PCAOB or to what extent KPMG's national office, when headed by Mr. Middendorf, would have been involved in GE's audit or any of GE's consultations to address questions raised by the SEC. If the Company intends to keep KPMG as its independent auditor, greater visibility is needed as to how the Committee reached its decision.

Further, the audit report on the Company's 2019 financial statements will be required to disclose CAMs for the first time. This is a welcome reform, but we believe that in light of GE's problematic accounting practices and the broad geographic scope of the Company's operations, the audit report should also include an expanded discussion of materiality and risk, as many of the Company's non-U.S. competitors do including those regulated by the UK's Financial Reporting Council. GE investors would benefit from similar caliber reports that goes beyond just the CAMs disclosure requirement that begins in 2019.

Lastly, the Company should engage an independent audit quality monitor to oversee KPMG's audits, as well as future audits with any other external auditor. We note that KPMG is the smallest of the "Big 4" auditors and the Company is one of KPMG's very largest clients. Although the figure declined in 2018, in 2017 the Company paid $142.9 million in fees to KPMG, the largest such fees since 2000. These facts create a serious risk that KPMG auditors will not feel at liberty to exercise independence from the Company. These circumstances coupled with KPMG's numerous quality control deficiencies highlighted by the PCAOB call into question whether KPMG really does have the "capability and expertise" that the Audit Committee report asserts it does. An independent audit quality monitor would reassure the Company's investors in 2019 and help the Audit Committee establish a better framework for audit quality control going forward.

Conclusion

The Company is now faced with a serious challenge to its reputation as an iconic American company, one that, while not new, poses an even greater risk to the Company's long term value. We urge the Board to commit to the changes outlined above by this year's annual meeting and encourage a dialogue with its shareholders as to how best to address the significant business risks facing the Company.

We would be happy to discuss our recommendations with you at your convenience. Please contact our Corporate Governance Director Tejal K. Patel at (202) 721-6079 to pursue such a discussion.

Thank you.

Dieter Waizenegger
Executive Director

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[3] KPMG Peer Report by PWC, March 21, 2018.