




## Conference Call Transcript

### GE - Q2 2011 General Electric Company Earnings Conference Call

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“Effective January 1, 2011, we reorganized our segments. We have reclassified prior-period amounts to conform to the current-period’s presentation.”

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## PRESENTATION

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**Operator**

Good day, ladies and gentlemen, and welcome to the General Electric second-quarter 2011 earnings conference call.

At this time all participants are in listen-only mode. My name is Chanel and I will be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Trevor Schauenberg, Vice President of Investor Communications. Please proceed.

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

Thank you, Chanel. Good morning and welcome, everyone. We are pleased to host today's second-quarter 2011 earnings webcast.

Regarding the materials for this webcast, we issued the press release early this morning and the presentation slides are available via the webcast. Slides are also available for download or printing on our website at [www.GE.com/investor](http://www.GE.com/investor).

As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Those elements can change as the world changes; please interpret them in that light.

For today's webcast we have our Chairman and CEO Jeff Immelt, and our Vice Chairman and CFO Keith Sherin. Now I would like to turn it over to our Chairman and CEO Jeff Immelt.

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**Jeff Immelt - General Electric Company - CEO**

Great, Trevor. Thanks. Good morning, everybody. Just to start off, the Company had another strong quarter; leading indicators were positive with infrastructure orders up 24%. I think that is a really good sign.

Strength was broad-based with expansion in many of our end-use markets. Our global growth was especially strong.

There remains a few sources of volatility, but they are well known. It's housing in the US and the impact on appliances, the US wind market, and the slow European economy.

Our earnings growth continues to rebound with operating EPS up 17%. Growth was pretty broad-based including Aviation, Healthcare, Transportation, Oil and Gas, and Capital. In fact, capital continues to be very strong; our earnings were up substantially. The only drag was Energy, which should improve in the second half of 2011.

Our balance sheet was very strong with \$91 billion in cash and a Tier 1 common ratio of 10.4%.

Lastly, we continue to make progress on our capital allocation plan with a big step in the third quarter as when we retire the Berkshire preferred. In addition, we will likely close the Converteam acquisition in the quarter. So we are executing well and we feel good about the quarter.

Orders were a real highlight. They were very strong, a big highlight; growing 24% with real strength in every segment. This actually comes off a good quarter in second quarter of 2010 when orders also grew by 8%. Organic orders growth was 17% and Energy orders were particularly strong.

We had some big wins -- Renova in Brazil, Wheatstone in Australia, and others. We recorded \$27 billion in commitments at the Paris Air Show, most of which will turn into orders in subsequent periods. Our Healthcare orders in growth regions expanded by more than 20%. Transportation had outstanding global wins in mining and we ended the quarter with a record high backlog of \$189 billion.

Now we have made investments in growth over the past couple years and they are paying off. We are seeing a great response to John Rice's leadership of our Global Growth organization. Global orders grew by 23% with growth markets up 21%.

Every business had double-digit growth. Highlights included China up 32%, India up 91%, Australia up 35%, Latin America up 45%, Russia up 23%, Africa plus 35%, and [Asian] up 22%. So global markets industrially remain a source of strength for GE.

Services remains strong with revenue growth up 14% and we are seeing good growth across all the businesses, and CSA backlog is at an all-time high at \$139 billion.

New product launches are working. The LEAP-X is now a great success with the Boeing 737 re-engine partnership, an important strategic step. We are seeing broad customer interest in the new gas turbine Flex 50 which offers both record high efficiency and grid flexibility. Our 1.6 megawatt wind turbine is gaining share in North America.

We have a broad array of product launches in healthcare and between now and year-end 2012 we will have a major launch in every appliance product. So based on this we think our organic growth rate should accelerate in 2011 and 2012.

Cash remains on track. We remain on track to generate \$12 billion to \$13 billion of CFOA for the year. Working capital has grown by about \$2 billion year-to-date to support our second-half 2011 equipment backlog. This will reduce by at least \$1 billion as we end the year.

As I said earlier, we ended the quarter with a record \$91 billion of cash and, as I mentioned earlier, we plan to retire the Berkshire preferred shares by the end of the third quarter. We remain committed to attractive dividend growth and reducing our share count over time.



Now margins declined in the quarter. The decline was primarily in Energy and really driven by significantly lower margins in the wind market. Also contributing to lower margins were heavier R&D spending and acquisitions.

We expect margins to improve in the second half of 2011 and going forward we will be managing through several factors. Winds margins have declined substantially between 2010 and 2011, but will stabilize. We expect deflation and lower material costs to continue throughout 2011.

We expect R&D investments as a percentage of revenue to be flat to lower in 2012 versus 2011. Service margin growth will continue, acquisition integration is trending ahead of plan, and Energy equipment orders pricing should improve by the end of next year. So if I compare where we are today versus our December framework for 2011, we expect industrial revenue to be higher, we expect margins to be slightly lower, and our expectation of industrial profit growth in 2011 is unchanged. Finally, we expect margins to expand in 2012 versus 2011.

So with that let me turn it over to Keith, who is going to give us an update on financial performance.

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**Keith Sherin - General Electric Company - CFO**

Jeff, thanks a lot. I am going to start with the second-quarter summary. We had continuing operations revenue of \$35.6 billion, which was down 4%. But as you can see from the notes on the bottom of the page, we were impacted by not having any consolidation in the NBC revenues. Excluding the impact of NBC, GE revenues were up 7%.

Industrial sales of \$23 billion were down 6%. Obviously that was also impacted by NBC and I think the best way to think about industrial revenue is to look over on the right side on the segment revenues. Industrial segment revenues of \$23 billion were up 10% and that doesn't have any impact from the sale of NBC.

Financial service revenues \$12.4 billion were down 1%, operating earnings of \$3.7 billion were up 18%, and we delivered \$0.34 a share of operating EPS, up 17%. Jeff covered the cash flow of \$4.4 billion that was also impacted by the NBC, but we are on track for our total year outlook.

For tax rates the tax rates in the second quarter were in line with the framework that we outlined in the first quarter. The second-quarter year-to-date rate you can see was 41%, driven by the NBCU gain in the first quarter. If you look at the second quarter, the GE rate of 21% was consistent with our expectations that we laid out in that first quarter call.

We continue to expect the GE tax rate for 2011, excluding the NBCU gain, generally consistent with the second-quarter rate. For GE Capital the tax rate of 18% for the second quarter was consistent with the expectation of a high-teens rate for the year, up from 2010 as pretax continues to improve and financial services.

On the right side you can see the segment results. Industrial revenues were up 10%; segment profit was down 3% driven by Energy. I am going to cover the details of each of these business businesses in a few pages. And for GE Capital, segment profit doubled in the quarter, leading to the overall segment profit of 18%.

Before I get to the businesses I will just start with the other items page. On the positive side, we resolve some commercial items and we had a \$0.01 after a tax benefit, and we recorded that at corporate. Offsetting that we also had \$0.01 after-tax of restructuring and other charges, mostly related to the Energy acquisitions. So legal and deal fees and other non-repeat items from purchase accounting were also recorded at corporate.

We also had two transactions recorded in discontinued operations in the quarter. We closed the exit of our Singapore consumer book in April that resulted in a \$300 million gain, and that was partially offset by \$100 million loss on the disposition of our Australia and New Zealand mortgage book. The net was a \$0.02 after-tax benefit in discontinued operations and \$7 billion overall of reduction in investment.

So overall not much activity in continuing ops in Q2 in other items.

I am going to start on the businesses with GE Capital. The good news here is GE Capital continues to improve. We have gone from having many pages over the last several quarters to cover GE Capital down to one page today. The additional information is all in the supplemental charts that we posted this morning, so we have just tried to consolidate this, but all the data that we have been giving is in the supplements.

For the quarter, revenue of \$11.6 billion was down 1% and that is in line with our ending net investment being down 2%. You can see the pretax earnings were up three times over last year. Net income of \$1.655 billion was up two times over last year. That is driven by lower credit costs, lower impairments, partially offset by the lower assets.

You can see our Tier 1 common ratio went up to 10.4% and our leverage was down a full point year over year.

On the right side, our asset quality metrics continue to improve. 30-day delinquencies were down everywhere except mortgage. That is up slightly, mostly because of the declining asset base. Total mortgages were down \$6 billion, ex the impact of foreign exchange from the beginning of the year, so we continue to run off that book.

Down in the bottom right, in terms of dynamics we had a very strong volume quarter. Margins were strong at 5.3%. Our non-earnings and losses were better; reserve coverage remained strong.

I will just cover a couple of highlights from the businesses on the left side. First is consumer.

Our consumer business had another very strong quarter. We ended Q2 with \$146 billion of assets, that was up 3%. Net income of a little over \$1 billion was up 57% driven by lower credit losses.

The US retail finance business had a great quarter. They earned \$588 million, up 51%. That is driven by lower loss provisions as our delinquencies improved by over 100 basis points. And the retail business in the US had a good volume quarter. The volume was up 8%.

Global banking earned \$310 million, up 17%. That was driven by lower credit losses partially offset by the loss of the Garanti income in Turkey.

And UK homelending earned \$44 million in the quarter. It's the seventh consecutive quarter of positive earnings. Our UK homelending assets declined \$1.7 billion year over year, and we realized 115% again on the mortgages that we liquidated in the second quarter above the marks that we had taken on valuation.

For commercial real estate we are still facing losses, but we are seeing signs of stabilization. We lost \$335 million in the quarter, but that was \$190 million better than last year and \$23 million better than Q1.

In Q2 we had \$92 million of credit losses and \$339 million of marks and impairments, and during the quarter we sold 129 properties for \$1.6 billion with \$26 million of gains. Our assets are down 17% year over year excluding the impact of the weak dollar, and they are down 5% from the first quarter.

We are seeing signs of increased liquidity. If you look at the sales of quality properties, we are seeing stabilizing rents and occupancy on average in the portfolio is up. Our unrealized loss at the end of the year was \$5.1 billion; it's down to \$4.1 billion at the end of the second quarter. So slight improvements, but we are all still focused on returning this business to profitability.

Commercial lending and leasing also had another strong quarter. Earnings of \$701 million; they were up 124% from last year. Those results were also driven by lower losses and impairments.

CLO had a good volume quarter. They did \$10.8 billion of volume; it was up 33%. America's net income was up \$260 million and Europe's net income was up \$40 million.

GECAS had another strong quarter; earnings of \$321 million, up 11%. The team funded \$1.9 billion of volume with strong margins and we ended the quarter with two aircraft on the ground, both in the process of being redeployed. Energy Financial Services also had a good quarter; earnings of \$139 million, up 10%, driven by lower marks and credit costs. So overall at GE Capital a very strong quarter.

Next is Energy. Energy had a mixed set of results in the second quarter. The second quarter is going to be the toughest quarter we see in Energy and I am going to show you more details about that on the next page, but first I will go through the two businesses.

For Q2, on the positive side we are seeing great orders growth. Orders of \$9.9 billion in Energy were up 24%, 16% ex acquisitions. Equipment orders of \$5 billion were up 42% and 29% ex acquisitions.



Main drivers were wind and aero derivatives. We had orders for 667 wind turbines versus 248 in Q2 2010. We had orders for 41 aero derivative units versus 16 units last year. Partial offset was thermal. We had orders for 41 gas turbines versus 42 last year, but last year included the large Iraq deal. We had 25 9Es in one quarter in one order.

Overall orders price for Energy was down 2.5%. That was driven by wind order pricing down 7% and thermal order pricing down 10% in the second quarter. Service orders of \$4.9 billion were up 10% and revenues of \$8.1 billion were up 1%. That is driven by the acquisitions partially offsetting all the lower volume.

Thermal revenues of \$2.0 billion were down 12% and that was principally driven by five fewer steam turbines. And wind revenues of \$630 million were down 46% in the quarter. We shipped 269 wind units in the quarter versus 511 last year.

Service revenues of \$4.4 billion were up 8%; ex the acquisitions driven by power gen services up 7%. And segment profit of \$1.3 billion is down 24% and it's driven by the lower wind volume and the lower wind pricing, explains almost all the variance.

Next is oil and gas. This business has experienced tremendous -- experiencing tremendous growth. We are getting growth organically, we are getting growth from our recent acquisitions, and we had a little bit of benefit from the weaker dollar in the revenue line.

Orders of \$2.9 billion were up 45%. 19 points of that growth came from the deals, Wellstream and Wood Group, and we also had 9 points of translation from FX. So 17% order growth organically for the oil and gas business.

Equipment orders of \$1.8 billion were up 41%. We had strong growth in turbo machinery from a large LNG order in Australia. Service orders of \$1.1 billion were up 52% driven by upgrades in places like Qatar and Canada. And total oil and gas orders price was positive; it was up 2.1% in the quarter.

Revenues of \$2.5 billion were up 39% and there is a similar impact from exchange in deals as there was with orders so you end up about 10% organic revenue growth.

Segment profit; \$333 million was up 14%. We had benefits from the higher volume. We had benefits from the acquisitions. And we had benefits as we had material deflation in the business that was partially offset by lower pricing and some negative impact of the foreign exchange.

As I said, this is the toughest quarter of the year for Energy Infrastructure. As we also said at EPG, we are going to be growing in the second half in Energy so let's go to the next page and look at the framework for the first half/second half for Energy.

I think it's important to look at the Energy results in more detail to see the dynamics of what has been a drag in the first half of the year and how we see the improvements coming in the second half. So what we put here the top half of this chart shows the Energy Infrastructure profit; it compares the first and second halves of 2010 and 2011. And on the left side you can see our op profit of \$2.9 billion was down 14% in the first half.

On the right side you can see we expect the profit to be higher in the second half versus last year's second half. So we are going to get growth in the second half and the main driver for this performance is going to be volume.

What we did, we put the unit numbers for GE Energy alone on the box on the bottom of the page. So if you look at the left side you can see the volume declines that this business has had to deal with in the first half of the year.

Wind turbines were down 26%, gas turbines were down 11%, steam turbines were down 59%, and aero was down 14%. On the right side you can see how dramatically those dynamics change in the second half. Wind turbines will be up 16%, gas turbines will be up 33%, steam turbines will be up 80%, and aero will be up 23%. So overall this volume is going to be up a little more than 17% in the second half and 90% of the equipment that we are showing here is already in firm orders in the backlog.

So what does this mean for margins? Jeff showed you the pressure we had in the first half. If you look at the top on the left side in the middle, you can see the first half margins were down 3.8 points. That was driven by the wind volume and the pricing that I mentioned.

On the right side, with all this additional volume, we expect margins to be better than the first half but still lower than last year's second half when we were up over 20%.



So to wrap this up, we had a tough first half in Energy, the second quarter is the low point for the business, and with the strong volume profile that we have got and the benefit of the acquisitions we expect to resume growth in the second half and beyond.

Let me move on next is Aviation. The Aviation market remains strong in the quarter. Orders of \$5.3 billion were up 37%. Our commercial engine orders of \$1.6 billion were up 78%; that was driven by GE90 and CFM. Military engine orders of \$389 million were up 87%.

Jeff mentioned the success the team had with \$27 billion of wins at the Paris Air Show. None of those announced wins are in these orders. Those wins will turn into orders when we get purchase orders from the air framers, usually 12 to 24 months before delivery. So this industry has got a very strong equipment outlook.

Equipment orders price was up 1.6% and we ended the quarter with a backlog of \$20.9 billion, up 9% versus last year. Service orders of \$2.7 billion were up 14% driven by strong spares. The commercial spare parts orders were \$23.9 million per day, which was up 18%, and that was partially offset by military services, which were down 10%.

We had revenue of \$4.7 billion. It was up 11% driven by equipment, up 2%, and services very strong, up 21%. We only shipped for GENx engines in the quarter and that volume will ramp up in the second half as both the 787 and the 747 will be certified before the end of the year. And segment profit of \$959 million was up 9% driven by volume and services, partially offset by higher investments in R&D and engine programs.

On the right side is Transportation. Transportation business had another strong quarter in Q2; orders of \$1.4 billion were up 19%. Equipment orders of \$835 million were up 5%, service orders of \$534 million were up 50%, and the equipment backlog closed at \$4.2 billion, up 26% over last year.

Revenues of \$1.2 billion were up 74% driven by higher volume. We shipped 40% more locomotives to our US customers and almost 5 times more international locomotives driving those equipment revenues up 72%. Service revenues were up 76% on strong parts sales and higher customized service agreement revenue. So segment profit here was also very strong; \$178 million, up 7 times over last year, driven by that higher volume and the continued improvement we see in services.

Flip to the next page is Healthcare. Healthcare team delivered another quarter of positive growth with continued reinvestment. Orders of \$4.7 billion were up 9%. Equipment orders of \$2.6 million (sic-see presentation slides) were also up 9% with DI up 6% and clinical systems up 14%.

The US equipment was up 7% and non-US was up 10%. Some of the growth globally -- China was up 25%, India was up 15%, Latin America was up 34%, and the pressure point was Europe. Europe was down 3% but down 14% ex the impact of the weak US dollar, so that gave us some pressure in the quarter.

Service orders were up 10% and total orders price was down 1.3% for the business. We ended the quarter with equipment backlog of \$4 billion, up 8% over last year's amount.

Revenue of \$4.5 billion was up 10%. That was driven by both equipment and service, both about that level. And just by product line it's pretty broad based -- ultrasound was up 12%, clinical devices were up 20%, CT was up 11%, MR was up 7%, life sciences were up 7%, x-ray was flat, and services were up 9%. So segment profit of \$711 million was up 8% driven by higher volume and productivity, partially offset by the negative price and \$44 million of higher investments in new products.

On the right side, Home & Business Solutions had a challenging quarter. Revenues of \$2.2 billion were down 4% and segment profit was down 26%. Intelligent Platform's revenue was up 19%. They had a good quarter. Lighting revenue was up 7% and Appliances was down 12%.

So overall here, the results in this segment were driven by appliances. The domestic market in the quarter was down 10% in units. We also saw material inflation. And some of the tough comparisons versus last year were driven by the non-repeat of the government incentive programs we had last year in the first half.

There were incentives to replace your appliances with more energy efficient products. And we're also continuing to do a lot of investment here in the new product line. New product programs were up \$20 million in the quarter.

So with that, that is a run through the businesses. Let me turn it back to Jeff.



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**Jeff Immelt - General Electric Company - CEO**

Great, Keith. Thanks. Going back to the 2011 operating framework, the framework remains in tact and highly achievable. We expect to see positive earnings growth in our industrial businesses. Revenue growth in the second half should be very strong. As Keith said earlier, Energy Infrastructure earnings will grow in the second half. Our capital earnings will continue to grow with higher margins, lower losses and real estate firming.

Our expectations for corporate for the year are unchanged. So we are going to see solid double-digit operating earnings growth for the year, and we are confident in our total-year framework for both earnings and CFOA. So again, we feel great about the 2011 operating framework. We think it is highly achievable.

And lastly, just the earnings growth outlook. As we think about the remainder of this year and into the future, 2012, I think the outlook remains very strong. I reviewed this with you at EPG. We see momentum building for 2012. We see the key factors around GE Capital continuing to improve. Our balance sheet strength and liquidity remain high.

On the industrial side, Healthcare and Transportation earnings should continue to grow, and I think we should have solid growth in Aviation and Energy next year. I think a couple of ways to reflect -- the American order in Aviation really signals the return to equipment purchases at the US airlines, and I think that is very significant.

And I point out the Energy orders of almost 40% in the quarter, that is largely with the US still not participating. And so I actually think we are at the beginning of a very positive Energy and Aviation cycle when I look at how our businesses are positioned. We also have a full year of acquisition impact in Energy.

Our margins should improve in 2012, so in 2012 we should have both solid organic growth and expanding margins. And finally, we will retire the preferred shares which will provide an EPS lift for 2012. Look, we like our portfolio, we like the GE outlook, and, Trevor, with that I will turn it back to you.

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

Great. Thanks, Jeff. Thanks, Keith. Chanel, I think we are ready to open up the lines and head over to questions.

**QUESTION AND ANSWER**

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**Operator**

(Operator Instructions) Deane Dray, Citi Investments Research.

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**Deane Dray - Citi - Analyst**

Thank you. Good morning, everyone. Would love to hear some color around the assertion on the renewables that we could be reaching the bottom, both on the demand as well as pricing. What sort of indications, quote activity, etc.?

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**Keith Sherin - General Electric Company - CFO**

I will start and then let Jeff follow. Deane, basically, if you look, we are working our way through that last wave of the very profitable US bubble that we had. You can see the margins and the pricing was really brutal in the quarter.

On the other hand, you are starting to see a lot of order activity. You see the orders in the second quarter in the V we had. We are seeing a lot of global activity. They are at lower margins than that previous US high-priced backlog, but the volume is going to be pretty good.



And the last thing I would say is that there is a program in place where the government obviously gives some benefits to wind installations; it's the production tax credits that are in place through 2012. I think the wind farms would have to be installed and operating before the end of the year.

And I think that, depending upon how people view the probability of that being agreed to and extended in the future, you may see some pull in the wind business to put those units in place before the end of 2012 here in the US. So I think we are starting to have discussions with customers about some of that activity.

So I think you are still going to face margin pressure in the second half from wind, but I think you have seen this quarter is, as I said, the worst of it. With that, Jeff, I don't know if you have anything to add on the wind market.

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**Jeff Immelt - General Electric Company - CEO**

I think it's highly likely that we get a lot more volume in the US over the next 18 months. We have got the 1.6 megawatt, which is the highest performing unit, so we are going to gain market share probably in that activity.

Then, Deane, what I would say in Canada, Australia, a bunch of other places in the world the wind wave, if you will, is just taking off. So I think from a unit standpoint and from a pricing standpoint we are going to see a little bit better performance.

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**Keith Sherin - General Electric Company - CFO**

The business has gone from extremely high margins, over 20%, and it will be down between high single digits to low teens in this period. So it has been under -- it has been a tremendous performer for us.

It has had an incredible amount of economic results that it has generated for us, but it's going through a period here where it's resetting. And as I said, I think the second quarter is the bottom of that but there will still be additional pressure as we go through the second half of this year.

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**Deane Dray - Citi - Analyst**

Great, and if I could --

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**Keith Sherin - General Electric Company - CFO**

We have taken that into account when you look at the forecast we gave you on that page on first half/second half, Deane.

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**Deane Dray - Citi - Analyst**

Got that. And then can I get some additional color on the Aviation side? You touch on this in the remarks; important win from the American order decision Boeing on re-engining. Just if you could comment on some of the activity and orders coming out of the Paris Air Show. I did hear some grumbings that there might have been some discounting on the service contracts, but just if you take to us through -- has there been any change in the total economics on these engine orders between what are you expecting on the equipment sale versus service?

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**Keith Sherin - General Electric Company - CFO**

Well, I would say the outlook is very good. We went into the Paris Air Show having spent a few months where the CFMI team had not really taken a lot of orders on the A320neo and we came out of that air show with more than 50% share, a very strong performance. We like the orders that we got; I am sure that the competitors like the orders they got.

The launch is a tough process, but we know we have been disciplined about our approach. I think we do use everything that is available to us to compete. Our team feels that the economics that we have on these launch orders are as good as we have had on any launches and we feel great about it.



I would add one thing that is a little bit of real positive here in the last week obviously with the American order. When you take a look at the decision by Boeing to re-engine, and we are in a partnership with Boeing on that, this is the third application for the LEAP-X engine. We have got a sole-source position and I believe that you are going to see that aircraft in service for well into the 2020s.

That is a tremendous opportunity for the Aviation team; we are committed to it. And that investment that we have been making in the LEAP-X technology for the last several years has really proven itself and you can see it now with the sole-source position on the C919 in China. We are competing effectively on the A320neo and now we are going to have a sole-source on the next generation of the 737 when Boeing finally proves that at their Board level.

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**Jeff Immelt - General Electric Company - CEO**

I would add, Deane, maybe a couple macro comments on Aviation, just to piggyback on what Keith said. If you are an investor and you sit back and just game board commercial aviation from widebody to narrowbody to regional jets and you look at the position GE has, not just for a year or two, but for a decade, you got to like our position. You really have to like where we are on the 787, 777, and narrowbody. And so you got to like, not just for a quarter but for a decade, where we are, number one.

Then I look financially for Aviation guys. Look, we have got the higher R&D in the run rate, we have got the engines coming down the learning curve, we have all this service revenue coming through. We are going to be able to grow our Aviation operating profits steadily through this cycle while launching these new engines.

And so I think we have got the business positioned, both strategically and financially, exactly where we want it to be positioned for our investors and that is why I think we like the business.

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**Deane Dray - Citi - Analyst**

Great, thank you.

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**Operator**

Steve Tusa, JPMorgan.

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**Steve Tusa - JPMorgan - Analyst**

Good morning. I didn't quite get the -- I guess I didn't quite understand your answer to Deane's question about discounting spares. And I guess on top of that when you look at Aviation last cycle they hit like a margin it was above 20%. With all the moving parts here I understand there is development expenses and all that kind of stuff. Can you get back to north of a 20% margin in Aviation over the next, let's say, three to five years?

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**Keith Sherin - General Electric Company - CFO**

Let me answer the first point. There was no unusual discounting of spares, which was anything other than we would have done anywhere to win any of those orders. So I think we have a big business, we have a very profitable service business, we have incredible relationships and long-term contracts with our customers, and there was no crazy stuff that the team did to get those orders. So I just want to be clear on that.

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**Steve Tusa - JPMorgan - Analyst**

Perfect, thank you.

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**Keith Sherin - General Electric Company - CFO**

If you look at the margins in Aviation, I think they are extremely strong. Obviously they are powered by the incredible installed base we have built over the last 15 years. I think right now the first half they have been very strong; the second half they may be a little lower than what we saw in the first half.

But this is a business that has got tremendous girth. 40% of the engine still haven't even come in for their first shop visit. We are winning market share on new orders, which is going to continue to build our advantage in the installed base over the next 10 or 15 years.

I think, as Jeff said, the R&D amount is in the run rate. We told you about that last year, a year ago at the air show what we are going to have to deal with launch the GEnx engine and to do the development we needed to be competitive on the A320 and whatever happened in the 737 world and what we were doing in China. So I think all that is out there and it's in the run rates and we have got a tremendous franchise.

So I think this business has the opportunity to have a very high margin for a sustained period of time based on an installed base and the tremendous service franchise we have.

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**Steve Tusa - JPMorgan - Analyst**

But 20% is not a good mid-cycle target?

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**Keith Sherin - General Electric Company - CFO**

I don't know.

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**Jeff Immelt - General Electric Company - CEO**

Steve, look, I think that margins should be able to grow during this time period, and services are going to be very strong during this time period.

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**Steve Tusa - JPMorgan - Analyst**

Okay.

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**Keith Sherin - General Electric Company - CFO**

I think that is a great target for this team. I am not given you a forecast of what the margin --

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**Steve Tusa - JPMorgan - Analyst**

Yes, we are not -- I am not going to hold you. Just wanted to get idea of when -- you are booking all these great orders; clearly it's a boomer over the next several years. I just -- the leverage is always a hot button issue and so I just wanted to have an idea of where that is going.

The Energy margin in the second half, I mean it's going to be above 15% but it's going to be below 20%. You could fly a 737 through that range -

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**Keith Sherin - General Electric Company - CFO**

With our engine on it.

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**Steve Tusa - JPMorgan - Analyst**

Any -- I mean it's obviously -- again, it's going to be a hot button issue here in the second half. Can you give us any more directional idea of where within that range? Should we think about the midpoint?



I know this is going to be something that over the next couple of quarters people will be looking at very closely. I just want to have kind of the right bar.

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**Keith Sherin - General Electric Company - CFO**

I think -- I am not going to pick a margin number here; obviously we gave you the direction. I think September 20 -- you may know we have got a separate review which is just going to be focused on the Energy business. We are going to do that in Crotonville and I think at that point maybe the team will give you a little more look at the dynamics of what the equipment volume is going to do in the second half and how we feel about the mix between equipment and services.

But, look, there are going to continue to be pressured on the dynamics that you saw in the first half here. The wind business is going to continue to be a drag.

We are going to continue to have the acquisitions, which are terrific for us; they are fantastic. And as you go forward we will continue to improve the margin rates of those acquisitions, but that is a drag in the second half. And on the offset they are going to have tremendous volume and I showed you that.

So I think we have laid it out. We are going to have better margins than we had in the first half, but they are not going to get any -- we were down a little worse in the second quarter than the first quarter. That will not continue in the second half.

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**Steve Tusa - JPMorgan - Analyst**

One last one. It seems like things are getting better here in the second half; is there any reason why your earnings would be down quarter to quarter from second to third quarter? It seems like things are just continuing to get better. So I am wondering if there is any one-time or anything like that why earnings would be down, because the Street shows down earnings from second quarter to third quarter.

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**Keith Sherin - General Electric Company - CFO**

Well, I think GE Capital -- if you look at GE Capital on a run rate -- I am not sure what the Street is quarter to quarter. I think for us at GE Capital we made \$1.655 billion. If you look going forward at that there is a couple of things that occur in the third quarter that we got to take into account.

I think, one, we have our normal impairment review at GECAS; we will have to see how that comes out. Two, in the consumer business we had a real benefit in delinquencies in the second quarter. Historically there is an increase in delinquencies in the third quarter in that consumer business and we will have to see how that plays out in the market. Those would be the two biggest dynamics that I would think about.

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**Steve Tusa - JPMorgan - Analyst**

Okay, thanks a lot. Appreciate all the details.

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**Operator**

Julian Mitchell, Credit Suisse.

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**Julian Mitchell - Credit Suisse - Analyst**

Thanks. My first question was on the oil and gas margins. Those were down, I guess, a couple of hundred points in the first half year on year. Can you maybe spit out sort of what is driving that in terms of how much things like acquisitions are weighing on that? And if you think in the second half you get the same year-on-year trend on the margins?



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**Keith Sherin - General Electric Company - CFO**

Yes, on oil and gas in the quarter 50 basis points of the decline was driven by acquisitions. Organically I think the largest driver is the fact that we had negative value gap in the quarter, probably close to \$30 million, so pricing and deflation were a negative in total.

But if you look -- the order price index for oil and gas turned positive so that was the first time since the second quarter of 2010. And we are still, obviously, dealing with the negative prices from the prior periods in the quarter.

So I think the acquisitions are going to continue to be dilutive to the margins. Obviously oil and gas has two of the bigger acquisitions affecting them. We probably expect about 50 to 75 basis points in the third quarter and fourth quarter related to those deals.

And then organically we are going to have to see how we do with the value gap. I think pricing is going to be less negative in sales, but it depends on the timing of how fast that orders price works through the backlog, Julian.

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**Julian Mitchell - Credit Suisse - Analyst**

Okay, thanks. Then just on the Energy business, you mentioned the price declines in Q2 on wind and thermal. I mean how do you sort of expect to manage that?

I guess the volume pickup is substantial from here, which you have highlighted in this slide, so you can't really do much sort of on the headcount or capacity side. Or is your assumption just that pricing will naturally get better in 2012 after sort of a six- or nine-month lag versus volumes turning?

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**Jeff Immelt - General Electric Company - CEO**

We always -- we go through a formal process on quoting and then backlog and then revenue, right? So when we look at the quoting today the pricing is actually trending up on the turbines, so I think --there is always a time lag on that as you go through it. At the same time we are doing material productivity, 2% to 3% material productivity, and we are still aiming to get some deflation in there as well.

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**Keith Sherin - General Electric Company - CFO**

Plus our service business.

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**Jeff Immelt - General Electric Company - CEO**

And the service business is extremely strong. So I think the way you got to think about it, Julian, is there is a time lag to the pricing that takes place. That always is the way it goes. And I would say we are seeing the early indicators of it turning, but that is going to take some time.

Services actually the pricing is improving and the margins are improving, and that is a good thing. Then we are going to drive productivity and material pricing and things like that at the same time. I think you put all those things together we really believe that earnings for Energy are positive in the second half and they are positive in 2012 versus 2011.

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**Julian Mitchell - Credit Suisse - Analyst**

Thanks. Then just lastly on Healthcare, you guys as well as Philips have had surprisingly good order growth in the US in the last three or four months. So I just wondered if you thought that was a symptom of something broader in terms of the need. After three or four years of underinvestment there is a couple of years of catch-up spend or if you expect that order growth to sort of tail off from here?

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**Jeff Immelt - General Electric Company - CEO**

Julian, I think it's not really a boomer I wouldn't say. I think it's -- what our expectation is for the US is steady market, in the low to mid single-digit type of growth. If it does better than that we will be pleasantly surprised.

I would say counterbalancing that a little bit is Europe where you still have a big public spin market in Europe, and that was probably slightly worse than we thought. So the two of them kind of balance each other out.

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**Keith Sherin - General Electric Company - CFO**

And the growth in the developing world and our investments in products and distribution are paying off. You can see those in the numbers in Healthcare.

I think that is going to be the strength, continuing to be the strength for the rest of this year and probably next year and beyond here. Jeff described how we thought US and Europe will play for us.

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**Julian Mitchell - Credit Suisse - Analyst**

Okay, thanks.

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**Operator**

Jeffrey Sprague, Vertical Research.

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**Jeffrey Sprague - Vertical Research Partners - Analyst**

Thank you. Good morning, everyone. Just one more on Energy and then I will shift gears. Keith, you gave us the price on orders. Can you give us price on revenues and how that played out in the quarter?

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**Keith Sherin - General Electric Company - CFO**

Yes, just going to have to find it here. What else you got?

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**Jeff Immelt - General Electric Company - CEO**

You going to do your second question first, Jeff?

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**Jeffrey Sprague - Vertical Research Partners - Analyst**

I am actually wondering on GECAS -- you guys have demonstrated that the accounting there is maybe a bit more conservative than some of the other guys that took some impairments six months back or so. But given that the orders have been so dramatic on the Neo and now kind of this big bump on the 37 re-engine, does that change the landscape of valuations on older narrowbodies dramatically? Have you guys work through that yet?

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**Keith Sherin - General Electric Company - CFO**

We thought about it obviously. We obviously thought about it on the A320. GECAS has continued to refresh their fleet year after year. If you look, we do have exposure to -- minimal amount of exposure.

We got the newest fleet, our average age is something like seven years, and we have thought how do you -- the toughest planes right now are clearly the 737 Classics and we are really continuing to make sure we got some appropriate valuations on those. And I think we are going to continue to have a look at that.



But I think the team has worked through it, looked at what we think the implications are based on previous transitions from one technology to the next, and they feel good about their valuations. But as I said, we are going to go through the review of Aviation valuations again in the third quarter and we will have to see if there is any change to that.

But clearly over time, Jeff, when these planes finally are put into service and they are 10% to 15% more fuel efficient you are going to have a residual value impact on the other -- on the planes, and it will transition in over this period between now and 2015, 2016, and 2017 when these new, more fuel-efficient planes come into the market.

So we have been more conservative, as you said, on how we do depreciation and how we view the residual value on our aircraft versus some of the competitors that we have read about. But I think we are going to have to continue to take it into account. We have obviously thought about that as we have put investments into these engines and through programs and also purchase planes and GECAS.

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**Jeffrey Sprague - Vertical Research Partners - Analyst**

And if you are still looking for that other answer --

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**Keith Sherin - General Electric Company - CFO**

No, selling prices, if you look in the quarter, on renewables selling prices were down 11.7%, on gas turbines on thermal selling prices were down 1.9%.

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**Jeffrey Sprague - Vertical Research Partners - Analyst**

Right. And then just finally if I could, on R&D I guess you implied it's kind of fully baked but don't you have a further step up now on the American win on Aero R&D?

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**Jeff Immelt - General Electric Company - CEO**

Jeff, we really don't. I think that LEAP-X is kind of in the run rate and we anticipated that the application increase that will go into the LEAP-X. So you will have a little bit more in the LEAP-X --

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**Keith Sherin - General Electric Company - CFO**

But you are going to come down on the GENx.

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**Jeff Immelt - General Electric Company - CEO**

Yes, the GENx has kind of crested and it's heading on the other way down so that is how I think about it. We are kind of almost done with the GENx.

And to your point, as we do each application, you get charges to certify and stuff like that so they kind of offset each other.

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**Keith Sherin - General Electric Company - CFO**

We will have higher R&D, but as a percent of sales, certainly in Aviation, we don't expect it to be greater than the growth in revenue. That is for sure.

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**Jeffrey Sprague - Vertical Research Partners - Analyst**



Great, thanks a lot.

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**Operator**

Shannon O'Callaghan, Nomura.

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**Shannon O'Callaghan - Nomura Securities - Analyst**

So the wind orders in the quarter were really good; the comparison was particularly easy this quarter. They get tougher. Are you still expecting wind orders to be up in the second half year over year or was this a particularly strong quarter for some reason?

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**Keith Sherin - General Electric Company - CFO**

Our outlook is that the wind orders are going to continue to be pretty good.

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**Jeff Immelt - General Electric Company - CEO**

Our pipeline is pretty strong and, as Keith mentioned earlier, some of that is going to go to the Americas.

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**Keith Sherin - General Electric Company - CFO**

Yes, our outlook is that they are going to continue to be up. Not maybe as up -- as you said, the second-quarter comparison was easy, but our expectation is they will continue to be up.

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**Shannon O'Callaghan - Nomura Securities - Analyst**

And the lead times on these orders are what at this point?

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**Keith Sherin - General Electric Company - CFO**

Well, it's a pretty flexible supply chain. I don't know when the last time one someone would have to place an order to get it put into service before the end of 2012, but I am guessing six to nine months would be (multiple speakers) the latest probably.

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**Shannon O'Callaghan - Nomura Securities - Analyst**

Okay. And then just you are continuing to generate some modest gains in commercial real estate in the UK piece, which -- I mean how encouraging is that? And does that give you any hope of accelerating the wind downs there and the remixing of the asset mix at GE Capital?

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**Keith Sherin - General Electric Company - CFO**

Well, it's obvious better than the outlook that we have had over the last couple years. I think stabilization has been very positive. The funds flow into high-quality properties have been very positive from both pension funds, insurance funds, and some global investors.

We are going to have to see when it crosses over into other broader asset classes -- the more mid-market office and things like the warehouse and some of the multi-family space. So it has been encouraging; it hasn't turned into a complete step function change on valuation on our equity book yet, but certainly the trends are good.

Having the embedded loss go down by \$1 billion in the first half is positive. That is based on not only the work we are doing with depreciation and also impairments, but also not having further declines from a valuation perspective in the marketplace.



Occupancy was up a point in the quarter for us; rents have stabilized. So I think we will have to see how the environment plays out over the next several months and year, but at least we have stabilized and we feel pretty good about the progress the team has made in that portfolio.

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**Shannon O'Callaghan - Nomura Securities - Analyst**

Okay. Thanks, guys.

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**Operator**

Steve Winoker, Sanford Bernstein.

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**Steve Winoker - Sanford Bernstein - Analyst**

Just first question around -- I would like to dig in still to the pricing and material deflation question, around Energy but more broadly. So you guys are still getting material deflation despite the year-on-year commodity changes elsewhere and what we are seeing across your industries. How should we think about that value gap, particularly given the pricing and the backlog, and how long can you maintain that?

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**Keith Sherin - General Electric Company - CFO**

Well, we are seeing material deflation. We would expect to have over \$300 million of material deflation for the year. We are going to have some insulation on labor and pricing has gone from a positive of a couple hundred million last year to a negative of somewhere between \$500 million and \$600 million, \$700 million.

So the value gap is negative. Our expectation in 2011 is that it's negative; it's driven by the negative pricing. Our objective is that that will level off as we go through 2012.

As Jeff said it, we are putting out quotes today that are better in pricing that what we are seeing in orders today, but they come in in the next six months or so into orders. Then it takes another nine months, 12 months to get those orders into sales.

So I think we are just going to have to work through this backlog. We have anticipated that when we put together the framework we have for 2011. We have anticipated what we know today for what we put together for the framework for 2012.

We got to get more material deflation. We got to continue to do a good job of sourcing from low-cost countries. We got to simplify our products and get them to a lower-cost point from a variable cost perspective. And we got to be efficient in our investments on the base cost side. So our whole team is focused on the value gap and that is what we are going to be working on.

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**Jeff Immelt - General Electric Company - CEO**

Steve, as I said earlier, I would like to manage the place to get positive margin rate growth in 2012. The way we are going to do that is good volume, try to keep the value gap no worse that 2012 versus 2011, good services margin enhancement, and R&D as a percentage of revenue crestring. And those are the key levers.

That is what Keith went through and that is how we would like to run the place. We have got to do our operating plans and stuff like that, but that is how I plan to kind of manage the team.

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**Steve Winoker - Sanford Bernstein - Analyst**

And are you seeing increased competition from what you -- if you think about relative to last cycle, we have seen maybe a little bit reinvigorated European competition, not to mention Chinese and other competitors attempting to break into the mature economies. Are you seeing any change on that front at this point?



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**Jeff Immelt - General Electric Company - CEO**

Look, I think we have got good -- we respect our competitors, but I think if you look at what we have done -- let's pick our big -- Aviation we have launched the GENx and now the LEAP-X. We have really, I think, reestablished our leadership in Aviation.

In Energy you are seeing the new large frame Flex 50 and soon to be Flex 60. They are going to be the highest efficiency, most flexible gas turbines in the market. The number of products we have has grown substantially.

So I think -- Steve, look, we respect our competition. But I think we come at this cycle with more weapons than we have probably ever had and so I think that is where the investment has gone.

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**Steve Winoker - Sanford Bernstein - Analyst**

Right. And I guess I would say or the question is if you think about the upcoming gas cycle as it comes, and even the wind cycle on the state mandates, would you expect to be able to get to the same share levels that you had in the last upturn?

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**Jeff Immelt - General Electric Company - CEO**

Look, here is what I would say is we have about 50% share of the gas turbine business today. I certainly don't anticipate it going down, so I think that is -- we plan to play hard.

On Wind, Wind is kind of a different story. We are always going to have high market share in the US and lower market share on the rest of the world.

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**Steve Winoker - Sanford Bernstein - Analyst**

Okay. And then just tax rate, Keith, can you maybe address that a little bit in terms of your expectations for the progression there, considering where you came out in the quarter?

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**Keith Sherin - General Electric Company - CFO**

Yes. If you exclude the impact to the NBCU high tax in the first quarter, our expectation is that we are going to have a tax rate for the GE, ex GE Capital, in the low 20% range. And for GE Capital we would expect to have a high-teens tax rate as their pretax profitabilities improve and the structural benefits have kind of stabilized out at somewhere around \$350 million a quarter or so.

So there are uncertainties that we have. We have got the 2005 and 2006 and 2007 audit that is under review to be closed. If that got closed that could provide us with benefits that would be maybe beyond those amounts I have, and then obviously any legislative changes that occur. Usually they would be prospective; I don't imagine they would hit us this year.

We are anticipating somewhere in the range of what we saw in the second quarter for the year.

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**Steve Winoker - Sanford Bernstein - Analyst**

Great. Thanks, guys.

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**Operator**

Jason Feldman, UBS.



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**Jason Feldman - UBS - Analyst**

Good morning. So I believe the Federal Reserve took over as regulator of GE Capital earlier this month. Any takeaways or surprises from the first couple of weeks, or do you have any greater clarity on what, if anything, might change there with the new supervision?

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**Keith Sherin - General Electric Company - CFO**

Well, you are right; the Fed has become our consolidated regulator in July. We have had a few preliminary meetings with them; Mike Neal and his leadership team, Dave Mason our Head of Regulatory. We have had information requests and we will share information with them, but it's so early, Jason.

I think we are going to be completely open and cooperative and give them access to everything they need. We look forward to working with them. So it's too early to say anything about the Fed.

But we are as prepared as we can be, but I am sure it's going to be different than the environment we have been in. We are not a bank and we are going to have to learn to report more like a financial bank and that is going to be a challenge. But it's just too early; we have just really just begun.

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**Jason Feldman - UBS - Analyst**

Okay. And at commercial lending and leasing it sounds like originations continue to be quite strong, but you have got pretty broad exposure across small and midsize businesses. Given the increasingly uncertain macro environment, the debt ceiling debate, what is going on in Europe, have you seen kind of a change in sentiment among your customers or a change in their needs or levels of loan demand as a result of the increasingly uncertain macro environment?

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**Keith Sherin - General Electric Company - CFO**

Hard to connect the dots between that and some of the volume we see. I think the environment has been really tough in the US and Europe for the last two years and everything related to providing financial products to customers has been tough. For a while they had a lot less access to credit. Now there is more access to credit but it's still challenging.

I would have a hard time saying that there is a direct connection between the uncertainty and the debates in Washington or the debt crisis in Europe and the business we are seeing. I think on a relative basis things continue to improve in our outlook.

Our backlog is up in CLL. Our volume is strong; it's the first quarter we had actually collections equal originations in total. Even though we have been running off the red assets, the green assets grew and the pricing is pretty firm.

So for us the environment feels good and getting better, but I agree there is a lot of uncertainty for that customer base. I guess it's going to depend on how all these things get resolved as to when people have confidence to even invest further. But for us I think it's good and getting slightly better.

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**Jason Feldman - UBS - Analyst**

Okay, thank you.

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**Operator**

Terry Darling, Goldman Sachs.

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**Terry Darling - Goldman Sachs - Analyst**



Good morning. Keith, I am wondering if maybe we could see if you have an update on the all-in EPS impact from acquisitions this year, which presumably is dilutive, but I am wondering if you have an updated number there. You did mention you felt like the integrations were going well there.

I am wondering if there is an update on what you think the range on EPS accretion for 2012 might be.

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**Keith Sherin - General Electric Company - CFO**

I think the best thing I would say is let's see if we can give you an update of that in September at the Energy meeting. I think it's less than \$500 million pretax for the year right now, and that excludes the amounts that we are taking at corporate. So I think that is the amount about pretax, but we will give you an update at the Energy meeting.

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**Terry Darling - Goldman Sachs - Analyst**

Okay. And then in terms of the integration process, does that at this point directionally lead you to be more encouraged about what you are seeing for a synergies perspective there, or is it still early days?

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**Keith Sherin - General Electric Company - CFO**

Yes, I think the teams have -- the acquisitions that have closed we feel very positive about. Everyone is a little above what the pro forma was for what we expected this soon.

We are pretty good at acquisitions. We have got our processes; we send in our teams. We have got a lot of integration plans; we do 100-day checklist. We have a lot of formal reporting. We have a lot of additional resources that go in.

And I think everything from our perspective on the oil and gas Energy deals is a little above pro forma right now. So we like the businesses we bought; they obviously fit with GE well. They have got good teams, good technology, and they are off to a good start.

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**Jeff Immelt - General Electric Company - CEO**

Orders are good.

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**Terry Darling - Goldman Sachs - Analyst**

Okay. And then, Keith, wondering if you could also maybe continue the puts and takes on GE Capital beyond the third quarter.

You talked about some of the issues that probably made GE Capital EPS in the third quarter off a little bit, which is normal seasonally, but I guess I am trying to balance the other pieces. So losses are coming down but the asset base is shrinking. On the other side of the coin maybe you can comment on new business margins.

And 2012 overall I know you are thinking up, but I am wondering if you have got any more color in terms of magnitude of [up] based on how those puts and takes are shaping up for you?

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**Keith Sherin - General Electric Company - CFO**

Well, Jeff puts two pluses on top of the bar so (multiple speakers). Look, I think I gave you some of the things in the third quarter -- look, obviously the business continues to improve. We had \$1.4 billion of write-ups in the quarter that is about 1.8% of financing receivables. We had \$800 million of provision that is only 1.05% of financing receivables. I think the provision -- so that brought the reserve balance down about \$550 million.



Our coverage is good at 2.3%, in line with the asset improvements. The \$800 million provision, I think that is lower by about \$150 million, if you look at the supplementals, from some recoveries we have had where the amounts that we recovered were greater than the book value that we had. So that shows up actually as a reduction in the provision.

Plus, we did have some reserve (technical difficulty) in the quarter, about half of that, 150. So if you put that together you are probably going to look at over time, if you go back to 2003 through 2007, you are probably dealing with a 1.2%, 1.3% type of provision that you should be dealing with. That would be a more normalized thing and we are getting close to normal.

I think the only thing that is really not normal yet is real estate and that has got a lot of room for improvement and that is going to provide a lot of earnings growth.

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**Jeff Immelt - General Electric Company - CEO**

That is what I was going to say, Terry. Your bluebird here is real estate really. I think we have seen the benefit from more liquidity. If you had a combination of some employment improvement plus liquidity that is going to get a lot better a lot faster. And so I think that is really the upward swing on GE Capital.

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**Keith Sherin - General Electric Company - CFO**

The one obviously in the first quarter the sizable Garanti gain doesn't repeat. I think that is the one thing that you would clearly look at just as a one-time item here, Terry.

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**Terry Darling - Goldman Sachs - Analyst**

You did have a lot of originations in the quarter. Where our margins on new business at this point? Have they come off a little bit of where the highs were last year? Are we still running hot there? What is happening at the margin with that?

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**Keith Sherin - General Electric Company - CFO**

We are still above a 2. We have had a very solid performance. Mike being on the team have been incredibly disciplined on pricing and our objective to get our returns up, and so they have been very disciplined and they continue to have very good margins. They are not as high as the peak, but they are still very strong.

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**Terry Darling - Goldman Sachs - Analyst**

And lastly, and I hope relatedly, pace of buyback in the second half. Obviously you have got the Buffett preferred; you spent \$1 billion or so in the first half of the year. Looks to be scoped to go higher than that in the second half if you wanted to, but maybe you could just comment on pace of buyback given the overall GE mosaic in the second half.

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**Keith Sherin - General Electric Company - CFO**

Well, we will see. I think just the preferred, just to be clear, that is \$3.3 billion. We will retire 20% of what we did in 2008 in the fourth quarter in one swoop here when we retire that preferred, so that is the priority right now. But we will continue to do the buyback and we will continue to be opportunistic around the buyback.

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**Jeff Immelt - General Electric Company - CEO**

Terry, I would just add what I said at EPG. We have got plenty on our plate from an acquisition integration standpoint. Our near-term emphasis is coined to be dividend growth and buyback.



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**Terry Darling - Goldman Sachs - Analyst**

Great, thank you.

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

Thanks, Terry. Chanel, we hit our time and we have a lot of companies reporting today, but let's take one more here because we still have one or two in the queue.

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**Operator**

John Inch, Merrill Lynch.

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**John Inch - BofA Merrill Lynch - Analyst**

Good morning. Keith, just so I am clear in terms of your commentary around provision, the provisions are down a lot of capital year over year, which was sort of expected and it's kind of a positive data point. Are we at that stage today in terms of the trajectory or would you still expect absolute dollar downward trajectory given your commentary?

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**Keith Sherin - General Electric Company - CFO**

I am sorry, on just the loss prevention?

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**John Inch - BofA Merrill Lynch - Analyst**

Yes.

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**Keith Sherin - General Electric Company - CFO**

Yes, I mean I think, as I said, if you look at the quarter at \$800 million and 1.05% that is a little lower than what our historic amount would be pre-crisis. It has got two things in it in the quarter that you have -- we have to think about the dynamics.

I am not saying exactly what they are going to be going forward, but, first of all, in the consumer space we continue to see a very strong performance in asset quality. The delinquency decline was greater than we had seen previously from the first quarter to second quarter in the portfolio and that resulted in lower provisions.

The second thing is in the quarter we had about \$150 million of recoveries that were greater than our asset value that showed up as a reduction in the provision and also some reserve releases. It was about split 50/50. And so that as a one-timer reduced the provision in the quarter a little lower than you normally would have seen.

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**John Inch - BofA Merrill Lynch - Analyst**

Okay, so that makes sense. Keith, the businesses that you have been divesting in capital, which is part of the plan, what kind of a headwind does that create though in 2012 because of the absence of the contribution benefit of the earnings that you are not going to realize next year? Is there a way to size that at this juncture?

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**Keith Sherin - General Electric Company - CFO**



I think the biggest one is Garanti. Obviously that was -- just on the gain alone was \$0.03 and then they are making \$50 million a quarter. Then beyond that I think the range would be up to another \$0.015 to \$0.02 maybe. It depends upon what we get done in the second half here, but that would be a range for you.

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**John Inch - BofA Merrill Lynch - Analyst**

That makes sense. Then maybe just lastly, could you guys comment on what is happening with respect to Japan sort of broadly, but then Japan as it pertains to your thermal business? You are hearing -- they are certainly ordering a lot of your product. What has sort of been the impact and maybe you could sort of size that for us?

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**Keith Sherin - General Electric Company - CFO**

We had about \$600 million in the quarter of orders in Japan; thermal was half of that, but that was Energy orders. Aero derivative was very strong and I think, -- Jeff, you can talk about what you see as the outlook there for additional. We didn't have a big impact in the supply chain; we didn't have a big impact in the country itself in the quarter. I think the orders were good, but other than that --

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**Jeff Immelt - General Electric Company - CEO**

Yes, I think, John, there is going to be another wave of thermal orders. It's kind of like this is the summer of 2011 and we will get ready for the next summer of 2012 and 2013. So my hunch is that there will be another wave of thermal orders.

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**John Inch - BofA Merrill Lynch - Analyst**

Great, thank you.

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

Thanks, everyone. We are going to wrap the call today.

The replay of today's webcast will be available this afternoon. We will be distributing our quarterly supplemental data schedule for GE Capital later today, probably a little earlier, around noon today.

I have some announcements regarding upcoming investor events. As Keith mentioned, we are going to be hosting our GE Energy Investor Meeting on September 20 at our Crotonville facility in New York. We will provide more meeting logistics and information upcoming in August. And our third-quarter 2011 earnings webcast will be on October 21.

As always we will be available today to take your questions. Thank you, everyone.

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**Operator**

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



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