



## Conference Call Transcript

**GE - GE Security Analyst Meeting - 'Infrastructure'**

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## PRESENTATION

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**Dan Janki - GE - Investor Relations**

Great. First of all, I'd like to welcome you to the headquarters of GE Aviation here in Cincinnati, Ohio. Great to have you, we had a great evening. And we look forward to a great day today, also like to welcome everybody that's joining us on the webcast.

We have a line-up that we're going to keep you busy through most of the morning and into the early afternoon. First of all, we have our CFO, Keith Sherin, who's also Vice Chairman. And he's going to give you a business update. And then as we talked about on the second quarter earnings call, he'll give you an update on the plastics gains and how we're using that to relate to restructuring in the third quarter.

And then, we're going to kick it over to John and the team. And they'll give you -- 12, 13 business leaders across the infrastructure will give you an update on their businesses and the markets that they operate in. So, we're going to have Q&A at the end. And then, we're going to do a break for lunch. And then, we'll have the operational tours of Aviation after that. So, we look forward to a great day.

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Just a reminder, that today's presentations do contain forward-looking statements. They're based on the economic environments that we're operating in today. And that is subject to change. So with that, I'd like to introduce Keith and get us started.

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**Keith Sherin - GE - Vice Chairman, CFO**

Thanks, Dan. Well, Dan assures me you're all very happy to see me here as a added speaker on the agenda. I just wanted to let you know I'm here to give you a quick update on the Company and also, as Dan said, talk about what we're going to do with the plastics gain and the restructuring. Those are the two topics.

So in terms of the environment, the broad industrial economy is still pretty good for the activity we see. And I think the best evidence of that is on the right side for GE. Our orders in the third quarter continue to be really strong, and you're going to see that today in John in his teams' business results.

But, our major equipment orders are up around 40% the services orders are up around 9% and the flow orders are up in the single digits, mid single digits where they've been all year. We feel pretty good about the economic activity we see driven by rate infrastructure demand, global demand for industrial products and pretty good orders across our service portfolio.

So, we're watching the impact of housing, as everyone is. And we'll see how that unfolds over the next several months. But, the industrial activity we see is pretty good. The second topic is, economically, the financial markets are obviously in transition. August was a pretty rocky month, as all of you know. There's a repricing of risk. Liquidity still does exist.

And I'll give you an update on how we did. It's certainly been a validation of our strategy to remain AAA. We had a terrific summer, and I'll show you the details of that. We're getting opportunities to put capital to work at very high returns. And I'll show you how we're taking advantage of that.

And then finally today for us, we are using the plastics gain to improve our position in the Company. We're going to lower our cost structure. We've been doing that all year with gains offset by restructuring. And we're going to also reduce the risk of the portfolio, and I'll show you how we're going to accomplish that today.

In terms of financial markets, obviously everyone is familiar with the August challenges in financial markets, all the CLOs, CDOs, kind of the frozen up. People are -- investors are trying to find out what's the asset quality and what I've invested in. There's certainly been a lot of deals delayed or cancelled, and there's an awful lot of deals that have been announced that are going to have challenges in how they get funded, a lot of bridge loans that we've put in place I think on some of the big private equity deals.

We're seeing a lot more conservative structures. We're seeing a repricing of risk, which is good news for us. You're seeing senior secured loans traded \$0.95 on the dollar, and that creates investment opportunities for us. So to me, when we look at the challenges going on in the financial markets, we see a lot of liquidity. It's on the sideline.

It's waiting for opportunistic places to put capital to work and the repricing risk, which is great for GE Capital for us to be able to get a spread commensurate with the strength of a AAA balance sheet and earn a good return. It's something that we're excited about today.

So for us in the summer, we had a terrific summer. GE Capital, we did \$18 billion of long-term debt in the month of August, one of the toughest debt market months ever. We're ahead of our capital-raising plan. So, we kind of raised enough capital to have some power available for opportunistic investment.

Our CPs had no challenges. I'll tell you, there's been a flight to quality. Unsecured A1, P1 CP from GE Capital is trading 100 basis points below secured asset-backed commercial paper conduits. And it's because of the strength of the credit and the confidence they have in our operations. And we've got great rating agency relationships.

On the commercial finance side, the commercial credit cycle's still in great shape. We haven't really seen any change in delinquencies or issues in the portfolio. The credit quality of our assets in the commercial side is in terrific shape. And as I said, we're opportunistically out there making investments today. We're looking at the GE Capital Board. It deals at debt deals, senior secured, 70% loan to value with 20-plus percent ROEs. These are really good opportunities for us.

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If you look prior to August with all of the liquidity that had come in and a lack of pricing for risk, you'd be struggling to find an equity deal with these kinds of returns. So, this is good news for GE financial services. On the GE Money side, really a distinction, the global consumer continues to perform very well. We haven't seen any spread over subprime issues that are in the U.S. to the global consumer.

And while we haven't seen any dramatic change in our U.S. book on the consumer, we're watching what's going to happen with the U.S. consumer. I think you're going to expect to see delinquencies rise. And as a result, as those delinquencies rise, there'll be higher posting of reserves as we go forward.

And I'll give you an update of that at the third quarter call, but nothing outside of our current guidance. So, it's been a great time to be a AAA and overall a net positive for our financial services businesses as we look to put this capital to work at good -- very good returns.

Now today, what we told you in December is we were going to have somewhere around \$1 billion to \$1.5 billion of after-tax gains and that we were going to offset those gains with restructuring. If you look at what we've done, the gains are much higher than what we thought. At the time in December, we weren't really anticipating the size of the plastics gain trade that came in, but clearly more than \$1 billion after tax of gains above whatever we thought we were going to achieve, which is great.

We've been able to do a tremendous job on restructuring both the industrial side of the Company and reducing risk in financial services, specifically GE Money. If you look at capital allocation, we told you we were going to have some dispositions, \$7 billion to \$12 billion. We were going to do some acquisitions, \$7 billion to \$15 billion and buy back about \$6 billion of stock. We've closed all the transactions that created gains and extra cash flow for us.

Now, the plastics deal I'll show you in a second, the Nuclear JV, the Swiss Re stock sale, all have worked out great for us. We have completed the Vetco and the Smiths acquisition. We're in the process of closing Sondex and the Hallmark Global Cable channel for NBC, about \$8 billion of acquisitions this year.

And without Avid, obviously we upped the buyback. We're going to buy back \$14 billion of stock this year. So, between the buyback and the dividend, we're returning \$26 billion of capital to shareholders to this year in a very shareholder-friendly way on capital allocation.

So, the gains are funding restructuring. They're being offset. They're not falling through. They create operating earnings, as we said, and we're doing a very good job, I think, on disciplined capital allocation to return money back to shareholders.

Plastics recap, very happy to report that on August 31st, the deal closed. You all know that. Pam Daley and our business development team ran a terrific process, a very disciplined auction process. We got a -- the perfect buyer for that business from a strategy perspective. SABIC combined their opportunity to get to the raw material costs.

With our great marketing and technology in the front end, it's just a fantastic business combination. And that team did a great job on the road show this summer, both the plastics team and the SABIC team. They raised \$8 million of debt in August. This was the only high-yield deal to fund in the month of August around the world. And it's a tribute to the quality of the business and the quality of the business team. And -- but we got \$1.7 billion to \$1.9 billion of after-tax gain that'll be in the third quarter.

It'll be in discontinued operations. We got all the cash proceeds. And we have tremendously strong relationships between GE and Saudi, Arabia. You'll see some of those results today in terms of what it's doing for our business opportunities, in John's business specifically. So, this was a terrific win for us and a perfect buyer, and we're very happy to have the deal concluded.

So, what are we going to do with it? In the third quarter, we're going to continue to do first, restructuring in the industrial businesses. We have an opportunity to continue to lower our cost position, improve our technology position. I'll show you some of the details of that today on the industrial. It's going to be about \$0.5 billion after tax. We continue to reduce our headcount in high-cost countries and improve our going-forward strategy position on an industrial basis.

So, this will continue, the work that we did in the first two quarters of the year. And we'll continue to report in the third quarter earnings all the details about it. I'll show you a little bit in a second, so about [\$500 billion] after tax about \$0.05 in continuing operations from continued industrial restructuring.

The rest of the opportunity here is going to be to reduce risk in GE Money. You know we've been exiting -- have made the decision to exit WMC in the second quarter. We had about \$1.1 billion of assets on the books. I'll show you how we're taking that portfolio down and the additional

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charges we're taking to bring those assets down on the way to get completely out of the business by the end of the year. That's about \$300 million to \$400 million of additional charge in the third quarter as we sell those assets down.

And then finally, we've made a decision to exit the Japan personal loan business. You're familiar with as the Lake business, GE Money in Japan. That's going to require a charge of somewhere between \$900 million and \$1 billion after tax. And I'll show you how we're thinking about that and why we're thinking of that.

So, if you look at our goals that we entered with on restructuring, number one, we're going to have -- certainly all the gains will be offset and not create earnings. We're doing that. We're going to improve our cost position, and we're going to lower our risk and improve our strategic position going forward. And I'll show you the details of all these programs in the next couple of charts.

First on industrial, we're going to have, as I said, \$0.5 billion after tax. It's going to be spread across the businesses I -- based on the programs that we're working on today, it's -- the majority of this will be in industrial. But, we'll have some in NBC and healthcare. We're going to continue to have footprint reductions.

Basically, if you look at a go-forward analysis of our lighting business, having that incandescent footprint in both North America and in Europe is going to be something that we've got to deal with. And we're taking that on. We'll have a lot less capacity in incandescent when we get done with these restructuring programs. And we'll be technically in a better position to compete in that business going forward.

And we're going to continue to reduce our costs in NBC. They continue to do the NBC 2.0, and I think that's going very well. We have some infrastructure programs where we're taking advantage of the service opportunities together as a set of businesses. And that's required a little restructuring. And then, we have some other purchase accounting that we still need to do.

We're getting about a 3.7-year payback on the programs that we've got aligned for the third quarter. And obviously, that helps us in 2008 and 2009 and beyond. And so in the third quarter earnings call, we'll give you the specific details by business of what's in these industrial-restructuring projects.

GE Money historically here has had a tremendous contribution the Company. And we've grown over the last several years at strong double-digit rates, at very high returns on equity. And one of the things that we've been able to do is grow through the pressure that we've had in Japan.

If you look at the top-right here, Japan came close to \$0.5 billion in 2005, was a little above half of that in 2006. So, the pressure from these rebates that we're having to pay back to consumers who were getting charged interest above 18% and below 29% has created a real operating drag on that business. And through the half, we're just about break-even in GE Money this year.

So, despite the fact that we've had this drag, GE Money's been able to grow at very healthy rates. Our decision today is to take that risk off the table going forward and remove that drag over the next several years that you look at it and the rebates in that book. And I'll show you the details of that.

The second thing is, WMC has just been a real drag for us. Obviously, the losses in the first half as we've exited from \$5 billion of assets down to \$1.1 billion at the end of the second quarter. And I'll show you the impact of getting that down to an exit by the end of the year. So if you look, GE Money's been a terrific performer for us. And when we look going forward, this is an opportunity to take a lot of risk off the table with the gains from plastics and also improve our strategic position in GE Money as we go forward.

WMC, as I said, you know we got down to \$1.1 billion at the end of the second quarter. Interesting, but the buyers who bought our \$3 billion of sales remaining in the second quarter did not want to participate in the auction to buy the next \$1 billion. We're going to sell \$700 million to \$900 million of these assets. We've made a decision to get out. We're taking the hit, and we're exiting this and removing it from investors' minds as we go forward.

We haven't done any new originations, but we're on track to close or sell the business by the end of the year. And this will be reported in discontinued operations in the third quarter, as I said. To get these assets out, we're probably going to have \$300 million to \$400 million after-tax impact in the third quarter.

And I've given you ranges on all these things. We'll finalize these and give you the final numbers in the earnings call. But just not everything is complete. And I wanted to make sure that we give you the ranges. So, this portfolio exit and the business exit's on track. And I think the fact that we made the decision, when we made it and the fact that we've been getting out the way we've been getting out has really been advantageous.

GE Money Japan, a little different story, this business has been extremely profitable for us. If you look over the last seven years, we've made more than \$3 billion of net income at a high 30, low 40 ROE. So, this has been a very lucrative business. But, the legislation in Japan has definitely changed the industry. It's led to a lot tougher controls.

Recent Supreme Court decisions have created an ability for consumers who participate in these long programs at these APRs to get a rebate back on interest that's been charged going back as far as ten to 15 years. And as a result, that rebate drag has had a real impact on the entire personal loan industry in Japan.

There's some other effects as well, I'll show you in the next page, but paralegals are advertising to consumers to, let us help you get your rebate on any interest if you have any loans with any of these companies. And the market's really shrinking, and there's going to be some pressures in Japan from the complete retraction in a huge segment of personal loan lending in Japan.

So, when we look -- we've done a lot of strategic work on Japan. And our analysis is, this industry's going to consolidate. It's already started a little bit in Japan. The big banks have taken on a lot of the consumer loans companies and have the alliances. And in our world, either you had to be a buyer or seller. We feel like the time now is to be a seller.

We're not going to put additional capital to work in this space at the present time with that continued gray zone risk. And we've got other better opportunities, especially in commercial finance, not only to invest in Japan, but to invest in the rest of the world. So in our analysis, as this consolidates, we're going to be a seller, better uses of capital.

So if you look, these are some the -- just some of the dynamics of the regulatory environment here. Obviously, with an APR cap of 29% and borrowing costs below 2%, this was a very lucrative business. You could cover a lot of losses in a -- in the lending environment. There were no lending limits. In other words, there were no personal multiples of debt to income restrictions and limited rebates.

And with the changes in the law from the Supreme Court decisions against this industry, everybody's been impacted. Today, the rate is going to go down to 18% over the next two and a half years. So, you can still lend above 18%. But if you do that, you're incurring gray zone liability.

There is a lending cap that's been put in place that says you can't provide any of these loans to consumers who have more than 30% debt to income. And basically in Japan, a significant portion of the book are individuals or consumers who have a higher percent of debt to income than that. And as a result, you've got to stop lending to them. And then, the rebates are very easy to get. And the industry is completely supported by paralegals and legal systems to get these rebates for consumers.

So, if you look at the public market deals, they're trading about 70% of asset value. We have about \$6 billion here in this book, and if you just use those numbers, that's how you kind of get to the pretax and after-tax charge that I'm talking about on a \$6 billion book with that type of realization value as we sell it.

We're looking to finish this in the next nine to 12 months. We do have a lot of discussions with both strategic buyers and financial buyers who are interested in consolidating. And the charge, as I said, will be around \$900 million to \$1 billion after tax in disc ops against that plastics gain.

So, we're going to continue to invest in Japan. You saw us. We just completed a commercial finance leasing transaction in Japan, and that's going very well. And we have other opportunities to invest in Japan as we look forward. So, the regulatory and legal environment here has just really impacted the business.

And overall on a round trip, this has been a pretty positive for GE shareholders overall. Even with this loss, there's a more than 20% IRR in a round trip for what we've done with Lake in Japan. But, as a -- as I said, right now is a good time for us to remove this drag that's been in GE Money and not have it going forward and not have it be something that investors have to deal with.

If you look at this business post restructuring, we're going to earn about \$4.2 billion this year is the estimate. You've got a little bit of model work to do. We've given you the details here, but Dan and [Joanna] are going to be available to work through this. \$4.2 billion this year, the '08 forecast somewhere up 5% to 10%.

I think while the business is in better shape, the comparisons are tougher. And the reason for that is if you look at WMC going into discontinued operations, in the first and second quarter, you know we had losses in WMC. GE Money had a number of actions they took to offset those losses, mostly offset those.

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Now, the losses come out. And so next year, they're going to be compared to those higher numbers without the losses in there. So, the business is in better shape, but they've got a lot tougher comparisons. And I'll show you the numbers on that in a few pages.

But you look, 30% of the business is in very strategic emerging markets with a lot of great growth, good returns on equity. 40% is in developed markets, mostly Western Europe and Australia. And then, another third is in the U.S. with the private label credit card business that still perform very well and the retail sales finance business, which has been very lucrative for us and is well positioned.

So, I think when you look at GE Money post restructuring, you get no risk from WMC in the U.S. mortgage business. You've got the drag from Japan reduced. And we're just in a much better position in -- both strategically and risk-wise.

So, step back from the gain on the restructuring and look at the six-business basis, where do we stand as we look at 2007 and into 2008, number one is infrastructure, 37% of segment profit. You're going to hear the story today. We just have a tremendously strong global competitive position. And John and his team are going to show you that.

As many of you commented, we're in early innings. I guess we're all kind of saying that. I believe it. When you look at the order rates and you look at our competitive position, we've got a lot of activity here that's going to continue for a long time. And you'll see that this morning. So, we feel great about infrastructure obviously.

We feel great about commercial finance. I think our secured lending positions are great and with an opportunity to put capital to work at these returns, that business has a very nice outlook as we go forward. GE Money, much better risk position and more strategically positioned for us, but again, a little tougher comparison when you compare in '08.

Healthcare, we like our global position. We love the business. We still expect to shift out of what we see in the fourth quarter. But, when we look into '08, we see the DRA continuing to be tough. And the only thing that we have that's a better offset to that is we've got a lot easier comparisons since we've already been in that hold cycle for more than a year. So, I think easier comparisons and then getting OEC for all of '08 is going to help us a lot.

And NBC, you've seen the cable performances really providing a lot of earnings growth. The film business has really performed extremely well through the summer. And the network's turning around. And we were all very positive about the activity that Jeff and team have done. And I feel like they're making real progress through a positive earnings contribution again in '08.

And then finally industrial, we're thrilled to have the plastics deal complete. It changes the risk profile of the Company. It changes the earnings profile going forward, and we're investing in high-tech businesses that really have a good competitive opportunity to grow at a -- above-average rates when we look going forward.

So when you look at the six-business basis, the portfolio going forward, it's in great shape. And the actions that we've taken on restructuring improve the cost position and lower the risk. I feel really very solid about what those are going to deliver for us.

So, this is a page that we had in the second quarter earnings deck. And I just wanted to bring you back to that. Obviously, we had the business season on the left side and the total company results. The bottom right box is what I was going to focus on.

In the second quarter earnings call, we told you we were going to have about \$1.5 billion of after-tax gain from plastics that we were going to look at opportunities to restructure the Company. Some would be in continuing operations. Some would be in discontinued operations, we had to sort that out, and that we'd update you today at this meeting. And that's why I'm here.

So, just to revisit (inaudible) -- I was scheduled earlier. This was a planned event. And here's how it comes out on the numbers. If you look at third quarter earnings per share, our guidance at the end of the second quarter was \$0.54 to \$0.56. Go right down to the bottom on total reported continuing and discontinued, there's no change, \$0.54 to \$0.56. But, we're going to have about \$0.05 in continuing operations. So, the \$0.54 to \$0.56 on a continuing basis will be somewhere \$0.49 to \$0.51.

And then if you look down below, we've got the plastics gain in discontinued operations of -- I've just taken the middle of the ranges on the previous pages to try and make the math easier for you instead of having ranges here. So, we've got \$1.8 billion, \$0.18 after tax and plastics in the gain, and then about \$0.13 after tax for restructuring and WMC and GE Money Japan offsetting that.

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So, no change to total reported earnings in the third quarter, but the match between what's in continuing and what's in discontinued, we just want to have the math straight for you. And then for the total year, \$2.18 to \$2.23, on a continued basis, there's no change to that guidance. We're sticking to \$2.18 to \$2.23.

Basically, you're going to have \$0.07 of restructuring in continuing operations in the third and fourth quarter. You've got \$0.05 in the third quarter, a little bit in the fourth quarter. And then, you have \$0.07 of losses from WMC in Japan in the first and second quarter that when we go into discontinued operation, those losses come out and that increases continuing earnings, and the two offset for the total year.

So, no change for the total year continued guidance, but you've got again to get from the first half to the second half. We're increasing our earnings in the first half by taking these into discontinued operations, which all that does is make the comparisons next year a little more challenging. And then for the total year, it's adding \$0.07 in the continuing, offset by the restructuring.

So for us, I think the fact that we're using the plastics gain to improve the cost position and reduce the risk and improve our strategic position of the Company is a sensible thing. The gain is more than \$1.5 billion more than what we thought at the beginning of the year. We've been able to accomplish the industrial restructuring we thought we could do. And then, we've been able to take this as an opportunity to do the restructuring at GE Money going forward to take out that drag, which I think is really a good thing.

So, financial markets are volatile. They're in transition, and we're really well positioned. It's a great time to be a AAA. The flight to quality's been incredible. The repricing risk gives us a lot of opportunities to put capital to work at nice returns.

The broad industrial economy is still in pretty good shape. If you look at those order rates, it's an indicator that our global infrastructure business, our global industrial businesses and our U.S. activity's still pretty good. So, we see a lot of good economic activity. We're going to watch the consumer. We're watching unemployment. We'll see what happens with interest rates today. But for us, when you look at those orders in the third quarter, things look pretty good.

And the plastics sale has created a unique opportunity for us to do additional restructuring and take out risk in this company. So, I think we've done what we needed to do to improve the cost position. And that'll continue to give us benefits going forward. And we've also been able to take advantage of that to improve the strategic position of the Company. And we're on track for the third quarter and for the total year.

So with that, what I'd like to do is I'd like to turn it over to John. I will be here through the break. And Dan and Joanna will be here. But, if there are any clarifying questions that you have about this, I'd be glad to do that before we turn it over to John and get him into the meeting. If not, I'll be here. And Dan and Joanna will be here, and we can get the meeting going on infrastructures.

Look, we'll be here. It's great to be here with John, and it's a pleasure to introduce John Rice, our Vice Chairman of the Infrastructure business. John?

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Thanks, Keith (inaudible). I thought there'd be at least one question about Notre Dame football. Let me add my welcome to Dan and Keith. It's great to have you here. And for those on the webcast, we appreciate your participation. We think we've got a great story to talk about today. Reconfirming I think a lot of what you expect about our infrastructure portfolio and suggesting that there are good times in front of us.

This first slide you've seen before. Basically, what you're going to see from the business leaders and their teams today -- in today's discussion is confirmation that this is working. We do think that we have great people. We think that this growth as a process is really working for our businesses. We're in the right businesses.

We're in the right markets. We've invested over the long run for leadership positions and leadership businesses. And you'll see examples of that. And we're going to do what we say we're going to do, which I think is important for all of us.

If you -- well, let's start with a little historical perspective. If you take these businesses back to 1995 and you just do a compound annual growth rate calculation, the top line and the bottom line, you see 11% top line growth and 16% bottom line growth. And this is through power bubbles and aviation cycles.

It's also during a time period during which we took one-dimensional businesses in oil and gas and transportation and made them multi-dimensional. And we added a water business to our portfolio. So, the businesses have both withstood the test of time and also changed in order to provide the vehicles for growth that we see today and as you can see, very efficient use of our shareholder capital.

The environment, as Keith mentioned, remains very strong across the portfolio, good volume really in every segment, lots of global breadth to what we're seeing. And you look at oil and gas and water where we're seeing great growth in -- and adjacencies in oil and gas as subsea is progressing nicely. And Claudi will talk to you about that. And in Jeff Garwood's business, \$1 billion of global project wins, which is a very big deal for this business as we've stabilized it and now have a great growth profile.

From a strategy and execution perspective, this is not new news. These are the themes that are -- continue to be very important for us, technology, globalization, a lifecycle approach to services, having a global best cost structure and making sure that we're moving into the right adjacencies. I'm going to spend a little bit of time on each one of these themes. And then, you're going to hear in more detail from the business leaders.

All of our businesses are founded on having great technology. You're in the heartland of one of the most important ones, our aviation business, where it takes ten or 15 or 20 years for engine investments to mature, though the GE90 is a hugely successful program now, has been around for 20 years. We have to have great technology as an underpinning to what we do.

We know that, but tech for us is to continue investing. So, we're going to spend over \$2 billion this year on next-generation research and development and technology. A lot of that even falls out of a window over the next three to five years, because that's the time it takes for these technical investments to mature.

Past investments have also allowed us to create a tremendous installed base, some 70,000 units across the portfolio that we can work to make more value -- valuable for our customers and in doing that, create more value for our shareholders.

We're facing an environment today where fuel prices, oil and natural gas are fundamentally higher than they've been over the last ten years, oil at \$70 to \$80 a barrel, natural gas at \$5 to \$8 per Mbtu may go up from that, may drop down from that. But in the world that we see, we expect prices in these ranges to continue, which, frankly bodes well for us.

It puts a premium on fuel efficiency. And you can see in our core businesses how important that is. And it leads to the value creation that you'll with the GENx. And Scott and his team will talk about that and LEAP 56, transportation with the EVO and the Hybrid locomotives and energy with an array of products including the Jenbacher engine. It also allows us to get more value out of the installed base.

This leads us right into a discussion about ecoimagination. It fits hand in glove with what we were thinking when we launched that program several years ago and also about how we think about carbon management. And now, I'd like to invite Lorraine Bolsinger who, as you know, heads our Ecoimagination efforts to -- up to talk to you about that activity.

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**Lorraine Bolsinger - GE - VP - GE Ecomagination**

Thank you, John. Good morning. Ecoimagination is really a growth strategy for the Company. And I think you'll see that on this chart where we show the numbers. Last year, we closed \$9 billion in revenues, and we're projected to hit \$16 billion by the year 2010. I have to tell you, I panicked a little when I saw this chart, because I don't usually talk about infrastructure numbers. I usually talk about the whole company numbers. So, our commitment is to hit \$20 billion by the year 2010, and we're well on our way to do that.

So as you can see, the majority of those products, as you might suspect, come from the infrastructure businesses. In fact, we have 45 certified products, and more than half of those come from infrastructure. And you're going to hear from those business leaders today about those products. So, I won't go into too much detail on that.

But right behind it, we have another 40 products that are ready to be certified. Or at least, they're in the research and development cycle. And I think that's a result of the fact that we've doubled down on our research and development in green technology. So, we've gone from about \$700 million in 2005, and we plan to be at about \$1.5 billion research and development investments just in green technologies by the year 2010.

You've seen what some of the results are, the Hybrid loco right on the heels of a very successful of the Evolution locomotive. We have the next-generation already. In fact, it was demonstrated out in California earlier this year, 10% fuel savings. And whenever you think about fuel savings,

you've got to think right commensurate with that is the impact of CO2, because CO2 has to do with fuel burns. Of course, it has to do with efficiency, and so the lower the fuel burn, the lower the CO2. And that's important, and I'll tell you why in a second.

Global desalination, big product line, very important because today 1 billion people live in water scarcity. By 2020, that number's going to be 3 billion people. So, this is right in the sweet spot for us in terms of infrastructure building around the globe. And we expect to have about \$300 million in revenues by the year 2010.

Lastly the GENx, you are in the home of the GENx -- right behind us. I think is anyway, Scott. Great engine that's going to allow the 787 to get a 20% better fuel burn than the 767, which it'll replace, and you can see the fuel saving is \$1.3 million annually. And right along with that is an impact of about 1.1 to 1.3 times because of the carbon dioxide.

And you say, okay, what do you mean by that?" Well, carbon legislation is inevitable. We see it post 2012 in Kyoto. They're already working the plans for that. In the United States, there are numerous bills in Congress being contemplated. The White House, who has been reticent in the past is starting to move in this direction. There was an APEC conference just recently. So, we're seeing a real movement.

And regardless of where you sit on the science or how you feel about the subject, this is a scenario. This is the world we will live in. And there will be legislation, and there will be a price on carbon. Now what this chart is, and I have to tell you who developed this, its two professors at the University of Princeton -- Princeton University, excuse me. And they are -- they're known for work in the area of carbon mitigation.

And what this shows is if you look at the orange line going up, that's business as usual. So, if the world continues to grow as it's going to grow and we continue to use high-emitting carbon products, that's the trajectory we're on. And that's a bad scenario in terms of global warming.

In order to keep the world neutral, we have to keep it flat or that orange line -- or the horizontal orange arrow is going. So, the space in between that blue space is what's called the stabilization triangle. And what they have come up with is 16 ideas or a framework for solutions in that space.

And the beauty of their work, I think, is that it's not moon shot technology. It's technology that we either have in hand today or could deploy with the right policy incentives and the right economic incentives. So the wedges, as they're called, those little slices are each a solution. Think of it that way. And they each represent a billion tons of CO2 that won't be emitted.

They have come up with 16 of these. And in order to get stabilization, you only need seven. But, what I think is really important to us as a company is that we actually play in 12 out of those 16. So for us, this is a very hopeful picture of how our technologies might get deployed going further -- going into the future, because this is the solution that we're trying to get to.

Just to give you an idea of what one of those wedges might be, and these are just some representatives, 25% reductions in building electricity, or 800 coal plants that have carbon capture, or this one's a little tough, 700 times the amount of solar that's installed today. These aren't easy. These are -- like I said, they're not moon shots. But, they would take some policy and some incentives to make happen. But, they're all doable. And that last is, all existing cars running on biofuels.

So, how are we positioned in this? If you look at each of these, 5 billion tons is an efficiency. Building and transportation and coal plants, all of which just need to be more efficient, low-carbon power, so this really means making electricity from renewables or nuclear or integrated coal gasification or natural gas, which is cleaner burning, 4 billion tons of carbon in the areas of low-carbon fuels like CO2 capture, biomass and fuel cells.

We play in all of these areas. The only one that we don't play in is the last, which is 2 billion tons that can be identified out of better forestation and agricultural practices. That's just not our space. So I think the message is, we believe that CO2 legislation is inevitable.

We think we're incredibly well positioned in this space, being able to play in 12 out of the 16 potential wedges and more importantly, having a broad product portfolio that is technically differentiated today on fuel burn and lots of technical factors. We'll be even more differentiated when we have a price on CO2. And we continue to invest in research and development for the next-generation products.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Thanks, Lorraine. I think if you think about where this is going, and Lorraine said some very important things about the fact that science, there are smart people on all sides of this debate. But the fact of the matter is, you can see this coming. There will be regulations. There will be a price

attached to carbon. And that's going to play to our strength, not just in terms of new products, but in terms of the installed base and making the efficiencies that we can create in the installed base more valuable for our customers.

So, it's a perfect marriage with our strategy. Think about renewable portfolio standards. And back in 1983, there was one, the first one. It took us 17 years. I think by 2000, we had seven. And now, we have 27. And there isn't any overwhelming legislation that's going with that. That's just individual states deciding that they need to take matters into their own hand. But, we think you can expect the same scenario here, and we think it plays to our strength.

In addition to technology, one of the key elements of our strategy is globalization. As you're going to see today, we have broad and deep activities, doing business in over 100 countries. So, this is really important to us. Each one of our businesses has a much more global platform today than it had five years ago. And we will be even more global five years from now than we are today.

If you look at the growth in the emerging markets, we expect by 2010 to add about \$11 billion of top line growth. We're going to do that by expanding our commercial presence, by improving our engineering capabilities globally, by making sure that we have the right local production and service capabilities. And you'll hear all about that from the business leaders where it's relevant in their businesses.

But, we have to make sure we continue to get this right. We're very pleased with what we've done to this point, but assessing our capability, our competitive scenarios and making sure that we are expanding this footprint as quickly as we need to is the -- going to be the key to capturing all of this growth and, quite frankly, maybe more.

There's a lot in play in emerging markets. We talk all the time about India and China. Those continue to be important countries for us, but in addition, I know a number of you were with us last year when we took you to the Middle East. We see an infrastructure, great growth in the Middle East, \$3 billion between '07 and 2010.

In Latin America, a region that we don't talk a lot about, couple of billion dollars of growth, again driven by -- and we're going to spend a little time in a few minutes on commodity prices and what's happening in the mining industry. And you'll see that in several of the presentations including John Dineen's in Transportation, all of this fueling a lot of activity in markets that maybe don't get all of the attention today that India and China get. So, it's going to continue to be very important to us.

A third element of our strategy is to make sure that we have the services thing right. And we think we're doing great, both in terms of growth and in terms of margin expansion. The installed base to 70,000 units will throw off, over the next three or four years, some \$100 billion plus of revenue in aggregate over that time period.

In addition, as you'll hear from a number of the business leaders, we're building revenue streams that come from outside the traditional installed base, so both energy and oil and gas and transportation have opportunities now to develop service profiles, which don't necessarily rely directly on the installed base for their growth.

So, we'll continue to mine the installed base. And it's particularly important with respect to the discussion we just had with Lorraine. In addition, develop service adjacent to these, which are increasingly meaningful in terms of our growth game plan.

And one of the things we're working on is opportunities to consolidate our service activities. If you think about something like gas turbine repair, we do it in three businesses, in oil and gas, in aviation and energy. In the past, we had 22 shops that were each dedicated to a business. We think we've got a lot of opportunity to share some activities and go from 22 to 11 that will still be dedicated. Nine will be shared. Two will be closed.

And Dan Heintzelman, who you're going to hear from in a little while is leading that effort along with John Falconi and the other service leaders. We think that's going to help us accelerate our growth, because it ought to improve our fulfillment capability. It will obviously increase the amount of activity we have in low-cost areas and will reduce our overall cost per hour, all of which has benefits for our customers and our shareholders.

The supply chain environment is challenging right now. We -- when we look at commodity growth, demand for commodities, aluminum, steel, nickel, copper, zinc, China -- if you look at the last five or six years, China has been driving the predominant share of that. That's really not new news to anybody in this room or anybody on the webcast.

But, if you look at the upper right-hand part of this slide and you look at per capita consumption of copper, you can see that with all this demand growth in China, there's still a lot more to come. But still on a per capita basis, China still consumes a lot less copper relative to developed economies than it may in the future. And you can put India on that slide too.

That's going to -- so in our world, we think that that means that commodity prices are going to remain high. And we've got to deal with that from a supply chain perspective. It's a good thing for John Dineen's business and our efforts to expand our activities in mining. And we think we've got a great plan for managing it from a cost input perspective. Material inflation, copper, over three years, up 3x, rhenium, 6x, so in our -- we just have to prepare for this to continue. And that's exactly what we're doing.

From a supply chain strategy, we've got a broad base of initiatives. You've heard about a lot of them before. This is really doubling down to make sure we get it right, because when you look at the infrastructure portfolio in total, there's going to be no shortage of growth. Having the right cost structure, being located in the right countries and being able to fulfill is what it's going to be all about.

And you're going to hear about material cost-out designed for productivity and efficiency initiatives. Using our capital wisely in several businesses, we're investing over the next two or three years to reserve capacity in our supply base so that we have the capability to fulfill these orders. We're going to be looking at the low-cost, best-cost footprint and make sure that we have a best-in-class competitive cost structure, and making selective investments in our supply base.

Driving material costs out is what's all about, low-cost country content. Today, it's between 10% and 15%, depending on which business you measure, so a couple of billion dollars a year we get from low-cost areas. Typically, that creates -- when you -- the first year you do it, 10% to 15% deflation, maybe the second year, that drops down to 5% or 10%, but it's still a really good thing. So, that's going to continue to be a big effort. And with \$2 billion out of \$25 billion, there's a lot of room for us left to grow that.

Focusing on material cost productivity, putting dedicated resource, engineering talent on the material -- the cost structure of our parts and our goods and making sure that we're driving out every element of cost, this year, our plan is to deliver \$325 million of material cost-out productivity. That's a separate calculation from the deflation calculation or 1.6% of our total direct material cost structure.

Lean is a subject you've heard a lot from us about, got some examples here from each one of the businesses. And you're going to hear more from a number of the business leaders. This continues to pay huge benefits.

And for those of you going on the tour this afternoon, you're going to see exactly what we mean and what lean can create on the shop floor. There's a lot more space in the facility. And we're putting more engines out here, and there's still a lot more space in this facility here at Evendale than there's been because of lean.

Lean is what helps us get tremendous capacity output increases from our wind business. And Steve Bolze and John Krenicki are going to talk to you about that. So, there -- you see benefits from lean everywhere in our business. And with the demand increases we're seeing and the need for additional capacity, lean is doing just what it -- what we were able to do during the power bubble in creating free capacity where we need it.

You think about the operational scale that this creates across the infrastructure businesses you don't have to go too far to find a lot of money. With 47,000 hourly employees, 1% variable cost productivity improvement throws off \$350 million of benefit. With a \$25 billion direct material buy, 1% of material deflation is \$250 million to \$300 million of benefit. And with \$4 billion of SG&A, 1% base cost productivity is \$80 million worth of benefits.

So, we can -- don't have to look far to find opportunities to save money. And we think we have the potential to create another \$1 billion of value as we think about this game plan over the next couple of years. The fifth strategic effort for us is around expanding into adjacencies, and that's been a very successful effort for us.

Again, dialing back to 2000, if you look at the business that we had in place, it was about \$30 billion worth of revenue. And if they had grown on their own organically, that would be somewhere between \$43 billion and \$45 billion today. We'll be north of \$50 billion, closer to \$55 billion, by the end of the year, maybe a little bit higher than that. And that's -- and \$12 billion of that growth comes from a set of businesses and business activities that we weren't in in 2000.

You're familiar with them all, renewables. John and Steve are going to talk about the wind business, subsea production. Claudi's going to talk about that. Water, you'll hear from Jeff. Rail, you'll hear from John Dineen, optimization and control and environmental services and Dan Heintzelman's business and the whole gas engine suite.

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So we feel great, frankly, about what we've done over the last five or six years to expand into adjacencies. And there's more to come, things like batteries or power storage, subsea processing, which is different than subsea production, the turbo prop business that Scott will talk about, business jets, solar and a lot more.

So, this is all about making sure that we're in the right spaces today and figuring out over the next five and ten years, what are the spaces that we need to be in and making sure that we're making reasonable and prudent bets in order to get there.

Creating synergies across our businesses, a number of our business leaders are going to talk about that. You'll hear from Alex Urquhart, the work he's doing with the energy team. Jeff Garwood's going to talk about that work he's doing with both energy and oil and gas, all to try to create extra value for our customers and our shareholders, because we have a suite of capabilities that nobody that we compete with in any of our individual businesses can match.

So, as we find new ways to put these capabilities together, we create more value for our customers and shareholders of both cost synergies, the back-room stuff, sharing warehouses, the service shop efforts that I talked about, repair technologies, which we've spoken to you about in the past as well as commercial synergies. So, we think we've got them on the top line and the bottom line.

So, from an infrastructure perspective, things continue to go great. We're on track to do what we said we're going to do for the year, because we're going to be able to capitalize on continuing strength in our markets. We're making the right short-term and long-term bets on investments and ensuring that we're in the next-generation technologies and the stuff that's going to count tomorrow as well as the stuff that's going to count in 2008.

Continuing global expansion, we benefit from the fact that this is broad and deep and covers lots of markets and lots of products. It is not the same as some of the one-dimensional efforts that we benefited from in the past, the U.S. power bubble, which was one market, one product. Making sure that we continue to focus on operational excellence, it's what we know how to do. It's kind of our bread and butter. And you can see that there's a lot of opportunity to continue to improve and finding new ways to work together and create synergies across our businesses.

So with that, I'm going to get ready to introduce the rest of the team. I'll -- we'll start with Scott Donnelly, who's going to lead off and present the aviation business with a number of members of his leadership team. Thanks.

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**Scott Donnelly - GE - President and CEO - GE Aviation**

Well, good morning everybody. And once again, welcome to the home of GE Aviation, talk a little bit about our business and where we are right now. First of all, we're in a pretty good place at a pretty good time, I think. The market out there remains very, very strong, record orders, record deliveries. If you look at the book of business of Boeing and Airbus, Embraer, Bombardier is really strong across the board and around the world.

I say we're in the right place at the right time because our products, frankly, out in the field are performing extremely well. I think they're sort of our calling card right now, whether it's fuel burn associated with something like a GE90 for long-haul aircraft or the durability and time on wing of our CFM-56 powering most of the world's narrowbody aircraft, we really great relationships with our customers and that's translating, frankly, with a very strong book of business.

We've got some great [MTI] programs. David Joyce will take you through the Commercial Engine business and talk about some of those here in just a minute. How we get there? Frankly, is pretty simple. I think as you go around, and most of you will have an opportunity this afternoon to go on some tours and see some of the shops and some of our people, we have an enormous amount of domain expertise in this business.

People tend to come here, stay here. As a result we have great knowledge of the markets, the customers, the products and the technology, so it helps us to know where to go, where to make the bets on what aircraft in what market and obviously it helps us to execute and get it done after we've made this decision. So that's been paying off for us for a long time and we see that continuing.

I think you're all pretty familiar with our business model, it's all about building an installed base and then going out there and make sure that we're capturing the service opportunities that installed base represents. So right now as we go through a real boom in this industry with these unprecedented deliveries, that's building our installed base and that's been reflected on the growth of our service business, which will come for literally decades to come.

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And we now have over \$40 billion just in long-term service agreements alone on that installed base and that number continues to grow. And obviously the service opportunities grow even beyond the long-term service agreement. So I think we've had a strong track record in terms of delivering organic growth, picking the right aircraft, developing that right engines and succeeding at doing that.

We also have an opportunity now on the in-organic side with the acquisition of Smiths that closed earlier this year, a business that we feel very good about in terms of their ability to deliver the top line based on the platforms and strong position they have. And clearly an opportunity for us to grow and expand the profit margins associated with that business, and we'll talk a little bit about that as well.

So the industry, as I said, remains very strong. If you just look at revenue, passenger miles around the world continue at unprecedented levels. Certainly everybody talks about the Indias, the Chinas, the Middle East, the emerging parts of the world and its incredible the amount of growth. Aircraft (inaudible) everywhere, they put new airplanes in, they fill them up virtually right away. But we also continue to see very strong growth in the United States in Europe, Japan and around the developed world.

So one of nice things about this cycle is it's not concentrated in one particular region, one particular economy, and that's reflected in our order book. If you look at the orders, they really are around the world. So I don't think that this cycle we're going through is suspect or susceptible to one particular economic slowdown in one particular region of the world, it really is very, very broad based, and as I said, that reflects in our order book on both the new engines as well as our Services business.

So if you look at the portfolio as it stands today, obviously we have a great and growing very rapidly Commercial Engine business as we ship all these new engines for all the new aircraft around the world, the service business also growing dramatically, primarily utilization. Most of you guys fly around a lot, it's probably been some time since you got in an airplane that wasn't filled with all of your friends and neighbors.

And so the aircraft utilization is very high and that's really what drives the Service business. So the installed base is growing and it's being utilized. The Military Engine business we talked a little bit about, this has been relatively flat. We all kind of expected that. We know there are pressures, particularly with the war in Iraq and things like that, competing for funding in the U.S. DoD.

On the other hand, we continue to see this business doing very well, very strong, well positioned I think, almost countercyclical to some of what goes on in the commercial world and I'll give you some of those details in just a minute. If you look at the Smiths business, again a great portfolio of product that really broadens and diversifies our footprint in this industry.

We love the industry, we know the customers very well, we like this industry and it's really given us an opportunity to expand our footprint from really just being in the propulsion side to being all over the aircraft. The Visual Systems business, which is flight management systems, displays, mission computers and things of that nature, doing very well and well positioned. I'll talk specifically about one of its biggest positions here in a moment.

Electrical Power, a relatively small business but an area that, as electric power becomes a bigger and bigger player on aircraft, as most aircraft are going to electrical versus hydraulic actuation and things of nature. A place we've wanted to play for a long time, great opportunities to integrate this with the propulsion system.

But what we really needed was a little bit of a foothold here to gain the credibility and expertise of what it takes to do energy management distribution conversion on the aircraft. And while this is a small business, one that I think we can see grow dramatically going forward. And the Mechanical Systems, all the actuators for high lift and landing gear and things like that also very well positioned on key platforms going forward.

Unison Engine Components, as we now call that, was a part of Smiths that was actually a manufacturer of bench components. This has actually been a great story, we've taken that business, basically integrated it in with our supply chain, and Scott Ernest will talk about some of that here coming up. And it's delivering some great productivity for us here in the near term as we really integrate those shops into our manufacturing shop operation.

So just as a reminder, this is just a good example I think of what it means now to have GE and Smiths together. If you look at the Boeing 787, which is obviously becoming a hugely successful new aircraft as that gets ready to launch. We have a great position today with GENx on the engines on that platform.

But if you look at all of the components and what Smiths brings to this, everything from all the common four computing systems, all the mission compute capabilities, all provided now by GE Aviation, all the data concentrators that bring all the intelligence and information from all the different sensors and systems around the aircraft into those central processors, all the high-life actuators, all the landing gear system.

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It really gives us a great position with key technology all over that aircraft, a lot of which is at the end what translates into a lot of value for the customers. So we like the position we have in terms of the portfolio and this is probably our best example of what we think aircraft will look like going forward with the combined product content of both our aircraft engine legacy as well as now our Aviation Systems business.

We just did a small acquisition announced a couple weeks ago called Walter Engines. This is a small company in the Czech Republic. They've had a great history of making engines, have a great product line right now of small turbo props that power some Russian aircraft, other Eastern European aircraft.

A very nice position, one that we think will keep growing but also has a real growth opportunity because they never really were able to make a big penetration into the Western Europe or in the United States where you have a huge installed base of small turbo prop powered aircraft.

So, I think with our brand, with some of the technology that we can bring to this thing, with our service network, we'll really be able to bring the credibility of the Company, which has got a bunch of great people and great proposition and some great technology in this sector, and really grow that across the U.S. and Western Europe, as well as continue to build on the strength they've had in their current market.

So a new space for us, obviously technologically very similar to what we do and a great opportunity for us to grow this business. Military I talked about earlier. Again, it's been relatively flat driven primarily by competing funds around the war, but we've kind of quietly been going along winning a lot of international business. Turkey is expanding their F-16 fleet, all F-110 powered. The United States Navy continues to take F-18s, Australia just announced a big order for F-18s, all GE F414 powered.

We did win a big program last year, as most of you know we have a great franchise in sort of mid-size helicopters with our T700 engine. We won a contract at the end of last year for an engine we call the GE38, which is going to power large helicopter platforms. And we think this is an opportunity for us to take the success we've had and all of the technology investment we've put in the mid-size helicopter market in the large helicopter market. So a great product opportunity, great new platform, and one that we think we can grow dramatically.

Obviously one of our most important programs on the development side is the engine for the F136 for the Joint Strike Fighter. This has been a rather [contentious] issue here the last couple years as the government, because they're strained by funding, has been trying to cancel the program just frankly because they don't want to pay for two developments.

We believe this is \$100 billion program, and it's crazy to have a sole source supplier for \$100 billion of opportunity for decades to come. We've always had enormous Congressional support on this thing, last year they restored the funding, this year we've already been approved and have full funding reinstated for both the House and the Senate Authorizing and now Appropriating Committees.

And so we're hopeful here that we're getting pretty close to the end where all the money will be fully restored and the program will continue to go. The perform of the program has actually been outstanding, so from a products and schedule standpoint, the performance of the engine is outstanding and we think, if you get into the services, there's real support to make sure that there are two (inaudible) on this platform.

We've also been positioning ourselves, I think, very well in terms of future programs. If you look at the cycles that the acquisitions go through in the Military, we've now won both key technology development programs for the next generation of fighter and bomber class engines, and [have them] compete. And we also won a program from the Army called [Eight], which is really the technologies that will lead to the successor of what today is the T700.

So again, a great franchise for us today, the T700, and really an important win to kind of sweep the board here in terms of the important next generation technology programs that will fuel growth for the Military Systems business. Commercial outlook, I'm going to have David Joyce who you probably all know runs our Commercial Engine business. And he'll take you through where we are on the Commercial side.

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**David Joyce - GE Aviation - VP & GM, Commercial Engines**

Thank you. As Scott said, the Commercial outlook is very, very strong and that's really being fueled by having a terrific product portfolio on just about every one of the sectors and being on the right airplanes. And if you take a look today, we have the best selling engines on the regional sector, best selling engines on the single aisles on the A320s and 737s. We have the best selling engine on the 787 and we essentially have the best selling engines in all the wide bodies in the world.

We have a backlog right now in engines that is approaching 8,200 engines. And as we forecast that forward over the next ten years, we see that between GE and CFM that will increase the number of airplanes flying with our products by about 43% in both cases. So a terrific story in the installed base, all driven by great products which is really the statement of an investment and technologies at the right time and putting them on the right airplanes.

And when you have an installed base growth that looks like this, you take a look at the material stream. If you look at departures, which of course goes up with the installed base, it really is a proxy for material. Every cycle requires more material. So if you take a look along that same extension of the installed base growth, you'll see a 40 and 42% increase in the number of departures that will occur, powered by GE and CFM products, which is a proxy for our material growth.

In fact today one airplane takes off with either GE or CFM power about every two seconds. We take about 45 or more round trips to the moon every day with our equipment in service. And if you extend that forward over the next ten years, CFM will power 40% of all departures in the world and GE will power an additional 20% of all departures in the world. So between GE and its partnership on CFM we'll make up 65% of the world's departures of commercial aviation in the next ten years, which is a terrific story on our material stream.

Now that material stream, like Scott said, leads to a terrific Services business. Today on the commercial side of our Services business, 39 billion in commercial backlog in our long-term service agreements. And the beauty of this model is the length of time of the model, far beyond the production runs on the engines and airplanes.

The best example of this now is the 737 Classic, went into service sometime around 1984, Boeing made about 1,990 airplanes and today, 23 years later, it's been out of production for almost nine years and there's 1,970 of those aircraft still flying, still burning parts and still requiring upgrades. So that's why we like this long-term service agreement model so much and how come we've worked so hard to make sure that we've got the right technologies invested in this services game, as much as we do into the installed base game for the future.

So the whole idea of this customer service model is to get on the right side of the customer from a terrific value proposition. That requires investments in upgrade technologies where we take today's technologies and ship them back into these products. We want to build out this whole remote diagnostics and diagnostics suite so that we have the best knowledge around the world of how these fleets perform and can customize our service agreements accordingly.

And, at the same time, really understand the ownership horizon of these customers so we can use a combination of used material, repair material and new material to make sure that we fit within their financial game plan and what they're going to do with their equipment longer term.

So as you've heard a number of times this morning, particularly true in commercial aviation, this business is absolutely fueled by an investment in technology. And this [steak head] represents the most new product development work we've done in the history of our business. And we'll wrap up this decade with a number of brand new applications.

The A380 will go into service with the GP7000 next year, the 787 with a brand new GENx next year followed again in 2010 on the 747 with a new variance. The first regional jet in China will be powered by the CF34 and go into service in 2009. And we'll end the decade in 2010 with a new adjacent market in very light jets with our new venture, GE/Honda and the Honda Jet.

So a nice way to end the decade and when it's all said and done and we write the history books on 2000 to 2010, we'll have put one new engine airplane combination in service every year of this decade in what might be the toughest cycle we've been through in the last 50 years. Not a bad record.

So let me just quickly show you what technology does in terms of a winning product by showing you the GENx, which we go into service with in 2008. Over 950 engines to date ordered, 63% share on the 787. And if you take a look at what this product does versus the product it replaces, it's pretty extraordinary.

50% reduction in nitrous oxide and its noise footprint and big time improvement in the economics for the customer, as well as carbon dioxide reductions, as you heard Lorraine talk about. So we're setting a new standard in 2008 for the entire industry to follow with the GENx and this technology is making a difference. And it's making a difference in our share as well as our ability to go create a value proposition that demands price. So, a very, very nice use of technology.

And let me switch forward to the next generation of that technology, which John mentioned, it goes out beyond three to five years, which is what we call leading edge aviation propulsion for the next generation of narrowbodies, or the replacement aircraft for the 737 and for the A320. We

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currently have started the investments in what it's going to take, with Boeing and Airbus, to replace two very terrific airplanes in the single aisle space today. It requires a 20% improvement in fuel burn, very similar to what you saw in the GENx chart relative to its previous generation.

It requires us to bring the scale of all of global research, all of GE aviation technology, as well as [Sekma], our partner in France, together and start investing today in new materials, new aerodynamics, new modeling and new engine architectures to make sure we're ready for the next generation of airplane. And at the same time, making sure that the reliability that has become world standard on the CFM is not changed.

These customers are using these airplanes eight cycles a day, for example, in Southwest. Any adverse shift in reliability has a crucial impact on the total business model for these guys that fly these single aisle airplanes. So while we're very sensitive to fuel burn and designing new architectures, we're equally sensitive to the reliability and maintainability required to keep these customers satisfied.

So with that, I'll turn it over to Scott Ernest.

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**Scott Ernest - GE Aviation - VP & GM, Supply Chain**

Good morning. Today I'm going to talk to you about the aviation supply chain and really describe to you on how we're going to be able to make all these engines that David's been selling out there. The GE supply chain is made up of multiple component shops and assembly of test sites. We have approximately 14,000 skilled technicians that work in those facilities.

We've got just a fantastic supplier base that it both global and domestic and we've got revenue share partners throughout the world who are focused on bringing all the bits and bobs together to create these high-quality engines. The supply chain itself is global in nature. It is very complex, big and obviously getting much bigger as we go forward.

If you look at the strategic investment profile that we have put in place to handle this growth going forward, we're focused on turbine airfoils, on rotating parts and composites. Those are the three key areas that we're investing in going forward. That helps provide us the structure that we need for the after market activities on turbine airfoils and rotating parts and the process control that is required to make these highly complex parts in our engines going forward.

If you look at the volume that we have, it's double-digit volume, as David and Scott have talked to, and we're investing about \$150 million a year in plant and equipment in these facilities to handle this volume. Some of examples of that are in our turbine airfoils areas. We just put a new facility in actually our Greenville Energy plant, which was a great synergy play. They had some open space. We were able to use some of their workforce. We now have the turbine airfoil line up and running, lean flow lines making great progress on our CFM blades down there.

Rotating parts, this is part of the Smiths acquisition. We picked up a facility, one of the facilities from them that has only utilized about 20% of its capacity. We basically have put that capacity on steroids, we're going to be able to put in it all of the rotating parts demand that we need to have for the next four years in that capacity in that facility going forward.

Composites, it's making a bigger play in the engines going forward. We've seen the composite fan blade. We've seen the composite fan case. We're looking further into the engine to see what we can do with composite. We're putting a new facility on line in Mississippi that'll be going in '08 that will be able to provide all the platforms and some of the OGBs that we're looking at going through that process. And then CFAN where we make all, the composite fan blades, double the size of that facility and we're ready to handle a 10x increase composite fan blades based upon the GE90 GENx.

The raw material has been an opportunity. We say now it's been a big wake up call for us with what's gone on in the higher cost of raw material. And it's opened our eyes to look at things a little bit differently. I mean we use -- I know down to the pound how many pounds of nickel, we use 17 million pounds of nickel now. It is so focused in our business we've refocused the entire engineering activities along the lines. We've added 500 engineers that are now focused on cost out.

We're looking at how to remanufacture parts, we can take the buy-to-fly ratios, we call them, we look at what do we buy that raw material at, after we turn the chips off of the raw material, what's the end weight of that part going into that engine? And how do we reduce those cycles? How do we remanufacture that product differently to take cost out of that? And it's been a huge win for us.

For example we have here on GE90 [turbine] center frame, we were able to take \$2 million of cost out of that just by looking at how we reprocess that part differently. And so it's been a huge wake up call and good activity for us going forward.

Lean is everything that John talked about, its capacity creation, it's productivity and we have seen all of these activities in place with our single piece flow line. We've got all of the quick change tooling set up, we do automatic [deburring], we've been able to really focus in on test and looking at what we can do from an assembly standpoint. We've taken the GE90 assembly and test time down by 50% in a time that the volume had doubled.

And so we haven't had to spend one penny on investment on any of the GE90 assembly and test because we've been able to take enough cycle time out to handle that higher volume increase going forward. So it's just totally focused on really getting all the Lean set up tools, we have Lean events going in each of the sites on a regular basis and have a constant strategy to stay focused on that.

With that, Scott, you're up.

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**Scott Donnelly - GE - President and CEO - GE Aviation**

Okay so just in summary, I think the business is in a good spot, we have a pretty run here on products, we're investing I think in the right places, in things that are important to our customers in terms of their economics or running the airlines like fuel burn, durability, time on wing, maintenance costs.

A lot of pressure obviously for all of the airlines around the world in terms of environmental issues and [so our impact] programs addressing great fuel burn, and reduction in [off] I think are in the right place. And frankly we're being rewarded for that in marketplace in terms of our share and winning out there.

We're committed to continue that trend, the investments we're already making, like David talked about, on Leap56, similar programs we're talking about in the Systems business so that we maintain very strong positions in the aircraft of the future as well. Our Military business is doing well, we've got great technical synergies there so it's a very important part of our business and it continues to deliver benefits for both Commercial and the Military Engine operations.

And I think there are attempts to grow beyond just being on the propulsion side, we feel great about the performance so far and where we are with the Aviation Systems business. We think we can do great things with Walter and so we're going to continue to look for those kinds of opportunities and make sure we execute well and deliver on the financial expectations in terms of how the integrations of those kinds of businesses go.

So we're in a great place, we feel good about the business model, it's delivering, we're succeeding in the marketplace and we think guarantees and ensures that we're going to have good long-term growth for many, many years to come.

So with that I'll turn it over to Henry Hubschman to talk about the GECAS Aviation Services.

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**Henry Hubschman - President & CEO, GE Commercial Aviation Services**

Thanks, Scott. Well I said to one of my colleagues, I feel like between Energy and Aviation is like the tail of the dog. And he said, "Don't worry about it, you're more like the spot on the tail." So we've had a pretty good start to the year but it's really based on a very strong foundation. We've got a very veteran team with very significant domain expertise, strong, strong customer relationships throughout the globe.

We actually have the widest variety of products in the industry, no one provides as many different products and services to the airlines that GECAS does. We've got a high growth diversified portfolio I'll talk about a little bit later. We used very, very, disciplined danger and risk methodology, I think it's the most disciplined in the industry.

Actually we even license the discipline, not the data, to Boeing, which tells you how strong GECAS's methodology is. We've got a very global footprint expanding and leading our growth in the emerging markets. And recently we've trying to expand into some adjacencies. We'll talk about them, into airports, really more low-cost terminals, cargo facilities to airports and The Memphis Group. So it's really a proven growth business we think.

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Right now, just from our perspective, the aircraft market remains very strong. It's been strong in the leasing market since the third quarter of '04. Aircraft supply is very tight. Manufacturers have largely sold out at least to 2010 and in many cases even '11 and '12. Lessor availability is limited and we're of course realizing significant benefits from the right global products supply and from our existing fleets.

The developed markets are pretty solid, the U.S. has obviously improved, but the emerging markets are very robust and low-cost airlines continue to expand. And you can see here, this is just our Skyline placements. I mean the aircraft that we purchase new from Airbus or Boeing or Embraer or whatever completely placed out this year, completely placed out next year and 98% in '09, I think we have two aircraft left in '09.

Actually this extends even to the existing fleet which is about 1,450 aircraft that we own, we manage about another 300. What we're seeing is strong demand, very good pricing and a strong feeling that they need to lease for longer terms than they traditional do, so we've had extensions at a much higher level in terms of our fleet than in any time in the past.

We've tried to grow recently into the long haul passenger and cargo segments. Just to give flavor, between November and I think March we bought 21 new 777 300ERs or 200-LRs. And all 21 are already placed, most of them Asia and the Middle East, two in Latin America and none in the U.S. So we're really leading with global growth and a number of them were for freighters.

As I said, the portfolio is we think in very strong shape. It's good fleet composition with a broad operating base. The average age is about six years. 82% of the narrowbody aircraft are in the most modern type and the widebody fleet are those aircraft that are in high demand rather than those types which are no or little demand.

Emerging markets gives you a perspective. This shows where we were at in 2004 and this is estimated for 2010. And when I say estimated, most of that is already committed so we actually may exceed that. So I would say probably 95% of this is already committed in China, India, we're very strong in Russia. I think we're the only leasing company with an office in Moscow.

Central Europe has been very strong and in Brazil we're very, very strong. And we've been increasing our global presence by adding our people abroad and by new locations abroad. And we expect to grow to about 14 billion in terms of just those developing markets by 2010. As I said before, we're trying to, like some of the other business, look at adjacencies. We've already over the past years, as you know, gone into the debt market that very few operating leasing companies win.

We went into engine leasing which was hugely successful. We started, together with Credit Suisse, the global infrastructure partners, they raised roughly \$3 billion, expect I think to have more than about \$4 billion by the end of the year. The earliest investment was London City Airport and, with the help of a former GE colleague, he's over there now, we're driving significant throughput improvement, higher retail sales and the like well above projections. There's another deal pending that's purchased about five or six airports in the developing world.

GE alone, those are usually for the larger investments, GE alone we bought into a company called Lynxs which had a proven track record in supplying very low-cost and efficient on-site air cargo facilities for major players like DHL, FedEx. We purchased a number of their facilities from them and recently we've done a very significant deal with, it's really with the Kingdom of Sweden, it's the government owns the public/private partnership, to develop 20 aviation cargo terminals throughout Sweden.

And likewise we've started to move, and some of you may have seen an article recently, into the development of low-cost terminals through our acquisition, it's a very small acquisition, of Avia Solutions, which was actually a consulting business which had started doing some development work in that. They are among the preeminent route analysts and suppliers of route analysis for various airports all throughout the world, which ties in very neatly with low-cost terminals.

And these terminals are intended to be just suited for low-cost airlines, some who are starting, if they need a passenger terminal for 1 million we can do that. And without tear down and without waste, without excessive gaudiness we can expand it to 3 million, 5 million, 8 million and the like. It's not modular in a true sense but its modular like, very eco-friendly and we're targeting about \$1 billion in investments by 2010 and hopefully we'll do a lot more.

So that's basically the story from GECAS and I'll turn it over to John.

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#### Unidentified Company Representative

Okay I think we're ready to get started again, here we go.

**John Krenicki - President & CEO, GE Energy**

You ready Dan? Okay I'm John Krenicki with Energy and Dan Heintzelman runs our Service business, Steve runs Power Generation. So we have three P&Ls in Energy, at least two to three, and the only one that's not here today is Nuclear, which I'll represent. But Steve has all of the products, so wind, gas, gasification and then Dan has the Service piece. So I'm going to give you a quick update.

In the Energy business, John Rice mentioned that we're in the early inning, I think this is a business that's clearly in the early inning. We're focused on three things right now, expanding margins, so price in excess of inflation, and for every single product line in the business we're executing that strategy, in 2007 and 2008 in pretty good shape along those lines.

The second thing we're doing is driving returns. So how do we run the business better? How do we make good investments? How do we get more progress payments associated with the stronger order book that is coming our way? And then how do we grow faster?

So again we talked a little bit about globalization, I'll show you some charts later about how this business has changed over the last five or six years, and it's clearly a much more global, better balanced franchise than it was before I think. We'll take you through how we're building this business out along multiple product pillars and also geographic pillars. So it's a different business than it was a number of years ago.

In terms of the evolution of the business, you know in 2002, which was the peak profitability in this business. It was primarily a gas turbine business with a U.S. customer base. And today we still have that and a large \$30 billion service backlog that goes along with that success.

And we've added to it new pillars, gasification, a wind business, recip engines, environmental, controls business and really selling to the same customer base but with an expanded product offering. So we have a lot more diversity, we're much broader and I think the thing we want to achieve in this up cycle is we want it to last longer. So we want to be dependent on more products and more customers around the world, not in any particular market.

Steve, a few words on wind?

**Steve Bolze - GE Energy - President Power Generation**

Sure. I just want to give you a quick update on the wind business. And as John Rice touched on earlier, I think this is a good example around invest and deliver. This is an area we have invested over \$2 billion in product and R&D over the last four to five years. And you see here from the financials the market continues to expand.

As John mentioned, 28 states now have renewable portfolio standards. And this business for us will be up another 20%, so 4.3 billion in revenue. And with the market the way it is right now, we continue to be sold out through third quarter of '09. So in terms of the growth rates going forward, we feel comfortable at the 20% level. One of the things I want to talk about is some of the drivers of our current industry position.

One of the other things John Rice talked about was customer value. And in the case of a clear product strategy technology differentiation, our 1.5 megawatt platform has become an industry standard. Over ten points of improvement in reliability as well as capacity factor in the last five years. And those more than ten points of improvement is worth over \$450 million of net present value to our customers for a gigawatt of wind.

So step to the second one, with that sort of value, it supports getting price in excess of inflation. And then clearly a key part of this story is the operational rigor and being able to continue to expand our ability to produce wind turbine in excess of 20% more capacity each year. And as we step down to the future looking into '08, big focus now on the 2.5 megawatt platform, this is a key for Europe that will be a bigger rotor, bigger blade.

And that again will set an industry benchmark in terms of capacity factors in the industry. And the last of which is a service opportunity here. We'll have a fleet this year of north of 8,500 units and in less than three years we'll be at 15,000. So, a big opportunity to expand the Service business platform. So we feel good about the wind business right now.

Stepping over to another synergy opportunity, with the growth in the wind equipment area, it's leading to a nice synergy opportunity for Alex and the Energy Financial Services business. And Alex is going to talk a little bit more about this, but in an industry of tight supply, one of the things we work very closely between Alex's business and ours is identifying good sites for wind and good investment priorities.

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We use a software tool called MAPS. We actually license it to some customers also too. MAPS stands for Multi Area Production Simulation and it models the North American energy system. All the generation assets are in there, all the high voltage assets are in there and it allows you to look at energy pricing and how something would dispatch in a load control environment.

So with that, it leads us to good pro forma analysis. These teams are meeting every day, we have quarterly meetings. But just to give you an example of a deal we just closed, this is for 187 wind turbines. We in Energy obviously got the wind sale at attractive margin rates. And in the EFS investment at \$600 million, this will translate over the life of that investment to close to \$200 million in net income.

So as we go forward, this portfolio for Alex is becoming a bigger part of his assets, and as we look forward, about \$100 million of net opportunity going forward, so a nice synergy between the two businesses. The next one, I just wanted to give you a quick update on our gas engine platform. Some of you know this was our Jenbacher acquisition from early 2003. It's based out of Austria. It'll be close to \$1 billion this year, 20% operating margin.

So a good platform for us, as you can see nice growth rates at 26% and good returns on total capital. What's the strategy? These engines are between 0.5 megawatt and 3 megawatts. We just announced the industry's first 24-cylinder engine which will commercialize in 2009, but that'll be a 24-cylinder engine. When we got into this business three years ago less than 10% of the sales were for non-natural gas, today customers are using landfill gas, sewage gas, biogas and others. And you can see that part of the business is up 54%.

If we talk about investing for growth, capacity has expanded 50% over the last just two years alone. And it's interesting, in this business globalization, 25% of the orders outside of Western Europe only two years ago, now it's 45% of the orders outside of Western Europe, so a big opportunity to globalize this business outside of Western Europe. Services is up 3x, over \$200 million since we started with this.

And John Dineen's going to talk about this, a nice opportunity in working with our Jenbacher business area and our transportation business, and using one of our 16-cylinder engines in the block to get into the European locomotive business area for John Dineen.

So with that, good business platform, continues to grow for us with expanding returns. So with that, Dan?

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**Dan Heintzelman - GE Energy - Vice President Energy Services**

Yes you heard John talk earlier about investments in adjacent spaces. You know in 2000 our Services business in Energy was sitting looking forward at a bubble and expansion of installed fleet and was focused very much on taking advantage of that through the installation of that hardware.

We still have a great business serving that fleet but what we did over the last five six years is take some of that domain knowledge and understand a little bit more about some of the problems and some of the opportunities that our customers had. We've built some adjacent businesses that right now, in total, are about a third of our Energy Services portfolio.

Now this business, our Optimization and Control business, brings some critical technologies that help our customers to improve the performance and reliability of many of their critical assets that they invest in for their plant. Now in addition to that we have a large installed base of control systems that go back through the years in these power plants, and we have built an upgrade technology or an upgrade strategy to go back and target introduction of current level of technology to improve the performance of these many assets out in the world.

You know this business is going to push \$1 billion this year for us. Despite the fact that we have integrated several acquisitions through the years, our ROTC is going to be up in the mid 40s this year. So this has been an excellent example. This business today is about 65% outside of the U.S. with a tremendous amount of room to grow.

Our expansion of footprint around the world gives us great confidence that we're going to continue to be able to build this out and bring value to our customers and, furthermore, to help us recognize opportunities for improvement in the assets. We have two other businesses in our services portfolio that are a little bit behind the OC business in terms of the build out. The first one here is our Transmission and Distribution business.

You know GE has been in the T&D space for many years. A few years ago we brought some pieces of that into our Service business, recognizing that this is largely an opportunity to improve performance of existing assets out in that space. We have reshaped the portfolio, exiting some segments that we didn't think had attractive returns or didn't have compelling technology going forward.

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Today we have an excellent business that is growing nicely, it is combined with some hardware, some transmission related hardware. We've added some technologies around what we refer to as the intelligent grid. So we have added technologies that will serve to bring more information into the management of that T&D space, some devices as well as software. And today we have a business that we're very happy with, it's largely a U.S. oriented business so we have a lot of opportunity overseas. And we're actually starting to generate some nice traction outside of the U.S.

Our Environmental business is another space where we recognized opportunity. Having great experience with that installed fleet of assets, to bring upgrades, to bring some technology that not only brings efficiency but can help our customers to comply with some of the emerging regulations that surround the combustion process, whether it be the coal-fired boilers or coal-fired steam boiler plants and/or the gas turbine installed fleet out there.

So we've been able to take our investments and our technology investments to more than double. This business is growing nicely. Again, it was primarily a North American business, today it's still predominantly North American but we're gaining a lot of traction in places like Eastern Europe where there's a fairly large installed base of equipment that is eligible for these upgrades. So these are two nice businesses addition to OC, each of which we think are going to have a nice roadmap to over \$1 billion for us in the foreseeable future.

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**John Krenicki - President & CEO, GE Energy**

Two other areas more in the medium- longer-term strategy is we concluded our joint venture with Hitachi in nuclear, which they've been building a lot of plants in Japan. So supply chain is everything here in keeping these plants on schedule, a lot of the supply pace is Japanese based. So us, together with Hitachi I think will just solidify success in the eyes of the customer in terms of project execution.

And we had two big players in the nuclear space pick our new reactor, the ESBWR, Dominion and Entergy have long lead time materials on order and under contract with us and we're working them on their licensing process with the NRC. So we're very excited about nuclear particularly, as Lorraine described, in an environment where CO2 has value. As nuclear comes back GE is in possession of a key asset here.

And then on the coal side, on gasification, you know a few years ago we bought the business from Chevron Texaco. In the 2005 Energy Policy Act there were some tax credits in place for cleaner coal technology, five of those seven projects selected GE technology. We have a reference plant that we worked on with Bechtel, 630 megawatts.

It's really a three-fold scaling of what Tampa Electric has had running for over ten years so we're confident that this is going to, technologically, is going to work very well. And we're pursuing plants with the big coal players, you know Duke, AEP, Tampa Electric another one. And another nice thing about this business is we're doing a lot of licensing activity for petrochemical and [Agrico] fertilizer feed stocks in places like China and Russia.

And that allows us to get some profit to fund the long-term development here in gasification. But we love the business model, its combined cycle power plant. And if we could move to gasification, we think it's scalable, we can make it in Greenville and Belfort. And you can see the content is about 33% versus 5% for a traditional pulverized coal plant where all we would provide there is a steam turbine.

Here we do the whole combined cycle power island and the gas-fired. So again, we think we've got a very, very strong game plan for the short run, medium term and long term. And you know as we have a better market here, one of the things we're going to do is we're going to plant seeds because we want to be able to make this thing last as long as possible.

The other thing, it's not just the breadth it's the depth. So in each of the businesses, Steve took you through wind, you know how we took Enron's business, and en-fold scaling of that business, solidly profitable, we have a business model. Now we have a business that this year will be well over 4 billion growing well over 1 billion a year at high returns. I think Hitachi makes us much stronger in the nuclear space, gasification we're making great progress. And again, hand in hand with our customers are capturing the key plants that will be installed in the United States over the next five or six years.

Dan talked about environmental and T&D and Controls with Bentley, and solar is another space that we like a lot. You know we're in the photovoltaic space but we're also excited about things like thin films. And more to come in that space but we're spending a lot of money in our R&D center organically.

But we like solar a lot too because one of the things that happens in this business is things come up behind you pretty quick. You know wind came very quick, biomass came very quick. So we've got to plant seeds and we're backing it with engineers. This is our headcount in engineering,

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in two years we've taken it up 50%. So these are complicated high-tech projects with a lot of IP and we're going to be in the center of these spaces for the next 50 years.

In terms of globalization, this is an FB gas turbine on its way to Latvia. And this customer here is [Evidrola], this unit will fire later this year. Looking at the sales dynamics, 2002 was the peak. This excludes Oil & Gas. Claudi has his own business that grew three- four-fold over this time period as well. But we were about \$22 billion in revenue in 2002, largely a U.S. gas turbine business, 323 gas turbines, 70% went to U.S. customers. In 2007 we'll be roughly the same size with seven gas turbines.

So any recovery in the United States on the gas side is all upside for us. And our demand for units is increasing but it's largely outside the U.S. And I had a lot of conversations last night around how we see the markets around the world, but basically if you need the power in less than five years, its gas or wind. To bring a new coal or nuclear plant online you're in the five plus time horizon. So we feel good about where we are here.

Some of the growth, Middle East has more than doubled in the last 24 months and demand for electricity is growing very fast there, economic growth. We're going to be putting more service capability in the region and we have great customers in the Middle East. Eastern Europe, we talked about Latvia, Russia is a big market, it's tripled. If anything we'll exceed these numbers, but Eastern Europe a great growth market. I'm as excited about Russia as we probably were about Spain seven or eight years ago. So it's a place again we've got to plant seeds and this will be a big market for us.

And at the same time we're pursuing the developing regions. We're still having great growth in places like Western Europe. We've grown \$2 billion in orders in Western Europe. And with no gas in the United States on new orders, just about doubled, largely wind but good growth in some of Dan's businesses as well. So demand for electricity is growing everywhere around the world and GE is a big part of that.

Dan?

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**Dan Heintzelman - GE Energy - Vice President Energy Services**

Here you can see the new profile of our Services business. We've diversified. We have new tools to work with. We still have an excellent core business that is based upon serving that installed fleet of assets around the world. More than half of that is long-term contracts today. The strength that Steve is seeing in international sales is bringing us another round of opportunity for growth in that core of our business.

And probably most importantly we are making more technology investments today than we have at any time in our history for that installed fleet of assets that are out there. You know we're seeing a tremendous amount of opportunity in the fuel space. There's fuel flexibility, diversified fuel as well as the performance around emissions. So we have an excellent core to work with.

And the new businesses, Environmental, Optimization, Control, they're high-tech businesses, we have great domain expertise that helps to fuel not only our ideas around how to drive investment and technology, but also on how to actually make it real for our customers in terms of how they can get benefit from it. So you know we've got a nice diversified business, no longer just tied only to that installed fleet, so we've got lots of ponies to ride here. And it's an excellent, excellent business to work with.

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**John Krenicki - President & CEO, GE Energy**

On competitive and capital efficient, just a couple of chart before I wrap up, first on scale and simplification.

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**Steve Bolze - GE Energy - President Power Generation**

Just the first one, on Power Generation, big focus on simplification in scale driving this in an environment of double-digit growth, to allow us to position ourselves for higher margins, higher returns. And the way we run Power Generation, which represents about 13 billion of the Energy portfolio, you can see we run it as a single P&L within Energy and right now a common set of commercial and pricing processes. Obviously there's a very strong veteran team with strong domain knowledge and we leverage it now across all the segments within the business.

A lot of focus over the last two years on integration. Wind has been completely kind of rolled in into the Power Generation framework, the project's teams are all integrated and over the last 15 months we've integrated into the aeroderivative side as well as the Jenbacher business

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segments. You see functional excellence there, that's things all from the HR teams to common IT platforms and also in analysis consolidated projects organization.

And then last of which is expanding existing capacity. As we now grow out in aeroderivatives, as we grow out in gas engines. For example, we're able to use the Hungary platform which we already have in the plate, and we'll be packaging the Jenbacher engine towards the end of this year in that facility, which already existed, as well as we'll be packaging our aeroderivatives for the European market.

So in the end this is going to give us, as you see with this double-digit growth, over a point reduction in our G&A costs. That alone in 2007 is worth \$140 million in operating margin. So that's the path we're on. So with that, John?

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**John Krenicki - President & CEO, GE Energy**

Just some thoughts on operational execution, we talked about wind and ten-fold scaling in roughly five years. You know one of our largest wind sites is Greenville, South Carolina, the team that executed the big upswing in gas turbines in '02. So we're using the same tools, the Lean tools, the same processes, this is a team that understands what the customer needs.

And we've been able to ramp it up and you see in '08 we'll be well north of 3,200 wind turbines with high quality and on time delivery, so that we can be a great partner for our customers as we bring this whole market basket of products to them. And lastly cost is vitally critical. We're in a very competitive business and we've got big sites in China, in Hangzhou. We're going to Hangzhou into the Greenville of China.

And that site is in place and we're investing there, we're going to localize our Jenbacher products there as well. Budapest is not only an energy facility, it's an infrastructure facility but very low cost, responsive, has a lot of repair capabilities that supports Dan in the Service business. And Shenyang, China is the headquarters and key manufacturing site for our Asian Wind business. So originally it was an Oil & Gas service, but as wind took off we called an [audible] and here we are well positioned in China where a lot of our key suppliers are for wind components.

The next steps, we're going to build a new shop in Saudi which Dan and his team are well under way. It will not only supply the region but it's a very low-cost operation that we can use in Western Europe as well. And we're moving forward in Vietnam in a big way, another very low-cost operation. We believe Vietnam is going to be a country of the future.

So the best way to get there from a commercial standpoint is be a good manufacturing organization. And then this team is really driven by over 700 sourcing people that are scattered around the world that are driving our supply chain to be as cost effective as possible. So, a lot of good things happening in the business, Africa, Nigeria is a great market for us. We think that will continue. We just created a new Africa region.

You know what's going to happen going forward as carbon has value and there's more renewable standards, I think it's going to mean a great market, not just today, for wind but for things like gasification and nuclear. And the last thing I'd just like to touch on is, as the U.S. reserve margins come down, I think we're very well positioned with capacity in supply chain to support that demand. So we can see our way to \$30 billion in revenue. It's in front of us. We're going to make it happen with expanding returns in expanding markets.

So with that I'll turn it over to Alex to talk a little bit about Financial Services.

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**Alex Urquhart - President & CEO, GE Energy Financial Services**

Thanks, John. So a super complement to what GE's history in the energy space is, is the Energy Financial Service business. We have about 15 billion in assets today. We're growing about 20% a year. We think we can sustain that kind of growth level driven by the broad reach of products that we have, segments we participate in, markets we're in.

We think we can sustain that because of the relationship we have with GE Energy, GE Oil & Gas and GE Water, kind of our newest area of interest. We're focused on the big growth areas like renewable and you've already heard the growth story there. We're getting involved in projects earlier than we ever used to to garner the right to invest in those projects on more attractive terms and we're continuing, as John mentioned, to drive our global investment and our global footprint.

We do this through 11 commercial teams. It's been used several times today but deep domain expertise across those teams. We've been investing in this space for about 25 years. We started principally as a financier to the U.S. power space, the independent power space. Today we've

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broadened, we both finance and invest in assets that range really from the wellhead all the way to the wall socket and we do it globally. We've added the complement of those skills to what Jeff Garwood and his team are doing in the water space and are also providing it in the water area.

About half of our portfolio today is financing, the other half is equity investing. It's still about 80% domestic, although we're working very hard to globalize with about 20% of it global. It's still about 60% power, although you can see we're making significant headway into the Oil & Gas and Midstream and Renewables space.

We really have a competitive advantage. I don't know anybody in the energy investment industry that has as deep a team as we have. We have over 60 dedicated originators and relationships across the industry. When you combine that with what the operational side of GE has across the industry, I think it's unrivaled. Again a 25-year track record invested in this space working through all the cycles and capitalizing on all the cycles.

The ability to take assets and make them better by using the resources of GE to look at what can be done from a technology perspective to improve them. A capability that we've developed, a process capability to service clients around the world and execute on transactions in a fast efficient manner. And Keith mentioned earlier today about the AAA balance sheet, any of the investment businesses today that have capital and have a AAA balance sheet have a tremendous advantage given the market of the last couple months.

Just to touch briefly on renewable, you heard Steve Bolze talk about it, our teams work very, very closely together. This is a tremendously growing market, we only had a couple hundred million dollars of renewable assets just a couple years ago, today this year alone we've invested \$1.5 billion in renewable. We expect that to be \$4 billion of renewable investment by the end of the year and \$6 billion out by 2010.

We're obviously a significant player across both construction financing, the term financing, in some cases the structuring around the tax attributes of the transactions and in the common equity investing. Tremendous leverage we get from GE and all the relationships they have in this industry, and quite frankly because of the insights they have to the technology, both as it can guide us towards technologies that make sense but also as they can warn us against some of the areas because of what long-term operating costs are likely to be.

For instance offshore is a big area of interest to us but there are some technical issues with the environment that you'll be in. And we've had great insight into that as part of the GE system. Also other markets look very interesting. Jenbacher equipment was mentioned, we're doing some things with Jenbacher. The solar business, we own one of the largest photovoltaic plants in the world in Portugal. And so this whole market, biomass, big opportunities to grow and we've got a lot of focus in the renewables space.

I wanted lastly to touch on the synergy that has been alluded to by both Johns with regard to what being part of GE can bring to us. We have today 30 plus assets around the U.S. that we own, power plants that we own, and GE helps us, when we look at those plants, decide what improvements can be brought to bear. What kind of efficiency improvements, what kind of capacity increases, what kind of availability improvements. And that allows us to value those plants in some cases greater than others can to offer customers a chance to monetize them and yet to realize higher returns ourselves.

And probably the best example of that is what we did at Linden. Linden is a plant that was built 15 years ago in Linden, New Jersey just south of Newark airport. It is GE technology. We were originally an investor, a financier in the plant. It's changed hands several times. Goldman recently owned it and sold it to us. They made a nice profit on doing that but we saw a huge opportunity to go in and bring new technology.

And so we're working with Dan Heintzelman and his team. In the year we've held we've found \$20 million of opportunity to improve the cash flow of that plant by bringing new technology to bear, improving the efficiency, improving the availability and improving capacity, led in part by a variable frequency transformer that we intend to add there, potentially another unit that we can add there. So having this site and having GE and having Dan and his team get together with us and explain all the things we can do is hugely powerful in adding to the bottom line and creating value.

What Dan told me last night when we were together is the next thing for us to take that information, to look at all the plants around the country that we don't own today, and to look at the ones that have the biggest opportunity for improvement through technology. In some cases it's improvement around the environmental aspects, as we get ready for a carbon constrained world, and use that information to go out and target the things we want to buy, which would make a real home run.

So with that I think we're a great complement to what GE does, we're a growth business within the GE portfolio, great synergies with GE, great growth story around renewables and I think we can drive that and continue that forward.

So with that, Claudi?

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**Claudi Santiago - President & CEO, GE Oil & Gas**

Thank you. A little bit of an update on Oil & Gas business, this year will be another great year. This will be the first quarter ever that we will be north of \$2 billion of orders. So just a couple of years ago we were celebrating the billion dollar mark, I am happy to tell you that this will be the first time ever that we will be above 2 billion. Approaching \$7 billion of sales so the business continues to perform, continues to grow. And our strategy, which has been consistent over the last five to seven years, is paying off.

Our technological differentiation, getting closer to the customers to really capture this market upturn that we have been living in the last few years. The acquisition of VetcoGray which gave us an expanded portfolio that we didn't have before, I am going to walk you through some of the details about what that means for the future of our business.

And you know our business model is continue to build the installed base and then go back to these pieces of equipment that we have installed all over around the world to really [strike] the service [calories] and continue to keep the relationship with our customers.

A little bit about the acquisition of VetcoGray, which it has been a terrific addition to our portfolio. The customers are reacting extremely well, the Vetco employees are reacting extremely positively to really be back in a company like GE that is going to invest in technology and is going to develop leading edge products for the years to come. And basically the synergies are very simple to understand.

Think about before Vetco we were providing leading edge turbo compression technology at the top side of these platforms, but we were not able to serve the customer, to provide to the customer any of the equipment that was below water. Now, what we can do is really expand our scope of supply and not only provide the gas turbines and compressors that are working in the top side of the platform as we were doing before, but expand our portfolio to all the Christmas trees, all the subsea production systems and really create much more value and a simplified world for our customers all over the world.

What used to be a \$200 million project for us now all of a sudden we've expanded the scope of supply it has become \$1 billion project. Same customers, same place, same part of the world, so a tremendous opportunity for us to simplify the project management for our customers, one single contract, one service crew and continue to generate volume for them. So a terrific opportunity for us and we are delighted to have the Vetco team as part of GE.

At the same time that we have been growing the business, I think that we have transformed tremendously also the portfolio within the Company. When you go back to '04, we were about a \$3 billion business, about close to 2 billion was equipment and close to 1 billion was service. This year we will be close to 7 billion of which close to 5 billion is equipment and 2 billion is going to be services, the service pull through that we generated from our installed base.

But not only have we been growing the Equipment business, we have transformed what is in the business. In 2004 basically all our Equipment business was based in the upstream segment on the industry on LNG. Now we kept this franchise but we are the Pipelines business, we are building the largest pipeline around the world ever built in China, the second largest in India and the refineries activities, the downstream activities that has been growing also tremendously in the last few years.

You put on top of this that Vetco portfolio and all of a sudden we have now multiple ways to grow that we didn't have two or three years ago. We have a much balanced portfolio and multiple ways to continue to generate value for our customers all over the world.

Now moving forward, looking at our future, we are extremely bullish about the prospects of the business. And I'll start with the simple fact that we believe that the world will continue to need oil and gas to support the prosperity for the years to come. New economies are coming on line, you talk about China, you talk about India, all these new economies will require massive amounts of hydrocarbons. And the simple other fact is that the existing reservoirs are depleting faster than ever before.

So what used to be a reservoir that was lasting for 20 years now is being depleted in ten years. That is because the new technologies that we have been developing, the way that these reservoirs get their stimulating, their compression that we put into these places. So these two simple facts mean that you have to really continue to look for new reserves, the new reserves are going to be more and more in difficult places.

We are now at the end of the easy oil age and we are going to find new oil. It's not that we are running out of oil, but the new oil that is being found is going to be in deep water where technology is going to pay a premium, where project management will be paramount and all this extra complexity, we believe plays to our strength.

A company like GE that has a global footprint, that has a technological heritage, that has a passion for innovation, we believe that the customers love us to be playing in this space. And it is not that we have a crystal ball, but for the next three years we are predicting that oil prices will remain high. The customers don't need a \$70 or an \$80 a barrel oil to really justify these projects, but we believe that oil prices will remain high for many, many years to come.

That will drive a tremendous amount of drilling activity. Today we have more than 3,000 active rigs around the world, the last time that it was so active was in 1986, and we believe that this kind of activity will be sustained for many, many years to come.

About 1,000 Christmas trees are going to be awarded in the next three years, we plan to participate in the majority of these projects. 15 new LNG trains, 60,000 miles of new pipelines and about 90 refineries between greenfield and major upgrades. We have a portfolio to really participate in all these projects and we believe that the Company is at the right place at the right time to continue to grow and continue to gain our fair share.

This is the numerical expression of the previous chart if you will. Today when we look at the projects that we are working on, we have our eyes on about \$50 billion of opportunities for our business. Now some of these projects maybe will move a little bit to the right, maybe some will be canceled, but nevertheless there are 50 billion projects out there for us to compete for. And you see the portfolio, the Middle East and Africa continue to be by far the most important region for us.

I know that a few of you visited last year Qatar and what we are doing with the LNG plants over there. This will continue. A lot of activity in the rest of Africa but also around the world. You look at Europe, the North Sea with a lot of subsea projects and new pipelines is going to be an interesting place for us to compete, Petrobras in Brazil, deepwater applications in Latin America.

North America, we see a lot of activity in the oil sands trying to monetizing this oil that is [sitting] up there and providing technological equipment to really bring that oil back into the U.S. Asia with a lot of growth in Australia and Malaysia, so a well balanced portfolio, and again, about \$50 billion of opportunity that proves to us that the strategy that we are following is paying off.

A little bit more about Vetco, as I said before, we are excited with the team. I have to tell you that the business is exceeding all our expectations. This quarter the Vetco team will bring about \$800 million of orders to the business. We are winning around the world and we know that we can bring a lot of technology into this portfolio. The Vetco team is excited to be finally in a place it is going to be for a while. This is an asset that was changing hands very quickly in the last few years.

So we have a very motivated work force, the customers are reacting, as I said before, very, very positively to this merger and we are going to continue to explore other adjacencies to the subsea space, investing in subsea processing which is an area that we plan to really be a big player in the years to come.

The fact that we need to really move up all these liquids at the top side of the platform and then separate them, we can do it all in the sea bed. And this is the vision that we have to eliminate one year all these offshore platforms and make all the equipment that is working today in the top side down in the water. We plan to really participate into these projects and lead the industry in that way.

A little example about how we are creating value together and how we are helping the Vetco team to get integrated in GE is the application of the Lean concept that you have seen in many other businesses. And if you think about the Riser business that we have that support the massive amount of activity that I was telling you on the drilling segment of the industry, we are eliminating the waste that we were having in some of these factories.

Investing in technology and creating free capacity to really reduce the cycle time which is very, very important these days for our customers. And making sure that we can accelerate the growth of this product by just, again, injecting the technology that we have in GE, applying the discipline and the rigors that it is paramount in our culture and the Lean techniques that we have been using over the last few years. So this is the one plus one equals three kind of synergy that we have been looking and a clear example of the kind of value that we can create with this asset and how much better we will make it in the years to come.

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Technology will be the key enabler for us moving forward as it has been in the past. Again, we will continue to sustain our technology leadership in turbo compression, we are very excited about subsea processing, pumps is another area that we have been investing and we will continue to invest moving forward. There is a trend of the industry towards electrification in which we are participating.

And again putting this equipment working below water we are building the first compressor for NorskHydro and the [Alminlanger] project in the North Sea that by 2010 will be working below water. So this is the tendency that the industry is going to and we are in the middle of the technological advantages in many, many times leading by example in some of these products that are part of our portfolio.

And finally, the Service business, very, very important for us. This is a critical franchise. I was moved into the Oil & Gas business in 1997 to build this franchise. In 1997 it was \$170 million, this year it will be \$2 billion. It's growing, it's growing very, very rapidly and again here the thing that we are doing is applying the same kind of strategy that was applied years ago in aviation and later in energy.

Contractual services agreements, a lot of growth in our industry in upgrades, a little bit different than maybe it is in Aviation or Energy. Our customers, especially on refineries, are looking for a lot of upgrades to really make these refineries more environmentally friendly, increase the production capacity.

So our Service business is benefiting a lot for these product upgrades that we have developed over the last few years, and where the technology programs that we have been doing are tremendously helpful to accelerate the growth and the global footprint that we have all over around the world.

So in summary, as I said before, I think that we are at the right place at the right time. The Vetco portfolio has been a tremendous addition to our business. We will continue to build new platforms adjacent of where we are, technology will be our key differentiator and the key enabler for growth.

The service and the global footprint that we have been building around the world in working with our friends from Aviation and Energy and leveraging all these service shops that we have been presenting to you this morning will be a key asset. And getting closer to our customers, localizing ourselves on all these emerging markets where these hydrocarbons are going to be. So we are very excited and look forward to continue to keep you posted.

So with that, John Dineen.

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**John Dineen - President & CEO, GE Transportation**

In the rail business in the first half orders are up over 50%. We've got a backlog of 2,500 locomotives, which roughly equates to three years of record production. Contribution margin is up six points over the last two years and all this on the back of a traditional North American industry that's seeing the railroad slow down a little bit. I'm going to tell you how we're doing that.

We're extending business reach to global markets, we're building adjacency, \$1 billion worth of adjacent businesses outside of locomotives, and we're expanding the profitability of the core North American business with operating excellence.

The environment and the macroeconomics of the rail industry are very strong right now. Global trade is quite strong, as you know, emerging market growth, GDP growth in some of these markets is literally constrained by the rail and mining infrastructure. The North American market continues to grow, focused on productivity and fuel, there are capacity challenges, fuel is a big operating expense, I'll show you that.

Highway congestion and labor, not just in the U.S. but in China and everywhere else and aging fleets, when you look at the global supply chain it's not just volume but the nature of the supply chain. You've got iron ore coming out mines in Brazil today, they go to ports, they go on boats to China, they get on railroads, go to steel mills, they're produced into product, back onto boats to Long Beach traveling on intermodal on BN back to a Wal-Mart distribution center. So not just the volume, but the global nature of the supply chain is driving a real importance to railroads around the world.

Now global growth, this is a business, if you look at the right hand side of the page, typically making 600, 700 to 900 locomotives, depending on the, with about 30% of them being international. Our global backlog is now up to 760 units. And if you look at the market, both the sizes of the fleets which are growing in these international markets and aged 25 years or 26 years, it's like 100 year old man in locomotive terms. Okay? They need some help.

The railroads, as I said, are slowing down GDP growth so people are investing in these railroads in these developing markets. And what we've seen here is many of these developing markets have their own locomotive manufacturer. But the need for technology and the need for a better infrastructure is overwhelming what were typically and historically protectionist tendencies.

They need the best technology in the world, they need it right now and it's showing up in our backlogs. We've got several wins, and it's not just one or two countries but it's in a number of glamorous travel destinations, Kazakhstan, Middle East, the mining operations in South America and there are more targets out there, including orders like 100 units that we got in Egypt and Libya this year.

So a traditionally very domestic North American focused business in locomotives is becoming quite global. It's not just the market. We had to invest in the market. After we invested in this EVO platform, we had capacity to broaden the product into several international products. That could not be done with some of the predecessors.

So now we've got a 6,000 variant for China, a variant for the Russia CIS market, a heavy haul mining specialist for Australia capable of playing in the Saudi Arabian market. An India product is under development, an African product and the global medium and light weights are predicated on a light-weight engine, which is the Jenbacher engine. We've never been able to play in this market because we didn't have the right engine.

Now as a younger brother to Energy and Aircraft Engine, I steal shamelessly wherever I can. And in this case we've got a great platform from an engine standpoint that's going to allow us to play in North Africa, Europe and Eastern Europe. So well over \$100 million worth of NPI investment has gone into taking our portfolio from a North American portfolio to a global portfolio. This will allow us to play in every corner of the globe going forward.

The other that we're focusing in is fuel and emissions. When you look at the operating expenses of a North American class 1, and this translates to any railroad in the world really, 20% of the operating expenses are fuel. A 2% fuel savings in North America equals a \$200 million benefit to the railroads. So we're putting a lot of technology into fuel benefits for our products, things like combustion optimization, new piston designs, a trip optimizer which are software programs I'll talk about in a few pages, common rail fuel injection. Those can bring up to 15 points of benefit for a North American railroad on average.

We're spending a lot of money on alternative fuels, biodiesel, we've got engines running today in pilots running on 10% and 15% biodiesel. And in stationary power gen applications we've got our engines running on 100% palm oil, close cousin to olive oil. And then we've got the hybrid locomotive, which we rolled out in the '07 demo in California.

This prototype is targeting launch in 2010 and we're comfortable that this thing can save up to 10% in fuel and energy. So a great product, just years after EVO launch we're doubling down and coming out with some more wonderful technologies in this area.

Now outside of locomotives we're trying to grow the business in what I call adjacent segments. There are two types of adjacent segments, one where we take our technologies, the technologies that we're good at, and we play them in brand new markets. The other is where we take new technologies to the markets that we know well. This is the first. These are propulsion adjacencies.

If you take an x-ray of a locomotive you'll see an engine, you'll see an alternator, you'll see a motor control center and you'll see electrical motors and soon you will see batteries. Those are the vital organs of a locomotive. And when you look into other areas in the transportation space like electric boats, work boats, tug boats, OHV Propulsion, the large mining vehicles, the dump trucks that you see in mines, and in drill rigs and take the same x-ray, that's what you see.

You see a diesel engine, you see an elaborate control system, you see electric motors and soon you will see batteries for hybrid applications. That's our knitting, that's what we do. And in the rail application that is one of the most challenging applications because steel on steel, the wheel on the track is the lowest coefficient of friction. We think we can be very good in some of these areas and we're proving it out to the tune of \$500 million. We've built a \$500 million business here and each one of these, as you see, has some tremendous growth rates and we're pretty excited about it.

The other area where we're growing from an adjacency standpoint is playing in the space that we know, the railroad industry, and leveraging new technologies, technologies that we have in GE but may be new to the transportation business. You've heard about the dispatching businesses and the signaling businesses, which continue to grow not just in North America but globally, and now we're getting excited about an avionics business.

And that's where we get inside the cab of a locomotive and treat it just like the cockpit of an aircraft. And there is a great deal of technology that we can take from that industry and supply to the rail industry. I'll give you a simple example. This is a product that is being piloted right now at two of the largest railroads in the world. It's what we call the Trip Optimizer.

This is essentially auto pilot for a locomotive. It understands what's coming, the topology of the track, are you coming up to a hill, are you going to be going down a hill, is there going to be a speed restriction in front of you. And it then controls the locomotive to make sure that we're not speeding up or going fast to break right around the corner.

As a result of this, in really taking the stick out of the hands of the engineer and running in auto pilot, we've proven over 10% fuel savings on average in a fleet. So we're excited about this, it's a nice software product that will not only play in our new products but will play into our installed base. And that'll be something that we're releasing towards the end of the year. So another great example of an adjacency, again I'm sure we'll be able to borrow some technologies and best practices from Scott's business. This is something that we're really excited about.

And then underneath it, we're expanding the margins in the core business. A lot of work around Lean, reducing cycle time, straight cost out in our product by unleashing engineers in there. Reliability, the EVO reliability is order of magnitude better than of its predecessors and, again, shamelessly stealing best practices in the area of service productivity from Scott's business.

What's the result of this? It's leverage on the growth that I just talked about. We've had six points of contribution to margin improvement over the last two years and we expect that trend to continue in the business going forward. So with that said, a quick summary of the business. The global transportation, the fundamentals are very strong, I like the macroeconomics here.

We're building strong backlogs in both equipment and services, we're expanding the contribution margins, we are rapidly globalizing this business model, it's a very successful North American business model, and we're building two adjacencies, one predicated on the technologies that we know well and the other predicated on the markets that we know well. So we're going to strengthen the core, extend the platform globally and build some adjacencies to change this going forward.

With that I'm going to turn it over to Jeff Garwood and he's going to close it out with a discussion on water. Jeff?

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**Jeff Garwood - President & CEO, GE Water & Process Technologies**

Thank you, John. It's a pleasure to be here with brothers and sisters as big as they are. So I'd like to talk to you about the newest platform in infrastructure and, before going into the portfolio and some of the opportunities we have around the world, a little bit of history. The water market is arguably 400 billion plus.

Over the last series of six or seven years GE has invested in five assets that are targeted at this \$40 billion segment that we think is the highest growth, have brought fantastic teams, fantastic technology and great distribution, great routes to market. And when you begin to see what GE can bring to this, we really are excited about the strategy, improving our execution in the first half of this year versus last, we're up about 12%, 15% on revenues and up over 150% in operating profit.

One of the big best practices GE has is operating rhythm. And through the growth playbook or our previously called Session 1, we've been able to define a series of key drivers, core execution components or foundations and then some of the key initiatives. And we've used this to really drive Lean, as John talked about earlier, but integration across our platforms, the platforms being the products as well as our locations around the world. I'll touch on a couple of these over the next series of pages.

When you look at the global challenges, whether its water scarcity, as Lorraine talked about, 1 billion people in water scarce areas, going to 3 billion given some of the forecasts at the moment, waterborne illness, it's not just availability of water it's what's in the water, whether or not you get sick. Infrastructure demands, regulations, increasing energy costs has been touched on several times, each of these creates some incredible challenges for the planet and we're incredibly well positioned to participate in addressing these challenges and creating opportunities for growth.

The portfolio that we have is founded in technology in almost every area. But, when you begin to look at desalination, I'll touch on some of our successes in a few moments, residential, taking some of the same technologies that we would have in large municipal applications and providing those for your home or for a light industrial area. Having utility solutions and being able to go to market with Alex and some of the assets that we have in energy and certainly in a collaborative fashion with power.

We can not only treat the coolant towers, traditional chemical treatments. We can treat the flue gas. We can treat the waste streams, provide more pure water for the boilers. The scope of solution that we can provide across the landscape is really unprecedented. As a matter of fact, we are fundamentally the broadest portfolio of solutions, regardless of the industry and for that matter, the part of the world.

If you begin to drill down into just two pieces, wastewater and desalination, conservatively, our components of those two markets are going to grow four, fivefold over the next series of years. Our current position and what's arguably a very competitive market, our current position on either installations or size for wastewater have the largest operating capacity. And these are our positions with membrane installations.

So when you get to desalination, being in the top five, we're really the largest provider of membrane treatments as opposed to thermal treatments for desalination. And with the [Homa] facility coming on line in December, we'll have the third largest install in the world.

Be talking about some of the wins we've got and some of the targets in the next series of years. Our large product or large product pipeline is really fantastic, and we're actually getting a ton of synergies from our -- the colleagues within infrastructure. I'll talking about that in a moment.

The last series of years, targeted activities, the ZENON acquisition really provided a standalone UF/MBR treatment for municipalities, ultra filtration, hollow fiber, but it also provides a pre-treatment for some of our desalination offerings that is becoming more and more embraced around the world. In California, we're going to be providing pre-treatment for what would be the largest North American diesel plant.

Engineering expertise, not that different than Claudi, John, Scott and others have talked about, both Johns, engineering's going to be key for us to being able to deliver into the future. And that's both our engineering as well as partnering with EPCs around the world. We will end up being the provider of the water island, if you will.

And we'll have partners that'll be delivering the civil works and making sure that we've got those tight relationships, speeds up the contracting as well as ensures that we've got partners that we can depend on. And then, we'll continue to invest in technologies to shore up where we have gaps and flush out our portfolio as we go forward.

Globally over the next three years, we're seeing -- this is basically our internal look at revenue growth. Developing markets, which currently comprise about 30%, 35% of our revenues are going to be growing almost 50%. That doesn't say that the developed markets are inconsequential growth. It's just that right now, our largest percentage of revenues and largely chemical revenues are based in the developed markets.

As we continue to look at the GE scale, our ability to execute on projects with project management, as Claudi said, and being able to monetize water scarcity, this is just going to be a fantastic story as we [globe] lots of portfolio.

Let me touch on two areas real quickly. The oil sands, Claudi spoke about it, our second largest source of hydrocarbon reserves. For those who've been there, it's just an awesome series of investments, be it in the mining side or in the SAGD production. Every one of those operations requires water, comes out of the Athabasca River.

And in fact, some of the production, if they don't get into more of a water reuse type of a scenario, production will actually be limited due to water, not due to technology or investment. Our deal pipeline is incredible. Over the next series of months, we probably have a \$500 million pipeline that is largely focused on water reuse. But, it also is in fairly traditional treatments, for example, the boiler treatments, cooling towers of the different refineries in the area.

Our investments in the reason -- region are not only in people to support our customers, but we're working with the Albertan government to identify ways to improve treatments of pipelines and assets for corrosion. So, the synergies within Energy, Oil & Gas and Transportation are substantive. And we're enjoying some nice successes in Canada.

China's another example. Everybody knows the challenges. You can read about them. We're doing our part to continue to invest in China. A couple examples, zero-liquid discharge in the western part of China, there's -- Shenhua's a big customer, first application of zero-liquid discharge where we have an evaporator crystallizer and you actually are left with a solid that you can take to landfill. The translatability or the ability to go to other installations in China is substantive, and we're pretty excited about the performance there.

Secondly, Nanpu and the Olympic Village are two examples of where we've taken the ZENON product, treating wastewater and in the case of Nanpu, the water is being sold to a power plant. And then for the Olympic Village, if you have an opportunity to go, the river -- the lake there is actually going to have treated water going through our membranes.

Rural drinking water between India and China, some substantive issues, thousands of villages and between our mobile containerized fleet in the technologies we've got to treat water, a big opportunity for us and a big opportunity to work with the NDRC or the Indian government to address some of those challenges.

We're localizing manufacturing all over the world, be it for equipment assembly or for blending. Wuxi is an example, just outside of Shanghai, where we had a blending facility for chemicals. And we're expanding that to be able to make membranes as well as the equipment assembly for the region. As I mentioned earlier, our portfolio is as broad as anybody in the world, if not broader. The growth rates across the portfolio is what basically yields to the combined growth we spoke of earlier.

Chemicals is what we're looking at as a kind of 5 plus/minus percentage growth rate over the next series of years. It's comparable to other chemical providers in the industry. The flow products, which would be membranes and standardized equipment, we're seeing a 12 plus percent, 12% to 20% growth rate, depending on kind of order volume and the like.

But, our -- the biggest growth component is in our structured projects area. Global demand is driving a massive -- if you pick up many of the water magazines, Global Water Intelligence, go to the back. There's five, six, seven, eight, ten pages of known projects. We're active on many of those, so this global portfolio where we can allocate resources and work with the peers and infrastructure providing a great platform for growth.

Some of the wins of late, and I might point out that the checkmarks correspond to something akin to the long-term service agreement or customer service agreement where we have a multi-year operating cash flow stream. Some fantastic wins of late, and this is -- if you compare this to history, the platforms that came together to form GE Water really didn't have the appetite or the risk profile to be able to do this volume of projects over time.

As we look forward, this is just a sampling but as we look forward, the number of opportunities is really staggering. And so, it's up to us to make sure that we look project by project, making sure that we have the right technology mix, the right engineering capability and the right partner to be able to embrace and win.

We've talked a lot about synergies. We've just finished last week a workout with Energy on ways that we can go to market collectively with Energy. We have a session with Oil & Gas in a few weeks. Steve's talked about the Jenbacher engine. We've got actually a couple of cases. Previous page, there was a project called Ashdod. We're pulling through a turbine in that particular case.

The synergies for NPIs for commercial collaboration across the infrastructure is really overwhelming as well. And we've just named a couple of folks to ensure that we continue to have commercialization integration across the sales teams.

As we look over the next five, ten years, there's a number of game changers. And whether we talk about non-corrosion coatings, treatments for high silicon environments, cooling towers and the like in industrial areas, one of the ones that we've spent a lot of time looking at is, how do we fundamentally change the paradigm, change the game on desalination?

Right now, desalination projects may go from \$0.70 to \$1 per cubic meter. So, we've gotten a group of our technology teams as well as folks outside of GE to say, well, what if we took it to \$0.10 per cubic meter? So a factor of ten reduction, well, it's probably not going to be a traditional treatment.

It's probably not going to be reverse osmosis. It could be, but we're beginning to look at, what are all of the pieces and parts of the projects that need to be evaluated, the technology -- the reduction in energy requirement, the lengthening of maintenance in between intervals.

And as each of those projects begins to get defined they may not fall traditionally within a water NPI. It might be in a collaboration with Oil & Gas, as shown on the previous page, to come up with a high-pressure pump that has a more efficient profile and is going to help us drive to a much lower desalination price. Maybe never can reach \$0.10, but the fact that we'll continue to improve our operating profile is going to make more and more opportunities in the world available to us.

So, as we kind of wrap here, the last series of months, we have seen a continuing improvement in the fundamentals of the business. At the beginning part of last year, it was a fairly light growth rate. And what we see as we go into 2008 and beyond, it's a double-digit. Increasing the organic growth rate, lowering the G&A costs and making sure that we can provide -- gain synergies from the partners in infrastructure all the while.

So with that, I believe John's going to wrap up.

**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Thanks, Jeff. Well, I think you can see why we're as excited about this portfolio as we are. I'll spend a couple of minutes wrapping up. And then, we'll be glad to take your questions.

The environment continues to be positive. We think we're working on the right stuff. And frankly, there's a lot of opportunity to improve, which gives us even more cause for optimism in the future. If you think about what you saw, Claudi talked about the great markets, the \$50 billion of visible opportunities in the Oil & Gas space.

John Dineen talked about huge opportunities to globalize our Transportation business. This was a very North American-centric business ten years ago. Jeff talked about unprecedented water demand. It is the number one issue that people want to talk about everywhere we go. We've talked about the GE advantages. Alex is partnering with GE Energy, stuff that we think only we can really do together.

John Krenicki and Steve Bolze talked about the tremendous advantages that we've created -- advantage we've created for ourselves in the wind business and the work that we've done there over the last few years. The Aviation team, a wonderful job building out a huge franchise in the commercial engine business that's going to be good for us for a long time.

Strong financials, if you think about the diversity of our Energy business and the work that's been done, John Krenicki and his team, to really create solidly profitable business franchises and stuff that we weren't even dreaming of being in ten years ago, a lot of cause for optimism in the future.

Strong financials driven by good operating disciplines and the use of lean to reduce cycle times, reduce investments, create capacity and be more responsive to our customers, not just in Aviation, but in all of our businesses. And the work the Transportation team is doing, notwithstanding the global growth in that business to just do the good old blocking and tackling necessary to squeeze out a few more points of operating margin.

So from an investor perspective, we think that the markets are great if you think about it. And they should be for a long time, whether its oil or gas, environment concerns, energy and water demand. If you just think about energy and water demand there's two billion people in the world today that have what -- that need what we have to sell. And once they have the basics, then they want to talk about transportation and infrastructure and all the stuff that we have to offer as well.

That's not going to change any time soon. So, we think that creates a lot of tail wind for us. We do think we have some unique advantages, thousands and thousands of great engineers across all of our businesses working on next-generation technologies and the resources to make those investments for short-term value creation and long-term value creation and to move us into the adjacencies.

If you think about energy and water, there are trillions of dollars of adjacencies if you look at the total size of those markets. Now, there's a lot of stuff in there that we will never elect to play in, but there are other opportunities for us, just as we've found a bunch of opportunities over the last five or six years.

And strong financials, we are active in many markets in many countries with many products. And as we've said a number of times today, there isn't any one market or any one product that we sink or swim based on. And to -- and that gives us a lot of confidence. We've got a vibrant service portfolio that is diversifying itself, as a number of the leaders mentioned, as well as providing the opportunity for installed based growth and a lot of chances for us to create value for our customers and value for our shareholders.

And then supply chain excellence, at the end of the day, you think of -- step back and think about our markets, they are going to be strong for a long time. The key for us is to continue to working the supply chain, the cost structure and make sure that we are in the right spot at the right time to serve the need. And I think you got a sense from all of the business leaders presenting today that that's a real focus for us.

So with that, I'd like to turn it over to you. We'll be glad to take some questions. And you can direct them to any of the presenters you would like. So have a --.

**QUESTION AND ANSWER**

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**Unidentified Company Representative**

As you ask a question, push the button on the mic so the webcast (inaudible).

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

[Jeff]?

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**Unidentified Audience Member**

Thank you. Maybe John or directed to John Krenicki, just a question on kind of how the scope of demand on power gen plays out in the developed world, you mentioned kind of the tightening reserve margins. Is there some regulatory environmental technology hurdle that's going of holding back the decisions on the developed world on to move forward? When you think about those tightening reserve margins and nukes that are coming off license, there are some big decisions that need to be made. And ultimately, the timeline to make these decisions starts to look like it's getting tight.

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**John Krenicki - President & CEO, GE Energy**

Jeff, I think one big governor on that is inflation. So, as you look at these big coal plants or a nuclear plant, that's going to take six, seven, eight years of construct [to set] the model at the moment. And it's challenging for utility executives to go back to the utility commissions and say, Oops, It's up 30% a year.

So, that's one governor. And then the other is, I think just more certainty around, where's the country going to be on carbon policy? And between those two things, it's kind of a go-slow market for the coal plants. What the government is doing is they have passed the tax credits. They've worked to simplify licensing of nuclear, so they're putting the right things in place regulation-wise to move forward on these technologies. But, we're in a kind of an unusual time of inflation right now. I think this is a real complicating factor.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

[Bob]?

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**Unidentified Audience Member**

Yes. You didn't give us an update specific on the company-to-country strategy that sort of go through all of these presentations.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Yes.

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**Unidentified Audience Member**

Although a lot was implied. Maybe you could just touch on that and give us some specific examples, where you've been developing that strategy?

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Sure. I think you got a dose of what we were doing last year when you went to the Middle East. But, I'll just talk for a minute about China, which we didn't comment on specifically.

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I met Friday with the Vice Chairman of the National Development Reform Committee. We meet two times a year, and we go through a laundry list of activities that we're working on together across a number of our technologies in water, in energy and aviation. And we go line by line over these projects. Where -- we also signed a -- some agreements in rail, which I think are going to bode well for our future.

So, we have very, very active company-to-country initiatives underway in a number of places, very, very specific, very detailed. And it's becoming quite granular in terms of the implications for us. Probably the relationship between the NDRC and GE has never been better than it is right now, to give you an example. Nicole?

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**Unidentified Audience Member**

I guess John, could you talk from a U.S. and international policy standpoint where infrastructure is investing the most resources? And then I guess for each of the business leaders, could you talk about where you see the most strategic changes happening over the next five years?

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Okay, I'll just kick it off. It's become crystal clear to us that this is more than just Washington and a Brussels game. You have -- we have to be in Moscow. We have to be in Tokyo. We have to be in Beijing with government advocacy, government-relations activities. We have to understand what's happening there, because a lot of what happens in those places are going to influence what happens in our business.

So, each one of our businesses are looking at how they resource these activities and how we gain from what each other is doing because their implications of regulations are just going to get more significant for each one of our businesses. And John, I'll let all of the business leaders comment as they would like.

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**John Krenicki - President & CEO, GE Energy**

In the U.S. and Western Europe, 50% is coal and 20% is nuclear. So, I think there's lots of discussion underway on the nuclear side on fuel cycle and reprocessing. It's going to a very long-term game, but that's one area. And then, how do you build validation plants to change the learning curve for things like ITCC?

And given just the magnitude of those investments, it's going to require government leadership. So -- and the other area is just renewables where I think there is good forward momentum because with this kind of unit build, it's becoming economically viable. And fuel is free. So, it's easier to model in the shorter term. But, I think coal policy and nuclear policy are the big two.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Anybody else? Scott?

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**Scott Donnelly - GE - President and CEO - GE Aviation**

I guess certainly in the environmental front, and Lorraine kind of mentioned this earlier, the pressure on the airlines with respect to CO2 and what's going to happen with taxes and regulations is a big deal. The good news from our standpoint is that we've always put a pretty high emphasis on fuel burn, because that directly impacts the announcements to the airlines today.

And so really what happens is that it just emphasized investing in that area, because you basically just get a multiplier. So when we're in a competition, it's not just sort of 1x what the fuel burn advantage is. It's somewhere in the one to 1.3 times when they start to decide what's the cost in terms of tons of CO2 emitted.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Jeff?

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**Jeff Garwood - President & CEO, GE Water & Process Technologies**

I think from a public policy, there's got to be recognition about what the fundamental cost of water is. And all too often, it's viewed as a free resource. And therefore, it makes it a little tough to get an ROR on capital investments.

From our perspective, bringing the portfolio together, be it for industrial applications and for that matter, for public, private or IWPPs around the world, the evolution on how the world does those contractings is probably the biggest thing in the world basically.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

John?

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**John Dineen - President & CEO, GE Transportation**

In the transportation space, it's similar to Scott's point. Its emissions and fuel. And I think the most recent change in the thinking is that the fuel discussion, as Lorraine pointed out, is also a CO2 discussion. Those two variables go hand in hand, and it's forcing -- it's much more balanced thinking.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Claudi?

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**Claudi Santiago - President & CEO, GE Oil & Gas**

Yes. For us, there is a very important, I will say, condition that is going on in our industry which is the fact that the national oil companies that ultimately are those that own the reserves are getting more and more active in some of the project discussions that traditionally were more driven by the major -- the majors around the world, companies like Exxon, BP, Chevron.

So now, we are having to continue to support our traditional customer base, which we are, but also companies like [Symetrak] in [Argilias] and Angol -- in [Angolia], which are obviously creating a lot of wealth in these countries and basically are owned by the government or run by the government.

So, this power condition, if you will, or power balancing that is going on in our industries is something that we anticipated several years ago, and we have been able to establish great relationships with these national oil companies that ultimately are helping us to really participate in these projects.

And, we are in return, helping these different national oil companies to get draining facilities in their countries, better education of their field technicians, transferring some of our technology to really accommodate some of their requests. So very aggressive localization of strategy in our business all over the world to really participate on these projects and establish the important -- the relationships with the governments that own these national oil companies.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Yes? Scott?

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**Unidentified Audience Member**

Your orders have been running well ahead of your sales for the last few quarters. And clearly, a lot of these businesses are in the early [years] of growth. When we think about the growth rate as far as profits are concerned going forward, is there any reason other than maybe capacity that

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you guys will see a deceleration in that rate? Maybe you can just talk about what you see out there as far as growth rate going forward at the growth rate's peak, even though we're in the early days.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

I don't think so. I think -- there's no reason to think that the growth rates shouldn't be sustained over time in a way that's consistent with what we've told you in the past. We're -- we watch carefully the capacity side of the equation, because we want to be sure that we have enough capacity to fulfill the need but not too much in case we are encountering a cyclical piece of business.

But, if you look at what John and Steve showed you in the wind business, we're now selling into 2009 where there is no production tax credit in the U.S. yet. It expires at the end of 2008. And only a couple of years ago, people would have predicted that that's not going to be possible.

So, it's a little bit hard to predict how good this can get over what period of time. But, I think the key is really the subject we just talked about. For us, it's important to be putting markers down in some of these smaller businesses. And we've -- we're making some bets today in stuff that you don't really care about, because it's not material.

But, if you think about what Dan and the Energy Services team did, a couple of years ago, we bought Bently Nevada, vibration monitoring. And it was a couple of hundred million dollar business. Nobody really gave it a lot of thought in this room. And it's now the cornerstone of a \$1 billion franchise.

And there are a half a dozen opportunities across our businesses where we have done that and probably a dozen more where we can do that. These markets are so big that you place little bets and the tide shifts just a little, and you have an opportunity to have a \$4 billion or \$5 billion wind business.

And so really, that's the most important thing for us. And that's why going out three or four or five years, it's hard to predict exactly what the growth rate will be. All I know is that we're playing in huge markets, and there's an enormous demand for what we do.

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**Unidentified Audience Member**

So, 20% is good, but there's no reason to really back off of that as far as what --?

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Not anything that we've seen. I -- obviously, we've been through the last couple of months like everybody else. We've seen no indication that there's a weakening in demand as a result of that. We're going to watch it like everybody else, but from what we've seen for the last two to three months, we have no reason to back off our overall growth rates.

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**Unidentified Audience Member**

And then one last one on your business jet opportunity. Maybe could you -- somebody could talk about what you see there. Obviously, it's very small. There are a couple of good competitors, maybe a little bit weaker competitor. Could you talk about the landscape there and --?

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Sure.

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**Unidentified Audience Member**

How you could move into that business over time?

John Rice. Sure. Scott?

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**Scott Donnelly - GE - President and CEO - GE Aviation**

Well, I think the business opportunity is largely driven by the fact that you're going to see a lot of new aircraft coming out. Most of the aircraft [is defined] so the engine, the avionics kit, is pretty well fixed through its lifecycle. But, I think if you look at the big guys, the Cessnas, the Gulfstreams, Bombardier have had a long run with a lot of products and have a lot of developments that I think will happen over the next five to ten years.

So, our positioning is to say, look, this is an opportunity to get more engine content, more content through its actuation, avionics and things like that. So, it's primarily an opportunity driven by just a lot of new platforms will come out in the next decade.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Yes, [Dana]?

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**Unidentified Audience Member**

Thank you. Two questions, the first one is for Jeff Garwood. And one of the changes that you've seen in addition to the profit turnaround at Water is the willingness for GE to take on long-term operating contracts. And this is something that Jeff Immelt, four or five years ago, said that GE would not get into. But, is -- just take us through the opportunity here. Is it -- the customers are requiring you to take on these long-term contracts in order to win the initial installation? And what are the economics on the services? So, if you could take us through that?

And then, the question is for David Joyce. And on the update today, on the Leaps 56 operating performance metrics, you've goosed up the fuel burn savings and ratcheted down the maintenance cost savings. So, is this a question of being responsive to the customer in \$80 oil? Or is there any issue that's come out in the testing of the engine?

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**Jeff Garwood - President & CEO, GE Water & Process Technologies**

Well for starters, I think that as we pieced together the portfolio, we started to recognize different risk profiles. Then, as we acquired the Ionics platform, we actually -- between Ionics and ZENON we've -- we operate -- are equity holders in about 245 different assets around the world.

So, the operating profile or the risk profile of the assets is really meant -- maintenance management, cost management and maximum production. So, those fall squarely into the power ally, if you will, of infrastructure. And we've been able to borrow from a number of our energy avionics colleagues on whether it be risk profiles for new opportunities, in other words, how we bid going forward in collaboration with EFS or others, as well as operation of existing assets.

I would see that as a big growth opportunity for us going forward on the equipment side but also for the chemicals, because any -- in the operation of one of these facilities, you've got to have a treatment. You've got to have maintenance, labor. It's no different than any supply chain-like management type operation.

So, the risk profile is really on the construction side, which gets into engineering practices. And we've -- by functionalizing each of the assets we've pulled together, we're moving from a multitude of engineering standards to by the end of this year, we'll actually have one common platform and one common engineering standard as we propose and bid on projects around the world.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

David?

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**David Joyce - GE Aviation - VP & GM, Commercial Engines**

Yes. I think the question was, as we take a look at the next generation in narrowbody, which replaces the 737s and A320s, what do we think our perspective is going to be on the requirements that customer has. And realize that we don't do this in a vacuum. We, of course, work with all the customers around the world as well as Boeing and Airbus. And we're constantly out there talking to them about, what's it going to take to replace and make the capital investment and timing for the next generation of 737/A320 replacements.

And through that process, we get a lot of feedback and a lot of learning as to exactly what these guys think they're going to need in order to make that business case close for themselves. And so today, if you talk to Airbus or Boeing or us or anybody that's in this game, they'll say that we have to target somewhere close to 20% fuel burn, whereas I would argue even a year ago, we were looking at maybe something closer to 15%.

However, if you really look at the size of this capital investment and how young the current fleets are, it's going to take a pretty sizable improvement in fuel burn for us to be able to really turn these 737s and A320s. And that's very consistent with what happened on the 767 versus the 787. It had to show close to a 20% fuel burn advantage before people would go ahead and take a bite of that apple. And we expect the same thing to happen in the next generation in Airbus.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

I'm sorry. [Anne]?

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**Unidentified Audience Member**

Two questions for Aviation, you talked a lot about supply chain management. And last night, we were just talking about one of the biggest challenges in aerospace is the fact that your spare parts pricing is done once a year. And it's cataloged pricing. If that -- is that a possibility for upside if you could change that policy of just being able to increase prices in spare parts once a year?

And then secondly, rail talked a lot about qualifying biofuels in their engines. What's happening in that in -- on the aerospace side, anybody talking about using biofuels in aerospace?

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**Scott Donnelly - GE - President and CEO - GE Aviation**

I guess on the catalog price issue, you're right. We generally do a once-a-year catalog price increase that goes out to all of our customers. We have been working on a system then and have introduced, in some cases, some dynamic pricing. So, I think frankly, we feel pretty comfortable in our ability to estimate where we're going to be in terms of shop costs and materials or consumer parts.

So, we're generally pretty much all in, but we have the ability now to do some dynamic pricing in cases where we see some hyper inflation or things to make some adjustments along the plot. On the biofuels question, there is actually work underway. We've actually certified some of our engines to fly on various different fuel systems. We're going to be flying here shortly a 747 with a biofuel derivative. It actually turns out that from a technical standpoint, a turbine is pretty efficient according to a lot of different things. So, biofuels is not particularly difficult for us to burn.

One of the big issues that people will get into is the fuel density. So as this area improves, people aren't willing to say, I'm going to have to take on more fuel or more pounds of fuel to fly the same distance, because there's actually significant economical and environmental penalties to do that.

So, we're participating in a lot of these different things, and we'll keep working on it. But frankly, at the end of the day, I don't think that the turbine itself is probably going to be the limiting item to a lot of what we can burn and what we can do from an environmental standpoint.

It's really going to have to do with what all fuels are available? What's the economics of those? And a big factor, because of the nature of the aircraft is, what's the fuel density of that so that you don't limit the range or have to tote around a lot of extra fuel just to get the same amount of energy out of it.

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**Unidentified Audience Member**

Great.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Well listen, I'm -- yes? One more?

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**Unidentified Audience Member**

I'm not sure this is a -- the appropriate question for it. But Keith, can you frame beyond the engine and Smiths long-term, aerospace, avionics, whatever -- just how we should think about that?

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**Keith Sherin - GE - Vice Chairman, CFO**

Well, I think frankly, if you look at the repulsion, you look at we did with the Smiths deal in terms of Avionics and actuation power, that really canvases most of the technology, we think, is on the aircraft. Obviously outside of what the air framers bring in terms of composites and fuselages and controls and all that nature. So, I think we feel pretty good about where the portfolio is right now.

As we look at things like the next generation of narrow bodies that are big opportunities, we start architecting what we think our offering could be with respect to that, obviously there's going to be some areas where we don't have everything. There's still some partnering opportunities and then maybe some small fill-in kind of areas where we look at very small, targeted acquisitions for some particular amount of content we think that's important on the particular application.

But -- and where we are right now on the portfolio, I feel pretty good that we're a player and have a foothold in most of the areas that are really driven by the kind of businesses we're interested in, which are kind of high-tech and significant service opportunity going forward.

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**John Rice - GE - Vice Chairman, President and CEO - GE Infrastructure**

Well look, on behalf of 100,000 infrastructure employees and the leadership team here today who are working to deliver on our commitments, I'd like to thank you. We've covered a lot today. Appreciate your time and attendance and participation. And now, I think Dan has a few logistics question -- answers, not questions.

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**Dan Janki - GE - Investor Relations**

Yes. We're going to do -- right after this right outside here, we have lunch for all of you. The management team will be around. And then at about 12:15, we will depart for the operational visits. There's a bus Number One. If on the back of your badge, you have Group One, Two or Three, you go on bus Number One. And there'll be people out there directing you.

If you're four, five or six, you go on bus Number Two. And your luggage will be out there. They'll get it on and then -- and have it administered for you. And then, when you get to the actual tour sites, they'll break you up into those three groups so that they're smaller groups as you go around the tours. And then, we'll have you back here around just after 2:30, if we stay on time here.

So, look forward to it. And thank you again. And if you have any questions, there'll be many of us floating around and kind of directing traffic out front. Thanks.

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