

GE Analyst Meeting - Farnborough Air Show GE Aviation Services (GECAS) & GE Aviation July 15, 2008

GE Participants

JoAnna Morris – Investor Relations, General Electric

Henry Hubschman, President and CEO, GECAS

David Joyce, President and CEO, GE Aviation

JoAnna Morris, Investor Relations, General Electric

Good morning. Welcome to GE's presentation at Farnborough. We're going to first start with Henry Hubschman, who is our president and CEO of GECAS. And then we'll have David Joyce, who's president and CEO of GE Aviation. Let me remind you again, please use the microphone for questions so we don't have to repeat it. And there also may be in the process some forward looking statements during the presentation and we request that you look at our filings in order to better understand those forward looking statements. So with that, please let me turn it over to Henry.

Henry Hubschman, President and CEO, GECAS

Okay, good morning everybody. I've met a number of you over the years. We'll try running through this pretty quickly so you can see the important guy here today . . . Dave Joyce. Doing the GECAS overview – some of you have seen it before, some not – in aviation market discussion, which I think obviously has changed from last year – a portfolio snapshot and then some conclusions. Look, the GECAS fleet is the largest in the world – somewhere between 1400 and 1500 depending on the day of the week. We have a large order booked through 2012. That does not include the managed assets, which roughly are 350. We're different, we believe, from all the other leasing companies – I'll come back to that repeatedly because we're not just in the leasing business, we're in the financing business, in servicing as well. We are certainly the most global of all the leasing companies. We have 27 offices serving a large number of customers in 70 countries. We believe we're a leader in the emerging markets. It's a very experienced team going all the way back to GE Capital, what they used to call Transportation and Industrial, the structured finance guys which would combine then with the Guinness Pete, Tony Wein led group around '93, '94.

We really handle full asset lifestyle management. We even do part-outs now with the acquisition a few years ago of the Memphis Group, which is now part of our asset management business. In the last year or so we've gotten into airport financing and had the development unit which started and roughly, in terms of asset size we're roughly the same size as ILC but very, very different models. Very different models. And we believe we're still well positioned to succeed in what we think will be some challenging markets. There's no disputing that.

The history, again, is with the acquisition of GPN in '93; Engine Leasing in '99, which is the world's number one engine leasing business; the addition of PK from Credit Lyonnais in 2000, which has been a great addition — made over \$100 million this past year, a very significant return on equity; then to regional jets; the freighter program among the leaders in converting passenger aircraft to freighters. We got into Memphis Group in 2006 so we're involved in aircraft parts trading and dismantlement. Cargo facilities are in a joint venture with Lynx, which is a very successful cargo facility business headquartered down in Texas. And lately even low cost terminals. And we expect that by 2011 we'll have over \$25 billion in assets in the emerging markets. And as many of you who have been around for a while know, not without some stumbles, but we managed to do quite well through the 9/11 and following crisis. So we've got a team that's been through some trouble before.

This gives you a sense of the number of offices. I mean, I'd just point out, we've got people in Moscow — and I'll talk a little bit later about Russia, Russian born — and we've got something like 90 or 95 aircraft in Russia and we've got a lot of aircraft going into Eastern Europe and it's one of the growth areas. And that's one of the good things about being in an industry where the assets are mobile, because things move around, growth expands in certain parts of the world and decreases in other parts of the world — it allows you that kind of mobility and flexibility. Obviously we're very strong in China, in Asia, offices in Sao Paulo and Mexico City and so on and so forth.

As I said, we're a leader in the emerging markets. You can see where we are now in greater China and what's already been committed. We've got \$15 billion in the first quarter of '08 and another total \$25 billion by '11 subject only to whatever sell-down we do for our portfolio management. China, obviously very large. Middle East, growing dramatically. Even Africa's growing now. Russia, as they say, and Central and Eastern Europe has become a big market for us. Latin America growing. India, I would say, is more stable. And as I make the point on the other side, you know, obviously we're looking at the rest of the world as — and have been looking for the past five years at areas which are higher growth areas in part because of commodity or because of economic development. India, I think right now, just as a general observation, has slowed. There's obviously an issue of overcapacity right now, not as insufficient yield so we're not pushing India at all; we're just being careful and slowing our growth there. But we have a very broad product set, the broadest product set in the aviation market.

Just historically — and again, no one of these is that critical but we've always been different from the other lessors. We often traded in and out of parts to get our equipment into places, we've done financing in order to get our equipment into places, and recently we did the China Cargo sale leasebacks with the MD11 freighters and we op lease six of the new 777 200-LRF freighters, and we launched a new small what we call 'airport in a box' terminal in Austin to serve the Mexican low cost market.

The macro trends in the aviation market. Obviously a year ago we weren't facing quite such a challenging market. We have come off three, three and a half years of extremely strong market. Fuel prices have doubled. Passenger growth is inevitably slowing because it was very high but also partly because of the U.S. economy. And now our most significant airlines are reducing capacity and either parking or retiring or scrapping aircraft, and most importantly are raising fares. And we're going to have some charts that will show you about how little they've raised fares over the years compared to the increase in the price of fuel. And the question, which I don't think was answered yet, is exactly how elastic the demand curve is. If you look at the last few years the airlines have been raising through fuel surcharges, fuel surcharges, fuel surcharges and it really hasn't impacted in any way demand. In fact, demand is even higher. It's the growth has slowed but demand is still higher. Load factors are at an all time high. But we're talking, we believe, about the necessity for them raising fares even more dramatically. And the question which is not answered — that's a candid point — is that how much will it impact passenger demand? But we actually think that the moves by the U.S. carriers — American and United and Delta and Northwest and Continental — are actually the right moves. They need to reduce; there's too many aircraft in the U.S. and there's not sufficient yield in the U.S.

This is just a little more detail. The U.S. fleet, as you know, remains very aged and in some respects very inefficient. We'll talk to you more about the disparities in efficiency. The global demand generally is still solid. I mean, we have not seen any degradation yet in lease rates, but we monitor this not daily — by the hour, by the minute. I mean, we've got quick market intelligence all over the globe.

Fleet renewals may keep the order books strong although some — and you've seen notice of this — some carriers within the U.S. are deferring deliveries. What we don't know exactly — we have a general idea — is it appears that Boeing and Airbus probably overbooked in '09 and maybe 2010 and therefore the deferrals may not impact their production runs clearly what happens in '11. We don't really know enough yet. We don't have enough line of sight. The OEMs are largely sold out, as again, I don't know that in '11 they're overbooked. The lessors are placed mostly through 2010. I'll talk about it later. We're actually, our new sky line, our new sky line, is completely placed in '08, '09, 2010 and about half in 2011 and even a couple in 2012. So our new sky line is very well placed. Now we'll see what happens. Bankruptcies are creating, and downsizing is creating some short term availability. And as I said, the next

wave of parking and retirement is imminent. I think it'll happen in the third and fourth quarter of this year.

This is sort of an indicator — and someone asked me a question before we started and I said well, let's wait and see what I say, you can ask questions later — the dramatic increase in fuel costs is the root cause of the current problem. Obviously the U.S. economy has slowed dramatically — whether you call it a recession or not we all know it's slowed dramatically. Take a look at the difference between the 737-800 with winglets and the MD80. Now, the classic obviously is not quite as efficient but if you look at the MD80 there's an enormous disparity, enormous disparity. If you look at 737s and A319s versus the 737-300s it's only 5%, and this is on an incremental block — fuel perceived basis and the data's based on 75% load factor and 500 nautical mile trip, etc. So the general rule is that the MD80s are massively disadvantaged against new generation and the 737 classics are only modestly disadvantaged against new generation equipment. So the ones that you'd expect to go would be first those MD80s. And of course, one of the airlines we know well in the U.S. — American Airlines — who's got over 300 and we expect them to move out their MD80s as quickly as they can obtain replacement lift and that they can handle it.

We think there's a substantial amount of what we call retirements. Let me just go back to 2001 and two when a number of you and others wrote about the number of aircraft parked and the effect of the overhang. I think there was something on the order of 2,200 aircraft parked in that time period and everyone was going around and worrying about the impact of those aircraft. Of those 2,200 maybe 300, maybe 400 came back. The answer is what was parked was de facto retired. And what I'm saying to you is when these aircraft, even if they're not retired, if they're parked, we consider them overwhelmingly retired. They may not be retired formally for one reason or another and I don't want to dwell on that and they may not even be scrapped but they're really not an impact on the market. They're really effectively out. So what we expect is, if you look here, 727s, there's still 80; 160 DC-9s; 300 732s, 997 aircraft MD80s of which 36% are 20 or older, 80% are 15 years or older. And on the classics only 23% are 20 or older. And then we have in addition a Russian fleet of about 400 to 500 aircraft. Now for most people they'd say, "Well, the Russians aren't taking Western aircraft." As I've said to you, we have somewhere between 90 and 100 aircraft in Russia and we're filling demand all the time because a 737-300, -400, or -500 is dramatically better than the best Russian aircraft they have. And obviously we all know that it's a commodity rich country and they're now experiencing significant growth. If you look at the statistics for the first quarter there's enormous growth in passenger demand in Russia. So this gives you a distribution of age distribution and older generation narrow bodied fleet with over 1,430 more than 20 years old.

Here's the fundamental problem for the airlines and it's not just U.S. Here's the average system yields and here's the jet fuel price, okay. And when you look down here, since 2002, you know, using 2002 as the base, you're talking about a 9% increase and a 265% increase in fuel costs. Now in a sense — and this is I think the key point to make right here — for 80-some years the industry was a high fixed cost industry. So when you're a high fixed cost industry you have a certain approach to growth. Now it's become very close to a high variable cost industry and that has a very different impact in terms of how you plan industry. You're not growing unless you're going to generate margin on every aircraft you can use. There's no issue about high cost and . . . fixed cost, excuse me, and amortizing them. So this is a huge change, mindset change for the airlines and I think the U.S. airlines are responding very quickly and others will too.

Again, this shows you historically what's happened with aircraft that were parked and it's why I say that very few will return. Okay. And this is the net additions and withdrawals from the parked fleet, okay. So we say that a parking of many of the fuel inefficient and older aircraft is de facto retirements. Now I would say to you if fuel drops to \$30 a barrel maybe we're wrong. But if fuel dropped to \$30 a barrel I'll probably fly off this stage. So you know, it's just not likely to happen. So these aircraft will go into the desert. And they're often cheaper to just park than to scrap or to retire. Okay.

Now, on the cargo fleet. This is very important, particularly for classics. MD80s, for those who aren't aware of this, really can't be converted to cargo. 737-300s have been converted to cargo and -400s have been converted to cargo, just like 757-100s have been converted to cargo. And what we have is we've got over 370 aging small freighters in need of replacement. And if you look here at the fuel differential between the preexisting 35, 40 year old aircraft, here, the freighters, and those that are let's say 15, 18, 20 years old, it's an enormous difference in terms of fuel burn. And the same is true when you look at the wide bodies, okay, 747-400s, which are starting to get converted versus the 100s and the 200s and, of course, the DC10s. So this'll give you an idea of the aging freighter population broken down according to our best estimate.

We took a look at the depletion of the older generation, meaning well out of production, that does not include 737 classics, it doesn't include 767s. It includes all the old stuff — DC8s, 747-100s, -200s, DC10s, DC8s, 727s, etc. — those are in the light blue and you look at the reduction in those over five year increments and what we project is there'll be about 249 in 2013. Now if you assume only a 1.9% fleet CAGR, okay, you need 625 additional freighters in the next five years. Now some of that, admittedly, will come from some new 747s, 8Fs; some of it will come from 777-200-LLFs although we're aware of situations where some of the orders for 200-LLFs have been converted to 300-3R passenger because the demand for the 777-3R has increased significantly in part because of the delays in 787s and in part because of the delays in the 380. But the majority of these are going to be narrow bodies

and they're going to be items like 737-300, -400, 757s, and even 767s. So we expect a number of these aircraft . . . these aircraft in contrast to MD80s and in contrast to the 732s and 727s will be converted.

This just gives you an idea for the potential aircraft market. Now I think that this is not a six month snapshot, this is not a one year snapshot — this is a three to five year, 10 year or 15 year snapshot. But if you look at the number of aircraft per million population it just gives you the idea of the opportunities that still are out there in long term in China, in India, Brazil, in Russia — in areas which have enormous population. So we think that there's expanding opportunity there which will be exploited longer term. It may not happen in the next six months but it will happen over a period of years.

Now just to give you a sense of the GECAS portfolio. The fleet is pretty strong and it's young, it's fuel efficient, the average age is six years. Eighty-three percent of the narrow bodied fleet is very attractive A320s and 737NGs and 90% of the wide bodied fleet is 767, 777-300 to -330s. I mean, we ordered between early '06 and early '07, we ordered 21 777-300-3Rs and 200-LLFs, which I mentioned already at China Cargo, all of those plus two options have already been put in place in '08, '09, 2010, and even a couple in 2011. All those are placed and at very good returns, better returns than we committed to our board when we got authorization to do it. The new order sky line I already mentioned to you. And the existing fleet is 99% placed in '08 and 70% placed in '09. Now the fact is that some aircraft that are placed may come back, but as I pointed out earlier I think GECAS has shown it has the track record for being more proactive, more aggressive in placing aircraft. If you think back to the Varig situation we were the first ones to pull our 30-plus aircraft out, got them placed at ANA, in China Southern, and other airlines and others kept hoping that things would improve and they were stuck into bankruptcy. So we're always sorts of, shall I say we wake up in the morning and we're worried, okay. We never sort of say nothing bad's going to happen; we say, "What's the worst that could happen and let's move on it."

Here's the product and geographic breadth. Let's talk about the products — 14%; this is book exposure alone. It's op lease of 66% and so on. It's a balanced mix on equipment type. Geography — it's much more balanced than it was let's say back in 2000 or even 2001, at which time we had over 52%, 53% in the U.S. Now it's down to 34% as of the first quarter and pretty good spread there in the Middle East and even Africa and in Asia and increasing. If you look out at the order book in the placements in the rest of '08, '09, '10, and '11 it's overwhelmingly moving away from the U.S.

Financial snapshot. We've got \$44 billion assets, 5% CAGR, 23% in terms of net income. You know, when I came 11 years ago I thought we had the best team in the market. I still think we've got the best team and I think we're well positioned to deal with the challenge but it is definitely going to be a challenging environment. There's no way around it. But we've been through it before.

So short term issues are fuel prices and softening U.S. demand. Longer term, you know, the reality is a lot of the world, they still haven't dealt with the infrastructure properly but the airlines actually — and this is not the fault of . . . everybody blames the airline CEOs but the reality is air traffic control systems need to be updated and integrated across Europe, across the U.S.

Next generation narrow body, I mean, I think you saw the announcement by CFM — we say it's going to be some time 2016 or later — emerging markets though the demand remains really strong. And I think the industry is rife for some modernization, particularly in the U.S.

So I'll turn it over to Dave Joyce and later take any questions that you have.

David Joyce, President and CEO, GE Aviation

Okay, so I'll take you through the GE Aviation slides and then Henry and I will come back up together and answer any questions you have. So let me just start with just what's been taking place since Paris, what's new in our world.

Well, first of all, Henry talked about it and I have a couple of slides on the tough fuel environment. You know, if you consider that our great airline customers are looking at an increase in their fuel pricing of almost 2x since we were here in Paris doing this same briefing a year ago, it gives you some perspective on just how challenging it is for these guys to continue to design an operation that can return profitability and also pass that along to the customers — the right value and increase their prices enough in order to cover this variable cost.

Henry also mentioned we and SNECMA — their parents, SAFRAN — renewed our relationship in the narrow bodied market so that we will create CFM products for the next generation 737s and A320s. We announced that here at the show.

The GEnx, I'll give you a little status on that but we've certified it on the 787 and we're working on the 747-8 variant of it as we speak. Our newest Business Systems, which is a result of the transaction with Smiths, is right on its plan and we feel very comfortable that that'll give us an entire footprint outside of propulsion and allow us to continue to grow in some neat markets.

And the F136, we expect the first engine to test December of 2008, of this year. And in the military business we have some really neat advanced technology programs we've been selected on both by

the Army and the U.S. Air Force to get our technology suite ready for the next generation of fighters and other aircraft and I'll show you that.

And finally, as we combine the Systems business along with our legacy propulsion business, we're taking a whole other look at business and general aviation as a growth sector for us in the GE Aviation market and that gives us a whole new way of looking at what our organic growth is going to be in the next three to five years.

So this is the annualized revenue portfolio on how I look at the business. And I've actually asked each one of the business vice presidents to come to this briefing so that with all of the change in the organization that's occurred recently, you at least have some perspective of who's running what.

So on the Commercial Engine business, Jim Blackenship is here in front. For the Services business, Tom Gentile is right here. For the Military Engines & Service, Russ Sparks is with us. For our Systems business John Ferrie's joined us. Business & General Aviation, Brad Mottier has also joined us. And for the Unison Engine Components we have, that's me. At least at this briefing it is. And I also want to put in perspective that \$400 million of revenue for engine components is what we do with third party work. So we also use that engines components business within the existing businesses in GE Aviation for another \$400 million. So that represents today's look at what GE Aviation is and this is a look at the numbers. Very strong revenue growth over the last three years — 19% CAGR. And a very strong segment operating profit in an environment in which we're at record production deliveries and I'll show you that on the next page. But we have had an unprecedented run of orders growth over the last three years and that will result in an unprecedented run of production deliveries over the next three years, resulting in almost 23,000 installed engines that then, as they're utilized, create a great franchise for our Services business.

Military Engines is also seeing great growth in its unit production and our Systems business is seeing great revenue growth as we also work on the continuation of integrating the Services business in with the rest of Aviation.

Here's the story on commercial engine volume. In 2008 we will ship over 2,250 engines and we expect to see that grow on an annual basis by almost 500 engines over the next three years. You can see our backlog is somewhere around 9,400 engines, which is the strongest backlog we've had in the history of this business. And about over 23,000 engines in our installed base. So it's that installed base growth, it's this production growth that gives us confidence that we also then create a great systems franchise, which are . . . I'm sorry, services franchise, which you can see on this chart. Our long-term service backlog is now \$52 billion. We added over \$6 billion to that backlog just in the first half of this year. And

we expect to grow that to about \$80 billion by 2011. We expect to have under contract 47% of our fleet in that same time frame compared to where we are now.

To put this in perspective, by 2011 — and I used a chart similar to this in September in the analysts meeting back in Cincinnati — 44% of all the departures worldwide will take place on CFM powered products by the year 2011. And an additional 20% of all worldwide departures will be on GE products. And to put that in perspective just on today's basis, an airplane takes off just about every two seconds powered by either GE or CFM and we take about 45 trips to the moon a day in terms of the utilization of our equipment, to give you some idea of just what a great proxy this is for spare parts and spare parts growth and services growth as we go forward. So this installed base growth is essential for us because it creates a model that allows us to now look at each one of these installed engines as a terrific investment for upgrades, for an opportunity for us to continue to grow out our spare parts in the future.

Okay, this is a chart that I put in here because we're going to talk about fuel, fuel efficiency. I'm going to pick up where Henry left off and talk a little bit about the current climate. But I want to put in perspective one of the things that we're very bullish about. For at least the last two decades we have had significant investments in fuel burn technologies, starting on the original GE-90 777 program and even before that on the CF6ADC2 program. And if you think about what's happened since 9/11 we haven't missed a beat in terms of our investment in technologies, but most of it's been targeted towards what we call wide body or twin aisle applications — GEnx, 115-B engine, which is a big GE-90 on the 777-300-ER, and even the A330 on the 80-E. Well, those investments have served us very well because they've created in the marketplace a value proposition for GE owned products that is substantially differentiated from our competition. As a result, as we enter into an environment where fuel is even more important to the total variable cost to these customers I feel very comfortable that we have even more of a differentiated advantage as a result of the technology investments we've made in everything to date and continue to make even on the GEnx. So as we talk about fuel efficiency and we talk about a high fuel cost environment, the only way you really protect yourself in the industry for that is to have technologies that give you the best fuel burn, and the best fuel burn therefore means that you bring the best value proposition to the customers when you go to the market. And I'll show you some numbers in a little bit of just how important that is for us in these different applications.

So this is the world fleet fuel efficiency discussion. What I've done here is I've taken the entire world fleet, which is somewhere north of 19,250 aircraft, which includes cargo and the Russian aircraft, and we've divided it really into three categories. So this is a takeoff on Henry's chart earlier. If you take a look at the least fuel-efficient aircraft in the world, they represent approximately 21% of the world's fleet. So taken another way, if we were going to get rid of 'park' and 'not bring back' — the least effi-

cient aircraft in a worldwide fleet — we would be able to contract this industry by 21% before we would really get at the most least efficient aircraft. Now on exposure, GE and CFM in that first tranch, that first 21%, represents less than 7% of that 21%, or 331 aircraft of the 4,100 aircraft that we would see around the world represent the least fuel-efficient aircraft. Then as you move towards the more fuel efficient aircraft, those become candidates for redeployment, as Henry said, like the 737 classics, etc. In that category what really happens in our business is you see one customer in a given region — let's just say the Americas — as a result of contraction of supply and demand that that asset needs to be repositioned somewhere else in the world. So in terms of the total lifecycle profitability of the engine, we're still going to be able to have a services life for that particular engine but it may take a delay of three or six months as that airplane is repositioned somewhere else in the world.

And then finally, the last tranch on this chart, which is green, represent the best in class, which are the new aircraft that come out with the best fuel burn in this industry and it's about 41% of the total world fleet. And if you take a look at what we represent of that 7,963 aircraft, well over 50% — almost, well over 60% of the airplanes that represent the top 40% in terms of best fuel efficiency for this industry. So in general, even though there may be some contraction, we feel pretty comfortable long term that we're really well positioned in terms of where GE and CFM's engines are in a world fleet demographic.

That being said, we do expect to see some repositioning and that repositioning will result in some delays in our services, revenue, and op profit and we're watching that every year. We have a roll-up customer by customer, airline by airline, in which we take a look at this on a really regular basis through Tom's business, and we'll continue to keep you informed of what we think that means in terms of the impact of our earnings.

Okay, let me give you a status on a couple of the development programs in Commercial, I'll move into Military, and then we'll talk a little bit about the Services business.

GENX. We have certified the engine for the 787. We did that in March this year . . . last year, I'm sorry. And we're taking advantage of the delay. The 787 delay has given us an opportunity to actually run an additional flight test program that we sponsor on our own 747 and I've actually included a video in this presentation to show you some of the certification tests that we ran on the GENX. But we're flying as we speak with our third campaign. That campaign is testing some brand new features in the engine that actually are going to deliver not only on commitment but better than commitment in terms of our fuel burn and also in terms of the environmental footprint of the engine — carbon and nitrous oxide. So a good story on the GENx and we now are testing the 747-8 variant with certification planned for the second quarter of '09. We go into service with Cargo Luxe in the fourth quarter of the same year.

[EXPLAINING VIDEO AS IT RUNS] I'm going to ask the gentleman in the back to run this video and I'll talk a little bit about what you see but this is some of the testing we did on the certification. You can see they're building up the fan — those are the big fan blades, composites; taking it out to our Peebles test site in eastern Ohio. There's running with the cowls open, that's what that is. That's a big turbulence bubble we put. Now this is our icing ingestion test. Now they're running hail into the engine, so those are balls of hail. These are birds that we shoot through the engine to ensure that we don't have any problems in service, okay. And this is a slow motion of a bird. There we go. And this is what happens when a fan blade leaves the engine. We actually have to demonstrate that blade-out does not cause any damage or anything in the engine that would cause any issue with the airplane. And this is water ingestion, where we take these hoses and pour it in the front of the engines so that if you ever fly through a monsoon you never worry about a flame-out or any problems on the engine. That's our flying test bed. We're in our third campaign on it out in California. So I just put that in to give you some perspective of the magnitude of testing that exists when we certify one of these engines, and we're doing that right now on 747. We'll have four new engines in service by 2010 that'll be billed today. We just finished that same block of testing on the engine Alliance engine, the GP-7000 which will enter service with Emirates in August of this year. We'll be the only engine flying on the A380 into the United States, into New York first, then Chicago, then San Francisco. We're really happy with this program. The engine's running terrific. It actually beats spec on fuel burn. And just to give you a perspective — Emirates has a big fleet of A380s, as you know. Emirates will save, when they get their entire fleet up and operational, on a yearly basis as a result of picking this engine versus its competition, \$35 million a year in direct operating profit just because they chose the engine Alliance engine and it has that level of fuel burn improvement versus its competition. So fuel burn technology is key and in a high cost environment fuel we are even more bullish about that technology than we have been in 20 years.

So I'm going to switch a little bit to the Military business now and talk about some of the priorities and more about customer priorities in the military world. As you all know, the war on terror as well as the Iraq operations are really the number one priority for the U.S. military. That chart in the upper left is an indication of just how much growth we've seen in operations over the last five years in Iraq. That represents rotor craft operations in Iraq in thousands of flight hours per month so we've gone over a 50% increase in five years in rotor craft in Iraq and we power 70% of those helicopters with RT-700s. As a result of that we ended up this year increasing our production deliveries of T-700s by 40% just simply to support the efforts of the operations that are in Iraq today.

Now all that operational cost and maintenance cost to keep up the war on terror and the operations in Iraq has taken the military budget and put some real headwind into recapitalizing fleets with new equipment. That priority is actually less than, of course, what it takes to continue the war on terror. As a result, our customers have asked us to take a look at some big upgrades on the existing weapons

systems and the existing combat capability in order to assure that the older fleets that they have more capability. So we're very active with the Air Force and with the Navy to make sure that we have new upgrade programs, service life extension programs, upgrade programs on capability of things as old as the A10, the PF34 powered A10 we're looking at an upgrade for. And also we've then taken and focused and moved it from the U.S. to international competition so F15, F16 competitions worldwide — Russ and his team have done a terrific job of capturing our fair share of wins, particularly on the F15. So a great story of positioning ourselves so where we align with the number one priorities of the customers and then look for an international market to make sure that we can make our growth.

If you take a look at our key development programs, the F136, of course, the first engine to pass, as I said, sometime in December of 2008 — potential for over 5,000 aircraft. We've been through the authorization process with both the House and the Senate and been put back in the budgets as the second engine. And we now are awaiting the appropriations process for 2009 as we speak. And we're entering a brand new market in heavy lift helicopters, which, to put it in perspective, the engine for this helicopter is about three times the shaft horsepower of the T-700 engines that I talked about earlier in the briefing. So this is a brand new market for us. We bring an engine that will guarantee 10% to 20% better fuel consumption and lifecycle cost advantages of over 50%. We hope that this becomes a whole new market segment and franchise as we grow it out, so around the 7,000 shaft horsepower product line and the first product that we've been chosen for is the CH53K, which is shown up there on the right.

In addition to the NPI programs — the new product introduction development programs — we have some key technology programs in the military that are absolutely essential to building out the portfolio of technologies in this space. And really there are three. There's the ADVENT program for the next generation fighter and bomber in which we won — we were down selected to; the next generation tanker and transport called HEETE, which we were also down selected as a winner; and finally, the Advanced Affordable Turbine Engine for the next generation of attack and utility helicopters from the Army, which we were also down selected for. So of all the competitors that were going in for these technology programs we're the only engine manufacturer that was down selected for all three, which is really a tribute to Russ and his team and the technologists at GE Aviation.

Switching now to the Systems business. You know, this came about with the transaction of Smiths when John joined us. And really, the case, the business case for this is pretty simple and that is we have a lot of knowledge, domain knowledge of the industry; Smiths had a lot of knowledge of the industry — could we get together, take the playbook of operating disciplines associated with GE, connect it into our global research network worldwide, and then really expand our portfolio beyond traditional propulsion and give Aviation a different look and feel as we went into the markets on future applica-

tions. Today Military represents about 60% of that business, or \$1.2 billion on a revenue basis and Civil represents about \$1 billion. And we are, like I said before, on track to the business model that John and the team put together when we decided to do this transaction and grow Aviation. We've seen synergies of over 700 heads and we're in the process of restructuring over seven sites as we speak — isn't it, John?

John: Yeah.

And so this is really a homerun for us. And where it really helps is when you take a look at the service product offerings we go to market with now and I'll show you how that gives us a whole different look and feel to the business in general aviation as well as the next generation narrow body and some other expanding markets in China and in India. But essentially we go to market in a civil and a military organizational structure and products underneath that go to market in three really major segments: Digital, which is in the cockpit information systems — displays, mission management for the military; Electrical Power, which represents all of the distribution of power over the entire aircraft — as you all know, the 787 is an all electric airplane, it's a good example of how much additional power is required on today's modern commercial airplanes and the military airplanes are seeing the same increase and with that are challenges on efficiencies, heat management, and integration with the engine of which we hope to take advantage of with our technologies; and finally, Mechanical Systems, which are the traditional actuator systems, aero structures, landing gear, and etc. Great set of customers, both in the military and in the commercial arenas. And really nice applications, including the most modern of both the commercial and military airplanes.

So with that new portfolio of systems, with the renewed growth initiative within GE Aviation, we've taken another look at the business in general aviation sector — that sector is growing at really fast rates. It's 9% CAGR per year if you take out through 2016. Sales of business jets will top \$25 billion at that point in time. And we take a look at that market now quite differently because we can enter into that market with a whole portfolio of products within the Systems business as well as our propulsion expertise in order to create the right value propositions for our customers. So to help us even broaden this offering a little bit we've recently, as you know, concluded a transaction with Walter in which we've now purchased Walter Engines, which is a turbo prop engine manufacturer in Czechoslovakia. They make a very economical and robust engine and when we start putting the technologies associated with GE Aviation into that architecture, we hope that it really spells magic in terms of the new applications and re-engining applications.

In addition to that, the GE-Honda joint venture, which you have seen before, with two applications — the Honda jet and the Spectrum S-40. And finally, that coupled with the Aviation Systems now will go

forward with all new business jet applications and look for opportunities for distributed power, power generation on the engine, lots of new and innovative ways in which we can connect these systems together to create the right value proposition and an advantage for GE.

A couple of announcements here at Farnborough that are significant in terms of our future. One was this announcement on what we call eCore, E standing for environmental, efficient, the expertise of our people. The bottom line is we've made a commitment now to develop a whole new set of technologies and efficiencies inside the core, which is the really heart and soul of the engine, targeted at a business jet application, big business jet application, regional jet applications for the next engine that replaces our CF-34 family, and to go into the joint venture with SNECMA as the CFM core for the next generation for the 737/A320 replacements. So we're real excited about this. It's a big step forward. The technologies required for us to get the efficiencies we're looking for out of this core are significant. We've actually committed versus a CFM on a 737 new gen today 16% better fuel burn by 2016 starting with the utilization of the key technologies inside this core.

This was the announcement on the GE SNECMA commitment for the next generation of 737s and A320s where we've renewed the current joint venture through 2040, which should cover the next generation of airplanes we think.

In addition to that, we're going to go together for the first time in this next generation not only in Engines but also within Services. So the next generation of product will have a services offering from CFM as well as an engine offering from CFM.

This is another big announcement we made here at Farnborough and we're starting to get a lot of traction and a lot of questions in the marketplace as to the difference in residual value of engines that have been maintained by GE and repaired by GE and maintain OEM equipment by GE and CFM versus those that don't. So we've started a program called TRUEngine, which we offer to each one of our customers. Those that are very loyal to their maintenance programs and their overhaul programs who want to sign up for it will get the benefit of being certified as a TRUEngine, which then will carry a different residual value in the aftermarket than if it doesn't and carry a different support package from us as the OEM than if it didn't have it. So we're starting a brand and get recognition for those customers that stay with original equipment solutions in the marketplace longer term.

So in summary, this is kind of the Aviation story. First of all, strong performance in '07 basically driven by technology that differentiates and making big investments for the future, for '08 and beyond. Unprecedented commercial engine volume, as you saw, that should continue for the next three years. And we feel very well placed when you really take a look at the world's fleet and the efficiencies of those fleets and as, if any contraction occurs what it means to our position in terms of installed base.

Entry into service of four new commercial applications by 2010, new of those being GENxs. Military doing a great job in a tough environment and setting itself up with the right technology programs, the right synergies and systems, and positioning ourselves for growth in Military and Commercial, and to help us look at a stronger book of business in the general and business aviation.

So with that, Henry, do you want to come back up and you and I can answer some questions or how do you want to do this?

Question & Answer

New Speaker:

Cliff Ransom. Some of the legacy carriers in the U.S. have put off modernization of their fleets for a long time and they're now facing the imperative of the additional burden, beyond marketing, of fuel costs. But they're all broke. Talk to us about what are their options if they wanted to upgrade their fleets over the next few years and how do you solve the problem of delivery slides?

Henry Hubschman:

Well, I think it's a good question, Cliff, but I think it's a little bit, it's like a little bit everything else in this industry — when things are going well it's so perfect and nothing can go wrong and when things are going a little bit challenged people say it's a dead industry and it's actually somewhere in between. I mean, if you look at Continental's fleet, right, they don't need to really upgrade basically; they're just shedding some capacity and the like. American is probably the best example of what you're talking about because they've got the MD80s and I think they're going to be looking to the capital markets, to financiers including GECAS and others, for sale leasebacks. Now, you know, each airline is different. In the case of United where they're getting rid of a number of the classics, you know, Jake Brace is quoted as saying that we can actually use the RJs very effectively, which they already own or can contract without financing it on their own. So you have somebody like Republic or Chautauqua, somebody like Mesa, you know, Skywest and so on and so forth. So each case is very different. I would say right now, as you know, those that haven't contracted for 787s aren't able to get them in the short term; but I think the 787 is such an attractive asset that people will find sale leasebacks of them, you know, again, in a global, portable world where if worst comes to worst you can move an asset around. I've always felt the issue is not so much the credit of the airline, it's the value of the aircraft and the price of the aircraft. You know, it's very hard to underwrite airlines. I mean, like Mr. Buffet would say: "You want to know how to make a million dollars? Start with a billion." But the reality is that if you got the ability to redeploy assets, if they're the right assets and they're at the right price you can do well. If they're the right assets at the wrong price or the wrong assets, it's a different issue. So I think we'll have to see. It

is going to be a challenge but I think that you'll find people willing to buy assets and I'm assuming, knowing American, that they're buying at a very good price from Boeing.

New Speaker:

Henry, Steve Auzzie came out and made a number of comments about the industry not too long ago and what a difficult situation it's in and the next day talked about potentially buying 300 more narrow bodies. I'm curious how you think about the market right now given the capacity that's been ordered from Boeing and Airbus, the fact that we are heading into a more difficult environment, and how do you look at buying new airplanes in this environment today? If you contrast that with what Auzzie said.

Henry Hubschman:

We don't — to be quite direct — we don't anticipate at this present time buying new narrow bodies and there's a couple of differences between us and an IOC. I think their narrow body book runs out in 2010. I'm not even sure they have many in 2010. We have what we consider a full order book in 2010 of narrow bodies, a full order book in 2011, a full order book in 2012, and very few aircraft in 2013 — I think three or so. So we don't feel the need to go out and order narrow bodies. And the other reason is because, again, more of our volume comes through sale leasebacks and from loans and they're — I shouldn't say they're dependent but their model is one of buying speculatively — so we don't feel the need to buy narrow bodies. You know, I never second guess Steve just because he's got a proven track record. I think the issue will be — and this goes back to the question that Cliff asked — if you look back at 2001 and two and three, we did very well because we were quite opportunistic in doing sale leasebacks and loans and even, in one or two cases, dips. We hope we don't have to do dips again but if we do that. I think that's the way we'll look at it this year and for the next few years — we'll be opportunistic in buying at the right price so we might add to the fleet at the right price or do loans when we can. And for example, one of the manufacturers called us up recently and said, "We have five slots in 2010 and you can move out of 2012 some slots. Are you interested?" And we took them and within a week had them placed at very good returns. But you've got to be able to move fast and you have to have, in my view, and ILC does have that as well, but you have to have a global team. You can't sort of be sitting in Stamford and saying, "Let's start going out to meet people." We have literally people who are every single day of the week in Russia, in Brazil, in Bulgaria — I mean, in places you don't often think about but those are the places that need modern aircraft.

Speaker:

But then when you take a look at — and you mentioned earlier that you wake up worrying about what the worst case could be — and if you think about what worst cases could be here and what I would suggest is a situation where you actually see, you could see production rates decline at Airbus or Boeing, which seems quite difficult given the size of the backlogs today, but if you see slots open up be-

cause of deferrals — say relatively late '09, that type of timeframe — are those slots that you could see picking up and easily placing, which would keep those production rates pretty much where . . .

Henry Hubschman:

Well, I'm afraid to generalize, okay, because the answer is it really does depend, honestly, on how good your market intelligence is. We're, as I said, every day of the week talking to somebody. Somebody is saying to us — well, we don't go advertise it — "You know, I could use some new aircraft in '09." We actually had that discussion yesterday at the show, okay. And we know about somebody who's looking to offload aircraft. So we're saying to ourselves we're going to match the two up. Now, maybe someone else doesn't know about that. I think the answer is yes, it could be, but we won't do it just because there's deferrals and we're going to take open and [UNCLEAR]. We have to have some good sense that we can put them some other place. And as to my waking up, as Jeff says, I wake up when the day is sunny and we're making tons of money and I'm worried, you know, I worry, I'm just a worrier. But I think at this time you have to be proactive. And I think the answer will be the circumstances will dictate but we've been very . . . That's been where we play a good role. We sort of seize an opportunity. We don't sort of say maybe there's somebody out to get it; we already know three airlines that might be looking at it. And if you were all my colleagues internal, everybody would know about it. So every Monday we review the entire world, literally, the entire world and people are saying to us, "Here's somebody in this corner of the world that's looking for 319s or 320s or 737-700s," and somebody else may be saying, "Here's somebody that's looking for offloading." And that's an issue but we have to match an issue up with an opportunity.

New Speaker:

Well, I guess one for each. Henry, first, can you talk a bit about the competitive landscape in the aircraft leasing market. You've got yourselves and the ILFC as the two thousand-pound gorillas but still, a number of smaller companies, some that are publicly traded that the stocks really haven't reflected that well lately. Dubai is a major push in this market. How is this going to change the way you guys compete, the way you guys behave?

And then on the engine side, the idea of taking services from 40% to 47% — how does that happen? Is that just on the existing aircraft engine sales or there are open market opportunities that are coming up? So fire away.

Henry Hubschman:

Briefly. There's never been more competition on the leasing side ever before. As people say, what seem to be low barriers to entry — I mean, not just Dubai; Bank of China buying sale, AWAS under the guiding hands of terra firma, our friends at ALAFCO in Kuwait. I mean, there are more leasing companies

than ever before and part of it was that the market was so strong in 2004, five, six, and seven. Now the question is this, which we don't know the answer: How many will be there in 2011? Ten or 11? We don't know. Dave.

David Joyce:

Yeah, 40 to 47 for us is a combination of going to the existing fleets that are out and seeing what customers wanted to enter into a more global agreement as well as with all the new order book. So what we try to offer in the services world is a proposition of risk transfer as well as assurances in terms of the cost. So think about a world in which you wake up and you may have 20 shop visits this year and 30 shop visits next year or to 40 shop visits and you have to plan every year for the variation that may occur versus a world in which you can get a dollar per hour fixed cost guarantee on what you're going to pay for maintenance and you can plug that into your overall equation based on what you get in a revenue line on a per hour basis perceived and use that to get a much different view of your operation. So we offer a whole variety of products but they're essentially risk transfers and stability products for people to use. So it's not that hard for us to go from 40 to 47. It's really the value proposition.

New Speaker:

Henry, you gave the example of five positions opening up in '10 and you talked a little bit about finding a marriage in '09. Just wondering if geographically, if you look around the globe today, you know, people wanting to get out of '09 positions — I'm sure India and North America have been two of the bigger locations and I'm sure Europe to some degree as well — have you seen any desire by the Chinese carriers to start getting other earlier positions?

Henry Hubschman:

No, I've not seen any desire yet. I think, to be quite honest, the last few months the Chinese have slowed down, not necessarily their long term growth but I think in preparation for the Olympics and in part a response to the terrible earthquake and in part the Chinese government's understandable desire to make sure there are no safety problems. I would say we must have placed 25 aircraft in China the last quarter of last year and in the second quarter I don't think we've placed any, But I don't think that has any affect long term on China. And I've not seen any desire by the Chinese to get out of any at all and we have quite a few going to them. None at all.

New Speaker:

Can I ask maybe a couple to Dave and then one or two to Henry. David, I'm going to start with you. What do you see the probability of the narrow body replacement engine being open rotor versus advanced turbo fan? That's the first question. And the second one is when you look at GE Engine Services

what percentage of revenues there are from the CSAs of the moment versus traditional spares purchasing?

David Joyce:

Let me start with the first one. Just to give you a perspective on how we're looking at this next generation narrow body. We really have three programs that we're working in parallel, that are all essential to getting ready for this transition that will occur sometime between 2016 and beyond. The first one is to continue an aggressive upgrade strategy on the existing engines so that the value proposition that the customers that are flying the CFM products and the A320 and 737 can wake up every morning knowing that we've got their best interest in mind trying to find ways to get them better fuel burn, better time on wing, and reduce the cost of operations of the engines. So that's one set of investments that is a continuation and a continuum that occurs today. The second thing is this E-core dialog we just had, which says that no matter what architecture you lay out for the engine there's some fundamental baseline foundational technologies that have just got to be right — whether it be an open rotor or not — that you have to commit to and these are research programs as well as development programs. So you have to lay out an entire development program that says I am going to go out and research these technologies on materials and aerodynamics and whatever else; I'm going to put those into a set of tests from rig tests to component tests to full engine tests; and I'm going to validate that I have efficiencies, fundamental efficiencies associated with the compression components, the combustion components, and the turbine components; and then I can lay out the architecture I want to lay that in to get any additional benefits. Right? So then the third phase is what architecture do I want on the engine, which is the dialog of open rotor versus advanced turbo fan versus a gear fan and we've studied just about everything you can imagine relative to that and we're kind of fixated on two opportunities. The first is the advanced turbo fan because we think that we can do an advanced turbo fan and eliminate the complexity of a big architecture change and get you a 16% fuel burn by 2016. We think if you're going to take the real challenge of a big architecture change you should do it with a big incremental fuel burn benefit. So if you do an open rotor you get another, perhaps, 10 additional points of fuel burn benefit — so you go from 16% to 26% fuel burn advantage. But with that comes a tremendous complexity in terms of the installation, in terms of the aerodynamics, noise, and also these blades change pitch through 120 degree arc while they're flying. So it's a complicated mechanical and aerodynamic machine that has a third set of technologies that have to be developed in parallel, for what we talked about earlier, before we make a decision on architectures. So our goal is to be ready to move any way we need to. What will really help us along is the airplane folks telling us, you know, you don't install an open rotor the same way you install an advanced turbo fan, so the airplane looks totally different. Those of you who saw the Easy Jet cartoons saw that. So we continue to make sure that we have technology programs that protect the current generation, the foundational technologies that

we need for the next generation, and then the unique architecture technologies. And we'll be ready. We'll be ready in all three depending on what the airplane folks . . .

Speaker:

Knowing what we know today, what probability do you feel that it would go open rotor versus turbo fan?

David Joyce:

Well, the issue is timing, you know what I mean? You've got this market that's looking at four dollars a gallon, you know, double fuel in a year, how long can you wait? You know what I mean? And what's the risk of waiting that long and finding that there's just so much risk in the new architecture that it won't work? So you're weighing that against this 10% fuel burn, incremental fuel burn advantage if you can get it all to work with the same reliability. Recognize the dewy cycles of these narrow bodies are very severe. I mean, these folks use these airplanes six to eight cycles a day, you're bouncing it off the runways. And today, for example, on a CFM the customer doesn't take it off wing for five years. I mean, it's 20,000, 25,000 hours before they open it up and look at it. So there's a honeymoon period for a long time after you buy these engines when they're maintenance free. There's not a customer in the world that's going to give any of that up in the next generation. We can give them fuel burn but if we start trading it for any kind of significant difference in the maintenance profile that they're used to, we'll hear that loud and clear very early. So I'd say it's 50/50 right now and I think the key is that we continue to drive towards the right technologies. And even as we study open rotors, those technologies will find their way into any design we use. Just like the composite blades we have in the engines today — they started with our unducted fan engine, which is the first place we used the composite blade, because we had to. We couldn't make a metal blade of that size work; we needed something lighter so that's how we started our entire journey into composite fan blades and now two of our mainstay products — the GE-90 and GENX — have composite fan blades as one of the big differentiators in the architecture of the machine.

Speaker:

The question about Engine Services and the percentage for the CSAs versus traditional spares.

Henry Hubschman:

Forty percent of our engine fleet is under long term service agreements and so that's a rough approximation of the amount of spare parts sales that go through the long term service agreements. But about 65% of the work that flows through our own overhaul shops is either CSA, long term service agreements, or what we call long term exclusive time and material deals which are long term deals that we have put in place that we don't call CSAs technically. So 65% that flows through our shops.

New Speaker:

First of all, you spoke in your introductory comments about the [UNCLEAR]. Would you come off the fence and just offer your personal view. I mean, I'm sure you guys have run some simulations of what you think air traffic may be. And a related question to that is I think the presentations that you did are [UNCLEAR] to the old engines and, in fact, you got very few there, but on your newer fleet how do you see the aftermarket being affected by potentially slower air traffic?

Henry Hubschman:

Well, my own view is that we're going to have much slower growth for a couple of years in terms . . . Now exactly what it's going to be we don't know and I'm frankly, I'm not prepared to tell you how we model it because I might as well tell all of our competitors exactly what our plans are. But we do see slower growth for a couple of years and then we expect it to expand again. And the aftermarket, we really don't look at that very much. That's just not our, that's not part of our model you might say. At all. I don't know about Dave, but not ours.

David Joyce:

Phrase the question for me one more time so I can . . .

Speaker:

Well, let's say we get air traffic 2%, global air traffic for a couple of years. What does that imply for the aftermarket on the GE younger fleet?

David Joyce:

Two percent growth would, I wouldn't be that upset, you know, if that's where it ends up being. But I think what you have to . . . The aftermarket for us, if . . . there's really two factors that'll affect it. This idea of repositioning aircraft because regionally, let's say in the Americas the contraction is such that people start putting down a bunch of aircraft that need to be repositioned so we end up with a three or four or five month, you know, where an aircraft needs to find a new home, right. So that aircraft doesn't burn fuel so it doesn't depart, it doesn't burn life on parts, you with me? And I just end up looking at a delay in getting the return on that investment as that asset finds its new home. That's one. The second one is where today the utilization of the existing equipment is less so when an airline will take an airplane that flies eight cycles a day and make that airplane only fly five cycles a day, right, then therefore we end up with less utilization on the airplane. But that's not good for the airline as well as me because that's an earning asset — you with me? — and there's not an airline in the world that doesn't size their fleet to get the maximum utilization of that capital in the air because that's the only time they make revenue. So we normally think that the big impact that'll occur — [UNCLEAR] of those two impacts that we'll see — will start with this regional redistribution of the existing equipment

around what the real demand for air travel is going to be vis-à-vis what the real supply of equipment is going to be. And so that's the way we're looking at on an airline by airline basis, region by region basis right now. And you know, of course, the epicenter of that is the U.S., which we've talked about before when you take a look at the action that's occurring already. So that's my answer.

Speaker:

Can I just ask one more please. In previous presentations here at the show you've had some interesting charts on your R&D profile. Can you just update us where you think you are on your civil and R&D lifecycle.

David Joyce:

Company funded would be the way I do it, and think of a number north of a billion, like a billion-one kind of number for us, the company funded R&D. And we don't see ourselves taking our foot off that throttle for a while. I mean, we distribute that R&D now that I've told you about the, you know, the business and general aviation world, the work we're doing in Systems, the new Systems business, so what we get to do now is take a look at where that R&D has the best return for us and where it gives us the best footprint longer term and so we'll make those decisions with more opportunities than we did, I'd say even a year ago in terms of the way we're looking at the business.

New Speaker:

Some people, not necessarily me, were surprised at the length of time that Boeing was talking about stretching out, stretching out, stretching out the next generation of narrow bodies. But they're also now saying that the pacing element is the engines. So this is a chicken and the egg question. Which comes first? Are we going to see, with changes in engine technology, an acceleration of that generational change or is it in no one's interest to do that given the backlogs?

Henry Hubschman:

I'm going to let Airbus and Boeing answer the majority of that question, Cliff.

Speaker:

Yeah, but it's your technology that's going to drive it.

Henry Hubschman:

And so we've declared at this show what our technology roadmap looks like for the next generation, which is 16% fuel burn by 2016. And it could be, if we extend the development of a next generation narrow body out into a longer time frame that allows us to look at more nonconventional applications like an open rotor then it could be more than that. So we're looking at a technology plan that gets us this E-core, as we put it and brand it, for the next generation business jets, the next generation region-

als, and these narrow bodies that we close on products in the middle of the next decade. And that's kind of the thought process for us in terms of the next big efficiency block in our product family 200 seats and below. Now, how that finds itself into an airplane is we'll enable that any way we can, as Boeing and Airbus and anyone else tells us they want us to. Okay.

New Speaker:

Can you just update us on where you are with the A350 second engine negotiations? And secondly, obviously you had a good look at the [UNCLEAR] option as the next [UNCLEAR] replacement. What was it you didn't like about that, or don't you?

Henry Hubschman:

The A350, we continue to talk to Airbus almost on a weekly basis and I just can't make a business case yet for a brand new center line engine for the application on the A350-900 and -800. That business case is just not a good business case for us today. If that changes, we'll be the first one to let everyone know but at this point in time . . . And remember, we have the first engine on the A350 — when it was first launched it was launched with a GENX variant. That worked for us very well because the size of that engine was within the constraints of the sizing we have done for the 787. So it ended up being another application of the existing investment we made in the GENX. In fact, the GENX, when it originally was sized, was sized such that it could handle both the Airbus and the Boeing product lines and then the Airbus product line transitioned to the A350, which is really a 777-200-DI kind of airplane so it's much bigger. And it requires in the center line for us and therefore a pretty significant investment and I'm just not in a position to where that closes.

On the gear fan, for me, each one of the engine companies has a preferential set of technologies that they invest in, spend money on, and get ready for the next generation. For us, we are very committed to some of the advanced foundational technologies that drive engines. Okay. For the last 20 years there's been an advanced technology core engine running at GE every day for 20 years and every day we look at the aerodynamic performance, the materials performance, and everything in that core to ensure that we know how to get the most efficiency at the least number of stages. That creates a level of confidence for us in terms of what complexity we need to deliver a certain efficiency gain going into this next generation and therefore we then laid out what the targets are and what the architecture has to look at based on our confidence in the technology programs. And with all of that we do not need the complexity of a gear fan to get to 16% fuel burn by 2016. And it really is that simple. Okay? It's not do I like it, do I not like it, etc. It's a very pragmatic dialog done by some really smart engineers and that's where we are. And it really is a tribute to the investment we've made for the last 20 years in technology more than it is anything else.

New Speaker:

The question for Henry. Henry, I imagine you keep a watch list of troubled customers that keep you up at night. Can you give us a sense of how that list has grown since the beginning of the year and then I have a follow-up.

Henry Hubschman:

We do. But I wouldn't say that's the only thing that keeps me up at night. You know the old saying, "I sleep like a baby. I wake up every hour crying." It's grown somewhat. It has not grown dramatically . . . only for this reason — because our watch list, again, is very proactive so we don't put somebody on the watch list when it goes Chapter 11. So candidly, Aloha, Midwest, and Frontier, for example, were on our watch list well before they filed Chapter 11. So it has grown somewhat; it hasn't grown dramatically for those reasons — because ours is not a sort of a, you know, a rating change; it's more, very much more proactive. But it's grown somewhat.

New Speaker:

Separately Henry. I think I heard you say during your prepared comments that lease rates have been stable lately. I'm not sure if I heard that right. And if so, were you referring just to the current generation of aircraft? Because I'm hearing that even the older A320s lately have been coming under a fair amount of pressure.

Henry Hubschman:

Well, it may well be. We haven't yet experienced it. I can't dispute it if someone else says that that's what happened to them. I'm just saying to you that within the past — and we had such a strong third and fourth quarter, and even first quarter, that we haven't leased as many aircraft second quarter — maybe signed them but they were already negotiated. You know, I think we released something like 65 or 70 aircraft in the second quarter, but in fact, almost all those deals were negotiated fourth or first quarter and then they were just signed up. I know I can say to you we leased a 21 year old 737-300, 22 year old 737-300 into Africa for six years and I was like delighted by the rate. And we leased a couple of 320s this week that are coming out of another carrier — I don't know where it was now but it was someplace in sort of an emerging market and the [UNCLEAR] were great. Now, it may be those may have been newer generation than 320s; they were probably eight years old but we haven't lately experienced . . . We don't have that many old 320s. We don't have that many old 73s so I don't have enough experience with them to say that they haven't gone down.

New Speaker:

I was just curious. Thirty percent of your '09 existing fleet that's not placed yet, could you give me an indication on the fleet types and then also how much of that is in the first half of '09?

Henry Hubschman:

I really don't know exactly. First, I would say very little of it's in the first half but it's a smattering of different things. It's not all older assets or even classics. We have a couple of 737-700s, one or two A320s. I don't think we have any wide bodies at all, maybe one 767. No 777s, no 747-400s. That's about what I can recall now. I mean, with the fleet so large it's hard to recall exactly but again, that's reviewed literally every Monday with the marketing department in a very sort of quick call that sort of updates them on things that are on the market and things that are opportunities. That's my best recollection. Okay.

JoAnna Morris:

Great. Thank you very much, Henry and Dave.

End of Presentation