



## Conference Call Transcript

### GE - Q2 2009 General Electric Earnings Conference Call

Event Date/Time: Jul 17, 2009 / 12:30PM GMT

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## PRESENTATION

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### Operator

Good day, ladies and gentlemen, and welcome to the General Electric second quarter 2009 earnings conference call. At this time all participants are in a listen-only mode. I will be your conference coordinator. (Operator Instructions) As a reminder this conference is being recorded.

I would now like to turn the program over to your host for the conference, Trevor Schauenberg, the VP of Communications.

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### Trevor Schauenberg - *General Electric - VP, Investor Communications*

Good morning and welcome, everyone. JoAnna and I are pleased to host today's webcast. Hopefully you have the press release from earlier this morning and the slides are available via the webcast. The slides are also available for download and printing on our website at [www.ge.com/investor](http://www.ge.com/investor). If you don't see it please refresh. As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Those elements can change as the world changes, please interpret them in this light. We will be reviewing the GE press release from earlier today and have time for Q&A at the end.

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For today's webcast we have our Chairman and CEO, Jeff Immelt; our Vice Chairman and CFO Keith Sherin, and our Senior Vice President and General Counsel, Brackett Denniston. Now I would like turn it over to our Chairman and CEO, Jeff Immelt.

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**Jeff Immelt - General Electric - Chairman, CEO**

Thanks, Trevor, good morning, everybody. On the first page the overview, despite a difficult global economy we're pleased with our results. Overall earnings of \$2.9 billion, Energy and Technology, Infrastructure continue to perform. GE Capital is profitable and media and C&I basically were down versus last year. Our execution is very good. Our cash flow is ahead of plan. We've generated \$7.1 billion from industrial cash flow year to date. We were able to do substantial restructuring in the quarter. Our margins were basically flat year-over-year and our backlog remains strong, and we announced during the quarter several investments in new products, technology centers, R&D spending in '09 is greater than '08. We're pursuing stimulus projects, so basically all the things that we said we were going to do in the last period of time we've really executed on in this cycle.

If you look at the environment and the global landscape not much has really changed from how we saw it at EPG. Unemployment, CapEx, commercial credit all remain challenging and we're seeing growth in selected markets. Parts of the globe are still robust. China and the Middle East, India, places like that. Deflation is helping our margins. Importantly customer usage helps our service business. Existing assets are being utilized early, and we get great traction in services. Stimulus was really a non-factor in the first half but we see momentum building. And the capital marks are improving. And then all these things we talked about at EPG are underway.

We talked about on the next page how we were going to execute through the recession. The operating framework for the Company. I'll give you an update on where we stand on each one of these fronts. We really talked about three things. Making GE Capital safe and secure, outperforming in a tough economy, and strengthening the balance sheet. I'll go through some of the details and updates on the second quarter in the next few pages.

First on GE Capital, safe and secure, we really have made substantial progress on leverage, funding, and the balance sheet. First on long-term debt funding, '09 is done. '10 is partially done, and 2010 we plan to have done by the end of this year. We plan to issue more on guaranteed debt this year. Commercial paper is already at our year-end target, and cash plus backup lines are more than double our commercial paper. So we're very strong there. We've reduced our leverage to 5.6 to 1. Our tier 1 common ratio is equal to the strongest banks. Our ending net investment we've already achieved at roughly \$500 billion, our '09 goal. We expect that to trend lower in the next two quarters. Our collections are strong, and we'll show you a lot of detail about GE Capital on July 28, but we feel very good about how we're executing in this cycle.

On the next page just talking about orders and backlog, we had about \$18 billion of second quarter orders, slightly below first quarter and down about 23% FX adjusted versus last year. We're down about 16% year to date. The backlog remains strong. The orders were about the same level as '06 and '07. Backlog remains very strong at \$169 billion.

If you just look at the orders in some context we had a record first half of '08. That was really the peak of what we saw for major equipment orders. We built \$30 billion of backlog over the last four years so we really expected orders to be down even without the recession. A couple positives about where we stand with major equipment, our cancellations are very low. Our cancellations are like \$100 million. So extremely low. We're holding almost \$12.5 billion of progress, and a couple things that I think bode well for the next six months, on energy we're really working the commitment to order conversion. The production tax credit on wind just was clarified in the last week or so, so we think that's going to improve the order scope in the second half. And the roughly \$8 billion we took in commitments in the Paris Air show will convert to orders over the next six months.

If you look at our backlog conversion rate and current orders and look forward, maybe 12 months, and you think about the fact that about two-thirds of any given year's revenue convert from backlog, and the other third represent current year orders, we look at a rough estimate for 2010 at about, with equipment revenue down about 10 to 15%, somewhere in that range. Just because we have such extremely high backlogs right now. Meanwhile service continues to perform as a very high level up 4%, orders year to date. We had \$4.3 billion of new CSA additions in the second quarter. The service story continues to be very strong. If you look at the next page we'll just take a little bit of a deeper dive on service.

Service in the quarter grew in revenue, margins, and backlog. Four of our five major service businesses will be profitable for the year. Energy, we see momentum building in the second half of the year as contractual services continue to accelerate. Oil and gas would have been positive in the first half on an FX-adjusted basis but we see good momentum in the second half. Aviation had spares orders up 10% in the second half so that bodes well for second half, and health care, we're seeing customer outsourcing, so we're seeing going service revenue growth there. And transportation, you guys have all read about the fact that there's probably, that the industry has maybe 5400 locomotives parked. About 30% of

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those are GE. Despite that our service earnings were only down about 5%. So this is about a little bit more than 75% of our total industrial net income with high visibility, well positioned for the future for 2010 and beyond. We just think from investor standpoint this just gives us great strength when we think about where we are and positioned for the future.

Quick update on stimulus and global growth. First with stimulus. We talked about at EPG having about \$190 billion potential from a stimulus standpoint. Almost nothing has come out from this so far. The major buckets are clean energy, affordable healthcare, and then a scattering of other projects. We're seeing some early wins in smart grid with orders up 70%. Again, as we said, the wind tax credits have been clarified. China spending is very strong. We're starting to get some bidding on health information exchanges and we're seeing some decent activity around the nuclear business. If you look at it from a global standpoint, some of the global regions are still extremely strong. China was up 31% in the quarter, India up 46%, Middle East up 10% despite the fact that we're only beginning the Iraq shipments and order completion. So the major initiatives are underway. Our 2009 product spend is up. We think it's in the right places and we think this bodes well for the future.

The next two charts give you an update on the execution in the quarter. Again, we feel pretty good about how the team is executing. The second quarter margins were basically stable at about 16.3%. We saw good margin expansion at the contribution margin level. Our service margins expanded by 3 points. The head wind really in NBCU as Keith will cover in a minute come fundamentally from impairments. We have very aggressive base cost reduction, we're on track for a 10% base cost reduction for the year. Our second quarter base cost reduction was 14%. And we see a lot of this momentum carrying forward into the future. Lastly on restructuring, we've done about \$5 billion restructuring since 2007. We're evaluating another \$2 billion of restructuring with about a two-year payback. These are more structural and focused and again we think the more restructuring we can do this year positions 2010 for improved outlook for earnings and beyond, so that's really what the goal is, is to continue to take costs out of GE.

Lastly, cash has been a very strong story in the quarter. We generated \$4.3 billion of cash in the quarter. As you all know, the GECS dividend is zero for this year. Our working capital was reduced by \$2.3 billion, more than offsetting the reduction in progress payments. Historically we generate about 40% of our cash in the first half of the year, so at \$7 billion it puts us well on our way to the 14 billion to \$16 billion goal for industrial CFOA for the year. We have about consolidated cash of \$52 billion at GE, in addition to \$5 billion in the quarter. With the dividend reduced from 6.7 to \$2.3 billion, starting in the second half, that generates really surplus cash in the second half, and we'll save \$13 billion of cash in '09 and '10. So this is a great story, and again, the team is executing well. I would say we're ahead of plan here with very solid prospects for the rest of the year. With that, let me turn it over to Keith to take through the business and the business performance.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Jeff, thanks a lot. I'm going to start with the summary of the second quarter. On the left side is the summary of continuing operations. Revenues of \$39 billion were down 17%. Down 12% ex FX. I know there's been some discussion on our revenue number. We're not giving guidance on revenues. The revenues were right in line with our Q2 expectations. Industrial sales of \$26 billion were down 7%. Financial services revenue of \$13 billion were down 29%. We earned \$2.9 billion of net income in the quarter which was down 47%. Earnings per share, we earned \$0.26, and that includes the cost of the preferred dividend, about \$75 million. As Jeff covered the total cash flow from operating activities was \$7.1 billion which was a great result for our first half.

For tax rates the consolidated tax rate for the second quarter 7%. This rate is down from 2008 due to significantly reduced pretax income. As you know the lower pretax income is principally driven by the GECS loss provisions. For GE the second quarter rate of 26% was flat with last year and for GE Capital because there's a large tax benefit and a pretax loss we're dividing a negative by a negative, we end up with a very high positive rate for the quarter. There were no significant one-time tax items in the second quarter as we had in the first quarter.

On the right side are the segment results. Our infrastructure businesses had \$3.6 billion of segment profit. That was flat with last year. NBC was down 41%. I'll cover the details of that in a few pages. GE Capital Finance earned \$590 million including \$149 million pretax income which was a good result for the quarter, and C&I had \$111 million, pretty good result for them. I'll cover the businesses over the next several pages. And before I get into the specific business results, I wanted to do a summary of the second quarter items that impacted the quarter.

First we had a transaction gain of \$200 million benefit from a gain in GE Capital. We acquired a controlling interest in BAC, which is a leading Central American bank where we already own 49% of that. That change in control resulted in a gain that was reported in Capital Finance. Second, we continued to fund restructuring projects to lower our future costs. We're taking out a lot of costs in the Company as Jeff showed you on the base cost improvements. We had \$0.03 of after-tax charges in the quarter. They were recorded at corporate. The reductions were aligned by business. I thought it would be helpful to just give you where the cost-out activities were. Tech infrastructure had \$77 million, Capital Finance had \$74 million, C&I had \$37 million, Energy Infrastructure had \$24 million, NBCU had \$8 million, and the balance was in corporate.

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And then third we had \$400 million of after-tax marks and impairments which included several items. I've listed the biggest items on the right side. The largest negative items were \$110 million write-down of our position in Cosmos Bank in Taiwan. We had \$96 million of commercial real estate equity impairments. We had an \$85 million treasury negative mark as our credit spreads improved in the second quarter, and we had a \$56 million write-down of our after-tax remaining stake that NBCU held in Ion. We wrote off the rest of the stake, 100% written off now. Those were partially offset by a positive mark of \$139 million on our stake in Genpact. So we continue restructuring, as Jeff showed you we're going to continue to do restructuring in the second half and in 2010 and in the quarter the restructuring more than offset the gains that we had which were principally the back gain in GE Capital.

I will start with a few pages on Capital Finance. You should be aware that we have a webcast scheduled for Tuesday, July 28, from 8:30 to 10:30 in the morning and we are going to give you a much more detailed update on GE Capital. For the quarter Mike Neal and the team earned \$590 million. That was down 80% from last year but we think it was a solid quarter given this environment. Revenues of \$12.8 billion were down 29%. The revenue decline was driven by lower assets. That's 12 points. As we shrink GE Capital that's had an impact on the top line. We de consolidated Penske. That was about 6 points. Foreign exchange, with a stronger dollar, hurt us about 7 points. Assets of \$557 billion were down 11%. Year-over-year assets are down \$71 billion, down 5% ex foreign exchange so if you just look in the second quarter assets were down \$10 billion ex exchange. So we continue to make progress with collections exceeding originations.

The business results are in the bottom left. Let me start with Consumer. Consumer, you can see had segment profit of \$243 million, that was down 77% from last year. The decline in earnings was driven by higher credit costs of \$660 million. \$200 million of lower tax benefits, partially offset by the back gain in the Cosmos write-off which I covered on the previous page. That's a consistent theme. Higher credit costs throughout each of these businesses as we go through the individual segments.

In terms of the specific consumer business I don't have these numbers on the page but I will cover three pieces. One, the US consumer, two, UK home lending, and then three, our global banks. US consumer had a very strong second quarter. The US consumer business earned \$153 million positive in the quarter. That was still down \$88 million from last year, and that was driven by higher credit costs of \$190 million partially offset by lower operating costs in the business but the US consumer losses and impairments are trending below the outlook case that we showed you on the March GE Capital meeting. So a very good performance in US consumer. UK home lending had a loss of \$155 million in the quarter. That's driven by higher credit costs of \$293 million. We increased our reserves as a reflection of the higher delinquencies that I'm going to cover in a few pages. If you look at the total non-US mortgage losses for us globally those are trending slightly below the fed base case. There have been some recent positive signs in the UK housing market lately, but the U.K. book is the one out of the global mortgages that remains under pressure for us.

Our banks made \$251 million in net income in the quarter, that was down 48%. Again, driven principally by higher credit costs up \$190 million. If you look at the banking businesses the losses and impairments are trending above the fed base case that we showed you in March.

Moving to Commercial Real Estate, you can see the business had a loss of \$237 million in the quarter down from almost \$500 million of earnings last year. The decline is driven by \$275 million of higher credit costs and impairments, and \$380 million of lower gains. We did sell some properties in the second quarter, for the quarter we sold 49 properties for \$245 million with a small gain, \$23 million. We also increased our reserves by \$175 million in real estate. That's a reflection of the higher delinquencies in non-earnings we're seeing. And for real estate our credit costs and impairments, if you compare to the outline cases that we did in March, they're running below the fed base case but we're still very cautious obviously about the real estate outlook. For commercial lending and leasing the business earned \$233 million in the quarter, that was down 74%. Again, the earnings decline was driven by higher credit costs of about \$300 million. Lower core earnings, assets are down about 14%. In terms of the loss outlook for CLL it's trending to just lightly above the fed base case. For the verticals, you can see GECAS had another solid quarter, earnings of \$286 million were up 3%. We ended the quarter with only two aircraft on the ground. In Energy Financial Services, down 60% driven by \$100 million of lower gains in the quarter.

So the portfolio quality is good there with flat non-earnings. If you look overall, the summary for the overall losses and impairments for GE Capital through the first half were running just slightly below the fed base case that we outlined in March. We're also running ahead of our overall cost-out projections. For the year we expect cost savings to be more than \$3 billion that we said we'd have in the first quarter earnings so the team is doing a really good job of controlling the costs. Next I'm going to turn it over to Brackett Denniston our Senior Vice President and General Counsel, to talk about financial services regulatory reform.

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**Brackett Denniston - General Electric - SVP, General Counsel**

Thanks Keith, good morning. As many of you know the treasury issued a white paper about a month ago which outlines a sweeping proposal for financial services reform. It's probably the most sweeping proposal in US financial services history. Its main features as many of you know, are it designates the Federal Reserve Board as a systemic regulator including what the paper calls tier 1 financial companies. And it will be advised in that capacity by a council of regulators, the bank regulators, the securities regulators and others.

It includes consolidation of the banking regulators, the office of thrift supervision and controller of the currency but not consolidation of other agencies like the SEC and CFTC. In connection with the consolidation of banking regulators it calls for the conversion of thrifts and ILCs to national banks regulated by the national bank supervisor. It has market reform over things like securitization and credit default swaps. It includes resolution authority over big financial institutions, a bankruptcy-like process run by the FDIC. And it has very broad consumer reform regulation proposed in it including a consumer financial products commission.

Now, one of the dozens of proposals in the white paper is one that would require separating existing financial from nonfinancial companies, whether they be tier 1 financial companies, however that ends up being fleshed out. ILCs, or thrifts, and there's a five-year transition period. We're quite clearly opposed, as we said publicly, to this proposal. These structures were certainly not a cause of the crisis, and the proposal would also unnecessarily affect important sources of lending at a time when the country needs lending. And in the past these existing structures have been traditionally handled by grandfathering them.

We've talked to a number of people in Congress, and we've heard considerable skepticism about many of the features of the white paper, but particularly on this aspect of the white paper, and we've also heard considerable support for the idea of not breaking up the existing structures, grandfathering. Now, the proposal is of course just the beginning. And what will emerge from Congress will be quite different from what is proposed. This is often the case. Congress will take over now and it will be a long and complex process, probably lasting into 2010. At the same time, I make two quick additional points. First, we're supportive of systemic regulation, and more regulation is certainly something we prepare for. Second, nothing in the proposal changes our moving forward with a smaller more focused GE Capital. So as said, the proposal is still early stages, and we're advocating very intensively for our point of view. I'm now going to turn it back over to Keith.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Thanks, Brackett. I'm going to cover a few more pages about GE Capital, volume, and asset quality and reserve levels and then wrap it up and go into the industrial businesses. The first page is about how important GE Capital is as a source of liquidity for US businesses and consumers. If you look at the first half of 2009, we've done \$69 billion of volume, and these have been at attractive returns for us. The financings are critical to our customers as we continue to support them through the downturn, and more importantly, if you look all the way back since January of 2008 we've extended \$155 billion of new financings to our commercial customers and \$127 billion of credit to over 50 million consumers. Importantly, we're not just supporting existing customers but new customers as well. In the first half of this year we added 16,000 new commercial customers and now support 23,000 new small businesses through our retail program. So we have broad reach. We provide a lot of funding to a lot of capital that funds a lot of mid market and small and medium-sized businesses in this country. Lastly, we've maintained our leading position in larger key markets where we have deep domains. We're supporting virtually every US airline and maintaining leadership position in debtor in possession bankruptcy financing, healthcare financing and energy infrastructure financing. So still a lot of lending activity going on and providing a lot of capital to the markets, especially in the US.

Next is an update on our delinquencies in non-earnings. On the left side is the commercial equipment finance data. You can see the 30 plus day delinquencies for equipment are down 6 basis points in Q2 versus Q1. This is a positive signal obviously for the commercial book. That was driven by a decline in delinquencies in the Americas where 30 plus went from 2.81% to 2.45%. So we're very interested in watching this trend and seeing how this develops as we go through the year. That was partially offset by, we had some increased delinquencies in our Asia and European equipment books. We continue to see pressure on non-earnings, up 18 basis points versus the first quarter but again the pace of that growth has also leveled off a bit. It's driven by senior secured loans where we're well collateralized.

In terms of real estate, which is not in the delinquency for the equipment bar up above, the line up above, delinquencies increased up to 4% on the real estate book and non-earnings are up to 2.9%. You can see we continue to see pressure in the commercial real estate book, and then finally for the verticals the delinquency in non-earnings were basically stable with Q1 which continues to perform very well.

On the right side is the consumer data, and this is really developing into the two different categories by type of exposure. We broke out mortgage, global mortgage, and non-mortgage because loss dynamics are so different. You can see the improvements in the non-mortgage delinquency as

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the delinquency went from 6.02 in the first quarter down to 5.73 in the second quarter and that's really driven by North America. The North American delinquencies are down 14 basis points to 6.96%. We're seeing better entry rates in delinquency. It's the lowest we've seen. We're seeing improved late-stage collection effectiveness. The non-earnings balance was flat to the prior quarter, and the reason the rate is up a little bit is because the balance is down. So as a percent it's a little higher, but we are getting the benefit of all the underwriting actions that we took last year as well as some seasonality benefits.

And then the second category here that you look at are the mortgage, the global mortgage assets. We continue to see growth in 30 plus delinquencies and non-earnings. UK mortgage book drives most of the changes, and I'm going to cover our reserves versus non-earnings in a minute. So overall in a pretty tough environment, we are seeing some leveling off in both the equipment and the US consumer delinquencies, and we're going to be monitoring those trends through the third quarter to see if we can really see that they're solid trends here as we go forward. But some positive spots in the book.

Next is an update on reserve coverage. We had a very good quarter for reserve strengthening. Our provision for losses was \$2.8 billion in the quarter, and while write-offs were up \$300 million to \$1.9 billion we still added \$900 million to our loss reserves. So a 50% increase in provisions versus the write-offs. We increased our reserves in both the commercial and the consumer book. Reserves increased by \$500 million, and the commercial book increased our coverage rate to 1.13%. We increased our CLL reserves by \$350 million, and we increased our real estate reserves by \$175 million quarter two versus quarter one.

If you look at the consumer we increased reserves by \$400 million. You can see the consumer coverage rate increased for both the U.S. retail and the non-US mortgage. So overall coverage with \$6.6 billion of allowance is up 22 basis points versus the first quarter, up 74 basis points versus year ago, and we're well on track to get to 2% plus by year-end.

Next is an update on how we think about the non earning assets and our reserve coverage. These are basically the same charts that Jeff Bornstein covered during the March 19, meeting. I showed you these charts for Q1 and now we've updated the numbers through Q2. The left side is commercial. Non-earnings ended the quarter at \$6.4 billion. It's up \$1.9 billion from Q1. It represents 2.9% of our financing receivables. The bars show the benefit of being a senior secured lender. We expect \$1.9 billion of non-earnings to have 100% recovery. We have another \$1.2 billion in some type of workout where we expect full recovery. We'll have a renegotiation, some changes to the documents and terms, and then we have another \$1.9 billion where we're protected by the collateral value. Significant amount of work. Our risk teams are working to make sure they work through this loan book. At the end of the day that leaves you with what we think of as \$1.4 billion of estimated loss exposure today. You can see we have 173% coverage against that with our reserves.

On the right side of the consumer non-earnings of \$6.6 million they were up over \$1.1 billion over Q1, represent about 4.7% of the financing receivables. The consumer dynamics are very different between the mortgage and the non-mortgage assets so the green bar represents our non-mortgage non-earnings, principally the US retail business, the credit card business and retail sales finance. We have \$1.7 billion of non-earnings in that book. And we have \$3.3 billion of reserves against it, 189% coverage. And then the remainder of the non-earnings on the global mortgage book we expect \$1.5 billion of that to cure. With our underwriting positions we expect to recover \$2.9 billion of exposure based on loan to value position. You remember we underwrite these at about 70 to 75% loan to value. Today they're at about 85% loan to value as house prices have declined globally and that gives us a lot of recovery value. We have some mortgage insurance that we expect to recover on leaving us with an expected estimate loss today of about \$500 million, and 173% coverage without that. We believe we're appropriately reserved for non-earning loss exposure. Again, we'll cover more in detail on the 28, meeting.

So let me wrap up GE Capital with a recap of where we stand through the first half. This framework is the stress case that we outlined in the March 19, meeting. We've given you an update now on each of our major businesses, where they stand relative to the stress case. Some are higher or lower than the fed base case in terms of where we are going on credit costs but overall we're trending to slightly below the estimated fed-based case for 2009 on losses and impairments. More importantly, we've completed a number of significant actions that we said we were going to do. We're dealing with a tough loss environment and we strengthened our reserves while we've remained profitable. We've injected capital and strengthened our capital ratios. We've dramatically improved our liquidity profile with commercial paper down and cash balances up. We've completed our 2009 long-term funding. We've already prefunded over 30% of our 2010 needs. As Jeff said our plans to complete the 2010 funding before year end, in 2009 we've issued \$9 billion in non guarantee debt, that's more than any other issuer, and we're shrinking our balance sheet while we're still providing a lot of credit to consumers and businesses. Finally, we've been transparent. We are going to cover more detail about GE Capital at the next update on the 28th and continue that trend.

So next let me turn to the industrial businesses and I will start with NBC. Jeff and the team continue to operate in a very challenging environment for the quarter revenues of \$3.6 billion were down 8% and segment profit of \$539 million down was down 41%. I think the first thing to point out is the overall performance is not as negative as it looks. I've tried to highlight that with the numbers on the right side. \$200 million of the decline

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year-over-year was driven by two items. First, there was no repeat of the gain that we had last year from the sale of Sundance. That was about \$113 million of benefit in '08. Second, we wrote off the balance of our investment in Ion which I said that was about \$95 million this year. Adjusting for those two items, NBC was down about 24% in the quarter.

So if you look at operations as we go around the four different numbers on the page here, cable continues to deliver strong results. Revenue, \$1.2 billion was up 3% and op profit of \$595 million was up 7%, USA remains number one for the 12th consecutive quarter. Oxygen had a good quarter, Bravo had a good quarter, and the cable news channels had a very good quarter. MSNBC beat CNN in prime ages 25 to 54 and total viewers for the full quarter, first time ever. And their profit was up 8%. CNBC remains the clear leader in business news and profit was up 7%.

Broadcast had a tougher quarter. Revenues of \$1.4 billion were down 9%. Op profit was down about \$100 million and that was driven by lower revenues on house versus last year and higher investments that we've made in new programming. Plus the local media continues to be down year-over-year. We're very pleased with the transitions with Jimmy Fallon and Conan. They've been better and very successful. The new development that we've done for the fall shows have received very positive feedback from advertisers. And the upfront is very slow. I think everybody knows that. Basically we're planning on retaining more inventory as we go into the 2010 season.

Film did have a tough quarter. Revenues of \$915 million were flat and op profit was down about \$80 million. The main impact was driven by fewer significant film releases to DVD versus second quarter last year and then our second quarter movie performance was less than we expected so that was down. Parks actually had a good quarter. Parks were up 13% in op profit. They had good cost controls and they had some timing benefit from Spring Break going into the second quarter versus first quarter last year.

Digital is a very good story. Continues to grow. Hulu was the number two video site behind YouTube and we're thrilled to have Disney have joined Hulu as a media partner. Finally, as I mentioned, we took the final write-down on Ion which really impacted us. If you go back to what we said in Q1 we showed the operational view of NBC was expected to be down about 15 to 25% for the year, then the second half we expect to have favorable comparisons from not having the Olympics cost in the third quarter plus other cost reduction activities that the team has taken on to provide more offset to the advertising market and some of the pressure from film.

Next is tech infrastructure. John Rice and the team delivered revenues of \$10.6 billion down 11%, segment profit of \$1.8 billion was also down 11%. Segment profit of \$1.8 billion was also down 11%. You can see the key businesses on the bottom left and I will start with some details on aviation.

2Q orders were \$4.2 billion for aviation, down 23%. The biggest drop is in major equipment obviously with orders of 1.7, down 44%. We had \$1 billion of commercial engine orders and \$700 million of military orders. The good news here is we still have a tremendous backlog. The major equipment backlog ended the quarter at \$21.3 billion, up 5% versus last year and only down 1% from the first quarter. Service orders were up 5% in total. Commercial spares of \$20.4 million a day were up 10%. And we had very strong contractual service sales from both Southwest and US Airways partially offset by some lower overhauls on CF6 cargo engines. None of the \$3 billion engines or \$5 billion service wins that were announced at the Paris Air show have flown into orders yet as Jeff mentioned.

For the quarter revenue was down 6%, we shipped 472 commercial engines which was down 19%. That was partially offset by 239 military engines which were up 49%. Service revenue overall was down 1% reflect the impact of higher contractual services, mostly offsetting the lower freight overhauls. And op profit was up 1% with 1.4 points of margin growth in the business driven by services up 13%. We also had \$79 million last year of revenue share benefits that didn't repeat. And without that the op profit for the entire segment would have been up 11%. For healthcare, reported orders of \$4 billion were down 11% down 7% organically. They were impacted by the stronger dollar. Equipment orders were down 15% with 5 points of decline from the stronger dollar as well. The US orders were down 13% and the non-US orders were down 7% on an FX adjusted basis.

The pressure was pretty much across most of the major product lines. CT, MR, x-ray, clinical, and MDX all down double digits. We did see better orders performance from life sciences, up 4%. FX adjusted surgery had a very strong quarter, up 37%. Service orders were up 2% on an FX adjusted basis. China was up 11%, India was up 19% so we see some strength around the globe but overall revenue for the business in total was down 9%. Equipment was down 15% along with orders and services were down 6%. That would have been flat on an organic basis. Op profit of \$590 million was down 21%. We really were hit by the lower volume. We had some negative price, about 1% in the quarter. Negative productivity and services op profit was up 2% in the quarter in that number. It's just a tough healthcare environment that the team is dealing with obviously.

If you look at transportation second quarter orders of \$600 million were down 50%. Equipment orders are just going to remain challenging as the North American railroads have significant overcapacity as Jeff mentioned. Service orders were also affected by that, they're down 38%, driven by

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both tough comparisons from some good parts orders last year as well as the idle locomotives. Revenue down 11 driven by lower locomotive deliveries. We had 119 this year in the quarter versus 165 last year. Services revenue were down 6%. So team did a good job managing all that. The op profit was down only 2% as we improved margin rate by 2 points offsetting lower volume with favorable price, more deflation and good productivity. The entire tech infrastructure segment is executing pretty strong cost out, doing a lot of restructuring in a tough operating environment, and even with that tough environment, the service op profit for the overall business was up 7%, showing the strength of the services model here.

Next is Energy. John Krenicki and the Energy Infrastructure team had another very strong quarter. Revenues of \$9.6 billion were down 1%. That's up 4%, if you adjust for the impact of FX in the quarter. And segment profit good leverage, \$1.8 billion, up 13%. If you look at energy, the orders of 6.5 billion were down a third versus last year. But basically flat with the first quarter. We had 1.2 billion of thermal orders. They were down 60%. We received orders for 26 gas turbines versus 58 last year in the second quarter. And that included 10 units for Iraq which totaled about 400 million. We still have 30 more units to book as orders for the Iraq order. The thermal backlog is 7.1 billion, that's down 10% from the first quarter. Wind orders of 500 million were down 60% as well as customers basically are looking for the finalization on the stimulus terms and conditions which happened last week. I think that's going to be a positive as we go forward with a lot of wind commitments that need to be finalized. Wind backlog at 4.2 billion is still strong. Aero orders of 262 million were down 69%. Again, tough comparisons last year but definitely slower. Service orders were up 12% driven by energy services up 8 and wind, aero and nuclear in total up 21%.

For the quarter revenue and energy was down 1%, up 2% when you adjust for FX. Equipment was up 5 and services were down 6. We shipped 42 gas turbines versus 44 last year but pricing was up 8%. We shipped 680 wind units versus 672 last year with pricing up 6%. Service revenues as I said were down 6. Two things here, it was driven by tough comparisons in the power adjacencies business. That was up 23% last year. And it was down this year and water services were down 18% if you look at the core energy contract service business that performed very well with revenues up 11%. Op profit was up 15% and that was driven by strong pricing as I mentioned and good productivity. We had 2.8 points in margin rate growth in the energy business.

Oil and gas had another solid quarter. Orders of 1.9 billion were down 10%. But it's flat when you adjust for foreign exchange. We had 390 million of orders for natural gas compression equipment. That's up 4 times over second quarter last year, we're seeing a lot more activity in the natural gas area. And that partially offset the lower orders that we are going to see in pipeline and refinery markets. Equipment backlog ended the quarter at \$6.5 billion, that's up \$170 million versus the first quarter. Still growing the backlog in oil and gas. Service orders were down 6% FX adjusted driven by tougher comparisons from last year in both parts and upgrades.

For the quarter the revenue was up 3. That was strong volume growth in the petrochemical and refinery equipment segments. Service revenues were down 6 but up 5% if you look at the FX flat year over year. Op profit up 11. Great volume and great productivity partially offset by the negative foreign exchange impact in the business. Overall another great quarter from the Energy Infrastructure team and if you look, another good service story, services revenues were down a little bit in the quarter and op profit was up 3%. So the service story really plays out in both the tech infrastructure and the Energy Infrastructure segments. Let me turn it back to Jeff.

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**Jeff Immelt - General Electric - Chairman, CEO**

Great, Keith, thanks. Just want to wrap up with two charts. One just kind of recaptures the Company framework. When I look at Energy Infrastructure, Technology Infrastructure and NBCU, and kind of take a look at the second half and all the market dynamics we see we see these as earnings being about flat for the total year of 2009. I think at last December we gave a range of 0 to 5. The markets are tougher but I think the teams are executing very well in this environment. So we see about flat earnings year-over-year. And Capital Finance, profitable in 1Q and 2Q. Keith outlined where we stand versus the various credit cost cases and we've got, I'd say building confidence around Capital Finance. And from a corporate standpoint, C&I is performing better than we thought and seeing pretty good momentum into the second half. So we'll continue to do restructuring within the context of the framework, but the team is really executing pretty well in this environment.

And then looking forward, I think we see kind of more of the same. I think we see lower equipment sales but very solid service position with very high margins. Continue to execute on cost out and increasing margins. And we think we'll see more benefit from the global stimulus as we look at the second half of the year. We will continue to be in a tough credit loss environment, but we'll have a profitable GE Capital and the funding is solid and originations are strong. C&I is better and more restructuring. So I think the combination of services, productivity, margins, strengthening GE Capital, this I think is a good context for GE as we look at the second half of the year and into 2010.

Then just to wrap up, we continue to build a strong Company for the future. I think if you look at what we've done in the last three months we've significantly strengthened GE Capital, liquidity is in great shape, funding is in great shape. We've strengthened the capital ratios. We've increased

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reserves, we're generating profitable business. We're able to play offense, and we are really committed to GE Capital, all the things Brackett said, we are strongly committed to our point of view and to a smaller, but still strong GE Capital business. We're running GE with intensity both on a productivity and cash basis. I think the cash story is very strong and the margins are still at 16.4%, very high. Investing in technology and service, we've got a service backlog of 122 billion. We've launched new products like batteries. Our technology budget is up. We're winning globally when you look at China, India, and the Middle East. We're well positioned in some of the big themes that I think will mean that we're working on the right things vis a vis stimulus. I think the Company is stronger and we're well positioned for this challenging environment. So Trevor let me turn it back to you.

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**Trevor Schauenberg - General Electric - VP, Investor Communications**

Thanks, Jeff. Let's open up to questions now.

### QUESTION AND ANSWER

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**Operator**

Thank you. (Operator Instructions) Our first question comes from the line of Terry Darling with Goldman Sachs.

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**Terry Darling - Goldman Sachs - Analyst**

Thanks, good morning.

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**Jeff Immelt - General Electric - Chairman, CEO**

Good morning Terry.

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**Terry Darling - Goldman Sachs - Analyst**

Jeff, you had mentioned 2010 equipment revenue maybe down 5 to -- 10 to 15%, if I got that correct, and I'm wondering if you might make a comment on how would you feel about the flow-through on that as well as any thoughts on the services side of the business at this point?

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**Jeff Immelt - General Electric - Chairman, CEO**

Terry, it's still early days to think about '10, but again, we make, as we said, 75% plus of all industrial earnings come from services. When I look at services we see backlog building, we see good customer usage rates, things like low natural gas prices mean people that are working their gas turbines harder, good productivity and things like that. Then I think when you look at the equipment side, a combination of restructuring -- relatively low margins on the original equipment sales, very aggressive restructuring that we're doing plus good margin momentum, we think it's a good one-two punch. Good service growth, good service revenue and good productivity.

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**Terry Darling - Goldman Sachs - Analyst**

Sounds like on the services side, 2010, there's nothing that you see that would be obvious at this point to drive that business from the profit perspective when you layer in the restructuring efforts you have to drive that down dramatically, just based on what you see right now?

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**Jeff Immelt - General Electric - Chairman, CEO**

Terry, we're kind of out of the guidance business, and thinking about 2010 but I sit here and say we've got \$122 billion of backlog, we've got really young -- we've got the most energy efficient fleet and aircraft engines and gas turbines. We're as well positioned as we can be in the type of environment that we see today, really. With great visibility, and the service margins were up 3 points in the second quarter. So we've got -- we're seeing the productivity fall through. We're seeing the restructuring fall through. And we've got the assets we have are being worked pretty hard.

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**Terry Darling - Goldman Sachs - Analyst**

Just try to sneak a quick one on second half tax rate industrial, Keith, can you help us with that? . That 26% rate, where we ought to be thinking?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Sure, if you look at the way the accounting rules work on tax we're supposed to be booking to what we estimate as our total year rate to be. If you look at 26% for the half that's a pretty good estimate of what we think we'll have for the year for the industrial rate.

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**Terry Darling - Goldman Sachs - Analyst**

I think you'd call that 29% last quarter. Is that just mix geographically?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

We have some lower pretax earnings, so that does in some way affect the rate. We're getting a little less benefit from some of our global funding structures because of interest rates and FX, but, no, it's going to be -- last quarter we had a little bit of a higher rate in the industrials remember because the percent of GE Capital was so low in the first quarter. So that raised it versus what we thought the annual estimate was going to be. At the half that's a better estimate.

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**Terry Darling - Goldman Sachs - Analyst**

Thanks very much.

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**Operator**

Your next question comes from the line of Scott Davis with Morgan Stanley.

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**Scott Davis - Morgan Stanley - Analyst**

Good morning, guys.

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**Jeff Immelt - General Electric - Chairman, CEO**

Hey, Scott.

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**Scott Davis - Morgan Stanley - Analyst**

When you have an order book that softens like this, what impact do you start to see on price?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

If you look right now, we've got a really strong story in the order book, in the backlog on pricing. If you look in the quarter Energy business had 5% price up, Oil and Gas had 1% price up, Aviation was up 3, Healthcare was down 1, consistent with where they've been, actually lower than what they've been last few years. Overall for the Company we had 1.9% price up. So you are seeing a very strong backlog that we're working off of. In terms of orders as we go forward, for Energy in the quarter, they were up 2.9%. Oil and gas was down about 1%. Engines was up 10%. And Healthcare had pressure about 1 to 2%. So I don't see anything abnormal yet. I think you've got to worry about supply and demand dynamics as you go forward but right now we've got a very healthy backlog and we're protecting that. And the orders in the quarter were pretty good.

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**Scott Davis - Morgan Stanley - Analyst**

Okay. Good. I'll ask a similar question for GE Capital. You talked about higher credit costs but obviously you're booked I think a 30-year book reprices every year. What's the typical lag, I guess, between kind of your credit costs going up and your pricing being able to follow and strengthen to match that?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Well, our pricing right now is already up. Everything that we did in the quarter, we're getting 2.5 to 3 return on investment sort of margins on the volume that we did. We did about, in total, \$35 billion of unbooked volume in the second quarter at about a 3 ROI. The one-third of the book turning used to be at higher volumes than we're doing. I think you're probably going to deal with a little bit longer time frame before you get the book to turn based on the fact that the volumes are down 40% year-over-year, Scott. But the margins that we're getting today, with the estimates of both our funding costs and our credit costs are extremely strong, and that's because cost of capital is going up for everybody, and people need capital, and we're providing it.

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**Scott Davis - Morgan Stanley - Analyst**

Okay. Thank you, guys.

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**Operator**

Your next question comes from the line of Nigel Coe with Deutsche Bank.

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**Nigel Coe - Deutsche Bank - Analyst**

Thanks, good morning. You covered a lot of ground in the slides. One thing you didn't mention was CIT, so obvious question, are you seeing any early impacts from the dislocation of CIT?

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**Jeff Immelt - General Electric - Chairman, CEO**

It's a little early to have any real impact on that, Nigel. We'll have to wait and see. We don't compete direct well them in a lot of places, and then there are some opportunity areas where we do have overlap. We'll have to wait and see how that plays out. I think it's a little premature to have any type of impact off of whatever they ultimately find as a resolution.

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**Nigel Coe - Deutsche Bank - Analyst**

Okay. Secondly, within GE Capital, you made a pretax -- positive pretax income at GECC, a (inaudible) loss at GECS, the gap between the two was wider than I expected. Was there anything to think about in terms of why that -- why there's about a \$400 million gap between (inaudible) finance pretax and GECC?

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**Jeff Immelt - General Electric - Chairman, CEO**

Well, the biggest thing on the corporate costs including treasury, those were at a pretty normal run rate for the quarter. We did have some of the costs as I showed you on the impairments were in the treasury line in the quarter.

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**Nigel Coe - Deutsche Bank - Analyst**

Okay. Finally, I guess interest expense within GE Capital is big drop Q on Q. I think it's about 4 million, \$5 million, is this the low point for interest expense or do you think it could actually go a little bit low from here?

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**Jeff Immelt - General Electric - Chairman, CEO**

I'm sorry, repeat that.

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**Nigel Coe - Deutsche Bank - Analyst**

The interest expense within GE Capital, been a big drop. Q on Q I think it went from 5.1 to 4.5. Do you think that's as low as it goes within GE Capital or do you think the scope as going lower?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

We'll have to see what happens with the global benchmark rates. We've had a decline in obviously all the short-term benchmark rates. That's been a driver for a benefit as well as the lower debt balances that we have. So you tell me what the benchmark rates are going to be, but so far we've had a very good experience here in terms of funding and interest costs have been favorable as you said.

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**Nigel Coe - Deutsche Bank - Analyst**

Thanks a lot.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

The other thing I'd say in the Cap Corp. there is that \$77 million I mentioned of restructuring, that's in the Cap Corp. line as well. That may help you, Nigel.

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**Nigel Coe - Deutsche Bank - Analyst**

Thanks a lot.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

That's after tax.

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**Operator**

Your next question comes from the line of Steve Tusa with JPMorgan.

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**Steve Tusa - JPMorgan - Analyst**

Good morning.

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**Jeff Immelt - General Electric - Chairman, CEO**

Hey, Steve.

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**Steve Tusa - JPMorgan - Analyst**

So just getting into the, I guess zero -- flattish growth for the year now, instead of 0 to 5 in a framework, I think if I'm adding the segments up right you were down about 5% in the first half, so could you just talk about the dynamics of without giving specific guidance, maybe what gets better in the back half of the year for these various segments?

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**Jeff Immelt - General Electric - Chairman, CEO**

Why don't I start, Steve, then Keith you kick in. I'd say Energy Infrastructure both from a backlog and services standpoint continues to be very strong. Technology Infrastructure is -- again has good productivity and sustained service growth in the second half. NBC Universal has easier comparisons and really we think the second half of NBC Universal is going to be significantly better than the first half from a run rate. I think Keith went through some of the impairments. I think you get improvement in NBC. Energy, if anything, gets better during the year. Technology is kind of more or less around the zero mark to in that range. So, I don't know, Keith, would you--?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

I agree. NBC is a big number. We had over \$200 million of impairments in the first half. We've got the \$150 million loss in the Olympics last year in the third quarter we don't compare to. I think if you look at those dynamics, that's a big factor. I think services is the other factor, Jeff, if you look first half to second half we do continue to see positive outlook for services as we get into the balance of the year.

And I think the other thing I'd mention here, Steve, is we've also included in that zero, we've included a re-look at the equipment levels that we're going to have, and that's factored in here. In January I kind of gave an outlook for gas turbines, wind turbines, commercial engines, military engines, locomotives, and we've included in this update that Jeff covered a view on those five categories, and I think it may be helpful to put those out there. Gas turbines in January we said we'd have 185 for the year, and right now the July estimate has 150 to 160 for the year. Some of that, Iraq has pushed into 2010. Wind turbines, we said we'd have about 2800 units for the year. We're around 2700, 2800 units, so pretty consistent there. Commercial engines, we had originally 2200 engines in the year, now we're down to 1930 as the airframers have reduced their production schedules. Even below what we had at the plan. Military engines are on track, 925 to 925, and locomotives went from 600 down to about 500. So I think included in that zero we're factoring in the fact that we think equipment is going to be a little less than we had as the original estimate and that's because of the strength of services as we go forward.

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**Steve Tusa - JPMorgan - Analyst**

That's very helpful detail. Just lastly, on energy and the price cost gap, do you expect that it was again a nice number this quarter, do you expect that 450 to get bigger over next couple quarters or have we kind of peaked on that, how long, going back to Scott's question how long can you hold on to that price/cost gap?

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**Jeff Immelt - General Electric - Chairman, CEO**

I think, Steve, look, our expectation is that as time goes on that there's going to be pricing pressure, and it's hard to predict right now. I think we're protected by a great backlog. But when we look at the raw material productivity that we're getting and the cost-out that our sourcing people are getting, it's going to be substantially better in 2010 than it is in 2009. We've got tremendous -- and we are able to kind of see that, so we've got really great cost down programs going. The other thing I would say, Steve, in addition to what Keith provided, I think only having -- in this environment, only having \$100 million of cancellations in a quarter is pretty good. And so I think that's a real plus for investors as well.

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**Steve Tusa - JPMorgan - Analyst**

Great. Thanks a lot.

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**Jeff Immelt - General Electric - Chairman, CEO**

All right, Steve.

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**Operator**

Your next question comes from the line of Robert Cornell with Barclays Capital.

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**Robert Cornell - Barclays Capital - Analyst**

Hi, everybody.

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**Jeff Immelt - General Electric - Chairman, CEO**

Hey, Bob.

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**Robert Cornell - Barclays Capital - Analyst**

Pretty clean quarter for you guys. I'm always impressed that the fire -- with the fire hose of information.

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**Jeff Immelt - General Electric - Chairman, CEO**

Thank you.

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**Robert Cornell - Barclays Capital - Analyst**

Yes. The commercial delinquencies going down was a surprise. Maybe to go back, you discuss it being America's driven, but it's sort of counterintuitive given the trouble at CIT is and that your commercial delinquencies are actually going down. Maybe you could give us some more visibility into why that's the case?

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**Jeff Immelt - General Electric - Chairman, CEO**

Well, I think we've seen quite a bit of activity in that portfolio from customers delaying payments already for the last 9 to 12 months. I think if you are going to have an indication of how the commercial book is performing on the mid market business in the Americas, that's already been impacted by the economic outlook that we have had, and we're seeing those accounts basically already go through the first wave of what we would expect to see in terms of credit indicators, 30-day delinquency, 90-day delinquency, and then non-earning. So our credit guys are cautious about it Bob, but I think it's a good sign that we've leveled off here in the quarter. Now we've got to see whether that trend continues as we go forward, but we're -- we have real terms and conditions and rights. We don't have covenant-light loans. We don't have no-doc loans. As a result, people have to pay us, and we're experiencing the delinquency in line with the economic environment our customers are feeling. I don't know how it compares with CIT, but for us I think it's a good sign on the book and we're going to have to see how it affects us going into the second half. We've shifted so much of our front end activity into managing accounts, Bob, managing and making sure that we get our senior secured credit positions back, and I think that helps us to manage the delinquency once we get in here, but I think it's a positive sign, and we'll have to see how it comes out in the second half.

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**Robert Cornell - Barclays Capital - Analyst**

Well, you certainly hear a lot of anecdotes about GE out there hitting hard.

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**Jeff Immelt - General Electric - Chairman, CEO**

We're a senior secured lender. That's how we run the business.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Bob, we've also originated a lot of -- we're originating a lot of business out there right now.

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**Robert Cornell - Barclays Capital - Analyst**

Yes, I heard that comment. I expect we'll get into it more on the 28th call. Another point is you talked about funding outside FDIC. What are some of the indications of funding costs on that non-FDIC funding that you're looking at?

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**Jeff Immelt - General Electric - Chairman, CEO**

Well, you can see our cash bond spreads every day. We're -- they've come down since the first quarter clearly, and we think they're at levels that we can -- if you just do our cash bond spreads at five years, a little over 5%, we can borrow at that rate for five years, and we can lend it to customers who need capital at an attractive rate. We're trying to balance how much additional non-guaranteed debt to how quickly do you do it when you already got \$50 billion in cash. We've got the cash there for the insurance so we don't need to do any but we're committed to prefunding 2010 before we get out of 2009. We're going to do it pieces at a time in markets where there's acceptable demand and we're not going to be disruptive in the credit markets as we go forward and do that.

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**Robert Cornell - Barclays Capital - Analyst**

One final question from me. There were commentators on CNBC this morning noting the evolution of the commercial real estate book, both equity and the loan book. I'm sure you will touch on that in some detail on the 28th, but how do you guys see those positions evolving and what level of impairments and credit losses are we likely to see, just looking out over the next three years or so? How is that going to evolve?

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**Jeff Immelt - General Electric - Chairman, CEO**

We're going to grind our way through it. We're going to show you -- we showed you in March how we feel about our loan book, underwritten at conservative loan to values, making sure that we understand the supply and demand dynamics for every market we're in, we've been very careful and diversified on our equity book but obviously that's under pressure based on how the market is performing and what people have as opportunities to put new money to work at but again not a big supply and demand overhang, and we're going to grind our way through the real-estate book. We've got Ron and his team working on making sure every property that comes up for lease gets released. Every negotiation point on a refinancing gets negotiated hard. Everything that we can do to help them from a GE perspective we're doing, and I think the team has done a very good job working through that. It's a tough market, we're going to have an overhang from the equity book and things we bought in 2007, clearly. And we're going to work our way through it is over time. I think you are going to have to basically we've said we've got a 4 billion to \$5 billion embedded loss that in book and we're going to grind our way through that over the next couple of years. You get a little over \$1 billion of that every year through depreciation. Our net operating income is pretty good at about \$1.6 billion on that equity book. Our occupancy is good. And the team is doing a good job of releasing everything that comes open. So I think it's a grind it out. We've got a lot of good people working on it, and I think the team is doing pretty good job in a tough environment, and we'll show you a lot more details on the 28th.

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**Robert Cornell - Barclays Capital - Analyst**

What's the schedule from refis in that book in the balance of the year? You had like \$5.4 billion for the whole year. Have you been through half of it or is most of it second half?

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**Jeff Immelt - General Electric - Chairman, CEO**

I don't remember the exact number, Bob. We'll definitely cover that on the 28th. We gave you an update on that in the first quarter. I don't have it with me right now.

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**Robert Cornell - Barclays Capital - Analyst**

That's all, thanks.

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**Operator**

Your next question comes from the line of Jason Feldman with UBS.

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**Jason Feldman - UBS - Analyst**

Good morning.

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**Jeff Immelt - General Electric - Chairman, CEO**

Hi, Jason.

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**Jason Feldman - UBS - Analyst**

I know you've talked for a while now about shrinking the Capital Finance portfolio but at least sequentially assets were up somewhat. Was that currency or more aggressive origination? Opportunistically, or is there something else going on there?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Yes, that's all currency. On a reported basis, as you said, the assets were up 13 -- \$25 billion of that quarter over quarter was driven by the dollar. FX translation. So we're down 12 or 13 in the quarter on an originations less than collections basis.

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**Jason Feldman - UBS - Analyst**

Got it. And that's a lot of data all at once but if my math is right, reserves as a percentage of non-earnings, declined modestly despite reserve builds. I mean reserves as a percentage. Non-earnings are about 50% down from 57% last quarter. How should I think about that? Is it a change in the mix of where non-earnings are?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

It's really -- you've got to separate out the global mortgage book. The global mortgage book has a lower percent of reserves based on the fact that we're senior secured position in the properties, and so as those go to non-earnings, they get big numbers in non-earning, but really the loss percents are much lower than what we have across the rest of the consumer book for sure and they're probably comparable to the rest of the commercial book. So it is a mix effect. And we'll show you some more of that on the 28th as well.

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**Jason Feldman - UBS - Analyst**

I'm sorry, just to make sure that I get this what you are basically saying is when the non-earnings growth comes from mortgage side, because the actual expected losses are lower you don't need the same comparable reserve build.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Exactly.

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**Jason Feldman - UBS - Analyst**

Sorry, just wanted to--.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Because remember, we underwrote the properties at 70% loan to value. When it goes nonearning, the full value of the property goes and even though you've got all that asset behind your loan position.

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**Jason Feldman - UBS - Analyst**

Then last quick thing, at commercial lending and leasing, I'm trying to reconcile non-earnings, which were up substantially this quarter, while the equipment financing delinquencies actually were down. I know not all of CLL was equipment financing, but can you kind of explain the dynamics there, why we're seeing continued growth in the non-earnings with delinquencies that seem to be stabilizing, how we should think about that probably not just there but elsewhere as well?

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**Jeff Immelt - General Electric - Chairman, CEO**

Some of that actually is connected, as something goes out of financial receivables into non-earnings, or goes into the non-earnings category, it's not in the delinquency category. Some of that, the book is already basically starting to season. You're dealing with a non-earning asset. You've got to work your way through that, in terms of getting your senior secured position recovered, and it comes out of the 30-day delinquency measurement.

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**Jason Feldman - UBS - Analyst**

Do you view that as a sign of stabilization?

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**Jeff Immelt - General Electric - Chairman, CEO**

I view it as a sign of maturation of the commercial book here in the US. I don't know if it's stable yet. I'd like to see the third quarter, but I can tell you that it's nice to have it at least flat in second quarter, and I hope it is a sign of stabilization.

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**Jason Feldman - UBS - Analyst**

Okay, thank you very much.

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**Jeff Immelt - General Electric - Chairman, CEO**

Seasoning sign was the word I was looking for, Jason. Appreciate it.

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**Operator**

Your next question comes from the line of Jeff Sprague with Citigroup.

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**Jeff Sprague - Citigroup - Analyst**

Just a few things. Just on credit costs for the year, Keith, should we kind of expect we'll be in the \$10 billion, \$10.5 billion range based on kind of the run rate and what you said, a little below the fed base case?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

We -- we're just take where we are at the half, and if you look at where we are at the half and you double it for the year, you end up in those numbers. Again, in all our indicators, with all the ups and downs, some above the fed base case, some below, especially the retail business, even below our op plan, you get somewhere below the fed base case. If things continue as they are through the second half, yes.

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**Jeff Sprague - Citigroup - Analyst**

I was just wondering, disc ops. Did something else move into disc ops and GE Capital in the second quarter? The number was quite small in Q1.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Nothing else moved in there. There was a true-up on the lake disposition with Shinsei in the quarter, right around \$100 million related to the exit of our consumer business in Japan.

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**Jeff Sprague - Citigroup - Analyst**

And I wonder if I might just actually ask Brackett a question since we have him on the call.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

That's why we brought him.

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**Jeff Sprague - Citigroup - Analyst**

I would certainly agree with the notion that perhaps companies like GE had nothing to do with the core of the problem that happened, which actually then makes the language of this thing actually quite interesting. A lot of people surmise that it actually seems to directly target GE, based on your size and other sorts of things, and I just wonder your view on that, if the strength of the administration's conviction that kind of the mingling of finance and industry is actually an underlying problem here?

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**Brackett Denniston - General Electric - SVP, General Counsel**

Well, I think it's one of many proposals. I don't sense it's up at the top of their list. It's not something they talk about a lot publicly. But it's a debate that's gone back 30 or 40 years between banking regulators and other people. And so I think that's where that reasoning comes from. It's an old debate that usually gets resolved in the way I mentioned. It gets resolved by grandfathering. I don't think it's fundamental to any crisis prevention, although you could make arguments that way. And the existing structures have been well regulated by the kinds of protections you have in law and could strengthen modestly to address any kinds of risks that are covered in the couple of paragraphs in the white paper that touch on it.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

I think the actual circumstances of what we've been through over the last nine months are completely the opposite. Why is GE and GE Capital better than other financial institutions? We've been able to raise equity as a combined enterprise. We've been able to strengthen the balance sheet at GE Capital based on the strength of the GE business model and our cash flows. We had to cut our dividend. That protects GE Capital going

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forward. The industrial combination with our financial services business has provided the strength for us to work our way through this crisis, Jeff, and I think that's a pretty strong proof statement in one of the toughest environments that any business model has ever gone through.

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**Brackett Denniston - General Electric - SVP, General Counsel**

Jeff, as you can tell, we're very committed here, extremely committed and just to -- we're out originating new business, we're out providing liquidity. As we showed earlier, even in a tough environment, this industrial Company is going to generate between 14 billion and \$16 billion of cash flow, and all of that can be applied strengthening GE Capital and doing more origination in the marketplace. So we're very committed to this business model.

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**Jeff Immelt - General Electric - Chairman, CEO**

I just would add one other thing, Jeff. I don't think this thing was targeted at GE Capital. I think this was a broader conceptual kind of thing. And so I don't buy into the notion that somehow this was targeted.

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**Jeff Sprague - Citigroup - Analyst**

Great. Just one other unrelated question. Keith could, you give us what the industrial organic growth was in the quarter?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Revenue growth down about 5.

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**Jeff Sprague - Citigroup - Analyst**

Thanks a lot, everybody.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

Yes.

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**Operator**

Your next question comes from the line of John Inch with Merrill Lynch.

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**John Inch - Merrill Lynch - Analyst**

Hey, guys. The equipment orders down over 40%, Keith, what was the organic results? So if you exed out pricing and currency see and in terms of the embedded down 10 to 15 do you guys presume that the down 40ish reported number does, that continue or does that actually get better because of other comps or stuff that you're seeing?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

FX is only about 2 points on that, but, yes, it gets better because the second quarter was the second highest order quarter ever. In the second half you go down in the \$13 billion order sort of order numbers, instead of the 14 billion \$15 billion numbers we're comparing to. Based on the fact that orders we had, absolute level, were so great you are going to see a little better comparison. We're -- we don't expect to be down 44, 42% for the year. It's somewhere probably closer to the 25% kind of range.

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**Jeff Immelt - General Electric - Chairman, CEO**

Even without the recession, John, we would have had an unwind here. We billed \$30 billion of backlog over four years. It's just a -- just a ton. So this is really within our expectations, and what I talked about, vis-a-vis equipment revenue, for how to think about it going forward, I think using all of our analytics, that seems pretty reasonable.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

If you look at the absolute order, equipment order level being down the amount, first of all that is not what's going to turn into revenue. As Jeff said, you do the math on the backlog conversion, and what you get in normal orders in the current year going into revenue, and you could be down somewhere around 10 to 15%. We're giving that you framework in a non-guidance world, but it's not going to be down 40%. On top of that you got the services the other side.

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**John Inch - Merrill Lynch - Analyst**

Right. Well, Jeff, you're pretty optimistic on energy continuing, yet the energy orders specifically are down. Is there something about the back half that allows your turbine business specifically to continue kind of the trend into next year, or is there mix issues? How should we--?

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**Jeff Immelt - General Electric - Chairman, CEO**

John, what I would say is, you've got a very strong service momentum in the second half. So I think that is a very good sign for the energy business. Big backlogs, big global footprint. I would say that a lot of the wind -- we have a very formal process in terms of how we book orders. A lot of the wind commitments didn't turn into orders really because our customers were waiting to see how the eventual language worked on the production tax credit. That's not been clarified. So we see a couple big orders that are out there that will probably happen the second half.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

I think 100% of what we're talking about for 2009 is in the backlog across these business these we covered with those updates I gave you, John. I think we'll have to work our way through the second half and see what equipment is for 2010, but that framework that Jeff talked about I think is pretty appropriate.

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**John Inch - Merrill Lynch - Analyst**

Then just lastly, Keith, the \$678 million of tax credits at GE Capital, how does that compare to the tax credits in the first quarter if you were to ex out or however you want to look at it, the impact of the reinvestment of earnings that you did in the first quarter?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

It's pretty similar. I think the way to -- the simple way to look at it, if you take the pretax loss at GECS and you tax-affect it, then you end up with about 400 million to \$500 million of tax benefits that we get every quarter from our global structure including the fact that GE pays GE Capital for its tax losses. So you are talking about a 400 million to \$500 million a quarter run rate, and that's very similar excluding that one time reinvestment that we did -- our commitment to reinvesting earnings overseas that we did in the first quarter.

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**John Inch - Merrill Lynch - Analyst**

Lastly your deposit base, \$36 billion, I think it was flat. Is there anything going on there? Maybe just a little bit of an update with respect to the GE plus accounts or anything like that?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

No, there's nothing really. I think we've had a little bit of slower growth in the core on the ILC bank in Utah. So if you don't have the assets, we don't raise the deposits. We've had good global growth in some good bank loan growth offsetting that.

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**John Inch - Merrill Lynch - Analyst**

Thanks very much.

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**Jeff Immelt - General Electric - Chairman, CEO**

Great. Why don't we take one more question.

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**Operator**

Wonderful. Your final question comes from the line of Steven Winoker with Sanford Bernstein.

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**Steven Winoker - Sanford Bernstein - Analyst**

Good morning. Thanks for taking the call.

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**Jeff Immelt - General Electric - Chairman, CEO**

Hey, Steve.

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**Steven Winoker - Sanford Bernstein - Analyst**

Couple questions. One, just to follow up Jeff's question with Brackett, on the white paper proposal, I guess it is only one option. It's early days. But did explicitly exclude grandfathering in one of the comments. What options have you thought about, in sort of some of the worse case scenarios as -- to avoid a split, if, in fact, you did get named a bank holding company, or how you sort of scenario plan this thing to mitigate any damage, other than just fighting it?

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**Brackett Denniston - General Electric - SVP, General Counsel**

Well, I think I talked earlier on about the number of things that we're doing to protect ourselves, getting smaller and more focused, number one. Number two, bulking up on regulation. I'd say those are the two principal things. And you talk about all the other things that we're doing around capital, strengthening capital for a new regulated world, strengthening our liquidity profile, all of those things prepare you for whatever comes out of this white paper.

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**Steven Winoker - Sanford Bernstein - Analyst**

Okay. And on capital allocation, how are you thinking about, in light of current results that long-term dividend payout outlook? Is it going up to 50%, or how are you thinking about that? And over what kind of time frame?

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**Keith Sherin - General Electric - Vice Chairman, CFO**

We said when we made the decision to cut the dividend for the second half of this year that we're going to have an assumption that we weren't going to rely on any capital out of GE Capital for the near term. That assumption is still in place today. We'll have to see how 2010 and 2011 look before we revisit that. And we think we've got a pretty good dividend yield on the dividend payout we have today based on our industrial earnings

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and our industrial cash flow relative to what is competitively available out there. I think it's something we'll look at as we get more clarity on 2010 and 2011, but we've got a pretty healthy dividend yield versus the dividend payout we have today.

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**Jeff Immelt - General Electric - Chairman, CEO**

Steve, the good news is that our CFOA is equal to or higher than it was when we had our December meeting. So, it gives us just a lot of financial flexibility when we look at the second half of the year, to make good choices for our investors. But our CFOA performance is very good.

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**Steven Winoker - Sanford Bernstein - Analyst**

And as you mentioned in December, Jeff, are you still basically thinking in terms of that you're out of the market for large, at least in terms of large M&A?

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**Jeff Immelt - General Electric - Chairman, CEO**

Steve, I made two comments in December that I still think are true today. The first one is, our priority right now is just to make sure that GE Capital is safe and secure, and that we have the opportunity to play offense in GE Capital in the second half of the year, and I think we can do that. The second comment I made is that we don't think there's going to be a lot of big transactions that take place, and I think what we've seen in the first half supports that.

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**Steven Winoker - Sanford Bernstein - Analyst**

Thank you.

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**Jeff Immelt - General Electric - Chairman, CEO**

Great, Trevor. Thanks everybody. I think in the key highlights are great service strength, tremendous work on productivity, strong cash flow, and you've seen the framework for the second half of the year. Again, we think the GE team is executing well in a tough environment.

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**Keith Sherin - General Electric - Vice Chairman, CFO**

And we look forward to giving you a good update on GE Capital on the 28th, and that should be a revisit of the deep dive we did in March on a more focused basis.

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**Trevor Schauenberg - General Electric - VP, Investor Communications**

Thank you Jeff and Keith and Brackett. Just a few housekeeping items. The replay will be available this afternoon. I'd like to close by announcing three upcoming events for your calendars here. First, we have a reminder that the GE Capital investor webcast will be held on July 28. Second, we will be also hosting investor day at the global research center on September 17, so please stay tuned. More details to come on that. And then finally, our third quarter earnings call will be held on October 16. Information regarding all these upcoming events will be made available on our website shortly, and for today as always Joanne and I will be available to take your questions. Thank you very much, everyone.

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**Operator**

Thank you for your participation. This concludes your conference call. You may now disconnect.

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