



Conference Call Transcript

GE – GE Update Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric update conference call. At this time all participants are in listen-only mode. My name is Lauren and I'll be your conference coordinator today. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the program over to your host for today's conference, Trevor Schauenberg, Vice President of Corporate Investor Communications. Please proceed.

Trevor Schauenberg - General Electric - VP Investor Communications

Thank you, Lauren. Welcome, everyone. JoAnna Morris and I are pleased to host today's call. You have the press release from this morning. The slides we'll be walking through are available on our website at www.GE.com. If you don't see it, please refresh. You can download or print to follow along.

As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Those elements can change as the world changes; please interpret them in that light. We'll be reviewing the GE press release that went out earlier today and have time for Q&A at the end.

Also, please note that as the quarter comes to a close we are entering a quiet period and we will not be able to address all the specifics regarding our third-quarter earnings on this call. We will address significantly more detail regarding third quarter on our earnings call on October 10th. Today we have our Chairman and CEO, Jeff Immelt, and our Vice-Chairman and CFO, Keith Sherin, here to discuss our press release. Now I'd like to turn it over to our Chairman and CEO, Jeff Immelt.

Jeff Immelt - General Electric - Chairman, CEO

Great, Trevor. Thanks. Good morning, everyone. In light of the unprecedented market volatility we thought it was important to give our investors an update on what we're seeing and the proactive steps we're taking to keep the Company safe.

First, GE is performing well in a tough environment. Our industrial segment earnings should be up between 10% and 15% in the quarter excluding Consumer & Industrial. Our financial services earnings will earn in excess of \$9 billion in 2008, really dramatically outperforming their peers. And the Company remains financially strong. Our total earnings will be approximately \$20 billion in 2008.

We think it's important to take proactive steps to be even safer in this environment. Keith will outline with you some dramatic steps we're taking to strengthen the liquidity profile and reduce leverage inside the Company. And these are steps that are expected of a AAA rated company.

Our GE Capital and financial service business model remains strong. We've got a great cost base, senior secured -- we're a senior secured and diversified lender. We're match funded. We've never been a trader or a market maker. I think the results this year prove that the general framework that we've got for GE Capital remains very strong. We expect to see higher losses and loss provisions and lower gains as the economy evolves.

Lastly, the GE dividend is secure for investors. The Board has approved management's plan to maintain the current dividend through '09. Even in these relatively uncertain economic times at \$1.24 a share that's roughly a 5% yield. So really the steps we're taking and that we'll outline today I think strengthen GE for the long-term and really improve the overall operations of running the Company. Keith.

Keith Sherin - General Electric - CFO

Thanks, Jeff. If you look at the next page, what we'll go through is just a quick update on the environment that we're in. If you look today on the top left and in the energy infrastructure businesses we just have continued strong demand. This business is benefiting from the high cost price of fuel. It's benefiting from the need for more resources to satisfy demand. It's benefiting from the need to improve energy efficiency around the world. And we've got a great global supply chain that's been able to more than offset inflation which is the one pressure point we see in that portfolio.

But the strength of the Company today on the industrial side is certainly driven by energy and oil and gas and the other businesses in John Krenicki's area. And on the technical infrastructure side we continue to see tremendous global growth. We've got a great installed base, as you know, and that gives us some nice services after market.

We get great customer productivity with our service solutions and they love that. They love that we take the maintenance off their hands and how to manage the equipment off their hands. We give them a predictable cost stream and guaranteed efficiency and productivity. And on the right side, the negative here, we're watching the airlines, the fact that oil has come down from \$140 a barrel down to around \$105 has really helped tremendously, but that's one area that you've got to watch.

On the media side we had a tremendous experience in the quarter with the Olympics. I thought the whole NBC team did a fantastic job of showing those games and using all the different avenues we have to highlight that content. The cable business continues to be extremely strong. We are seeing pressure in the local ad market like we saw in the second quarter and clearly the economy, as some sectors of the economy have pressure that hurts some of the national advertising like in the auto segment. But overall they're still performing where we said they were.

And in financial services, the positives for us are certainly pricing. Today when you have capital to put to work you can get a significant premium to your cost of funds and you can enter into investments at low risk levels, low loan to values and senior secured positions at high returns. The AAA is significantly a competitive advantage for us.

We're going through a normal credit cycle here. We said that. We've got great portfolio. Our measurements and delinquencies and asset quality are all very strong. But as the economy continues to have strain, as consumers have pressure, if delinquencies rise we're expecting to put up more provisions. We are doing that. That's in our forecast. And we're going to have lower gains from asset sales and we've said that and those are a big part of what we're going to talk about today.

So this is a pretty tough environment. I think the long cycle global nature of our infrastructure business is a fantastic strength we have and a real competitive advantage and we're taking the steps we need to given the current financial services environment.

Jeff mentioned the proactive steps we're taking as a AAA. This is what investors should expect from a AAA. We've got unprecedented financial market volatility. And if you look at the last three weeks and the events that have happened in the financial markets you have to agree they're unprecedented. I mean it starts three weeks ago with Fannie and Freddie. You end up following that up with significant turmoil in the investment banking world, Lehman Brothers, then you had problems with AIG, and now you've the two preeminent investment banks become a national federal home -- federal bank agencies under the Fed.

So this has just been unprecedented the last three weeks. And in an environment like that we're performing pretty well. You're going to see the industrial forecast that we have. They continue to perform in a very strong manner driven by the infrastructure businesses, as I said. And financial services, we're going to have great relative out performance, but it is a tough market. And I think at the end of the day when you look at this environment our conclusion was this is going to continue to be challenging; a smaller and more focused financial services enterprise in this environment is better for investors.

So the priorities that we have undertaken here in the last few weeks and we're outlining today start with maintaining a strong liquidity position. That starts with our commercial paper programs and our liquidity plans. We have great CP programs. We go direct to investors so we're not going through brokers. We run the program in 11 currencies. About two thirds of the CP business is in the US, the rest is global; it's spread across many countries. We have had no issues funding ourselves.

Even in the last 10 days where you've had some significant disruptive days we continue to see a flight to quality. We're funding on average at LIBOR less 25 and usually below the Fed funds rate when you get to the absolute dollar amount. So in this environment though we think it's prudent to reduce our absolute CP balances.

We're going to end the third quarter under \$90 billion from over \$100 billion of CP at the beginning of the year. I think it's important to recognize that our average maturity is 61 days, so there's quite a spread in the rollover of CP.

We're also going to continue to bring CP lower. We've announced today that our new target is 10% to 15% of the GE Capital debt which is somewhere around \$550 billion, a little below that. So we're going to have another \$10 billion or so lower CP balance in the fourth quarter in our current plan that we've outlined for you.

We also have lots of other funding sources. We do have deposits. We have CDs. The deposits and CDs are up to \$43 billion at the end of the third quarter, that's up \$20 billion since the beginning of the year and we can take that higher. We've got a tremendous access to other sources here.

And with our strong collections and originations management we've built this plan not needing to issue any long-term debt in the fourth quarter. I think that's just a prudent place to be given the financial markets. Previously we've communicated that we completed \$70 billion of long-term debt out of our total year plan of around \$80 billion and now we're saying we're done for the year. We may be opportunistic but we don't need to do any more long-term debt this year.

The second part of the plan is to strengthen the balance sheet. We're cutting the dividend from GE Capital up to GE from 40% to 10%. We've done this previously when we were lowering our CP balances in the early 2000's. That enables us to put more capital into GECS as they continue to grow. And with the additional capital and with our mixed management in GE Capital reducing our emphasis on some higher level or leverage products.

We're going to take the GECC leverage which is about 7.2 to 1 at the end of third quarter down to 6 to 1 by the end of 2008. So I don't think there's anything urgent here, but I think this is just a prudent place to be. We've got low leverage. We've got very good asset quality in the portfolio and we're just going to reduce the leverage over time in a measured way. I think it's a smart thing to do to just strengthen that in a measured way.

At the same time we're suspending the GE buyback. Through the third quarter we had repurchased about \$3.5 billion of GE stock, but we're going to be able to use that flexibility from our cash flow to be able to continue to strengthen GECS, as I talked about, and also help us just have a cushion at the industrial parent which enables us to be flexible and also participate in M&A that we plan on doing over the next 18 months. So I think that's a good move for flexibility and strengthening GE Capital.

The third piece is to take action to have a smaller more focused financial services business. One thing that's obviously been in investor minds is the size of our commercial real estate portfolio. We have a fantastic real estate portfolio. It's very high-quality. The delinquencies in the book are

0.27% of assets, so it's performing very well. But the size is something investors have expressed concern about and for us it's around \$90 billion today. We're going to take that down to below \$80 billion in 2009 and we're going to continue to remix the business.

We've put a significant amount of capital to work at very low loan to value debt, senior secured debt positions at great returns. I think that's been a tremendous thing for us to do, to take advantage of the market opportunities that we've seen this year. And we're going to continue to deemphasize equity. We are not underwriting originating new equity here; we're going to continue to downsize that as we bring this portfolio down under \$80 billion.

I mentioned we'll reduce the use of higher leverage products. I think we used as an example global mortgages on book. I think there's an opportunity here to do less of those and to create -- free up the capital based on the leverage to do more of the commercial finance activity that is in our core businesses.

So overall we're going to shrink the portfolio and change the mix. It's not going to be dramatic in terms of asset size. Basically we're going to take the total assets from somewhere around \$680 billion in '08 and it will probably be somewhere around \$650 billion in '09, but you're going to have a big positive mix impact while you also deemphasize the size of GE Capital. So this is a proactive approach we've taken. It makes GE even safer. Third quarter is fully funded and there was no long-term debt issuance required in the fourth quarter which is a nice strong statement about our cash flows and liquidity management.

How are we performing in this environment overall? It's obviously a preannouncement of the quarter. We'll go through all the details on the October 10th conference call, as Trevor said, but here are the themes. Industrial is delivering solid results. We continue to benefit from our global position. You're going to see the third-quarter orders; our estimates today are the long cycle are going to be over \$13 billion, up 10%. That's from incredibly high levels.

So we're going to continue to be building a backlog here at very high order levels. The services business is as strong as it's been -- \$9.2 billion of orders, up 14%, great double-digit, good growth across the board in the portfolio. And as you see, the flow business is down and really that's driven by appliances. We continue to experience very tough results in the C & I business and that's driven by the housing and the consumer obviously mostly in the US.

Third-quarter performance overall should be excellent with earnings up 10% to 15% and on the right side, if you look at the revised guidance, basically the pressure versus expectations here in financial services is driven by the market volatility. As we said, the last three weeks have been really challenging in capital markets. We love the opportunities that we put our capital to work at higher margins.

We're more than recovering any cost of funds increase in the business that we put out. As we said, through the second quarter we had about a 45 basis point positive spread over any change in funding rates in our commercial finance business and that has continued through the third quarter. I'll get the exact numbers as we close the books here.

We're going to have continued relative out performance and even with a tougher than expected environment we're going to earn over \$2 billion in our financial services business in the third quarter which is a terrific performance. And the other thing that you may not be aware of, the dispositions do provide us with a lot of flexibility. We closed our GE Money Japan transaction with Shinsei on September 22nd and we have \$5.4 billion of proceeds that went in the bank. And we expect to close the GE Money European asset sale with Santander shortly which will be about \$4 billion of net proceeds. So we're outperforming in a tough environment and we're taking the steps we need to maintain a safe profile.

Next is the revised framework for 2008. On the left side you can see with the revised guidance we expect the total company results to be about \$187 billion of revenue, about \$20 billion of net income and on an EPS range that converts to \$1.95 to \$2.10 a share. On the right side you can see the split for both the third quarter and the fourth quarter by our industrial businesses and our capital finance business. We do expect to see continued strong performance in the industrial businesses of 10% to 15% in the fourth quarter.

We expect to see continued pressure in the capital finance business, down about 25% in both quarters and then you can see what that does for the year and for the earnings range which I said. So our industrial businesses are driven by the business model. Global technology positions, great equipment backlogs and tremendous installed base that gives us a predictable high-margin service revenue.

On the financial services side we are going to see an impact -- continued impact from lower gains. Our real estate business is down, as we've said. We've previously guided that we'd about \$1.5 billion to \$1.7 billion of earnings in real estate. I would say that we're certainly tiering towards the low end of that guidance today. And we're going to have higher delinquencies, especially today we're seeing it in the consumer side, not so much in the commercial side, but we do expect that going forward. And as you have higher delinquencies we will put up higher provisions.

We do have some mark to market pressure in the third quarter and that's been a function of the capital markets and the volatility we've seen. And at the end of the day as you go forward we are going to be a little smaller and a little more focused. Not dramatic, as I said, but that will impact the earnings growth profile. So -- and then finally, C & I has been very tough. So we have reframed 2008 to reflect the current environment and the total year down to \$1.95 to \$2.10 based on that outlook.

So that was our view of 2008 and we're not going to give any guidance today on 2009. But I think we recognize that that is a key question that investors are asking, okay what does that mean for us as you go forward? I thought as we put this together the best way to do it was with a framework for how we're thinking about 2009 and the factors that we think are going to impact us.

So if you look at the industrial businesses, we think we're going to have continued strong growth. The global position we have, there's still an awful lot of infrastructure economic activity around the world based on commodities and demographics in emerging markets. We have a tremendous infrastructure backlog, over \$55 billion of equipment backlog, over \$120 billion of service backlog. And so we think with the strength in energy and oil and gas as the primary drivers here we expect to see double-digit results continue as we go forward.

And then for the financial businesses I think it's pretty clear that there are a number of factors here. I think lower assets more focused is probably a drag as you go forward. We certainly expect the credit cycle to continue to be challenging and, as we said, higher delinquencies result in higher loss provisions as you deal with the economic impact on your book. We're getting benefits from pricing and we're certainly going to have benefits from restructuring a cost out.

We haven't gone through our detailed business plans obviously, but I think these are the factors you ought to think about. And probably when you look at our range here that we look at a thought for '09 for financial services, you have to look that we'll have slightly tougher comparisons in the first half '09 versus the current amounts of earnings that we see in these businesses today.

So we're planning for a continued tough environment. I think while we're not giving any '09 guidance, this is the best view based on what we know today. And obviously we're going to talk more at the third-quarter call and into the fourth quarter as we prepare for the December outlook meeting.

The last thing I wanted to cover was a short topic, a couple comments about capital allocation. The benefit of the GE business model is we have really strong financial flexibility because we generate a lot of cash. If you look at our estimates today based on these revised forecasts, we're going to have over \$23 billion of cash from our net income and our working capital management programs and some small amount of dispositions. And that gives us the financial strength to protect our dividend to shareholders.

The Board has approved our plan to maintain the dividend at \$0.31 a share per quarter through 2009. As part of our capital strengthening we've suspended the buyback to both fund the financial services and build a cushion in industrial and that leaves us the ability to lower the leverage ratios in GE Capital while also being able to take advantage of M&A opportunities on the industrial side so we have more flexibility here. And our growth is funded.

We are able to do the capital expenditures we need in the industrial company which on a company of over \$100 billion of industrial revenue is very capital efficient and about \$3 billion to \$3.5 billion of plant and equipment. So our 2008 annual dividend remains at the \$1.24 and we continue to have really great financial flexibility driven by -- we've got tremendous industrial cash flow over top of the financial services businesses which have a very strong position. That protects our investor dividend while at the same time strengthening GE Capital. So let me turn it back to Jeff.

Jeff Immelt - General Electric - Chairman, CEO

Great, Keith, thanks. Just a couple thoughts as we conclude. The first one is on the portfolio. This is a very strong and valuable company with 50% of our earnings and really infrastructure type businesses, these are long cycle, product and service oriented, deep technology leadership, globally positioned, and I think as we head into the cycle that we're heading into now, these businesses give us very high visibility on success and what we can expect in the next few quarters and years.

Our media business, NBC Universal, which is 10% is highly diversified, more globalized, content based and I think, again, very well positioned in the cycle with some real excellent execution and leadership in that business as well. And 40% financial services with global origination,

diversified risk and deep domain. This is a business that we think will outperform in this cycle and be well positioned as the economy turns to provide good earnings growth.

So we really do like the way the Company looks. We think we are very well-positioned in this cycle. The industrial portfolio is solid. We're playing offense in financial services. We'll be smaller but more profitable and I think well positioned to capitalize on any market dislocations that can occur. So we like the way the Company looks.

Just to recap, revising third-quarter and total year guidance to reflect current financial services market conditions. I think what Keith described, we've never seen really a time of volatility like we've seen in the last month or so. But I think the fact that we're so committed to the dividend and have made that strong commitment I think shows you the immense confidence we have in the Company.

The industrial business' fundamentals remain strong, AAA-rated, global growth, infrastructure, huge backlogs of both product and service, strong free cash flow and great service revenues. The AAA is a key priority for GE. We've always said that we would manage this proactively. That's what we're doing now. That's confirmed by the rating agencies. It helps us have access to the capital markets. It lowers our borrowing costs. It's a validation for both equity and debt investors. And it really does sync up with our operating disciplines on how we run the Company.

So we believe we're doing what investors expect from a AAA-rated company. We're maintaining strong liquidity positions by reducing reliance on CP, strengthening balance sheet by reducing leverage and resizing financial services to about 40% of the Company's earnings. We're running the Company for the long-term and we feel like we've really positioned the Company to be successful in this cycle. So Trevor, let me turn it over to you and we'll take some questions.

Trevor Schauenberg - General Electric - VP Investor Communications

Great, that wraps up our presentation today. So Lauren, we'll turn it back over to you and prepare to take questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Jeff Sprague, Citigroup.

Jeff Sprague - Citigroup - Analyst

Good morning, everyone. I'm out of the office so I don't have the slides, so excuse me if this is on the slides. But it's unclear really what has driven the revision in GE Capital, whether it's the marks, whether it's the move on provision, whether it's a change in the tax rate. Can you give us any color on that? Obviously the quarter is not closed but those are some big swingers obviously in the results.

Keith Sherin - General Electric - CFO

Sure. On the charts we do try and lay that out without specific numbers on the changes from our previous guidance to today, Jeff. But in terms of categories, the largest category that is on the page we have mark to market pressure. We say it's \$300 million to \$500 million in net income pressure. I think that's the biggest change versus the previous expectations.

The categories that we're dealing with in there are mark to markets on equity securities and preferred positions we hold in companies that we're having to mark in the quarter. We also have some retained interest from our securitizations that we have to deal with on the mark in there. And then we have the warehouse where we have assets for sale, we have about a \$2.5 billion, \$3 billion warehouse and those get mark to market every quarter. So that's the biggest piece.

We do have some lower gains in the real estate business. Again, it's -- we have not closed the quarter and I don't have a number for real estate yet. It's going to have an impact we anticipate. And then the third category is higher provisions in the quarter as we have delinquencies in the GE

Money business principally. So those are the three things; we'll get the specific numbers, but the biggest piece would be the mark to market versus guidance.

Jeff Sprague - Citigroup - Analyst

So I guess given that this thing that we'll all struggle with is that the hit here in the quarter is really kind of associated with the market disruptions largely, still doesn't get into maybe what the credit cycle ultimately means for provisions and kind of questions of GE Capital tax rate and things like that.

Can you give us a sense of what you think kind of the provision ratio goes to over the course of the cycle? You characterize it as a normal credit cycle that feels somewhat abnormal obviously how tough things have got. But directionally any thought on where the provisions actually go?

Keith Sherin - General Electric - CFO

I don't have a specific number for you today. I think in the guidance that we're looking at, we're talking about continued pressure on losses in the next year period of another \$1 billion after-tax across the portfolio could be in those ranges that we talked about. So we're already seeing the credit pressure on the consumer side. I mean, you're running into levels that you're back to some of the worst economic periods we've had before in delinquencies.

And I think what we would anticipate is that you're going to see more pressure on the commercial side. We haven't seen it yet. We're seeing just slight up ticks in delinquencies here and there for specific industries. But I think our expectation is that for 2009 for planning based on this environment is you're probably going to have additional pressure on the commercial side and we -- our forecasting obviously has not been good.

The way we've come up with the framework for you to think about it though is if you look at what our actual earnings are on a dollar basis in the second, third and I'll show you a range for the fourth quarter, I don't know why those would be -- I've given you the factors of the pluses and minuses, I think you've got to start with that run rate of where we are today to look going forward and be able to kind of predict what you think it's going to be. And I think we're going to have higher provisions and that's the kind of magnitude I think we're going to be seeing.

Jeff Sprague - Citigroup - Analyst

And then just finally, Jeff, is the idea of any new equity still off the table? Someone like a Mubadala all of a sudden does some new equity as opposed to buying the stock in the new market. Is that type of thing open for discussion in any type of permutation -- maybe not just them but others?

Jeff Immelt - General Electric - Chairman, CEO

Jeff, we just don't see it right now. Again, we feel very secure about how the funding looks and strength of the Company and the strength of the balance sheet. Cash flows are great liquidity profile has been strong, is now stronger. Leverage is better. And so we really believe in our business model and feel kind of secure that we're well-positioned here.

Jeff Sprague - Citigroup - Analyst

Great. Thanks a lot.

Operator

Deane Dray, Goldman Sachs.

Deane Dray - Goldman Sachs - Analyst

Thank you, good morning. I just want to follow up on Jeff's first question and the idea is if we've got a \$0.05 range for the third quarter -- \$0.43 to \$0.48 -- could you just give us a sense of what assumptions you're making that you would hit the low end of the range versus the high end of the range? We got a week ago in the quarter, I know that a lot of transactions are pending, but just to give us a sense of what might take you to either the higher or lower end.

Keith Sherin - General Electric - CFO

I think the higher end of the range comes from actually closing all the transactions that are currently in process and not having any surprises in mark to markets in the close or at the end of the quarter. The low end of the range says -- nothing that we're contemplating in the next couple of days and also has a little room for any volatility, the unforeseen volatility that we don't expect in the close.

So we have a significant amount of real estate transactions still to go. We have to see what equity markets do. They create volatility in the mark to markets on that portfolio. And we go through, we actually don't do our marks on -- whether it's commodities or some currency issues in the Company, that they don't get done until after you get through the end of the quarter.

So I think we try to give ourselves protection against nothing happening that we think is going to happen in the next couple of days and an unforeseen thing happening over the weekend and in next week as we consolidate close. That's why we've put the range together the way we did it, Deane.

Deane Dray - Goldman Sachs - Analyst

Great. And then just to clarify on the funding outlook near-term, that was clear that you don't need any further funding in 2008. I guess 10 days ago you had said you had done \$70 billion of an expected \$80 billion. How about the idea of a pre-funding some of the obligations in 2009 and how aggressive might you be over the near-term?

Keith Sherin - General Electric - CFO

You know, that's a great question. I think right now what we've planned on for 2008 is that we do not need to do any long-term debt based on what we have here and I think that is a prudent way to think about it because of some of the choppiness in the debt markets.

For 2009, we built this plan, we have \$67 billion of long-term debt maturities in GE Capital next year and the base plan is built on being able to redo about \$60 billion of that. If things are a little worse we can manage our collections and originations and do significantly less than that. And if things are better we wouldn't anticipate going above the \$60 billion right now because that's in balance for us right now on being able to bring our CP down to that 15%, 10% to 15% range and also not needing to even issue all the same amount of debt as what matures next year.

So I think we've got a conservative plan we've put together here and we're prepared. If it were tougher in the long-term debt markets we don't need to do anywhere near that amount in next year if we had to.

Deane Dray - Goldman Sachs - Analyst

Great. Thank you.

Operator

John Inch, Merrill Lynch.

John Inch - Merrill Lynch - Analyst

Thank you, good morning. So I'm just wondering in the short term, Keith, are you guys going to be tapping any of your backstop. I think you've got about \$62 billion of bank lending facilities. Does any of that get tapped based on the disruption in the CP market?

Keith Sherin - General Electric - CFO

Absolutely not. If you look -- how do we run the place? We've got a commercial paper program that's broad and deep. The commercial paper market is \$1.6 trillion and if you look at our 61 day maturities you really don't have any near-term pressure of any magnitude. We have about \$15 billion of cash liquidity that we keep in GE Capital and that you can see on the balance sheet at the end of the second quarter. We have over \$20 billion of marketable securities with a significant piece of that pool that we can obviously repo if necessary.

We have tremendous collections flexibility here; we have \$120 billion of committed maturities in the next 12 months out of our loans and leases. And finally, we have \$650 billion of assets and we have securitization platforms on every single asset class -- real estate, aircraft, commercial loans and leases, credit cards -- and that's not a source of liquidity today but obviously if that had to be you could do that.

So -- and then finally, as you mentioned, we do have \$62 billion of bank lines. We have over 700 -- over 70 institutions in there, they're all AA or better. They're no MAC clauses, but we absolutely do not have any anticipation that we would be using those.

John Inch - Merrill Lynch - Analyst

I think Keith, if you look at provisions within commercial finance, can you remind us again where they are today as a percent of loans and if you were to, say, look at prior recessions? I mean where would they have to go based on sort of that assessment or analysis? And maybe what's different about the commercial book versus other recessions?

Keith Sherin - General Electric - CFO

I'm going to defer that to the earnings call because I don't have the provision numbers for the third quarter. We don't have the balance sheet and I just -- I've got to defer that if I can, John. And I'll tell you what, we will cover it on the earnings call for sure on the 10th.

John Inch - Merrill Lynch - Analyst

Sure. That's fine. Then just maybe (multiple speakers).

Keith Sherin - General Electric - CFO

I just want to give you good data.

John Inch - Merrill Lynch - Analyst

No, I understand. Just lastly, maybe a question for Jeff. I mean, have you -- have the circumstances, Jeff, caused you to perhaps rethink or consider the prospect of spinning out GE Capital or would it just be just too complicated a transaction or how are you thinking about that?

Jeff Immelt - General Electric - Chairman, CEO

John, look, there's clearly a lot going on in the financial markets and stuff like that, but I think if you step back, there's always going to be a place for a very disciplined and well run financial company which is what GE Capital is. We have excellent cost of funds. We have 10,000 originators. We originate to our own balance sheet.

Through this cycle that has -- where banks and investment banks have written off more than \$500 billion, we haven't had exposure to any of these things. And so fundamentally we're going to through ups and downs and we think that AAA is incredibly important. But we believe that the structure of GE Capital remains very strong and at the end of the day earning \$9 billion in financial services this year is a pretty good proof statement of that.

Keith Sherin - General Electric - CFO

I think we're at a period here where financial services obviously isn't in vogue, but it's such a substantial part of this economy and the global economy and it's going to come back and people need access to capital and we provide that. And I think we've got competitively advantaged positions and this cycle isn't going to last forever. I think this is a hell of a set of businesses with good competitive positions.

John Inch - Merrill Lynch - Analyst

Great. Thanks very much.

Operator

Nicole Parent, Credit Suisse.

Nicole Parent - Credit Suisse - Analyst

Good morning. I guess first, Keith, I just wanted to clarify the \$300 million to \$500 million in mark to market pressure, that's over and above the \$270 million that you booked in the first quarter?

Keith Sherin - General Electric - CFO

Yes, they're different periods and different marks. Yes.

Nicole Parent - Credit Suisse - Analyst

Got it. With respect to the preferred positions that you mentioned in response to Jeff's question, we still have FGIC preferred sitting out there. Should we expect an impairment charge to come in the third-quarter?

Keith Sherin - General Electric - CFO

That's possible.

Nicole Parent - Credit Suisse - Analyst

Okay. And I guess do we have any color in terms of where nonperformers are up, delinquencies and then maybe comparisons between US versus international and what your view is for the international markets given the spillover from the US?

Keith Sherin - General Electric - CFO

We'll give you all that at the earnings call. Again, I don't have that as we haven't even closed yet. But what we're seeing is we're seeing a continued up tick in the delinquencies on the consumer side and a slight up tick on the commercial side. On the global side it's in the secured mortgages on the money portfolio as the themes of what you're going to see in the next two weeks.

Nicole Parent - Credit Suisse - Analyst

Okay. And any update or should we wait for the quarter in terms of investment securities with CMBS investment securities by monoline just unrealized losses?

Keith Sherin - General Electric - CFO

Yes, I'd wait until the quarter. I don't have those yet. I don't think there's been a dramatic change on that line, but I'd wait until the quarter. I do not have those marks yet, Nicole.

Nicole Parent - *Credit Suisse - Analyst*

Okay. And one last one big picture. I thought it was interesting, you talk about resizing GE to be that back to 60/40 industrial/financial. Given the C & I either spin or sale, modest asset sales, could you maybe update us when you think about timing and private label credit card, timing of C & I? What else might be on that list? Because I think when you articulated the asset movement '08 to '09 it didn't seem that huge.

Keith Sherin - *General Electric - CFO*

Well, you're right. I think right now we're still working on a C & I spin. We said that would be in the first half of next year. We don't have any change to that. On PLCC, clearly we said in the second-quarter call that it was a challenging environment to find someone who wanted to take responsibility for -- there's over \$30 billion of assets in the private label credit card. That hasn't gotten any better in the last three weeks I can tell you.

So our plan is based on we're going to run that. We have the ability to run it. It is a good business and over time we're looking at other options. But I think that right now we don't anticipate that we would be selling that to one party in one transaction.

I think there may be other ways for us to downsize it and combine it with our retail sales finance business and run it as we go forward here until you get to a different period where someone may have more capacity to be able to take some of those books, take the whole portfolio possibly. So our plan is build on continuing to have PLCC right now and we're still looking at our options.

Nicole Parent - *Credit Suisse - Analyst*

Okay, great. Thank you.

Operator

Bob Cornell, Barclays Capital.

Bob Cornell - *Barclays Capital - Analyst*

Yes, Barclays Capital.

Keith Sherin - *General Electric - CFO*

Good morning, Bob.

Bob Cornell - *Barclays Capital - Analyst*

Yes, I'm glad to be here. When you went through the difference between the guidance and -- the new guidance to the prior guidance, I mean you touched on the marks and the provisions and so forth, lower real estate gains. You didn't mention much in the way off differential prospect on the industrial side. You know so how much of the revised guidance is financial services related and how much, you mentioned C & I obviously, but how much of the difference in guidance is industrial?

Keith Sherin - *General Electric - CFO*

I think this is substantially all financial services. C & I is a pressure point, certainly on the industrial ex C & I. We're pretty close to the ranges of what we gave you before. This is a story about financial services taking us out of our previous range.

Jeff Immelt - General Electric - Chairman, CEO

And I would say, Bob, if you just look at the order rates we're expecting in the infrastructure businesses in Q3 off of some fairly substantial growth in the past, to have service orders up double-digit and equipment orders up double-digit says there's still decent strength there.

Bob Cornell - Barclays Capital - Analyst

That's good. The other question I had is you gave a pretty broad range of capital finance for next year. I understand that the quarter isn't closed yet. I heard the comment about you haven't put the marks to bed fully yet. But I mean, you have a pretty broad range of down 10, down 30. I mean, maybe you could go in a little more color with regard to just the thinking around that range.

You don't have on the list of impact factors further mark to markets. I mean you've -- or will have had this year somewhere in the \$600 million to \$700 million this year. So maybe just a little more of the thinking, understanding that is preliminary with more to come.

Keith Sherin - General Electric - CFO

Well, I'll go through the factors again I guess. I think the starting point that -- if I were a financial analyst looking at these results I'd say what are the actuals that this business is delivering today and we're somewhere around \$2 billion of earnings. And that does include some pressure from mark to markets. I don't think all those repeat, but I don't think it would be prudent for us to plan 2009 without having some room for mark to markets or impairments.

Clearly I think on a credit cycle basis you're going to have additional pressure. We're planning for higher provisions and we're expecting higher delinquencies. Based on the outlook we see I think that's a prudent thing for us to be doing. I think in terms of the shrinking and downsizing a little of GE Capital, I think that does have some impact on earnings. As I said, in terms of absolute dollars it's not dramatic, but you're probably going to see a mix shift from some of the global consumer higher leverage assets into some of the more commercial core assets.

And then finally, you're going to get a benefit from the pricing on the new business that we put in. In terms of the swing that's probably still being pressured by the runoff of very high-margin business on a five-year average portfolio duration across the capital assets. We're still seeing an offset to some of that pricing from runoff of high-volume business that gets to the end of its term.

Then you've got a benefit from restructuring a cost out which we haven't finalized in any way, shape or form. So I start with what are the actual earnings of this business today and what are these factors. I look at the first half of 2008.

It obviously wasn't perfect, but it was at higher levels than what we're seeing today and that's how you end up with if things are better -- right now basically this would -- at the low end of the range you'd assume you didn't sell any real estate. At the high end of the range you'd assume you had capital markets open up again and you were able to sell real estate properties at a gain. You know low-end to high-end is a difference in how do you feel about the economy and the credit cycle. I think that gives you a pretty broad range.

So those are the factors today, Bob. I think we're preannouncing the third quarter. We haven't gone through any of our normal planning cycle for the business commitments for next year, but obviously clearly we spend a lot of time with Mike Neal and his team to kind of put together what we see as the framework for the environment we see today.

Bob Cornell - Barclays Capital - Analyst

Okay, I think I get it. Thanks very much, Keith.

Operator

(Operator Instructions). Christopher Glynn, Oppenheimer.

Christopher Glynn - Oppenheimer - Analyst

Thanks, good morning. Just maybe a comment on what specifically the change at the margin is lately in the originations front. And what are you telling your team of 10,000 originators out there?

Keith Sherin - General Electric - CFO

That's a great question. Today we continue to see in the commercial side around 40 basis points improvement on the net margin over the cost of funds. We have done a lot of pricing across the businesses through the second quarter and into the third quarter. We're telling our originators that the asset growth is up 18% through the second quarter on a business that has its own generated capital to probably grow about 12%.

That we've done tremendous deals. We've taken advantage of the marketplace. We were able to close Citi Capital deal, and the Merrill Lynch deal. And that we're going to make sure we're self-funded through the rest of the year. We're prioritizing the core leases and loans, as I said, the verticals and we're deemphasizing some of the higher leverage products like global mortgages.

We're being very targeted with our underwriters. We have a lot of great long-term customer relationships and we are in business. We're going to underwrite and originate over \$40 billion in the fourth quarter and we're just going to be very focused about how we do it and we're going to make sure that we're getting a good return on every dollar of capital we put out.

Christopher Glynn - Oppenheimer - Analyst

Great, thanks. And then on the framework front, that was really helpful for '09, just from what you see here of very loose answer is fine, but some of the frameworks into 2010 in terms of the timing of the runoff of the volume business and the higher spread business assuming that things return to normal on the macro level.

Jeff Immelt - General Electric - Chairman, CEO

You know, Chris, I think it's -- looking out there, you've got to like our industrial businesses. With big backlogs, strong competitive positions, well positioned globally -- I think you think about the Company in '10 which is really just infrastructure and media, and then look, financial services is going to return at some point and if history is a framework for the future, typically as these things evolve financial services comes back in a very robust way and we'll have the opportunity to play in some distressed deals and things like that and that ought to be good when you look to the future.

Again, I think the nature of the question is we run the Company for the long term, we run the Company to play through these cycles, we run the Company to be able to be safe and secure and we think that's what we're all about.

Christopher Glynn - Oppenheimer - Analyst

Okay, thanks a lot.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - JPMorgan - Analyst

Hi, good morning. Sorry, I missed a little bit of the call. Sorry if you went through this. I'm wondering, is there anything technical that keeps you guys from splitting up these businesses and getting rid of a larger percentage of GE Capital and not just in tax leakage and that kind of value I guess [destruction]. But is there anything technical here that wouldn't allow GE Capital to run on its own as a standalone entity?

Keith Sherin - General Electric - CFO

I think technically obviously that's a transaction that you could probably put together. I think it would be tremendously complex and take a significant amount of time, but I don't think there's any technical impediment. I think you've got to think realistically about the state of the capital markets, the amount of capital required to have that business operate on its own, and just generally the complexity of doing something like that.

But I think we go back to strategy I think, Steve, first which, as Jeff said, we've got competitively advantaged positions, significant positions in sectors of the financial services industry that are very strong and we like them. I mean I think these are businesses you want us to be in and we're going to continue to provide capital to those businesses.

And financial services is not going to be out of favor forever. It's a significant part of the economy and we've just got to work our way from here to there. So I don't think the answer is there's anything really technical. I would say it would be one of the most complicated things I could imagine doing and it's not something we're working on.

Steve Tusa - JPMorgan - Analyst

Right. Okay, and then resizing the financial services business to 40%. I don't know if you gave specifics around that. Is that just because it's not growing or it's declining? What -- or is there something else, some other transaction explicit in moving that percentage down?

Keith Sherin - General Electric - CFO

No, we're not counting on some sale or something. I think if you just do the math, we continue to have very strong industrial earnings growth and the forecast that we have for financial, unfortunately we're getting to the 60/40 based on financial becoming a smaller part because of its earnings profile not because we have sold some big piece for anything like that. I think it's a better place for us to be strategically, but it's not based on some assumption of any disposition that would materially change the GECS profile.

Steve Tusa - JPMorgan - Analyst

And then one last question and I'm -- again, I'm sorry if you already mentioned this. But maybe if you gave a little more specifics around provisioning. And if you already mentioned it just let me know and I'll pick it up on the transcripts. But what are you guys assuming for kind of a year-over-year increase in provisioning for this year and then how do we think about that, the dynamics in provisioning for next year?

Keith Sherin - General Electric - CFO

I mentioned some factors about it, but I think we've deferred most of that to the earnings call, Steve. And I think we'll give you a good view of where we are in the businesses and what previous ranges are based on other economic cycles and delinquencies and what the range could be. And we've tried to assume in our range that we showed you in our framework for '09 that we've got quite a spread there based on things staying the way they are or things getting worse.

Steve Tusa - JPMorgan - Analyst

Okay, great. And the private label credit card -- one more question. Private label credit card is that in the guidance or is that out of the guidance?

Keith Sherin - General Electric - CFO

It is in the guidance. We did mention that right now our plan assumes that we're going to continue to run that. We are still looking at some strategic options, but it's in the guidance that we're going to run that.

Steve Tusa - JPMorgan - Analyst

Sep. 25. 2008 / 8:30AM ET, GE - GE Revises 2008 Guidance Conference Call

Okay, thanks a lot for the detail. I appreciate it.

Operator

There are no further questions at this time. Mr. Schauenberg do you have any additional remarks?

Trevor Schauenberg - General Electric - VP Investor Communications

Yes, Lauren. Thank you. I am glad we were able to cover everyone's questions at this time. I'd like to thank everyone for their time today and remind you that the materials will be available on our site all day. The replay will be available this afternoon. And as always, JoAnna and I will be available to take your questions. Thank you.

Operator

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

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