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Conference Call Transcript

GE - GE Annual Outlook Investor Meeting

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"Effective January 1, 2010, we reorganized our segments. We have reclassified prior-period amounts to conform to the current-period's presentation."

"In this document, "GE" refers to the Industrial businesses of the Company including GECS on an equity basis. "GE (ex. GECS)" and/or "Industrial" refer to GE excluding Financial Services."

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Jeff Immelt

General Electric Co. - Chairman, CEO

PRESENTATION

Trevor Schauenberg - General Electric Co. - VP - Corporate Investor Communications

Good afternoon, and welcome, everyone to our Annual GE Outlook Meeting. Today's meeting is being webcast and will be replayed on our website later after the session. Also for the materials for the people on the phone and in the webcast today, it can be found on our website at www.ge.com/investor.

We will have time for a Q&A obviously at the end, and because it's a big room if you could raise your hand we'll have someone bring a microphone to you so we can capture it for the webcast, that would be great.

We also have a reception planned afterwards where Jeff and our Vice Chairman and several members from our GE Capital leadership team will be available to mix and mingle with you, so please join us for that.

And as I have to also say, elements of this presentation are forward-looking and based on the world as we see it. The world can change, as you can know, and those elements can change. Please, interpret them in that light.

We're really excited to get started, so I'd like to introduce our Chairman and CEO, Jeff Immelt.

Jeff Immelt - General Electric Co. - Chairman, CEO

Thanks, Trevor.

Trevor Schauenberg - General Electric Co. - VP - Corporate Investor Communications

Yes.

Jeff Immelt - General Electric Co. - Chairman, CEO

Good afternoon, everybody. Let's just dig right in. So, we're prepared to deal with a multi-speed world with more volatility, but things are definitely getting better. And we see it across the portfolio right now.

We'll deliver good earnings in '10, '11, '12. We'll have a good fourth quarter. Capital is bouncing back. Industrial will have positive earnings growth in 2011. We see acceleration into '12. We're going to eliminate some long-tail uncertainties as we finish this year.

Industrial organic growth returns in 2011, really based on some significant investments we've made over a long period of time in NPI and service and global growth.

We'll always report GAAP earnings, but we're going to begin also reporting what we call operating earnings, which will have the cost of pension but exclude non-operating pension expense as a primary way to frame the Company. We think is a way to simplify the Company going forward in giving you some specific data points on pension and how to think about it as we go forward with the Company.

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And lastly, the Company has just got a lot of free cash, a lot of cash availability, which gives us a lot of good strategic options to increase the dividend, try to buy back. Of course, we're going to retire the Buffett-preferred, do small bolt-on acquisitions while growing return on total capital. So, it's a good way to frame the Company as we think about how we're positioned today.

The big macro themes, emerging markets growing faster than developed markets, government intersection, more volatility, a real need to drive customer productivity, is a time when brand and reputation really matter.

I'd say two years ago, we were talking about resetting the Company, repositioning GE Capital, preserving cash. Last year, I talked about renewing the Company, simplifying the portfolio, accumulating cash, investing in growth. Today, I'm here to talk about growing the Company.

I think it's GE back on offense. We see a tremendous capital franchise, accelerating industrial growth and innovation and lots of financial flexibility to create long-term shareowner value. So, it's more fun to be here today than it was two years ago, and we're looking forward to the next few years at GE.

Here's how we're going to finish the year. We're going to have a good fourth quarter. We'll see positive growth in Industrial. We'll see -- you heard Mike and team last week. We'll have good growth from a Capital standpoint. NBCU will see good growth in the quarter.

Cash flows on expectations at the high end of our initial range, we've got some items in the fourth quarter that I'll go through that -- some specific gains and offsets there. But, the performance is strengthening in the fourth quarter, and we see good momentum as we think about going into 2011 and beyond.

Here is some of the items that are going to take place in Q4. We're going to get a big pretax gain on NBC Universal, a small after-tax gain, and we'll have some tax settlements. And we'll have a gain in discontinued operations on the BAC transaction.

Offsetting that, we're going to take really the dredging of the Hudson Phase II really off the table when looking at the future financially, so we're just going to eliminate that as a potential long-tail head wind from our -- for our investors from a financial standpoint. We're going to do some restructuring and other charges and a few Capital business exits in discontinued operations.

So, we'll do all this with no change to our outlook. The charges were mostly offset by gains. We really think during the year with Grey Zone and the Hudson we really have eliminated some of the long-tail risk items for investors, and we're continuing to invest to improve 2011 and beyond.

So here are some big items, and JoAnna and Trevor and the rest of us can fill in some of the blanks. But, we're really happy to be able to put a lot of this stuff behind us and continue to invest in the Company.

So now, that's just kind of a little bit on fourth quarter and an update, maybe just go through the strategic outlook for the Company and then the financials. It's a great portfolio. We are really a much simpler company, a great set of infrastructure franchises, a very strong specialty finance business.

We think the two work together to position ourselves to drive long-term growth and win in some of the big emerging growth items with technology and services. We've got some real competitive advantage in technology, leadership franchises.

We execute on the big themes, so performance culture, and we're very well strategically positioned for the world of today, big emerging market position, huge installed base, high margins, high returns and lots of available cash. So, I'd have to say this is the best portfolio I've had since I've been CEO of the Company, and we're quite excited about the prospects for GE going forward.

Just to bring it to life, just because I think sometimes we lose sight. The Company is a vertical company and a horizontal company. We have great businesses, and we run them from a standpoint of an enterprise.

This is a typical GE infrastructure business, Aviation. It's about \$18 billion in revenue. It's got high margins. It generates a lot of free cash flow. It's got return on total capital in excess of 20%.

It's a market leader. It's got a huge installed base. It plays in every great market. They've got adjacencies that we're investing in. We've got a low-cost supply chain. We're diversified, and we're always well positioned in those things that are happening next.

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I just show the new Chinese narrow-body aircraft. 20% of this aircraft will be GE content. So, we're comprised of a series of just really great competitively advantaged businesses with big [boats], and Aviation is a good example of that activity.

And then, we run them as an enterprise. So, we can spread best practices in areas like technology. We've got a great Global Research center. We can leverage material technology on a global basis. We've got lots of engineers that share ideas.

We can play the emerging market game from a company-to-country standpoint. Just think about Brazil in the last 30 or 60 days, announced a Global Research Center, announced the Wellstream deal, which positions us in the Brazilian market, announced manufacturing capabilities in the country. That puts us in position to get all the big orders in a country, and we connect the dots very well for the Company as we go into these regions.

Deep relationships, we've got a big backlog of customized service agreements. This is just a way to have tremendous interface with the Southwest Airlines and the big customers around the world and then a way to share best practices.

We still invest \$1 billion here in training and education. We share best practices around Lean and Six Sigma. So from an investor's standpoint, all of these things add not just to good organic growth but good margins and returns that exceed our competition. And that's GE, great business, well run, operating excellence across the portfolio.

Strategically, I think about the Company really with some guideposts of process excellence with capital allocation, enterprise risk management, what I call a GE advantage, which is Lean and Six Sigma and things like that and leadership development.

This is kind of the framework of the Company as we think about how do we run it well, how we do operate with excellence in the future, and then really six growth imperatives.

One, lead in technology; two, really leverage that technology in terms of having great service revenue; three, build out leadership in the key growth markets around the world; four, expand the core of the Company and -- through infrastructure adjacencies; five, run a very good and disciplined and valuable specialty finance business; and six, solve problems for customers in society.

These are the six big growth drivers that we're executing on on the side of the Company, and what I'll do is go through each one of these growth drivers and then talk a little bit about the processes that weave them together and the ways that we drive good margins and returns for the long term.

Technology, we've really through the crisis continued to reinvest in R&D. And so, when we sit here and do the operating plan for 2011, we've got another almost \$1 billion in R&D. And then above that, we're -- we've got customer-funded R&D.

We'll be spending at about 5% to 6% of revenue, and what this is producing is a broad and deep pipeline of new products that are going to allow us and position us to gain share and still have great margins, executing technologies that are better than our competitors.

Being able to do what I call reverse innovation, which is more products and more price points, we can now deliver products at value price points with 50% and 60% contribution margins, which is something the Company couldn't do five or ten years ago, and just lower costs and higher margins.

And we really just want to lead in technology during this cycle and during this opportunity, and this is discretionary funds. We measure it just like we do capital in terms of what the return of the R&D spending is, and we just think we position the Company to do quite well technically in this cycle.

Energy is just a place where we've just got tremendous diversity of technology. We'll launch significant new products in the last 2 years, even more going forward. We've dramatically diversified our power generation product line and distributed it into energy and wind and oil and gas. Next year, we'll launch new large-frame gas turbines, more distributed energy, more service products.

And then, the bottom line is we'll have \$3 billion to \$4 billion of orders over this time period with these new products. We've got 15,000 engineers. We've got a big spend, lots of patents.

And if you think about how our Energy business -- if you go back to 2000, the vast majority of the earnings we had in our Energy business was selling heavy-duty gas turbines in one region, the United States.

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Now we've got multiple products, multiple regions. We're going to go through this cycle much stronger than any other time in our history, and it's mainly driven by the diversification in technology we've driven in Energy.

Aviation, we've got launches in the GENx engine, the LEAP-X, which will go into the narrow-body, new avionics products. What we've basically said is that in 2011 and 2012 we see a heavier investment period, both in terms of NPI spending and launch costs.

What I would say is it's going to no worse than this. There's -- what I want you to get a sense for is how I'm running the place, but we're working to get this \$1.5 billion down every day. We've got mechanisms and ways we think we can do that, but it'll be no worse than this as look forward.

And this just encompasses the technology that's moving through the system and all that fuels this massive installed base, more than 24,000 units in the installed base and embedded service revenues of \$250 billion. Make no mistake. We are winning big in Aviation and we will win big through this cycle, and this helps us get there.

And in Healthcare, it's just a -- it's really a technical density game in many ways. We're kind of -- we continue to fund what's next in core diagnostic imaging. And that's molecular imaging, and the Clariant acquisition kind of feeds into that in terms of being able to marry medical diagnostics and imaging for good growth in the future.

We're opening up new segments with extremity MRs and portable ultrasound products. We're launching a product next year in digital pathology, which I think opens up pathology as a new front for the Company from a standpoint of IT and imaging and what we can do.

We've got a great line-up of low-cost products, what we call Brivo products that are being developed in the emerging markets to fuel a lot of the great growth we're going to see in the emerging markets.

We -- we'll launch the Intel home health joint venture in January. This gives us a chance to compete with Philips and the other players in the home health market, and we'll have the lowest OCT in the market next year, 75% reduction in dose, which is going to open up a huge installed base from a CT standpoint. So, the number of NPIs is increasing in our Healthcare business and, again, we think this bodes well for long-term growth in this segment.

Now, all that technology fuels services. We should see organically good, solid 5% to 10% organic growth in service next year with good margin rates, and I think this crisis has been a pretty good proof statement for our service franchise.

If you look at our Industrial earnings between 2007 and 2010, they grew 1%. If you compare to those to our key industrial peers, they've been down 15%. This is really about service as you go through the cycle. I mean we've always talked about this as a concept. I think we've been able to see it in reality, that this just adds stability and robustness to our franchise.

We've got a good installed base. We're aligning with customer productivity. We've got software initiatives we're driving inside the Company, and we really want to drive both our customer performance and our profitability through more investments in the analytics and software. So, we'd see that as a big advantage in our software -- in our services business going forward.

This is just kind of the dimensions and the tail of tape in service. It's -- we've multiplied the installed base of units. Our CSAs have gone from less than \$50 billion ten years ago to \$130 billion today. 30% of our earnings in 2000 were in service. They'll be 70% or greater today, so this shows you the dimensions and the power that the service business has.

We know how to drive profitability for both our customers and ourselves. We have good repair technology. We deliver customer value, repair efficiency product quality. When you do these CSAs, you have to be really good at risk management, so this is the power of what we're doing in terms of the services.

And when we have these customized service agreements, they're just win/wins for GE and for the customer. From a customer standpoint, it gives them productivity and reliability. From a GE standpoint, we know how to drive long-term productivity, and that's why we're able to drive margin rates up over time. So, this is just one of the really important offerings that the Company has going forward.

You've heard me talk in the past about the investments we're making in software. GE, our infrastructure software business, which is really kind of smart grid, healthcare information technology, Movement Planner in our Transportation business, some of the Avionics products that we've got, is about \$4 billion today. This would make us the fourteenth biggest software company.

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We continue to make investments here because this is how you drive customer productivity. But in the lower right-hand side of the chart, we're also investing in analytics and more sensors. I mean we literally get terabytes of data off the jet engines that we have up there, and that's driving more predictive analysis and more proactive repairs and service.

And this is how you unlock the next generation of productivity from a standpoint of our service business vis-a-vis how we can do a better job of working with our customers and drive it forward in the future. So, technology is key. Services is a great way to help monetize and create more robustness and stability in our earnings stream.

We do it all over the world. This just shows you our Industrial growth market revenue, and we've backed NBC out of these numbers. So, we've been growing our -- kind of emerging in growth markets about 10% a year. We see that continuing and some countries actually accelerating as we look at 2011 and 2012.

We really are kind of doubling down in a lot of these growth markets. John Rice, moving John to Hong Kong is a way for us to reposition our decision-making in our organization on a global basis. We think that's an important move.

This is really -- you know, playing in a lot of these markets is a big company game, and so we're quite comfortable and we're able to use the breadth of the Company to our advantage.

We've got a segmented strategy for China I'll go through here in a second, and we really use the global supply chain as a way to drive good profitability and low cost. So, globalization remains extremely important for the Company.

We kind of segment the growth markets into what I call resource-rich markets and rising Asia, because this is the way that the markets tend to behave and this is the way that our technologies tend to line up.

The resource-rich margins or resource-rich countries are about two-thirds of our revenue in these targeted growth markets, and it should grow 10% to 15% next year. We see a -- good opportunities in the Middle East and Turkey. Africa should be flat to up slightly next year. Canada, with a lot of the investments around things like oil sands is just -- you know, Calgary is a big GE town and a big GE market.

We've got some good opportunities in Russia next. Russia is going to reframe and reinvest in their electricity grid. It's the least efficient electricity grid in the world. We see some good opportunities there.

Latin America, Brazil is extremely exciting, but there's other countries in Latin America that are quite good. And Australia is just a boomtown for us right now in terms of all the oil and gas and energy, so these are the things we're doing there.

China, we see some excellent growth in China in 2011. India has just blossomed in the last year, and we see good momentum continuing into the following year. And then, the Ocean countries are a mixture of different opportunities for us.

So, what you see up here on -- in terms of the Company to country is just a lot of localization effort of manufacturing and marketing, doing a lot of local partnerships to make us more a part of the indigenous investment scene inside these countries for -- a particular focus on Africa is a way, we think, to drive incremental growth. So, we're quite encouraged about our position and where we can go in these countries.

China, we've grown roughly 20 on average a year over the last decade. We'll grow high double digits next year in China. But there's no one strategy in China, and I always tell people we have a nuanced strategy in China.

We do inside the Company a little four-blocker that really says, "What's the strategic industry inside China," and then, "What's the local capability inside China," to kind of plot our way.

Healthcare is -- not been designated by the government that they're going to create national champions, but they're investing a lot in healthcare in China. There's not really well established local Chinese -- we're as good or bigger or better than anybody. We're bigger and better than Mindray in China and all the other people that are over there.

And we can just pour it on in healthcare in China. This is going to grow. We're going to invest. We're going to localize. We're going to have a tremendous presence in China there.

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Source in wind, home and business solutions, you can source LED lighting on just about any street corner you want in China. You can sell it through distribution. You could build incremental presence in China if that's where you want to go. That's not super strategic for us, but we'll go there. All the financial service opportunities in China require partnerships of some kind.

And then, we're going to partner with state-owned enterprises in place like the rail industry, transmission and distribution. We've got some big ventures we announced when I was over there, with State Grid, the biggest utility in the world. And you're going to do a lot of partners with state-owned enterprises.

And then if you go to the bottom right, this is going to be the biggest commercial aviation market in the world. The question; is it five years or ten years, but I can say with great certainty and we want to be on the ground, well positioned to win in aviation. So it's not one strategy, but it's a lot of multiples of strategies in China. But, GE's positioned to win as we look forward in the future.

And then, supply chain is really important to continue to invest in manufacturing and cost, and I think across our portfolio we're smart about how to do this. It starts in the US where we've made investments to be an exporter from the US, and we'll be in every point in time one of the top five exporters from this country. That's a good place to be in terms of what's desired and how to drive economic growth. And we've invested in manufacturing in the US, and we're proud of that.

At the same time, we continue to drive low cost. Our Energy team opened up a factory in Vietnam this year that's going to be very low-cost and going to make us competitive in the region.

And then the last phase of how we drive the supply chain is, is there's nothing better to market with than a factory with jobs. And so, we continue to localize our service operations in some local assembly, and in the last year we've opened up Dammam in Saudi Arabia and in Perth in Australia to give us a local presence.

So, we kind of play all sides of the manufacturing piece. But, we like to have a real sense of our supply chain. We like -- we are still deverticalized, but we like to know where our costs are. We like to really know where every job is, how to use it strategically for either cost or marketing, and I think we've been pretty gosh-darn effective as you think about how we've positioned so good products, good services, well positioned globally.

And then, the next phase of the growth strategy is to continue to reinvest in the -- expanding the core of the Company and continuing to focus on infrastructure adjacencies.

We want to continue to grow what we're good at, but we want to stay relatively close to our competency. In the last ten years, we've really generated what I would say \$20 billion of new businesses that are in some form of growth, and these are in areas like oil and gas and avionics and life sciences and water, healthcare information and technology. And we need to continue to do that, because some of the core business erodes and we need to be adding to the future growth opportunities.

And then, we've got another set of businesses. I showed you this at EPG, and this continues to be our project list. And we do some of these organically. We do some of them inorganically. But we kind of have a point of view, a philosophy with respect to how we try to grow these adjacencies.

I'd say what we try to do is diversify in markets we know. So, when you're in the energy business and you're making gas turbines, going to make wind turbines, it's pretty much a near neighbor. You can leverage a lot of the things you do.

We like to make small bets that leverage our sales and distribution. We like to make somewhat bigger bets to get us launched in big markets that are growing over time. We have a -- very much of a long-term view in markets like oil and gas so that we can build leadership franchises. We don't have to do it in a day.

When you're GE, you don't have to do it in a day. You can do it in a decade and still have a lot of customers that want to buy your stuff. Right? And so, we do that.

We don't like to do big deals. We like to stay disciplined in the \$1 billion to \$3 billion frame, and we like to have good returns that are generated in excess of our cost of capital.

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And that's why our return on total capital -- Industrial return on total capital this year is in the high teens. It's consistently in the top quartile of our peers, and we do all of these things to try to grow the Company over the long term.

Now, here's some easy ones, offshore wind and solar. We planted seeds in both of these. In the case of offshore wind, we bought -- we made a small bet on a technology solar the same way. I'd say offshore wind is probably going to be a real market. It's going to be a lot more concentrated than onshore wind, because this is really hard stuff to do.

It is very likely that GE has a 25% market share by 2015. 25% market share will get you about \$3 billion in revenue. We need to do this in a low-risk way, but we'll build our way organically into this.

Similarly, solar is a crowded field. We invested in a start-up company. We're now demonstrating the efficiency of our cadmium telluride panels, and our research center is -- reached 15% and growing.

We've got something that looks good, that looks competitive. Again, 5% share in this business is \$2 billion or \$3 billion by 2015. This leverages our distribution, our scale, our Global Research center, really low risk for investors and we can grow as time goes on.

Then here's what I'd say is we've got some scale-based seeds planted, and I just picked four. I could do more, but in life sciences, distributed energy, aviation and water.

If you add up what's on this page, it's about \$10 billion in revenue in markets that are about \$80 billion in revenue. These markets are all growing at two times GDP. They're high margin. We're going to grow out organically primarily in these markets.

We've got good operations already established. We've got good R&D programs. All of them have a presence at our Global Research center. All of them can use the GE brand, and these will all grow into be big businesses over time.

And then, this is kind of oil and gas. So, this is one we've been working on ten-plus years. We've done a set of deals that -- including Wellstream that was announced yesterday, that are about \$6 billion in M&A invested.

We've taken each one of these investments and plugged them into the Global Research center, our service operations, our global sales force. Let me tell you, if you're in oil and gas, Exxon likes to buy from GE. BP likes to buy from GE.

They buy from [F&C] and other people, but we're pretty good. And they like to buy from us, and we've built a business that's almost \$8 billion that's profitable. And our Oil and Gas business today has a return on total capital in excess of 20%.

Now, if you were going to go out in one swoop and replicate GE oil and gas in one acquisition, it'd be \$15 billion, \$20 billion. You'd pay a big premium. You'd have more integration risk, and you wouldn't have a good return on total capital.

We've been able to do that with less than half the capital while growing earnings all the time and have a business already that's a 20% return on total capital. So, these are the ways that we like to continue to grow and build our core, do it in a disciplined way, grow our return on total capital and have industry winners as we go through the process. So, that's growing the core.

Number five, you saw 52 charts on GE Capital last week so I'm going to leverage off of what Mike and his people did. I just want to make three core points about how we view GE Capital from my standpoint and from the Board's standpoint, three good things about GE Capital.

One is we're going to get good earnings growth. We're going to earn back a 2% ROI on the investment we're making. That's going to be good earnings. We're already seeing some of that. That should continue, and I think Mike and his team did a great job of explaining it.

So, we're going to be focused on it. We're going to continue to be disciplined about the businesses we're in and not in, and we're going to outperform the competition in those segments.

Two, we're going to link it to GE just like we always have. We think there's some really powerful and positive linkages between our finance business and our industrial business, and those show up in the way we understand assets. And both GECAS and Aviation have benefited from this over time.

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The way we understand customers, we have a very unique mid-market franchise because those people want to get some of the GE best practices. The way we can use operating advantage and be better than banks, we see that in retail finance today.

Our global competitiveness, having the ability to tap into capital markets and some of these infrastructure, global infrastructure projects make us more competitive than lots of other people. And we think that's a strategic advantage.

And then just strong customer relationships in hospitals and utilities and other energy companies and airlines, being able to come at them with real solutions between financial services and industrial is a competitive advantage.

So we want to link GE Capital with GE, and then it's well capitalized and it's got really the opportunity to return cash. So, we know what the Basel III standard is. We should be well within that or above that.

As we do that, there's going to be an ongoing dividend back to the parent. There's an opportunity to generate excess capital, and we'll see what our opportunities are with that. And we should be generating an 11% to 15% return as we go through that.

So earnings, cash linkage, is the reason why I like GE Capital and why I think we're going to come through this downturn with a stronger franchise and a better company. So, this is a very valuable franchise.

And the last piece, just continued to drive big themes that help us with our customers and help us position the Company in a broader discussion, let's say, Eco is five-years old. Healthymagination is two-years old.

A lot of you saw the ads we had with GE capital, what we call Access GE, which is the way we can link GE Capital to the Industrial company. We're the fifth most valuable brand. That's quite important, I think, particularly today in terms of building customer trust and really positioning over the long term to have good influence for the Company.

We continue to invest in clean energy and energy security. What we're driving is very good technical and commercial results. We continue to invest R&D and continue to grow this faster than the Company in general. We're going to be one of the winners in smart grid. Our smart grid products continue to grow 30%.

As electric vehicles continue to grow, about 10% of -- if you sell \$1 billion of electric vehicles, there's \$100 million of content and charging stations, substations, they're going to go with that. Whether that's 2011 or 2015, I don't know. But, I do know we're going to be, pardon the pun, in the front seat of the car as this market develops.

Unconventional fuels is a place where we're doing a lot of work around shale gas and oil sands where the -- these are going to massive water markets as time goes on. And GE brand is quite powerful as we partner with customers in these solutions.

And then, we're in the process of completely investing in our -- all of our appliances with better -- more energy efficient appliances. And so, this will continue to drive good results for the Company.

Healthymagination, I think, has really helped our Healthcare business. I think using cost, quality and access has done a better job of directing the products that we make. It's done a great job of working with our customers to see the efficacy of new technology and really optimizing in our R&D investments. And I think we've seen that in core market share, which is up this year versus previous years.

Our tremendous growth in emerging markets has been fantastic in the Healthcare business this year, the new adjacencies and new segments that we've created as well. This is a -- it's an industry that has tended over time to be driven just by -- like an arms race of more slices and things like that over time.

I think what Healthymagination has allowed us to do is do a better job of targeting what our customers really want and delivering it, and that's showing up in market share. It's showing up in better margins and just the whole way that the Company is executing and being run.

And lastly, these entrenched customer relationships is so central and core to the Company and how we think about what we do, and I'll just give you several examples of where I think GE is well positioned.

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The first one is just delivering service above and beyond the product. We're doing this a lot in healthcare where we've got a performance solutions business. Ochsner is big hospital in New Orleans where we're driving new services that drive hospital efficiency and put us on the same side as the customer.

In the case of the airline industry, we have a fantastic franchise of just long-term service agreements, which aligns us with the premier customers, people like Air France and Southwest Airlines, using what I call the big GE Access, GE where we take our GE Capital customers and find ways to tap them into the Company as we think about where we are going forward.

Localization, we just try to have the most pre-eminent customer base in these growth markets as we go forward, and we do that through local investment and just personal relationships and just presence. So if you look at Brazil, Vale is a big customer. EBX is a big customer, Embraer, Petrobras, we have a very strong franchise there.

We're working with all the right people on big problems. We've got a relationship with Suncor to do oil sands in Calgary and find a way to link our water business to improve the environmental performance.

And then, just the big execution projects like what Chevron has on the Gorgon oilfields outside Australia, this is a brand and this is a company that our customers trust. And we keep investing in that relationship. So technology, service, global, expand the core, specialty finance, big brand, big items, these are the things that are going to grow GE into the future.

And you add all that up, we're going from a time period of negative organic growth. We'll see organic growth go positive as we go into 2011. We're always going to have businesses with cycles, so we're going to always have businesses that some are going up as others are going down. But, we position ourselves to be -- have the tail wind of a lot of these big themes.

I think we've got funding in the run rate of the Company that will have -- produce a product line to allow us to hold and -- and/or gain share with good margins. We've increased the number of NPIs also with good margins.

The growth markets in our service business ought to both be consistently at 2-plus -- two times GDP plus, and we've got a pipeline of adjacencies. So, we continued to invest in growth during the downturn, and we think that's going to serve us well as we go forward. So, that's growth.

At the same time we've got processes, enterprise risk, capital allocation, kind of best-practice sharing around Lean, Six Sigma, things like that, leadership development that should allow us to continue to drive a good performance vis-a-vis our peers.

When we sit down an internal analysis, we look at margins, return on total capital and working capital turns, and each one of these we have good performance, close to best in class versus our peers. And we want to continue to drive good operational excellence inside the Company. And it's important that we continue to drive good execution consistently.

Margins, when I look -- we'll finish this year probably close to 17% operating profit rate. As I look at next year, that'll be flat to maybe down slightly next year.

Services remains extremely strong. We've got the R&D and the GENx launch flowing through in 2011, and as we do acquisitions they're almost always dilutive to margin rate in year one. So, that'll run through the margin rates next year.

The material deflation will continue. We still have excess capacity in our supply chain, which allows to drive material deflation. We'll have negative pricing on energy orders. That's a negative, but the service margins are improving at the same time. And we continue to drive productivity and restructuring inside the framework.

So, we've really been able to go through the 2008, 2009, 2010, 2011 at high margin rates on a relative and absolute basis as you think about the Company and where we're come.

From a cash standpoint, as I said, we'll be between \$14 billion and \$15 billion of cash this year, which was the high end of our range. We'll be \$12 billion to \$13 billion next year. I think all of you know that the way that the new code, the NBC transactions, works is that the cash stays in debenture and then we have two windows that we monetize over time.

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We've got a \$5 billion working capital improvement over the last few years. Well, our working capital improvement will continue to be quite strong, and then we'll have lower progress in 2011. So, we're counting on that as you look forward.

The performance in all the working capital metrics has been quite good over the last two years. If you look at inventory, we've gone from 6.8 turns. We'll be close to 8 turns next year. We've just done a good job in Lean manufacturing and globalization.

Our receivables have gone from a little bit under 8 turns to 9 turns, so just really focused team, and our payable days have gone from 64 days to 70 days. So, we've done a nice job of working capital over this time period.

And we've got good operating disciplines and -- that'll allow us to continue to drive good working capital, term performance, and we still think there's a lot of juice in working capital as we look forward in the future.

This is an important chart, and I want to just spend some time on it. As we finish this year from a standpoint of cash and with the things we've already announced kind of playing through that'll close this year, so NBC, Dresser, some of things that'll close this year, went in with \$20 billion of cash.

That was -- you know, that's the \$25 billion that you've seen in the past less dividend increase, a buyback that we'll do in the Dresser, which we think will close. So, that's the same number.

And then if you think forward the next few years, so we're going to have -- continue to grow our free cash flow. We've got the potential for a GE Capital dividend that we're -- we were really hoping for by 2012, the chance that maybe dividend access capital and GE Capital once we see where the regulators are and what we ought to be doing.

We'll -- we've announced acquisitions that'll come through. We'll do the preferred -- we'll buy back the preferred equity next year. We'll increase the dividend in line with earnings, and we'll execute an opportunistic buyback.

So we're going to do all those things, puts and takes, in the Company over the next two or three years. And the cash still grows. So, the cash still builds over the next three years with all those things, so by 2013 the \$20 billion is more than \$30 billion. Right? And then, you've got the first round of NBC buy-down happens in the -- early in '14, so that also adds to wherever that is.

So, we've got a fair amount of cash. Now, you know, everyone in this room has a slightly different perspective on how it should be used, so just maybe -- just think about -- we'll think out loud together and -- because I know it's important, and I take it seriously. And this is something that I look at as preeminent for the Board and me and all of us in terms of how we create value.

So, here's how we think about it. Dividend is important. Dividend, it's a broadly-held stock. Dividend is important. We want to have a high payout, both in a relative and in an absolute term. I think you've heard us talk about it, and you've seen our actions. We think dividend is important.

We believe that infrastructure adjacencies that can be -- generate good returns in a disciplined way that are on strategy, that are of a certain size where we've had a track record, we're going to continue to invest in those.

We're going to continue to drive the buyback. We want over time to reduce the float in the Company. We're going to continue to do a buyback, and we think we can do that while we do dividend and the right kind of acquisitions in the future. And then, no later than October of '11 we will retire the Buffett-preferred. We don't want to do it in a diseconomic way, and so we will do that next year.

So, I guess my point is this is important. We know it's important. We want to be disciplined about it. We want to drive long-term shareholder value.

There's not -- there's never going to be one simple answer with GE. There's going to be a multitude of different things we're going to do, but what we want to do it is in a thoughtful, transparent, strategic way and so that we can capitalize on this.

But, the good news is that we've got the flexibility in the Company, that we've taken the right steps with GE Capital that I think we've done -- we made a smart resource, capital allocation decision with NBC vis-a-vis where we are, and it -- that just gives us good flexibility where we sit and where we stand right now.

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Now, we have metrics in terms of how the GE leadership team is paid. We are in the -- we will enter the second year -- 2011 is the second year of a three-year, long-term incentive program. It really drives four metrics, EPS growth, cash flow generation, hitting our ending net investment target and return in total capital expansion.

So, what we try to do is triangulate between Mike Neal has to do, what we have to deliver for you, what's good about capital allocation as it shows up internal total capital and then, i.e. look at these metrics, as does the leadership team.

I look at organic growth, the value gap, Lean, quality, capital allocation, GENx costs, we look at a series of things together. I personally -- the service council and the operating council, commercial council inside the Company and the managers are quite aligned in terms of where these metrics are. So margins, cash, capital allocation, I think methodical discipline in terms of how we run the Company, these things are quite important.

So now, just maybe kind of shifting gears and finish up by talking about 2011 specifically, we're positioned for solid operations growth in 2011. Our businesses are getting stronger as we move through the cycle. They'll get even stronger as we go into 2012.

Starting in 2011, we'll report -- in addition to GAAP earnings, we'll report operating earnings excluding non-operating pension costs. I think this is going to give us -- simplify the Company because we're going to be able to give you specific guidance on one or two data points on pension so there's not a broad span in all the models, and also allow a better comparison to our peer companies as we look at where we go.

Pension has been a drag for a decade. If you think about GE, this was \$0.14 a share in 2001. It's negative \$0.13 a share next year. Costs have grown, driven by non-cash amortization, which has distorted really in many ways the operating performance of the Company.

Honeywell recently made a change that is mark to market with a fourth-quarter true-up, and accounting change. I think that made a lot of sense for Honeywell. I'm not sure it made -- would make great sense in the case of GE.

IBM did something similar this year in terms of reporting both GAAP and non-GAAP metrics, operating versus reported EPS, so they have two numbers that they track as they go through. And they did it using a -- by eliminating both of the streams of pension costs as you went through it.

So that's kind of the lay of the land, if you will, in terms of where we are in pension. I think in our case, as in everybody's case, pension is pressured by the '08 market and some of the previous years in the decade.

We're going to take our pension earnings growth rate assumption from 8.5 to 8, and the discount rate will be what it is. I think it's like 5.5 right now or something like that. But, it'll probably be lower in -- going into 2011 than it was going into 2010.

All new employees that join GE after January 1st will enter into a defined contribution plan not a defined benefit plan, so we've made our benefit plans contemporary and as we've continued to do that over the last decade.

So in addition to reporting GAAP earnings, we're going to report what we'll call operating EPS. And in the operating EPS we'll have the servicing costs of the ongoing employment base in operating EPS, and we'll exclude the non-operating retirement-related costs, which is the gains and losses, non-cash, that are part of just the pension accounting methodology. And there's no cash contribution in 2011.

So if you go to the right-hand side of the page, basically what you'll see and what we call operating earnings is \$1.4 billion expense in 2010 and a \$1.3 billion expense in 2011.

And in a no-guidance world, as we look at all the models, there's just a tremendous span of how people are overestimating pension. And what we're saying is that if you think about operating earnings, operating EPS, this is what the number is, \$1.4 billion in '10, \$1.3 billion in '11. It's roughly flat year-over-year.

And then what will show up in GAAP is the amortization of the pension accounting as it flows to the income statement, non-cash that will be based on how the market performs, what discount rates are over time.

So we're going to make this as a permanent change. You're going to get both numbers as we go forward and again, the way I would look at it, from a standpoint of how I view the operating plan for the company, going forward, this would add about \$0.06 to what I would call operating EPS in 2011, right?

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So between operating earnings and GAAP earnings.

So about \$0.06 a share increment.

And again, we think this more reflects the true operating performance of the company. Mike Neal and Jeff Bornstein and John Krenicki and John Rice don't spend a lot of time on -- with GE management and how we manage the pension. We want to manage it in a safe way for our retirees going forward. We've reflected that in the earnings account and it's well-funded and in good position.

But this is, I think, a better way to look at the company from that standpoint. And so what we'll do is give investors exactly what we think the pension expense to be as we go forward, and you can use that to help build your plants. And in 2011, that will be \$1.3 billion.

We'll still report GAAP. This is no take-away on data. People can still make whatever judgments they want to make on how the company's doing. But I think this is consistent with our peers, it's very transparent and we think it's very consistent as we think about how the company's positioned going forward.

So 2011 operating framework, in terms of how we think about the company, industrial earnings are -- finish about flat in 2010. Those will be positive. We'll see positive growth in 2011. Positive growth in 2011.

Good growth in Transportation and Healthcare, kind of flattish growth in Energy and Aviation. A lot tailwinds, but some of the headwinds are in wind and higher R&D and launch costs, as pertains to GEnx engine. But overall, the industrial earnings will be up year-over-year.

GE Capital, quite positive in 2010, also quite positive in 2011. So we'll continue to see good growth in GE Capital going forward, just what Mike presented to you last week.

Corporate will, this year, is flat to down slightly as we finish 2010. Next year, they'll be down. Corporate costs, corporate line will be down.

That'll reflect the dilution from NBC, which we expect to be about \$0.05 a share next year, dilution from NBC. Pension will be about flat year-over-year, okay? So the pension expense and the operating earnings will be about flat year-over-year. And we will do less restructuring in 2011 than we did in 2010, because we've got a pretty lean cost structure and we see volumes coming back.

So, Industrial up, Capital up, up, Corporate down slightly because of NBC; overall, operating performance, two pluses.

By the way, GAAP earnings will also be up substantially next year. So again, I don't want you to get trapped in the -- I think pension is going to make it clearer, not less clear. This is not designed again, GAAP earnings will be up next year, strongly. Operating earnings will be up next year, strongly. So -- and you'll get the details as you -- so you can build your model.

CFOA will be between \$12 billion and \$13 billion. And then we expect revenue to be flat to up 5%. We expect the industrial organic revenue to be up about 5%, acquisitions will add to that. We think Capital revenue will be down about 5%. That reflects the ENI reduction going forward. And as we close NBC, NBC will be accounted for in terms of a corporate line on equity investment.

So that's kind of the framework as you think about 2011 and what some of the important dynamics are going forward. And as I said, we expect to see strong earnings growth on both the non-GAAP operating earnings basis and also on a GAAP earnings basis when we go forward next year.

Just some of the segments, Mike and the team went through GE Capital last week. We're going to see good overall performance at GE Capital. Losses are better, margins are pretty good. Demand has been sluggish through the year. But we see that firming in the fourth quarter. Demand's getting better.

We're still looking at Europe and I think what Mike and the team described is we don't really have risk exposure in Europe, but it's how fast will the market grow.

And in some of the segments, we just have fewer competitors as you think about where we are going forward.

A strong origination capability, lots of competitive advantage, good margins, opportunities for portfolio consolidations. Commercial real estate appears to be bottoming, but we'll see. We're still cautious on commercial real estate, as you look forward. And so we just think GE Capital is going to have another strong year in 2011, just like they did in 2010.

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Energy is about \$7.2 billion this year. We think it'll be flat to up slightly in 2011. The global electricity demand was down in 2008. The US wind industry in decline. I would say, point in fact is, the US, from an energy standpoint, has had a tough couple of years and one of the questions is, almost all the numbers you see here don't reflect really anything much in the US, in terms of -- most of our business there, new equipment business, is outside the United States.

And oil prices are up. The emerging markets are quite strong. You saw we announced that we're in Saudi today and that's where the action is and that's where we'll go.

Our total in the 15 P&Ls are growing. Services remain robust. A good new product pipeline, new gas turbines and distributed energy, strong M&A pipeline in the energy business.

Wind and thermal will be down. If you look at the shipments of new units next year, the heavy-duty gas turbines will be down, maybe, I don't know, eight, nine, ten units year-over-year and wind will probably be down maybe 100 units of shipments next year.

Pricing will be tougher next year. But we'll see good deflation at the same time.

And I think, importantly, for energy, as I sit down and go through it in detail with the teams, our order growth will continue -- will begin again in 2011. So we should see positive energy orders growth on products in 2011.

So we kind of see this thing kind of down and taking off a little bit. And it's really with kind of like nothing in the US. I mean, we're doing a little bit of business in the US, but not much.

So if you get any juice out of the US, anything like an energy policy or things like that, that's maybe -- it won't be an '11 impact, but that, in our years, will go. And that's the energy story.

Healthcare should have a pretty good year next year. We see more certainty in the market. The growth markets are fantastic.

Europe, Europe we watch. I think we're counting on a European market that's not as strong next year because a lot of it is -- intersects with the government.

We think Healthymagination gives us good positioning on costs, quality and access. We've added a lot of sales people in emerging markets in healthcare and that's paying good dividends.

We're well positioned in adjacencies. We really, I think, are well positioned in some of the molecular diagnostics and molecular imaging initiatives in the future. We're going to lead in CT dose reduction and we're going to invest more in healthcare information technology and potential for Europe to slow down is kind of what we watch for in the healthcare business, looking forward.

Aviation will be about \$3.3 billion in operating profit this year. We think it's going to be about flat next year. The market is really good. Lots of new airframes and new planes being discussed; Airbus narrow body and all kinds of stuff going on. But the growth is pretty strong.

We see, in terms of spares, good solid double-digit order growth in the fourth quarter and we think that'll continue into next year and from a service standpoint.

We've got a great market share and a great product profile. The market's stronger.

Some of the adjacencies, I'm quite excited about the AVIC joint venture we're doing in China and the position we'll have on the narrow-body aircraft.

The Joint Strike Fighters continues. That saga continues. But our position is pretty good and we'll see how that all turns out.

Like I said, large R&D funding and G&F's launch costs. We've kind of said that that could be a \$0.5 billion between '11 and '12. It won't be more than that.

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We're going to work to keep it less than that, but that's the way I'd kind of rather keep the business and if we do better, great. And it'll make the segment better.

But this is very well positioned, I think, for 2012 and as we go forward.

Transportation's going to have a big snap-back year in 2011. The North America market has improved. We've got a big backlog. Mining is very strong. Cap's just a little bit better than EMD, I would say, in terms of future competitors. So we're quite cognizant that there's a new player in town that we've got to be focused on and compete against.

A good global strength, a flexible global footprint will grow our adjacencies. Service will continue to be good. Good productivity. And there's a, what's called, tier four emissions program, which means we've got to heavy up R&D and transportation between now and 2013.

And so we're making those investments, but we see some good improvement here.

Home and Business Solutions, we're kind of counting on flat next year. Housing market remains tough. We haven't really counted on any improvement on housing. If that gets better, it's hard to imagine housing getting worse. We're -- I think we're kind of rumbling around the bottom right now.

If that gets better, then the appliance market will get better.

Consumers are cautious. The Energy Star program's used to position itself to really win in the Energy Star programs. We see good MPI performance here and strong infrastructure software business lighting growing and, again, we're investing in these products for 2012 launch and this was always a market where margins are tough and you've got to be very cognizant of pricing and inflation and we continue to try to stay focused and do a good job there.

NBC Universal, this is kind of a standalone look on the left. We would have a pretty good year next year. The market's stronger. Prime is still tough, but the cable markets are good.

The parks business has had a fantastic year. I mean, the Orlando and California theme parks have been great. The cable team continues to do well. We've got a pretty good movie slate. Just the Olympics themselves, not having to do the Olympics and things like that, add to earnings growth. And the Comcast team is heading to a good 2010 as well.

Versus our own internal plan, the front-end costs are lower. We think Comcast is going to be a good partner.

There's some negatives on intangible amortization, as we put the businesses together. That's going to lead to a \$0.05 a share kind of erosion in earnings versus what we see this year. And that should bounce back in 2012. And so we like -- we're glad we did this and these are complicated transactions with a lot of people in Washington involved, but I would say, on balance, we still think NBC will close this year. I mean, we're in the midst of kind of discussions and I can't really say a lot more, but a lot of good people working on it and -- on both sides, from the government side and Comcast and GE and so that's my sense. But I don't control that. So that's where we are.

Now, so just to wrap up, if you think about how the company's positioned and how we ought to think about '11 and '12, we're going to have a good year in '10. We're actually going to have a better year than I thought we'd have when I stood here a year ago.

So 2010 was really driven by GE Capital. It had a very strong performance and did better than we thought in 2010. As I think about walking from 2010 to 2011, we've got some headwinds in energy. We've got NBC Universal Solution and we've got higher R&D.

And offsetting that is more earnings in GE Capital, more earnings in healthcare and transportation, a little bit of M&A will fall through next year. They're accretive, but they tend to build in year two, so we won't see a lot out of the deals in 2011.

So in 2011, you'll have industrial earnings positive and financial service earnings very positive. And that'll build for 2011.

And then looking forward to 2012, we think orders in energy start improving in '11, get better in '12, better -- but we still expect to have some headwind in heavy duty gas turbines and wind. It's still higher R&D. We're counting on the GENx a little bit in '12.

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But we think that both Aviation and Energy Infrastructure go positive in 2012. So we think the earnings in those two segments both go positive in '12. Healthcare and Transportation continue in recovery. You get -- you eliminate the Buffett preferred, you get GE Capital continuing to earn out of the trough, you get a little bit more stronger in NBC Universal and home and business solutions and you've got some buy-back in there and a little bit of M&A comes through in 2012. So your profile really does strengthen as you go through the time period.

So this year, flat, industrial positive capital. Next year, both positive. And then as we look out in '12, the headwinds kind of move away, the segments go more positive and we just see the story improving as time goes on, as we go out there.

So that's what we know we have to manage and that's how we think the company is positioned going forward.

So just to close, I think the things that I want GE to deliver on for investors are on the left-hand side of this chart. We're not going to do this every year, but I think we can do this in a lot of years. And I think this is what I'd like to see us execute on.

Good, consistent earnings growth equal to or greater than the S&P 500. I think we're well positioned in that in '11.

Services and growth market revenues growing organically at at least two times GDP. Maybe better. And we'll see that in '11 and I actually think that's something that we've got enough seeds planted to be able to do that, I think, consistently.

Cheap GE Capital, between 30% and 40% of the total operating earnings of the company. So I think that's where we should be. That's the right kind of guideposts for the company going forward.

Growing cash greater to or equal to net income, and restore the GE Capital dividend. This is a very capital efficient model. We should be able to do this over the long term. And when we can get the GE Capital dividend restored, we ought to be growing cash in excess of net income pretty consistently.

Increase the ROTC, in general, for the company. And also increase the industrial ROTC, keep it above 15%, stay in the top quartile of our peers. We think that's an important metric. And then maintain attractive dividend pay-out ratio. As I said earlier, we think this is important for GE, both in relative and absolute terms.

So that's how I like to think about GE, where I think our accountability is and where I want to drive for investors and we're not going to do them all every year, but we should try to do them all every year. And that's, I think, a pretty good list, a pretty good report card for us.

So just to wrap up, good portfolio. It's a multi-speed world with volatility, but things in general are getting better.

Good portfolio. Optionality around capital allocation. Well positioned for long-term growth. We've made a lot of investments in good products and service and globalization. I think the team's on a nice -- GE Capital repositioned and with a little bit of tailwind coming through the cycle. And our performance is accelerating as you get out '10, going into '11 and '12.

And so, that's GE.

So with that, let me turn it over to you and take some questions.

Yes, Scott?

We -- have we got mics?

Great. Right here.

And get one to Jeff next, if we've got another mic.

QUESTION AND ANSWER

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Unidentified Audience Member

Thanks.

Jeff, one of the things, when you look at the last slide, it wasn't 100% clear. Do you in fact have margin targets? Is there a thought process around incremental margins, as you come into a recovery?

And I understand 2011, some of the issues in higher R&D and some of the headwinds there. But when you think about 2012, '13, '14, are there in fact incremental margin targets that you're looking at or that we should be thinking about?

Jeff Immelt - General Electric Co. - Chairman, CEO

What I would say, Scott, is that we've got clear internal margin targets.

In '11, we've got lots of puts and takes with acquisitions in GENx and things like that.

But I think that when we see a company that's got 70% or 75% service, 20% or 25% OE type margins, we should be consistently in the high teens and be able to generate 50 basis point type improvements just through general productivity programs, value gap managements, restructuring and the other things we do.

But '11 is a unique year because of the puts and takes that go through it. But if you think about the businesses, NBC Universal was dilutive to our margin. We really have a set of businesses now that because of their structure and how we run them, have legitimate high-teen operating profit rates on a systemic basis.

Unidentified Audience Member

Okay. That makes sense.

Now, can you help us understand R&D? And I guess the context of my question is if you've doubled -- I mean, you've increased the size of the company, but you've doubled R&D as a percent of sales.

Does this create tailwinds for you that are tangible? Or in fact, is it just a more difficult environment out there that you have to spend more on R&D to drive the same level of growth and keep competitors, including the Chinese, the Koreans, et cetera, that tend to be pretty aggressive in your space, to keep those folks at bay? I mean, how do you think about that in, let's say, just the time period that you can see?

Obviously, the world's gotten a little bit tougher. Is the higher R&D spend kind of a tax, if you will, or a cost of doing business? Or does it in fact create these tailwinds that help us think about higher growth going forward?

Jeff Immelt - General Electric Co. - Chairman, CEO

I think that's a great question, right? And I would say the honest answer is it's both.

In the case of Healthcare, Energy, as we've added products, we've added incremental revenue. Right?

So as we've spent more on R&D, we've created incremental revenue above and beyond what the base was. Number one.

Number two, we are in an aviation cycle where people are introducing new -- Airbus is doing a new narrow-body. Boeing's doing the 787. We have to pick our places. I think what we're able to do is a pretty good job of picking which airframes we want to be on. But each time we do a new engine that adds to -- puts you at a systemically higher R&D.

But the good news is, I think, in Aviation is, the service business is quite strong. And we're going to be able to grow earnings in Aviation even in this cycle as we go through the next few years.

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The last point, I'd say, Scott, is look, if you go back to 2000, I don't know, half the company's earnings were selling heavy-duty gas turbines in the US. I don't think we're ever going to see that again, though. I don't think we're ever going to see that.

So what I would say, from an investor standpoint is it's in the run rate. In other words, I think what I've created for you is, I wouldn't say worst case, but I've done it in the run rate in a recession.

So when you look out over 2011, 2012, the surprises are going to be in the positive side, not the negative side. And I'm certainly not going to say that the \$1.5 billion that we have in aviation is now \$1.7 billion. I'm going to say it's less than \$1.5 billion as we go forward.

And it's in the run rate. So I think that's the best -- we've got the growth we've got the earnings, and the R&D's in the run rate.

Yes, Jeff?

Unidentified Audience Member

I wanted to flesh that out a little bit more with a little bit of a longer-term view and then just a follow-up question.

The simple arithmetic of kind of the ROE and the retention rate at GE Capital implies that you're kind of giving it runway for 6% to 9% growth going forward. If you're keeping GE Capital as a steady ratio of the company, it kind of implies you think the industrial company is growing 6% to 9%.

There's some cash deployment and some other things in there.

I mean, as a longer-term goal, should we think about the company being able to deliver 10% on the bottom line? Is that now an aspirational type goal? OR do you see a path to get there?

Jeff Immelt - General Electric Co. - Chairman, CEO

Jeff, if I were a guy -- so I kind of like --

Unidentified Audience Member

It's easy to talk about the out-years though.

Jeff Immelt - General Electric Co. - Chairman, CEO

I -- here's what I'd just -- the way -- the vision I would have for the company, right, from an industrial standpoint is to be able to grow organically at a multiple of the GDP and expand margins at the same time.

And the arithmetic just works that we ought to be able to grow earning at 10% or in that -- now let's see where the economy goes. Let's see what '11 looks like. Let's -- there's a lot of things I'd like to see.

But, gosh, if you just look at our portfolio of infrastructure businesses we have today and look backwards 20 years, this is a portfolio that's generated 10-plus percent earnings growth for 20 years.

So will they be able to continue to grow that in the next 10 or 20 years, well, it depends. Are we making the right investments? Are we globally positioned? Are we doing the right things?

That -- but that's what they've done. And GE Capital, look, I think what we've given investors is a pretty controllable plan through 2012.

It's what we know how to do. We're going to get a new regulator. We're going to go through all that process.

We talk about what we control and then the philosophy of how we'd like to run the business going forward.

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So that's how I'd answer the question.

Unidentified Audience Member

And just separately, on kind of putting a ring-fence around the Hudson, as it were, is that something that you've got confidence on that, that you can fully define at this point?

And can you give us some color on what --?

Jeff Immelt - General Electric Co. - Chairman, CEO

Jeff, I think we're in negotiation with the EPA right now. So I would tell you that the discussions are constructive. But I would say, having done Phase I, we've got a fairly good way to sort how much it's going to cost and so I think what we will do this year is we'll just take that as a financial risk on the dredging going forward. And I'd say we do have a pretty good sense for that.

So I think we can just kind of put that the same way we did gray zone and just say, hey, we got those two behind us and kind of look forward.

Bob?

Spiffy in a sweater vest today.

Unidentified Audience Member

It's cold out there, man.

Jeff Immelt - General Electric Co. - Chairman, CEO

There's a new, like, style trend, or --?

Unidentified Audience Member

You'll catch on.

So the other key question --

Jeff Immelt - General Electric Co. - Chairman, CEO

I didn't have the chance to walk past Abercrombie & Fitch on the way over here, but --

Unidentified Audience Member

I'll give you a gift card for Christmas.

So capital allocation, you talked about \$1 billion to \$3 billion, previously, and somebody's talked about \$30 billion deployed over three years and you made some acquisitions so far. Maybe you're talking \$25 billion.

But my thinking is that if you don't do \$1 billion to \$3 billion deals, that's an awful lot of deals over the next couple of years, which suggests a lot of integration risk potentially and maybe could you give us some guidance on maybe doing a couple of bigger deals and maybe give us some guidance on sort of pricing discipline and return expectations?

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Flesh out the whole capital allocation platform?

Jeff Immelt - General Electric Co. - Chairman, CEO

Yes, I think we're not going to -- I don't think we feel compelled to do deals that we don't need to do. I think if you look at Dresser, Clariant and Wellstream, they're strategic deals that were well positioned.

We're going to continue to grow dividends. We will do a buy-back. We will continue to drive a buy-back as we go through. I think if you look at - I just believe that the oil and gas models are a pretty good model.

There are people we could buy, who are roughly the same size as -- it's a big space. It's got lots of players, right?

Oil and gas is a place you could do a \$50 billion deal if you wanted to.

I don't want to.

Because you don't get paid for -- you don't make money on the integration.

I'd rather do the deals so that you earn the money on the integration. Not somebody else's investor. And you could say the same thing in life sciences. You could say the same thing in a lot of places we are.

Why pay somebody else's investors when you've got a really great leadership team for the value of integration.

Okay?

That's what we should -- that's what you should be demanding of us. So I would say, Bob, look, I have no compulsion to spend \$25 million in acquisitions. I would say, in fact, the odds of that are low for the next few years. We have the cash. And we could do it if that was the lever we wanted to pull. And John now, inside John Krenicki's focus is now Dresser and Wellstream.

He's a really great operating leader, really good.

Dineen now has to take Clariant and turn it into a real business going forward.

So I don't mean to be flippant with the question. I just think we could be very disciplined. We can be very patient.

Now the return expectations, we want returns in excess of our cost of capital. We want it to be accretive year one. We want them to be strategic. We want them to be bolt-ons. We want them to fit a general theme.

But, again, I'd go back on capital allocation and just say there's never going to be like one magic button with GE. It's going to be some combination of dividend, buy-back and acquisitions.

Yes, Dean?

Unidentified Audience Member

Thank you.

Jeff, I'd be interested in hearing you expand on the comment that you started off the day with, that this is the best portfolio that you've had since becoming a CEO.

And the spirit of the question is the potential for divestitures down the road. And prior to the downturn, there were some businesses that were put up for sale, but frankly the world did change, we recognized that. And the new order is more emphasis on customer leverage and so forth.

But are divestitures, potentially further portfolio streamlinings, just part of the capital deployment strategy?

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Jeff Immelt - General Electric Co. - Chairman, CEO

So when I think about the industrial portfolio, I say that these long-cycle infrastructure businesses are kind of the GE sweet spot. That's -- primarily, that's almost exclusively what we are now. And so that's why it's not silicone, it's not plastics. These are, I think, the right businesses for us.

When I look at the GE Capital, we've got more liquidity, more capital. It's a safer GE Capital business than we've ever had, right? Just given the structure.

Now there's some well-known pieces of GE Capital that will be disposition candidates or run-off candidates. So I think we've already talked about that. So I think we think about GE Capital in terms of a vertical business, mid-market and lending and leasing business, kind of a specialty consumer finance business and a smaller commercial real estate business. And then pieces that kind of get run-off beyond that.

And then the consumer and industrial business and the industrial side, my focus right now is running it, running it well, get it repositioned. I think it's a business that has not only had an economic downturn, but through all of the distractions, we've put it through a couple of years ago, I just want to run the place and make it successful, generate cash and have it fit inside the portfolio. And it's not that big to be a distraction.

The one specific one, I think Mike probably talked about it last week, it's just how different today is versus 2008 when our -- 2007, when we were here on the consumer -- on the private label credit card and the retail finance business. And, again, I think based on the world we see today, it looks like a good fit inside the portfolio and it's done spectacularly well financially.

But I think we always want to be disciplined and thoughtful about the company and the portfolio and what are the changes in our competitive landscape and be thoughtful as time goes on.

But I don't see it this -- I really don't see -- I don't think you're going to wake up and see big dispositions in 2011. You're going to see things that will make sense to you primarily in GE Capital.

Yes. Steve?

Unidentified Audience Member

Just on the guidance front. I'm getting kind of sick of hearing jokes about bar charts and pluses and minuses. Is there any chance that you guys will return to giving guidance, just like everybody else in the sector at some point in the next year and a half? Do you have the visibility now to be able to come out and give a little bit more of a point estimate, whether it's revenues or EPS or cash or anything like that?

Jeff Immelt - General Electric Co. - Chairman, CEO

Trevor hasn't given you the magic ruler?

Steve, look, I think we do have a lot more visibility today than we had going into the crisis. I think, for now, I don't see it. This is something the Board and I spend a lot of time talking about and thinking about.

We don't want to be flippant about it. We want get -- I think when I went through the pitch today, we tried to give you a lot of data points about the company and stuff like that, more transparency. So I -- but I just don't see it right now.

Unidentified Audience Member

And I just noticed, on the comp from the 2010 to 2012, the EPS growth will be part of that. Will that be on GAAP or will that be on the operating base for 2010.

Jeff Immelt - General Electric Co. - Chairman, CEO

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It'll -- it is envisioned to be the same as we report outside. That's already the way it was.

Unidentified Audience Member

So GAAP or operating?

Jeff Immelt - General Electric Co. - Chairman, CEO

Well, an operating basis. Yes. But that was already where we were.

Unidentified Audience Member

Okay. Then what --?

Jeff Immelt - General Electric Co. - Chairman, CEO

There will be no change in comp.

Unidentified Audience Member

And then one last question. Just on the M&A process, is there a -- clearly oil and gas is a focus. I mean, have you gone to those guys and said, go bring me a funnel. There's a mandate for a certain amount of deals there. Or is it much more of a bottom-up process? I mean, I'm just curious as to how that --?

Jeff Immelt - General Electric Co. - Chairman, CEO

It's a bottom-up process. It's a bottom-up process that we have very methodical and thorough review process and there's no mandate on deals. It's just kind of take them one-by-one, as we go through it.

Yes?

Unidentified Audience Member

Yes, Jeff, two questions.

The first one on Energy. 2011, it had a lot of uncertainty, obviously, and what are you looking at for sort of the biggest upside and downside risks around energy, particularly on those headwinds that you're talking about? And where could we be -- what are you most concerned about? Surprises?

Jeff Immelt - General Electric Co. - Chairman, CEO

On -- just consider on energy, in 2011 and 2012, or just 2011?

Unidentified Audience Member

2011.

Jeff Immelt - General Electric Co. - Chairman, CEO

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2011. So I think from a new unit standpoint, I don't see much downside in the new units. I think that's pretty well dialed in.

I think that the -- in this plan for Energy, it's a negative value gap right? So that says price is down, we're not able to recover it with deflation.

I would like that to be better, right? That's what I've suggested to the team, right?

But that's not what I'm counting on.

And I would say, in some ways, that's what I would worry the most about, is do you get -- again, a lot of it's already in backlog, a lot of it's already planned for, but would you have something else that would happen from an inflationary standpoint or something like that?

I think that from a unit standpoint, it's pretty well dialed in.

Unidentified Audience Member

Okay.

And then the second question's around China and the joint venture strategy. You've got a multi-faceted approach that you described earlier in China. And really going aggressively with a series of joint ventures.

So as you look medium term, how do you think about not just buying into the growth over the near term, but protecting your interests over the medium term, should things -- should those joint venture partners continue to get very, very strong and seek growth elsewhere in the world that in your -- some of your other core markets today and the technologies and things?

Jeff Immelt - General Electric Co. - Chairman, CEO

You almost have to take it business by business there. I think in energy, almost everything we do in China today is with a joint venture partner in energy and then it's always our call whether or not you do -- which generation of technology you put there and how much you put there.

In the rail business, we've got the EVO technology in China. We've got kind of a stake in joint ventures in China. But, again, we can control what technology goes in there.

In the case of Avionics, we're going to have a full-fledged joint venture, 50-50 joint venture, where we're going to bring IP and they're going to bring IP, but its eyes wide open. And in many ways, China's going to bring as much intellectual property as we bring to that venture.

Aviation is still export controlled. So that will still be -- engines, now, I'm talking about. That'll still be a protected business. And then China, I see, being completely localized as time goes on. That will be -- all of the products will be made in China that go to the Chinese market.

So in the end, we control it. We make the decisions on which technologies go there and we keep investing in R&D and that gives us, I think, a good competitive advantage.

But we're careful about where we go.

Yes?

Unidentified Audience Member

In Technology Infrastructure, Jeff, you had double-pluses for two of the three pieces of transportation and healthcare and then flat for the aviation and said you had no real upside to the level of R&D and launch costs you suggested.

But the spares up, I mean, what kind of visibility do you have into shop visits, maybe particularly the CFM-56 and what could be on either side of flat for aviation profits?

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Jeff Immelt - General Electric Co. - Chairman, CEO

I think we see the service business strengthening, spares, shop visits, all the classic metrics around aviation services are strengthening in the fourth quarter and that should carry over into next year.

And so we see revenue passenger miles and things like that as being positives as we go into next year.

We dialed into the plan as the skyline for the 787. I think we're just going to follow Boeing's fleet as it pertains to what ends up happening there and we're just going to have to watch and see how that takes place in the next year.

But in the service side, we general strengthening going into next year.

Unidentified Audience Member

Do you have any particular view on CFM-56 shop visits?

Jeff Immelt - General Electric Co. - Chairman, CEO

I -- Chris, I can get you more specifics. But that's the lion's share of what we do. And those visits are increasing. But I might be able to give you some better specific data through Trevor or JoAnna.

Yes?

John?

Unidentified Audience Member

Hey, Jeff.

So the change in the presentation of pension, \$0.06 isn't really a lot, relative to your earnings.

Jeff Immelt - General Electric Co. - Chairman, CEO

Right.

Unidentified Audience Member

So is that because you looked out and saw more substantive headwinds on the come for some reason? Or I'm just curious on the timing. Like why do it for just the center?

Jeff Immelt - General Electric Co. - Chairman, CEO

Look, I think it's something, to be honest with you, John, I thought about it for a long time. I mean, going from \$0.14 positive to \$0.13 negative is actually quite a lot. And since I've been CEO, I haven't seen one positive year. So this is not something new.

I think we studied it when IBM did it, because they put a lot of thought into it, got a lot of outside people that opined on it. I think we're different than Honeywell, but we studied the way that they looked at it.

There's no doubt it's getting worse. I would say that as the '08 losses blend into the amortization of losses over '11 is tougher, '12 is tougher. But that's not really what drove it.

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I think it just gives more transparency to the company. And it's what's truly operating performance.

So that's what managers can really control, is what's in the operating earnings.

So that's -- I don't think it was a new thought, it was something that we've thought about for a long time.

Unidentified Audience Member

That's fair.

Are there milestone hurdles that we should be watching that are obvious or that perhaps you'd like to share with us, that once cleared, clear the way for you to do more substantive or perhaps more potentially very large buy-backs? Again, it kind of dovetails with the point that we're going to keep the M&A contained, right? Relatively.

You are generating a ton of cash. You've got this NBC cash coming in the door. Is it like you have to get rid of the Buffett preferred's first and -- or is there something that --?

Jeff Immelt - General Electric Co. - Chairman, CEO

We're doing buy-backs now.

Unidentified Audience Member

Yes.

Jeff Immelt - General Electric Co. - Chairman, CEO

We're -- we will continue -- we'll do buy-back against next year. We want to get NBC closed. I think getting more -- just more articulate and knowledgeable about where the regulatory regime's going to go in financial services. Those things will all help.

But, look, we could -- at any point in time we could just pull one lever instead of three and grow any one of the three, including buy-back. At any one point in time, we have that kind of optionality where we could just say, you know what? We're going to keep the dividend where it is. We're going to shut down all M&A and just do buy-back and that would be a substantive number.

But we still think the combination of good, strong, solid visible dividend growth, bolt-on M&A and buy-back, that trilogy is powerful.

Yes?

Unidentified Audience Member

Thanks. I wondered if you could give an update on the wind business? Because obviously the last cycle, it was a fantastic business. But this time pricing's very negative, shipments are down again next year. So what was the strategy in terms of, are you moving to larger wind turbines?

I noticed that you're moving more into offshore, but presumably what you see in onshore, now, that same competitive landscape will appear in offshore, in five or ten -- or probably less, five years' time.

So what is it about offshore that you think is so great and why won't it see the same problems that onshore has today?

Jeff Immelt - General Electric Co. - Chairman, CEO

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Well, I mean, I think, the wind cycle is really tough. I mean, I think it's very tough. We've continued to invest in new products. So we've got larger turbines. We've got, I would say, the lowest cost and the best reliability in the industry, bar none, on onshore.

And, look, we're just going to -- we're going to kind of ride this cycle, like we have in past cycles in heavy-duty gas turbine and aircraft engines and other stuff. And we know that this cycle's going to be brutal on our competitors, much worse than it is on us.

And we think that's just -- we're well positioned to ride that cycle out.

Now offshore turns out to be really hard. Really hard. It's significantly harder to do than onshore.

My biggest concern on offshore isn't whether or not I'll get 20% market share. It's the risk management on the projects. I mean, these are -- I will tell you, there will be far fewer offshore wind competitors than onshore.

So -- and we'll be probably in the water with a small program next year and then that'll grow over time. But I think wind's going to -- we're prepared for a tough cycle in wind.

Unidentified Audience Member

And in gas, I mean, how do you think you're positioned versus Siemens? I mean, do you -- is there any sense in which you feel they're taking share from you guys? Or do you feel very good about --?

Jeff Immelt - General Electric Co. - Chairman, CEO

Our share in heavy-duty gas turbines stayed about the same year-over-year. We've got about half the market.

We're investing in larger frame products.

We've got the most versatile product in the market.

We've won big in the Middle East.

But Siemens is a really good company. And they're a really good competitor.

But our share is about flat year-over-year. And we have about half that are gas turbine market.

Yes?

Unidentified Audience Member

Yes, thanks. There's a slide showing the cash balance going up to \$30 billion and tier one going above nine. Why -- I guess, why would you allow either of those things to happen? I mean, it's -- wouldn't that be inefficient and, sort of going back to John's point, and back on EPGs, it's under \$22, opportunistic buy-backs. I mean, why wouldn't we be seeing a \$10 billion plus buy-back?

Jeff Immelt - General Electric Co. - Chairman, CEO

I think the point is we're not going to let it happen. Again, I think the capitalization of financial services, we'll see as we have a regulator.

But I think the reason for that chart is to say we've got a well-capitalized financial services business today and that the opportunity to have dividends back from GE Capital to the parent, those odds are pretty good. And so that's the purpose for that chart.

And I would like to grow to \$30 billion. I mean, we are going to do buy-backs, right? But we're also going to grow the dividend and we're also going to do some M&A as we go through it.

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So that's --

Unidentified Audience Member

Why not build a base? I mean, \$20 billion is already larger than a cash balance you would typically have.

Jeff Immelt - General Electric Co. - Chairman, CEO

Oh, sure.

Unidentified Audience Member

Why not build the plan on going down to ten instead of going up to 30?

Jeff Immelt - General Electric Co. - Chairman, CEO

I -- it was meant to be a conceptual chart. We are not going to let it go to 30. Okay?

I don't want to be mistaken. I think it's more conceptual to say, let you dream about -- look at all that cash, Jeff, man. You know?

That's what I -- for the chart.

Unidentified Audience Member

Right.

Jeff Immelt - General Electric Co. - Chairman, CEO

We can always -- look, I mean, I totally get the point. I get the point. I mean, I really do.

Buy-back versus dividend versus deals. I get the point.

And I'd just say, look, I think dividends are good for GE, they're good for our investors, they're good for the company. It's the right thing to do.

It's good for us to have a good relative and absolute dividend.

I think we're a better company because we've done oil -- we've got an oil and gas business. We haven't been frivolous, right? We haven't done a big sloppy deal. We've done a set of deals that was executed well on. We've got good margins. We've got good returns. We've got a good competitive position.

I don't feel like that's a frivolous use of shareholder money. But we want to continue to do that.

And through buy-back. So that's -- I -- do you see where I'm coming from?

Unidentified Audience Member

I've got it.

I've got the dream.

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Jeff Immelt - General Electric Co. - Chairman, CEO

Okay.

Unidentified Audience Member

A question on the dividend then. I mean, you've been talking about 45% pay-out ratio target, now you're talking about attractive. I mean, is it still 45%?

Jeff Immelt - General Electric Co. - Chairman, CEO

I don't -- I think 45% is a good benchmark to have, a good number to have. It's not like it's handcuffs and a chain. But I think that is a good planning assumption to have for the company going forward. It's about in that level.

Unidentified Audience Member

Okay.

Jeff Immelt - General Electric Co. - Chairman, CEO

A couple more, Trev?

Okay.

Yes, Steve?

Unidentified Audience Member

One more question on this capital allocation -- on capital allocation.

Jeff Immelt - General Electric Co. - Chairman, CEO

Yes.

Unidentified Audience Member

Side. I mean, you just -- your response to John's question was if we wanted to create shareholder value in a kind of a low-risk, cheap way, we could just buy back a ton of stock, but we're not going to do that.

It's -- I guess, we're all just kind of on edge about where this cash is going to go and if that really is your view, it should be very clear that that should be absolute priority number one and we understand the flexibility around the dividend and the acquisition. But it just struck me that that comment, I mean, you just said it right there.

Jeff Immelt - General Electric Co. - Chairman, CEO

Steve, I don't want to be arrogant about it. It's not my cash. It's not Jeff Immelt's cash, right? So it's investors' cash. I want to deploy it in an investor-friendly way.

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I just think -- I think dividend's important. We will do buy-back. We're going to eliminate the bucket preferred. We are going to do a buy-back. And we have a vision to reduce the flow of the company. We want to do that.

I think doing strategic bolt-on deals with low execution risk again, I think if you had a tradeoff of buying back the stock at \$17 versus a very risky big deal, you could punch me right in the nose, right?

I'm not sure you could. But you could think about it. You could think about punching me right in the nose, right?

Jeff could maybe, but I would get that completely. High-risk, big deal, versus buying back the stock at \$17, I think that's very fair.

But what you've seen us Dresser is low-risk, guys. This is a -- this is a bunch of stuff that GE's done for 100 years.

Clariant's a little riskier, small. They're small. A little riskier, small.

And Wellstream's just -- it's a -- its Brazil, it's in a -- the team knows what to do. It's just not -- that's the trade I'd like to see. But, look, we want to reduce the flow to the company. We think that's a priority.

Maybe -- okay, happy holidays, everybody. Thanks very much. It was good being with you.

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