




## Conference Call Transcript

### GE - Q3 2010 General Electric Earnings Conference Call

**Event Date/Time: Oct 15, 2010 / 12:30PM GMT**

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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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**Operator**

Good day, ladies and gentlemen, and welcome to the General Electric third-quarter 2010 earnings conference call. At this time all participants are in a listen-only mode. My name is Noelia, and I will be your conference coordinator for 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 - VP of IR**

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Thank you, Noelia. Good morning and welcome, everyone. We are pleased to host today's third-quarter 2010 earnings webcast. Regarding the materials for this webcast, we issued the press release earlier this morning. The presentation slides are available via the webcast. The slides are also available for download and printing on our website at [www.ge.com/investor](http://www.ge.com/investor). We will have time for Q&A at the end.

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 - Chairman and CEO**

Great, Trevor. Good morning, everyone. The team had a good quarter and an improving environment. The environment generally continues to get better. Some of the things we look at like media buying, credit demand, our losses are declining. Equipment orders growing. I think those were all positives for GE.

We are seeing a slow recovery in a few areas. Commercial Real Estate is performing as expected in a tough cycle. As you know in 2009, we had negative demand for electricity and that's slowly getting better but has had an impact in our Energy orders certainly in 2009. And the appliances market was tough for us as we went through the third quarter.

We had good earnings growth; EPS was up 32% and GE Capital really the team did a great job. You will notice that Keith will talk about in a second, GE Money discontinued operations reserves substantially increased. We believe that that reserve update fully addresses our Grey Zone risk. Execution is very strong, \$78 billion of cash and equivalents and operating margins grew in the quarter ex-NBCU.

And we are doing what we said we would do on capital allocation. We had about \$900 million of stock buyback. The dividend is growing by 20% and we did a couple, what we think are value creating acquisitions. So we made progress in the quarter.

Go to the next page on GE Capital, no need to dwell on this page. I think all of the metrics are fundamentally getting better. Funding is in good shape. Commercial paper is way down, particularly versus where we were two years ago. Leverage has been reduced. If you look at our Tier 1 Common ratio, continues to strengthen and we are well positioned within the Basel III outline and our ending net investment plan is on track. So we have very strong liquidity and capital positions at GE Capital.

Orders grew by 7%. It's the first time in two years that equipment and services orders grew at the same time, so we view that as a good sign. Tech Infrastructure orders up 33%. That's really great. It shows strength really across Healthcare, Transportation, and Aviation. The backlog was stable. We had several big pushouts in our Oil & Gas business that should come back to us in Q4. And in places like Healthcare, the emerging market orders are up substantially.

The order pricing was only down slightly; it was down about 0.8% in the quarter. So I think that is a pretty good sign for the quarter itself. And as we said in a press release, we think Industrial revenue in the fourth quarter will be up sequentially and roughly flat with where we were in the fourth quarter of '09. So I think there is a lot of good news on the orders page that is going to help us as we go into the fourth quarter and beyond into 2011/2012.

We always talk about execution in both margins and cash and I think the team has done a good job on both of these. Our operating profit rate grew by 40 basis points. That is excluding NBCU. Particularly strong performance by Energy. We had a positive value gap of about \$190 million and a big chunk of that driven by material cost deflation. Our operating teams continue to do a good job. And at the same time, we absorbed the initial shipments of the GENx engines, some of the launch costs and that took place in the third quarter as well.

From an R&D standpoint, we are investing about 5% of our Industrial revenue back into R&D. It is growing 21% year-over-year. Again, focused on product leadership, expanding our core technologies and creating lower cost position.

Just a couple of highlights. We have a strong position on the 787 launch as that goes forward. That will pull a lot of GE systems and engines with it. Very strong new NPI development in our Energy business with new 7F/9F and a larger size Jenbacher engine. And our new investments are scaling in areas like battery, home health and solar. So we are maintaining margins while increasing investment in technology and absorbing some of the initial GENx launch costs.

Also from a cash standpoint, our cash performance was very strong in the quarter. We generated about \$3.8 billion in 3Q. It's cash flow from operating activities at 1.3 times net income and depreciation and as expected, our progress balance continues to decline offset by working capital improvements and our working capital turns continue to get better.

On the right-hand side of the page, you can see the cash walk. Our consolidated cash was almost \$80 billion -- \$78 billion. Again, we have announced the increase in the dividend and the buyback and again, our cash performance is in good shape.

Last year we said our framework for CFOA for the year was between \$13 billion and \$15 billion. We now think we are on track to be at the high end of that range so it would be somewhere between \$14 billion and \$15 billion as we finish the year in 2010.

So a good job of execution by the team. And now I will turn it over to Keith to go through the financial performance.

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

Thanks, Jeff. I'm going to start with the third-quarter summary. For the summary, for the quarter, we had continuing operations revenues of \$35.9 billion, which were down 5%; Industrial sales of \$23.6 billion, which were down 6%. Industrial sales were in line with our expectations. If you look at the last 18 months of orders we had said that Industrial sales would be down and through the first half, we were down 5%, third quarter is down 6%.

Financial Services revenues down 2% as we continue to shrink the book, and we earned \$3.2 billion in net income, which is up 29%. And for earnings per share, we earned \$0.29, including the costs of the preferred dividend and earnings per share up 32%.

As Jeff covered, the total cash flow from operating activities was very strong, \$10.1 billion year to date, putting us at the high end of our original range. And taxes are pretty steady in the quarter. The consolidated tax rate for the third quarter is 9%. That rate is up from a negative 25% in the third quarter of '09, mainly because of the improvement in pretax earnings at GE Capital.

If you look, the GE tax rate is flat with 2009 at 22% and then on GE Capital, the rate for the third quarter goes from a large positive in 2009 where we had a large credit to a negative in 2010 and the negative rate in 2010 reflects a net tax benefit or a credit on \$1.5 billion of higher GECS pretax income year over year.

We expect the GE rate for the full year to be in the mid-20s excluding the NBCU disposition and that would be a bit lower than in the third quarter year-to-date rate of 26% due to some likely audit resolutions that we see -- are working on for the fourth quarter.

On the right side of the segment results, our Industrial businesses ex Media had \$3.2 billion of segment profit. It was down 5%. You can see NBC Universal's operating results are down 15%, but the real results are better than the reported results. I will show you that on the details of the upcoming NBCU page.

And GE Capital continues to demonstrate a rebound. Net income of \$870 million. It is up six times from last year. So overall, segment profit was up 11%, and then with lower restructuring at Corporate versus/year, total earnings were up 29%.

We always show you the items that happen in the quarter that we wanted to report separately. If you look at the top left, you can see that in the third quarter the corporate restructuring and other items were insignificant. We had a net of zero on restructuring and other items and no gains in the corporate line.

The item that we have to talk about today is in discontinued operations. As you saw in our press release, we added a significant amount to our reserve for the losses related to our Japanese consumer, Grey Zone exposure. We booked a \$1.1 billion charge in the quarter in discontinued operations and I will take you through the details on the right side.

The chart on the top right, that is an update from our second-quarter call. And as you can see the average daily claims which we experience in Japan, continued to decline in July and August. However, they increased in September. One of the independent personal loan companies in Japan, Takefuji, was rumored to be in financial distress during the month and at the end of the month they filed for bankruptcy. We don't know the specific impact of that event on these claims but we do know that September daily claims were up after declining for six straight months.

During the third quarter, we completed a significant study of the Grey Zone claims trends. We made a decision in the quarter to adjust our reserve estimate to our best estimate of the ultimate exposure. If you remember previously, we were booking to the low end of our range and that resulted in a \$1.1 billion addition to our reserves bringing our total reserves to \$1.7 billion at the end of Q3.

Now the average monthly losses for the Q3 incoming claims are about \$60 million a month. And so our current reserve represents over 24 months of future coverage even if you assume there is no further reduction from today's levels.

If you look at the history, though, we do believe claims will continue to come down. If you go from the first quarter to the third quarter, claims are down 27%. If you go from last year to this year, claims are down over 35%. So we do believe claims will continue to come down and we are going to continue to aggressively manage the claims process in Japan with Shinsei. At the end of the day we moved off the low end of the range to our best estimate and based on what we know today, we believe we've fully addressed this issue.

I will go into the businesses. For the business results, I am going to start with GE Capital. Mike Neal and the team had another very positive quarter. Obviously revenue of \$11.6 billion was down 3% driven by the lower assets and some dispositions. Pretax earnings of \$527 million. They were up \$1.5 billion versus last year, a tremendous improvement. Net income of \$870 million was up over \$700 million versus last year and that is a result of lower credit costs, higher margins on the business, partially offset by lower assets and higher impairments in the quarter.

We ended Q3 with \$489 billion of ENI investment. That is down 7% from last year and we are well on our way to hitting the \$440 billion ENI target by 2012.

Another highlight in the quarter would be the new volume. If you look, commercial volume was up 45% over last year to \$10.6 billion, mostly driven by CLL with very strong margins. And overall, we did \$40 billion of volume and that included consumer coming down too as we shrank in the places we want to shrink.

So I'm going to cover the asset quality metrics in the next few pages, so here are a few comments by the main businesses. First is Commercial Real Estate. The environment continued to be challenging, as we expected. The business lost \$405 million in net income. That was \$133 million better than last year and also \$100 million -- over \$100 million better than Q2. But it is still a large loss. We recorded \$178 million of after-tax credit losses on our debt portfolio and the declines in it globally have started to really abate. The average decline in our global property value was 0% to 1% but for the properties where we took a reserve, the decline was an average 7%.

We also incurred \$315 million of after-tax marks and impairments on our equity portfolio. There were some positives in the quarter. We sold 90 properties for \$700 million and overall our assets are down to \$75 billion down 10% from last year and down 2% from Q2 even with some impact from foreign exchange.

Non-earning assets in real estate were down \$200 million. However, as you look forward, we still expect the Real Estate business to remain under pressure for the near future.

Commercial Lending and Leasing also had a very strong quarter, earnings of \$443 million up \$313 million versus last year. Those results were driven by lower losses, lower marks and impairments and higher core margins. That all reflects the improvements in asset quality. GECAS of \$158 million. Those earnings were down 16% as we completed our annual impairment review in the quarter. Impairments of \$260 million pretax were higher than last year driven by some valuation declines on 737 Classics and 50-seat regional jets. Those impairments were partially offset again in GECAS by lower credit costs and higher core income and the portfolio remains in great shape but we have zero non-earning assets.

And Energy Financial Services also had a good quarter with earnings up 34%. The real highlight in the quarter is our Consumer business. We had another great quarter there. Delivered \$826 million of net income, up \$380 million. The earnings growth came from lower credit losses partially offset by some lower assets. US Retail Finance earned \$329 million, up and over 100% driven by portfolio quality improvements and better margins.

In the Consumer business, the Global Banking had a good quarter. Global Banking earned \$293 million, up 80% driven by lower credit costs. And UK home lending also earned \$45 million in the quarter and our own real estate stock in the UK is the lowest it has been since the second quarter of '08. We ended the quarter with 746 properties and we continue to do better than our marks on the properties that we do sell. The realization in the quarter was 116%.

So overall, a really positive outlook for GE Capital, the second positive growth quarter in a row demonstrating the turnaround and recovery that we are having at GE Capital.

On the next page is the asset quality, delinquencies, and non-earnings. In the interest of time and as these metrics are all improving I am just going to summarize a few key points. If you look at both equipment and consumer, our delinquencies and our non-earning balances and our percents continue to improve. All of the trends are down slightly from Q2.

Down on the bottom left for Real Estate, the delinquency dollars were flat but our delinquency rate went up slightly because the book is down a bit and Real Estate non-earnings were also down \$200 million. So we have a GE Capital analyst event that we scheduled for Tuesday, December 7, and the team is going to provide a lot more detail on this and other topics at that time.

Next is an update on reserves. If you look at reserve balances, they were flat from Q2 to Q3 at \$9.1 billion. Reserve coverage increased slightly to 2.69%. We had \$1.7 billion in new provisions against \$1.8 billion in write-offs. Some rounding in foreign exchange impact left the reserve flat at 9.1.

If you look at the two business segments, commercial reserves are up. That is driven by Real Estate but coverage is up. And if you look at the details, both our commercial 30-day delinquency dollars, so the actual dollars that are past due, and our commercial non-earning assets are both down \$300 million Q3 versus Q2. And when you look at the collateralized position, we feel confident about the recovery we are going to have relative to the non-earning amounts that are out there.

For the Consumer businesses, the coverage is down slightly driven by the continued improvement in the portfolio quality metrics. Even for Consumer, the managed delinquency dollars are down \$250 million in Q3 versus Q2. And non-earning consumer assets are down about \$60 million Q3 versus Q2.

So we feel great about the overall GE Capital asset quality and reserve coverage and Jeff Bornstein is going to cover this in more detail during the upcoming GE Capital analyst meeting.

Start the Industrial businesses with NBC Universal. Jeff Zucker and the team had a pretty solid quarter, adjusting for the non-repeat of last year's AETN gain. And if you look, the reported revenues on the left side of \$4.1 billion were flat. Reported op profit of \$625 million is down 15%. However, the operating performance was better than that.

On the right side, if you take out the net impact of the AETN gain and impairment charges which we highlighted last year, those netted to a positive \$137 million in Q3 '09. If you adjust for that, the operating result for the quarter would have been up 5%.

If you look at the dynamics for the business, Cable continued to deliver strong performance. Revenues of \$1.2 billion were up 8% and segment profit was up 22% led by strength across the entertainment portfolio. If you look at Broadcast, the revenues of \$1.4 billion were down 2% and the segment profit here was down about \$80 million driven by the significant investments that the team has made in prime time.

Local market remains strong. In the third quarter, the local markets were up 18% which is a good sign. And the scatter market remains strong. For the third quarter, it was up 20-plus% on the network and on cable and we continue to see scatter up double digits in the fourth quarter versus the most recent up front.

Film & Parks had a strong quarter. Revenues were up 16%. Segment profit was up more than two times from last year, a great result with the movie, Despicable Me. And our Parks business had the best quarter ever driven by the success of Harry Potter in Orlando and King Kong in Hollywood. They had a record quarter.

Now we continue to work with the regulatory reviews, we are cooperating fully. We hope to close the transaction with Comcast by year end. We continue to prepare for the closing. We had a successful debt offering so we have completed the JV's financing, and we also completed the initial partial purchase from Vivendi for \$2 billion increasing our ownership stake by about 7.5%.

So a lot is going on at NBC and pretty good operational quarter.

Next is Technology Infrastructure. John Rice and his team delivered a third quarter in line with our expectations and the outlook was consistent with what we delivered in the second quarter, as we said. If you look at the key businesses, I would start with Aviation. Orders of \$5 billion were up 10%. We are definitely seeing a pickup at Aviation equipment orders. Commercial engine orders of \$1.5 billion were up 57%.

CFM orders up 196%; GE90 orders were up 70%; GEnx orders were up 100%. So the increase is very broad-based. Military orders of \$500 million in the quarter were down 9%. We ended the quarter with our major equipment backlog at \$19.6 billion which is up 2% from the second quarter.

For service, orders in the quarter were down 6%. Our commercial spare parts orders were \$22.2 million per day, which is a pretty good rate. The rate compared to reported last year is down 2, but we continue to report -- we had an Aviall order last year. If you adjust for that Aviall order, the rate in the third quarter would have been up 25%. So we are definitely seeing a pickup relative to last year. We had a real decline in the third quarter, and at \$22.2 million, that is a good, healthy orders rate for the spares business.

Revenues of \$4.4 billion were down 3%. That is driven by the lower military unit deliveries which were down 14% in the quarter and that was partially offset by higher commercial deliveries which were up 2%. We had 463 deliveries of commercial engines this year in the quarter versus 456 last year.

For our revenue, service revenues were down 3%. That was driven by about 4% lower overhauls. Segment profit was down 17%. That is consistent with our results in the first half, basically the Aviation business has had 16% down in profit through the half. And the third quarter included one difficult comparison against the gain on our Wolverhampton sale in the third quarter of '09. And we also started shipping the new GEnx engines, and as Jeff said, which pressured our margins a bit in the quarter.

For Healthcare, the Healthcare team continued to see a stronger market, orders of \$4.2 billion were up 6%. Equipment orders were up 8%. If you look at some of the pieces, diagnostic imaging was up 5% driven by double-digit gains in both CT and MR globally. US diagnostic imaging was flat.

Clinical systems was very strong, up 16% and US clinical systems were up 17%. China was up 18%. India was up 36% and service orders overall were up 1%.

We ended Q3 with a \$4 billion equipment backlog. That is up 18% versus last year and up 5% versus Q2. Segment profit was up 14% as the strong volume and productivity more than offset the impact of pricing.

Next is Transportation. Transportation's results continued to be impacted by a tough operating environment. However, if you look at all the indicators, the market outlook is getting much better. Orders of \$1.4 billion in the quarter were up 122%. Equipment orders of \$900 million were up five times over last year and that was split both domestically and internationally.

Service orders were up 15%. The number of parked locomotives declined from 3000 at the end of Q2 to 2350 at the end of Q3 as rail volumes are up 13% year-to-date. In the quarter, revenue of \$869 million. That was down 10% driven by 18% fewer locomotives. We shipped 96 locomotives this year versus 117 last year and services were also down 10%.

Segment profit of \$101 million was down 43% reflecting the lower volume. So while the business results are down in the quarter, the environment here definitely is improving.

Next is Energy. John Krenicki and the Energy team held profits flat despite having lower equipment volumes. Revenues of \$8.4 billion were down 14%; segment profit of \$1.7 billion was flat. If you look at Energy, Energy orders \$7.5 billion were up 2%. Equipment orders of \$3.2 billion were down 5%. That was really driven by Power & Water. Power & Water equipment orders were down 9% driven by thermal. We had orders for 15 gas turbines this year versus 23 last year. The 23 last year included 15 of the Iraq units, so it was one large order. Wind orders of \$1.1 billion were down 15%. We received orders for 500 wind turbines this year which was down about 60 units.

On the positive side, we had orders for 25 Aero units this year versus six last year; 290 Jenbacher units versus 206 last year; and service orders of \$4.2 billion were up 8% driven by strong growth in core Energy Services.

Revenues of \$6.8 billion were down 15%. Equipment revenue was down 21%. That was really driven by lower wind units. We delivered 616 units this year versus 935 last year and also less non-GE balance of plant on some of the big projects, that was about \$325 million less revenue year-over-year. That was partially offset by higher gas turbine units. We shipped 24 units this quarter versus 16 last year.

Service revenue of \$3.1 billion was down 6% driven by lower outage and parts revenues. Segment profit of \$1.4 billion was up 4%. The team did a great job managing margins. We had price increases, we had material deflation, and we had good variable cost productivity more than offsetting the impact of the lower volume.

For Oil & Gas, orders of \$1.7 billion were down 22%. This is really a tough comparison quarter. We had equipment orders of \$700 million, that was down 44% mainly because of the tough comparisons. Last year we had a \$500 million of one order, the Gorgon order was booked in Q3 and we also had about \$370 million of equipment orders pushed out of Q3. So year-to-date equipment orders of \$3.1 billion are down about 10%. Better than what we had in the quarter with the lumpiness we have here and we expect the fourth quarter to be pretty good.

Service orders of \$950 million were up 12% driven by strong spare parts sales and also upgrades. For the quarter, revenues of \$1.8 billion were down 9%. Equipment revenues were down 14% driven by lower downstream volume. Last year in the third quarter, we delivered five reactors for the petrochemical industry and this year we didn't have any. So we are really making a shift from the downstream business to the upstream business as we go from petrochemicals and processing up into LNG. And you are going to see that shift over the next year and a half.

Service revenues in the quarter were down 1%, up 6% ex-FX and segment profit of \$287 million was down 15% driven by the lower reactor volume. And the impact of the stronger dollar year over year which hurt Oil & Gas, if you exclude those two items, segment profit was about flat in the quarter. So the Energy team delivered flat profit in a little tougher comparison and tougher environment quarter.

Next is Home & Business Solutions. Charlene Begley and the Home & Business Solutions team had a flat quarter in Q3. It is really driven by weakness in the appliance market. Revenues of \$2.1 billion were down 1%. Segment profit of \$104 million was flat with last year.

In terms of the market, we saw really good strength, continued strength in Lighting and it is driven by the energy efficiency trends. We had great volume in those products including compact fluorescents, LEDs and new ballasts. Orders for Lighting in the quarter were up 9%.

For Appliance, the market was down 4% in the third quarter and our orders were down 6% with continued weakness in the contract channel. Multifamily was very weak in the quarter, and that is affecting the overall business.

If you look, segment profit at \$104 million was flat. That includes the impact of higher cost that we have put into the appliances to meet the new ENERGY STAR standards which on a net basis is a positive because it resulted in \$51 million of tax credits that aren't included in the pretax numbers above.

We continue to invest in Home & Business Solutions. If you look in the quarter, R&D was up 27%. We're also going to be doing more investments over the next several quarters and you will be seeing announcements on things like the lighting expansion in Ohio and other plants that we are going to be working on.

So the markets are mixed but we are maintaining our profitability and we are doing a lot of investment for the future especially around Energy.

With that, let me turn it back to Jeff.

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

Great, Keith. Thanks, and just to give you some more color on the year and going forward, going back to the 2010 earnings framework. As we finish the year, we expect positive earnings growth in the fourth quarter in our Industrial and at NBCU and in GE Capital business based on improving markets and solid execution. So we are going to see pretty good momentum from a business standpoint and operating standpoint as we get into fourth quarter.

Good margin performance in Media. Strong markets and good performance in Cable and Parks. And at GE Capital, the recovery continues.

We will have several fourth-quarter items on the corporate line. These will include some gains, for instance, if we close NBC Universal, there will be a gain associated with that and some tax settlements offset by restructuring and some other items. One of those items might be, for instance, we are in discussion with the EPA on Phase 2 of the Hudson River. And even while we have a good reserve already set up for Phase 2, we don't know where those discussions will go and we will work on that with the EPA in the fourth quarter. So in all, this will likely be a slight negative in the quarter in the corporate items.

We have done a lot to strengthen the Company for 2011 and beyond. We have a very strong backlog and executing well and as we have said all along, the capital allocation optionality is very sound for the Company.

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I will give you an update of all of this in December but as we sit here today and I think about the Company going forward, we really expect Industrial earnings to grow and by that I mean Infrastructure and Home & Business Solutions. We expect growth in those segments going forward in the future. We expect capital, solid earnings growth in GE Capital. We expect to have pension headwinds and as we complete the NBC Universal joint venture with Comcast, we expect some dilution there to be expected.

So that is kind of the way I think about the 2010 as we finish the year and a prelude into how we ought to look at the December meeting and the Company going forward.

And then just to wrap it up on a chart I have used in the past, I think the attractive financial profile remains intact, and with good momentum in the future. Strong financial flexibility. This is parent cash, and again, the fourth quarter number reflects the increased dividend, the buyback and the announced M&A. So we can put that cash already to work and that financial flexibility grows over time.

And the things that we said we were going to work on I think we have made good progress on. Repositioning GE Capital to have good profit growth and competitive advantage I think third quarter gives you a pretty good sense of that.

Growth in return on our Infrastructure over time. You can see what we are investing in R&D and the product pipeline is robust. Building enterprise value around process excellence. We have very high margins through the downturn. And our working capital turns are very strong inside the Company.

And then capital allocation to create long-term shareholder value. We have started the buy back. We have increased the dividend and you have seen what we have done on strategic M&A. So we've done what we said we would do over the last year or so on capital allocation.

So that's it for the quarter and now we have a chance to take some questions, Trevor. Thank you.

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**Trevor Schauenberg - General Electric - VP of IR**

Great. Thanks, Jeff. Thanks, Keith. Noelia, I think we are ready to turn it over to the Q&A.

## QUESTION AND ANSWER

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**Operator**

(Operator Instructions) Steven Winoker, Stanford Bernstein.

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**Steven Winoker - Sanford C. Bernstein - Analyst**

Good morning. Just first question around the order rates for 2011. Can you give us some perspective -- sorry in this quarter -- the conversion rate into next year based on what you are seeing now how much of that converts?

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

You know, I think if you look historically, it is somewhere between 85%, 90% are sort of the orders you bring into the backlog at the end of the year would convert into sales in the next year. But if you end the year -- if we end the year, for example, in Energy with \$13 billion of backlog, you're probably going to get 90% of that converting into sales on average.

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**Steven Winoker - Sanford C. Bernstein - Analyst**

And that is true for the current Aviation profile?

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

Aviation is a little longer backlog. If you think about that, I would use run rates in Aviation more than a backlog conversion because if you look, the air framers are pretty much full, right? They are increasing the rates a bit. If you look at the announcements between now and 2012, they are going to have a significant increase in their production rates, but I would work off of run rates there.

The 777 is going to go from five to seven a month by 2012. The 737 is going to go from 31 to 38 a month by 2013. The A320 has gone from 34 to 40 and month by 2012. So that is the thing I would look at it is the airframe run rates for Aviation.

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

I think beyond that, Keith, on Aviation, is you just have the Boeing forecasts on 787s --

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

You've got a lot of --

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

You've got a lot of juice there given our penetration.

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**Steven Winoker - Sanford C. Bernstein - Analyst**

Okay, and am I correct -- if I exclude the Iraqi order and at least normalize it from Q2, equipment at the time instead of being up 17%, was probably up mid-single digit, so this 9% increase I should sort of think about relative to kind of a mid-single-digit increase in the last quarter? If I normalize for that, is that not right?

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

Yes, third quarter year-to-date, equipment orders are up 4. And I think the longer periods you take for the long cycle orders give you a better feel for kind of the run rate.

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

Steven, the way I would look at it, I divide Energy more or less into four buckets. You know, you've got the service business where orders are picking up and they are going to stay really very strong. And the you've got Oil & Gas where Keith really talked about some of the transitions in Oil & Gas, but they are probably flattish to down slightly so far. But there is no reason to expect Oil & Gas not to be decent as we go forward. So I kind of think about it in those four buckets.

What I would call the fossil fleet in total, which is heavy-duty gas turbines, Jenbacher, aero derivatives, all that stuff, you know, those are flattish and I think will probably stay in that range. And then renewables we expect to be down slightly as you go, they were down year-to-date and will probably continue to under pressure as we go forward.

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**Steven Winoker - Sanford C. Bernstein - Analyst**

So I kind of think about it in those GECS a little bit. The ENI I saw was just up a little bit in the supplemental on the quarter versus the last 49 versus 47. Is that trending -- anything we should note about the trend relative to your target on reducing the size of capital?

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

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No. I think if you look at page 3 of the presentation where we show you that the business reductions in the quarter were strong again, the business reductions were down 9 billion. But the dollar in the mark from the second quarter to the third quarter, that increased assets by \$11 billion.

So in terms of our business reductions, we are still ahead of schedule and we are well on track to hit the [440]. One of the things that we did in the quarter as you saw, we also purchased some assets from Citigroup. I mean, it is another indication that we are ahead of our shrinkage targets and we have room for some bulk origination as well as the good underwriting and the origination that we are seeing from the commercial teams.

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**Steven Winoker - Sanford C. Bernstein - Analyst**

And then on Shinsei, just a little bit more clarity. The 11% assumed claims per month reduction, that was sort of the run rate that we had in from you guys before. So what number are you thinking of now when you -- based on the additional reserving?

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

Basically when you look at the last 12 months of claims activity, and you include September where September went up and as we said, we are obviously the Takefuji event had some impact on it but I don't know how much. If you look at the rates, three months, six month, nine month and 12 month, reductions in claims from month, they range from 2% to 6%. And so we basically have taken the midpoint of the range, which is the 12-month reduction of an average of about 4%, Steve.

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**Steven Winoker - Sanford C. Bernstein - Analyst**

Okay, well I have more, but let me hand it off to some other people who can get questions in. Thanks.

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**Operator**

John Inch, Bank of America.

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**John Inch - BAS-ML - Analyst**

Thank you. Good morning, everyone. So what was the organic growth for the Industrial businesses, Keith or Jeff, this quarter?

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

Yes, organic -- I'll grab that for you. If you look for Industrial total was down 4. Energy was down 12, Tech was flat. And H&BS was up 1.

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**John Inch - BAS-ML - Analyst**

Okay, great. There was no corporate restructuring and I think -- I can't remember if you sort of had intimated this officially or just it was suggested that I think you did about \$0.03 in the first half and I had thought the second half was actually going to be a sort of overall ramp from the \$0.03 rate. Does that imply -- I think it is kind of goes back to Jeff's comments -- does that imply there is a potentially fairly large restructuring action coming in the fourth quarter? Maybe offset with BAC sales gains and possibly NBCU or some other stuff? How should we think about that? What's really would be the nature of that? Is it sort of a cleanup heading into 2011 or is it catching up with other things? How would you like us to think about it?

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

Well, I think as Jeff said, in the fourth quarter, we have a number of items that are potentially going to happen. We are expecting the NBC deal to close. If the NBC deal closes in the fourth quarter, that should result in a small after-tax gain. We do expect some tax settlements. We are

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working on right now on years 2003 to 2005 with the IRS. And we are in the final discussions -- will it happen and what will the amount be is hard to say, but that could be in there.

So offsetting those things are a variety of opportunities, whether it is asset sales or it is continued restructuring like you have seen us do in terms of taking the cost structure down or other charges like the environmental that Jeff said. I think our anticipation is that the negatives will likely be more than offset by some of the positives that we have in the quarter. We don't know.

At the end of the day, when you do year-over-year, I think is the way to look at it, John, we had a net last year in the quarter of about \$0.06 -- about \$0.09 -- \$0.06 of gains that we had and \$0.09 of negatives if you look at last year's fourth quarter for a net of \$0.03 of restructuring in the quarter. And our view is that right now the restructuring in the fourth quarter and other charges will probably be a little higher than that.

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**John Inch - BAS-ML - Analyst**

Okay.

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

John, we can't really time these things, but there is -- a lot of them are under discussion. I think we always anticipated that some of them would be back-end loaded and that is where we are. But again, I think all of them in many ways take risk out of let's say 2011.

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**John Inch - BAS-ML - Analyst**

It sounds like you are just being opportunistic. You are not -- there is not some big thing you are working towards. That makes sense.

Just lastly, you know, the market has kind been antsy towards the banks possibly having to repurchase bad mortgages. Just kind of thinking out loud, are there any implications as it pertains to your previous ownership of WMC? I know you've got to go back, but I glanced at the K and it says that you do actually retain some sort of obligation for liabilities or loans previously sold. So how should we think about that?

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

Well, you know, we obviously are watching that. You know, I would say that we have had a very good experience in 2010 and 2009. When we first exited WMC, that is when we had our wave of negotiations and settlements with the banks around mortgages that the team had underwritten and sold. So at the end of 2009, we had a reserve of about \$200 million. The current reserve is about half of that, but we had pending claims in 2009 of close to \$800 million and the pending claims are down around \$250 million.

We've had very favorable settlement rates on the claims and the claims per month have come down in 2010 versus the 2009 levels. So I think our team is on top of it. I think we have dealt with most of what we had to deal with as far as we know we have dealt with everything we had to deal with back when we first exited WMC. And we had a big reserve and we had a lot of settlements, but that activity has really declined substantially. As far as our view of this right now is that we are in pretty good shape here on WMC.

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**John Inch - BAS-ML - Analyst**

Okay, perfect. Thank you.

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**Operator**

Shannon O'Callaghan, Nomura.

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

Good morning. First question on your comfort zone around non-earnings coverage. It has continued to tick up here. Now we are at 74%. I mean in the back, you show where you think you are versus Commercial and Consumer. Like 260 for Commercial, 298 for Consumer. I mean where does this 74% go? Obviously non-earning dollars are down. You would expect losses to be better than non-earnings. Where does that 74% go from here?

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

Well, it's going to depend upon how we do in terms of working out the collateral positions we have, but I feel great about our non-earning coverage. If you look at the data that we have had where we put up a certain amount of reserves and we had certain amount of non-earnings like if you go back to the third quarter or the fourth quarter 2009 and look at the amount of non-earnings in the reserves, we basically worked through the majority of those non-earnings by the end of third quarter. And then as we have additional new non-earnings, we continue to work through and we worked through them in a way that is generally favorable versus our reserve position.

So we feel strongly about our collateral coverage and that is one thing that we are going to have Jeff Bornstein give a bigger update on when we get to the December meeting. Go through -- we have some charts we did in July last year where we went through the details of non-earning provisions that we had and that would actually happen. And we are going to update those in December and go through them with you, but we feel pretty good about it.

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

Yes, I mean it just seems like you are selling things for greater than their carrying value and things like that and you've got this big -- I'm just wondering when that 74% goes down?

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

Clearly the driver is going to be how you think about new provisions on losses relative to the quality of the book. And as delinquencies and non-earnings continue to improve, as you say, those additional provisions quarter-to-quarter are going to continue to come down and that is going to be really what drives the future profitability here.

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

Okay. On the Industrial side, just a question about the improvements you are talking about in the aerospace aftermarket. On the last call, you said airlines are still deferring overhauls and things. What are you seeing in terms of change of behavior on that front?

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

You know, we are seeing quite a bit of activity in the marketplace, obviously. If you look revenue passenger miles were up 6.4% August year-to-date. Cargo is up almost 20% August here today. The Park fleet has started to change a little bit. We had about 13% of the world's fleet was parked the first half of the year. It is down to 12%. We have seen a number of cargo planes come out of the parked fleet and we saw their orders picking up if you look at spares relative to last year ex the Aviall.

So I think it looks pretty good. We feel pretty good about the outlook.

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

Okay. The last one then I will go. Just on sort of Basel III requirements and an update there on your thoughts, sounds like you are pretty comfortable but just in terms of where you are risk weighted asset treatment and things like that? Any color?

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

Well, it's a lot to still be determined. I think first of all, most of our entities are not subject directly to the Basel standard, so I think we are going to have to still work through how much and what is going to be impacted by Basel III. We have looked at the main published criteria for capital levels and for liquidity. And if you look 7% Tier 1 capital requirement, Tier 1 common capital requirement by 2019, I know everyone is going to get to these requirements much sooner than that. And you look at where we are today, even with adjustments we think we may have to make to the risk-weighted assets measurement or what is accounted for as Tier 1 Common capital, we feel pretty good that even by the end of this year, we are going to be in the ranges here that we need to be in.

So there is still more details to be worked out but obviously as we shrink GE Capital and we continue to leave that capital in through 2010 and through 2011, we continue to strengthen the capital ratios that we think will be in good shape. We don't have any of the big adjustments that some of the banks have on risk-weighted assets for a couple of things like we don't have a lot of subordinated capital. We don't have any mortgage servicing rights. We don't have some of the biggest things that are creating some of the adjustments out there and I think that bodes well for us as we go forward.

And then on liquidity measurements, we feel good about that obviously with the amount of cash that we have and bringing down the CP balances, we feel like the outlook for that is pretty good shape as well.

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

Great. Really helpful. Thanks a lot.

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**Operator**

Deane Dray, Citi.

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**Deane Dray - Citigroup - Analyst**

Thank you. Good morning. Start with a two-part question on M&A. And would like you to put the announcements last week in context if you could especially in the acquisition in the consumer finance portfolio. Would that suggest -- are you seeing the bottom of the cycle there? You are not just shrinking that book but you are also selectively looking to grow. That is the first part of the question.

And secondly, as you do look at allocation of capital and by our assessment this would potentially be the biggest M&A cycle for GE. Are you changing any of the processes of how you are vetting acquisition candidates and what does the environment look like today?

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

You know, I would say just first on the consumer finance, and I would like Jeff to comment on overall M&A. I think if you look at what we were able to do we are able to add to a space where we've got a real competitive advantage on distribution. We are basically a unique provider of capital to retail distribution in this country and we have a tremendous franchise that Mark Begor or Glenn Marino run and they are performing extremely well in the current cycle in terms of their asset quality [measurements].

And you saw the income in the Consumer business and the US retail business. A lot of that is in this retail distribution. So what we acquired were additional retail distribution arrangements. It is more like a B2B financing. And it wasn't in the private label credit card which is also doing extremely well. So I feel great about that.

Adding to that is a place where we've got a nice competitive advantage on distribution. We have got a tremendous business franchise. We bought assets at a very attractive price.

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

So I think, Deane, on the other part of your question, I would first say our teams are doing a great job on cash generation. I think everybody is really focused on it. Be with the incremental capital that we have from the NBCU transaction when that takes place, that really gives us a -- some real tailwind there.

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The third thing I would say, just to reiterate what Keith said earlier, is that we think GE Capital is going to create its own strength and that is well underway and so I think GE Capital is a great shape. So on -- so we started the buyback -- we have increased the dividend and in the strategic and industrial M&A, I think some of the things that we talked about at EPG on the size of deal, we will be disciplined on the size of deal.

These will all be infrastructure. All the deals we do will be infrastructure kind of deals. They will be bolt-ons to the core of what we are doing in terms of inside the business. And we think that as we do these kinds of deals that they will be able to accrete on a relatively short time period from a standpoint of what will pay and how we value them. They all return greater than our cost of capital.

So just the things that I have talked about in the past I would say kind of what you saw last week is what we will continue to try to do.

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**Deane Dray - Citigroup - Analyst**

I know you are limited in what you can say about Wellstream. But should the takeaway be that there are valuations of which it is too expensive and will you -- if you can't spend all this capital, should we infer that there would be more buybacks potentially and higher dividends?

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

Well, you know what I would say -- I can't say anything about Wellstream, period. The second thing I would say is that there are good opportunities out there, we think. And the third thing I would say is that if we don't see good opportunities we will increase the dividend and do more buybacks --

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**Deane Dray - Citigroup - Analyst**

Perfect, thank you.

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

So I think that is just consistent with what we have said in the past.

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**Deane Dray - Citigroup - Analyst**

Thank you.

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**Operator**

Christopher Glynn, Oppenheimer.

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**Christopher Glynn - Oppenheimer & Co. - Analyst**

Good morning. Just a question on the GE Capital operating cost structure. Do you think you need to do some more dramatic downsizing there for the trend to smaller more focused GE Capital?

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

I think it will be pruning. I think we have done a dramatic restructuring. If you look at the change in the cost structure and how much we have taken out of the SG&A of that business over the last 18 months, you know today we are going to continue to shrink the things that were running off. The global mortgages will continue to shrink, but we have really cut the cost base dramatically.

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Today we are looking at some things in investment around the midmarket, distribution and in areas where we may be able to take advantage of some of the disruptions because of the capital requirements of the banks or other things where we provide a real competitive damage.

We get local -- we are totally connected to the midmarket customer. We are underwriting their assets. We are willing to take the residual risks because we know the assets and we have got a pretty good value proposition. So I don't think there is going to be a dramatic change in the cost structure there. I think we are going to continue to run off the places that we have set our [red] assets. You see us doing that. And we are going to incrementally add in places where we think we have a competitive damage.

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**Christopher Glynn - Oppenheimer & Co. - Analyst**

Okay, and then the cash balance at GE Capital. How should we think about when that can start to trend back in the direction towards historical levels?

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

Well, the way I think about it is it's significant today. It is high today as we brought the CP down, as we continue to maintain the bank lines, that basically is allowing us to continue to prefund in advance of maturities. And I think what we're going to do is work our way through 2011 and then obviously we have the TLGP maturities in 2011 and in 2012. And when we get through into what I would call a normalized period, Christopher, we are going to definitely be able to bring the cash balance down. We're going to bring the CP down and we will probably operate with less bank lines as we go into that environment.

But in terms of ratios and safe and secure, we are going to be able to keep our cash plus our bank lines at two times our CP and I think until you work your way through to a normalized period, which we should work through in '12, we are probably going to have the \$60 billion kind of range cash -- \$50 billion to \$60 billion as we work our way through that.

But I think after that period, in a normalized place you are going to be able to bring that down to a lower level and still be above -- well above whatever the standards are for the important liquidity measurements for the regulators.

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**Christopher Glynn - Oppenheimer & Co. - Analyst**

Great. Thanks a lot.

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**Operator**

Steve Tusa, JPMorgan.

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**Steve Tusa - JPMorgan - Analyst**

Hi, good morning. Just wanted to touch on Energy for a second. So wind was obviously pretty bad but I think you said the thermal deliveries were up nicely. Yet you know the revenues were still pretty light. Can you just maybe talk about what else happened in the segment there?

And then secondly on the margins, pretty good margins on the revenue performance. Yet your value gap closed relative to last quarter. So is there something in the mix there that drove that margin that we should be aware of going forward?

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

Well, I would say on revenues if you look -- again the biggest item was renewables. If you look with the wind volume, it was down -- wind turbines were down 300 units, it down \$600 million of revenue in the quarter. Then we had \$300 million of balance of plant. You know, when we do a large power plants, a lot of the times we source material and just include it in the project, but it is not GE material. \$300 million less, that doesn't have a lot of calories in it, obviously. Margin calories for us. So that's almost \$1 billion of the revenue decline and those were the biggest factors I would say.

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We had some lower steam turbine units. We had a couple lower generators but the biggest were those two items.

Now in terms of margins in Energy, the team just does -- is doing a tremendous job. They are really working on protecting the price and the backlog. They're doing a great job on sourcing and getting deflation. They are working their way through a wind market that has really collapsed in the US. And we've got a very attractive position there and they are adding value by putting new products in place that give customers a little more value.

The [1 6] instead of the [1 5] on the wind turbines and things like that, so they have done a good job working their way through this. I think services margins have held in all of the Infrastructure segments, they have stayed strong. I don't have one specific mix item. With the revenue down and with continuing to provide high-margin equipment in places like the gas turbines and the wind margin backlog, the wind margin that is in backlog is very high. These guys have done a good job combined with the sourcing benefits we are getting.

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

The other thing I would say, Steve, is the PowerGen units are being used right now in the customers' fleets and that bodes well, I think, for Energy Services in the rest of this year and into next year.

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**Steve Tusa - JPMorgan - Analyst**

So you used the term collapsed in the wind market. How is renewables down modestly next year in the face of what looks to be a pretty horrid environment from an order perspective in wind?

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

A lot of that is going is globally, Steve, like Canada, Brazil, Turkey, places like that. I think are where a lot of the demand is going to be. I would say probably lower margins than the ones we booked a year or so or go in the US, but that is where the demand will be.

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**Steve Tusa - JPMorgan - Analyst**

Okay and then just one last question on GE Capital. You know you talked about holding a \$50 billion to \$60 billion of cash. That seems to be significantly higher than kind of the \$25 billion to \$40 billion you guided to last December in that kind of strategic funding plan slide you gave. Is that just driven by lack of visibility on the new regs?

And then secondly, you know you gave us a nice margin number, a portfolio margin number last quarter. I think it was somewhere in kind of the 5.2 range year to date. Can you maybe just update us on whether that is tracking toward that number or what it did in the quarter and how we see that going forward?

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

Sure. We haven't changed the cash outlook. I guess I would ask Trevor to look at the chart with you and see what we are dealing with. I think we have been saying \$50 billion to \$60 billion of cash in GE Capital. We just did a bunch of bonds at the end of the quarter that gave us a little bit of cash in advance. We're going to look at when the market opportunities are there for us to fund ourselves and we did like \$5 billion right at the end of the quarter.

But I think when you look at the numbers on that maybe we are dealing with \$40 billion in 2013 and that is consistent with what I just said I would say.

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**Steve Tusa - JPMorgan - Analyst**

Okay.

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

In terms of margins, I think the quarter was about [5 1] in the margins, so it's pretty similar to what we had in the second quarter.

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**Steve Tusa - JPMorgan - Analyst**

Okay, great. Thank you.

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**Operator**

Scott Davis, Morgan Stanley.

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**Scott Davis - Morgan Stanley - Analyst**

Good morning. I want to follow up on Steve's question a bit because I think from the phone calls I am getting in, the biggest angst out there is coming from the revenue decline in Energy Infrastructure. How much -- I guess kind of my question is were you guys as surprised as we were at how bad things got in wind this fast or was this something that we just kind of modeled out wrong and missed the rate of change?

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

We have been talking about the wind market for quite a while here. We weren't surprised by it at all. So maybe we've got to look at how do we model it with you guys a little better, but really it is something that is consistent with what John Krenicki and the team have basically been saying to us all along and the way we have been planning to run the business.

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**Scott Davis - Morgan Stanley - Analyst**

Fair enough. So let's dig into that a little bit. I mean if you think in terms of wind revenues down 32%. Can you make money in the business at that kind of level? Do we have a much bigger swing in profits? I know you outsource a lot of components here and so can moderate production down pretty fast. But what -- how do we think about kind of decremental margins?

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

I think wind can stay very profitable for us. It's an attractive business. We don't disclose the specific profit numbers, but I would say that relative to our equipment margins, it is a profitable business. And as Jeff said, we will probably have a mix shift as we go from some of the backlog stuff that we have in the US and we work through that in '09 a little bit. We work through it in '10. We have some more of that in '11 and we are going to shift into International and probably will be slightly lower margins. But it's at a very good profitability level.

We are building our service business as we built out a huge install base and that is going to over time contribute. So we like the business. We are investing like crazy. We have got a big investment in larger wind turbines. We've got a great position that we are working on for offshore.

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

Scott, if I could, just take you back to the mosaic that we talked about in May and then again in the second quarter. We always flag renewables as a risk and I think that is well recorded and well written about, not just with GE but others,

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**Scott Davis - Morgan Stanley - Analyst**

Sure.

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

And then we always said that on the other side, the way the industry typically works is you get pretty good orders for the aero derivatives and the gas units like Jenbacher. I think that's (multiple speakers)

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

We have seen that really take off.

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

That has taken place and then that leads to a rebound in a heavy duty gas turbine market. That is going to take place. We see pretty good demand outside the US. That is taking place. And our service business is dramatically strengthening.

So I think when you think about '11 and '12, we think the diversity of this business is just quite strong. And then what Keith said earlier is, we remain deverticalized, so we can keep pretty good margins in something like wind even when the volume -- because we have been -- we have seen this rodeo before in terms of how the industry can kind of go through these peaks and valleys.

So again, I think the revenue number I get, but I think if you look at the margin number and the diversity of the Energy portfolio, we feel pretty good about how this business is positioned to fight through the next few years.

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**Scott Davis - Morgan Stanley - Analyst**

Makes sense. So let's move to something more positive, and that is Dresser. I mean clearly the market liked that deal and it's a type of acquisition I don't think we've seen in a while with you guys. And so it is great to see you kind of get back to your roots again. But what -- if you think about size wise, that was \$3 billion which is about -- if you are talking about \$30 billion over three years, should we expect somewhere -- are there more deals in that kind of size range that can move the needle? Or was that a bit of a one off and now you are probably looking at more like you call them bolt-ons, but Dresser is pretty big, too?

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

You know, Scott, we like Energy. We think we've got a good executing team there and in the 1 to 3 range, really if you think about Energy and Oil & Gas, there are just lots of companies in that range. So I think we have a pretty repeatable process in terms of how to get cost synergy. We don't really count on revenue synergies when we evaluate the deals. We like the supply chain. We know how to get cash out of the supply chain. So I think that -- those are all of the positives.

And so we think in an orderly way we can kind of chunk through and do a bunch of deals kind of in that range.

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**Scott Davis - Morgan Stanley - Analyst**

Okay, thank you.

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**Operator**

Terry Darling, Goldman Sachs.

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**Terry Darling - Goldman Sachs - Analyst**

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Good morning. Just a couple of cleanup items I think on some of the things you mentioned, just some clarifications. I guess first, Jeff, you made a number of comments on 4Q orders and I'm just trying to wrap all that up. And it kind of sounded to me net-net that orders would be up sequentially, but probably down year-over-year given the tough comp in some of the businesses you had last year. Is that the right way to translate?

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

You know, I think orders will be flattish, Terry, would be my assessment. But again, I hate to give guidance point to point. But I would say we talked about orders should be flattish. Revenue in Q4 industrially should be up Q-over-Q and flat versus year ago. That is how I would look at it.

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**Terry Darling - Goldman Sachs - Analyst**

And then just on that order, you were just talking equipment, right?

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

Well, equipment and service.

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**Terry Darling - Goldman Sachs - Analyst**

I'm sorry, I was just talking equipment then.

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

I think equipment will be maybe up slightly -- flat to up slightly, in that range.

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**Terry Darling - Goldman Sachs - Analyst**

Okay. And then I am just wondering -- is there any update on some of the key commercial aero headwinds on R&D and startup losses that we talked about last quarter? Or are those numbers still roughly as you thought they were a quarter ago -- in terms of the --?

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

Try the question again. I'm sorry.

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**Terry Darling - Goldman Sachs - Analyst**

Talking about some of the 2011 headwinds in Commercial Aviation, the R&D increase that we talked about last quarter as well as the startup losses on GENx. Have any of those numbers moved around on if at all here?

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

Okay. There is a little bit that is going to happen in '10 versus what we had planned but there is still going to be a chunk in '11 as well.

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**Terry Darling - Goldman Sachs - Analyst**

And that is still kind of 500 to 700 if I am remembering correctly, or has that changed?

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

Less than 500 -- about.

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

(multiple speakers) less than 500. (multiple speakers) We said that is completely consistent with what we have -

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

It is no worse than that.

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**Terry Darling - Goldman Sachs - Analyst**

Great. No change there. And then any update on pension headwind for next year? You did mention that. I think we all can see what is happening with rates but any finer point you want to put on that for people?

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

Well, I think if you look at pension for us this year, we're experiencing about \$1 billion pretax headwind. Without any other changes, that would be a similar amount of next year. Today, there are two unknowns really, right? There is the discount rate and then there is the -- what do you do with your earnings rate? Those are the two things being debated a lot in the world. I would say from a discount rate perspective, today if you had to do it, it is somewhere between around 70 basis points, probably lower. But who knows what the 10-year is going to do and what the 10-year AA is going to do between now and year-end.

So there is variability there. We said that 25 basis points at discount rates about \$200 million of increased pension costs. And then what is your return on assets, we have an 8.5% assumption. Over a long period of time, we have more than made that. And in the short period with the 2008 losses, you don't get that in the five- and 10-year averages. But excluding that, the returns have been very good. We have got a very high equity allocation. We've got a long-term liability we are dealing with here.

We are 7% through roughly today, through the third quarter up in the pension in terms of the return. So how will that play out? We'll have to see. We have said that a 50 basis point change there is somewhere around \$300 million. So those size kind of the dimension of what we may be dealing with and we will have to give that update in December when we get to there.

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**Terry Darling - Goldman Sachs - Analyst**

That's helpful. Just a couple other quick ones. First, Keith, on tax. I think maybe I missed it. Apologize, but the lower rate this quarter than I think you had been looking for, what was the driver there? And then it sounds like fourth quarter is closer to 20%. Maybe to get the full year to the mid-20s and any council on '11 at this early stage?

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

Well, first of all, the tax rate is exactly what we were expecting in the third quarter. I mean if you look at it, it is flat to last year in terms of rate. It is \$50 million higher of a provision for the Industrial. It's \$750 million higher of a provision in GE Capital. So taxes are \$800 million higher year-over-year, and flat from a rate on the Industrial -- and significantly higher, obviously, on the Capital side in terms of dollars.

For the year, excluding the NBCU sale, which will create volatility in the tax rate, we are saying that we estimate the Industrial rate which is 26% year-to-date third quarter to be somewhere lower than that and that depends upon whether or not we do reach a settlement on the 2003 to 2005 tax year. And because we are in negotiations on that, I do not have an amount on that, but the tax rate in the fourth quarter would be lower for Industrial, but bring the overall rate down a bit.

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

But, Keith, if we complete NBC, that's -- (multiple speakers)

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

That raises the tax rate.

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

That will raise the tax rate?

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

That will raise the tax rate because we have got a low basis, there will be a high tax on that gain. Absolutely. You know, for '11, we would say that industrial rates are going to stay in the mid-20s. We don't have a change in anything structurally.

And then at GE Capital, we will have to see how things go. We would expect the rate to be similar to what we get as a total year rate this year. And we expect the structural benefits between somewhere of \$1.8 billion and \$2 billion. This year should be similar next year and we need -- obviously we need legislation to get extended to get to those rates.

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**Terry Darling - Goldman Sachs - Analyst**

Okay, and then just one last quick one. Should we anticipate a WMC reserve increase of any meaningful order of magnitude in the fourth quarter?

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

I don't foresee that at all.

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**Terry Darling - Goldman Sachs - Analyst**

Okay. Thanks very much.

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**Operator**

Julian Mitchell, Credit Suisse.

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**Julian Mitchell - Credit Suisse - Analyst**

Yes, thanks. My first question was really on the power side in terms of not so much volumes but what you are seeing on pricing, because you mentioned it being sort of high single digit negative in your order backlog Q2. [Zeman] said something similar about a month ago.

So I wondered if you had seen any change in pricing trends very recently because I guess there is a sense in which the large thermal stuff in particular, gas is near its volume sort of trough. So if you are seeing pricing starting to firm up there? Wind, obviously not near that volume trough so I guess pricing remains very difficult. And what you think that means for your value gap going forwards?

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

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I think the pricing remains challenged, right? Energy overall was down 2.8, Jeff.

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

Thermal was down 5, on not a lot of orders. And then obviously wind was down about 12. So renewables overall 2.8 because you've got a benefit in services. So and other components -- the other aero derivatives (multiple speakers)

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

Aero derivatives.

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

-- and stuff like that is pretty strong. And I think we are still seeing pretty good deflation in terms of what the teams are doing in terms of productivity and material costs out and sourcing. So I think -- we haven't gone through the budget for next year on value gap and things like that, but this team does a pretty good job in those areas.

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**Julian Mitchell - Credit Suisse - Analyst**

Okay, but I guess is there still a big gap between the pricing effect in your P&L and the pricing effect in your backlog or is that gap closing already?

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

I think it's closing. You know, Julian. In other words, I think if you look at -- I think things aren't getting worse and I think it is closing, but we will be able to reflect more when we get together in December.

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**Julian Mitchell - Credit Suisse - Analyst**

Sure. Okay. And then secondly, just on the healthcare market, you mentioned cost saving initiatives offsetting pricing there. I guess pricing is always a feature in Healthcare. Has there been any change there recently? And I also I guess on the demand side in the US, has there been any change in the last sort of three or four months or everything is as it was in June?

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

You know, Julian, I would say that their margin rates are pretty good and the pricing is, if anything, slightly stronger than they had anticipated of at least in a worse. And so I think they have done a nice job there. They are building a lot of backlog. I think the US market is -- vibrant is the wrong word -- but I think people are redoing their planning on post reform and that's been generally positive. So I think the market itself and our performance is pretty good.

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**Julian Mitchell - Credit Suisse - Analyst**

Great, thanks.

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**Operator**

Nigel Coe, Deutsche Bank.

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**Nigel Coe - Deutsche Bank - Analyst**

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Yes, good morning, guys. So, just I would hate to go back to wind again, but I thought that Jeff's comments about the margin and the backlog on wind is very good and I think you might have said actually improving. Yet pricing down I think 8% last quarter, down 12% this quarter. It sounds like you are having a lot of success in passing through that deflation to your supply chain.

And I just wondered maybe if you are getting more success in going back and shaking those guys down. Maybe that is the wrong word, but certainly a tremendous job with the margins and I was just wondering if you go into that a bit more?

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

Well, I think the strategy has been for a long time on all of the stuff we do is to be pretty deverticalized and I think we do a good job of working with our suppliers on productivity and cost out. All that being said, my suspicion is that the margin in the renewable business will be down year-over-year and that will be offset by improvements in Services and Oil & Gas and some of the other areas.

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**Nigel Coe - Deutsche Bank - Analyst**

Okay, and just so I understand your 4Q revenue comments, I think you said flat year-over-year in 4Q.

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

On the Industrial side.

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**Nigel Coe - Deutsche Bank - Analyst**

On the Industrial side, but that implies about a 20% pick up from 3Q levels. Can you maybe just go into what is driving that pickup because it implies a nice [reversion] in both Energy and -- well, primarily Energy?

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

Well, I think it has been typical over time is that you have got people finish out the year and that is when a lot of the projects complete. Healthcare in particular, there is a budgeting cycle by the hospitals that impacts the Healthcare but in some ways, almost every one of our Infrastructure businesses has a stronger --

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

Pretty consistent quarterly annual --

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

Stronger fourth quarter -- third quarter a lot of our customers do shut downs and power plants do turnarounds and stuff like that. So this is not atypical, I don't think, Nigel.

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**Nigel Coe - Deutsche Bank - Analyst**

Yes, and I know that 4Q is usually higher, but the 20% pickup is a little bit higher than what we usually see. But no, that is great news. And then, Keith, on the NBC gain offset by some items, we have done some back of the envelope calculations that suggest the gain could be close to \$1 billion pretax. And it sounds like it's going to be lower than that. Can you maybe just put some color around that?

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

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I haven't done what the pretax number is. I think what we said is we will have -- we believe a couple hundred million after-tax gain. As I said, it is a high tax transaction. So we are still finalizing so much around that valuation and accounting and tax, but our expectation today -- my expectation today is we have a couple hundred million dollar after-tax gain. And does it have some range around it? Sure it does.

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**Nigel Coe - Deutsche Bank - Analyst**

Okay, and then just one quick one then I will pass it on. The losses have been coming on very nicely in GE Capital, \$1.7 billion this quarter. On the ENI target that you have, the \$400 billion long-term target, what kind of -- what sort of neighborhood of losses would you think is a good run rates on that asset base?

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

Well I think if you go back to our pre-crisis levels and you take a look at our average normalized consumer losses and our average normalized commercial losses and you look at the mix of the business, our traditional loss rates are down around a little over 1%, 1%, 1.5% with a good consumer mix.

So we are going to -- our expectation is that we go back to pre-crisis loss levels and then if you adjust for the mix between Commercial and Consumer you can get a pretty good number there.

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**Nigel Coe - Deutsche Bank - Analyst**

And that suggests a range of about \$0.5 billion?

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

That's low.

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**Nigel Coe - Deutsche Bank - Analyst**

Too low, okay.

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

You are talking about on a quarterly basis?

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**Nigel Coe - Deutsche Bank - Analyst**

Yes, that would be on a quarter basis.

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

Still seems a little low to me.

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**Nigel Coe - Deutsche Bank - Analyst**

Okay, thanks, Keith.

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**Operator**

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Jeff Sprague, Vertical Research Partners.

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**Jeff Sprague - Vertical Research Partners - Analyst**

Thank you. Good morning, everyone. Could we make sure we've got the Aviation R&D thing straight? You gave a generalized answer to Terry, but my understanding is you are thinking there is a \$300 million to 500 million R&D headwind next year, but that was allowing for the possibility of a 737 reengine which clearly isn't going to happen and possibly allowing for an A320 reengine which is maybe not happening, certainly sliding further to the right.

So as you look at what actually might happen as opposed to what you were conceptually prepared for, what do you think the R&D headwind actually looks like?

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

You know, Jeff, we haven't done our formal budgets for next year, and there is a lot I would still like to go through. But you know, we are shipping the GENx engines in the third quarter and fourth quarter of this year, right? So those are some of these costs associated with that. And, look, it is certainly not going to be any worse next year than what we have already said and could be better. But I would rather kind of go through that with you as we finish this year. And I think we have made a little bit better through stuff we have done in '10 and then we will just see where the R&D goes as we go into next year.

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

It is a big category -- the \$500 million that has been discussed is not one thing -- it's a total set of things including the launch of the GENx, including the new programs, including other expenses we have with those programs, including China. So it's a lot of things.

I think if you think about it in a macro sense, it is built into our run rates. You are seeing some of it in the run rate in the third and fourth quarter here with what we talked about in Aviation and there are other things in 2011 that offset that. I mean if you look, we expect to have a good improvement in the services growth. We do have some other volume growth across the other commercial engines that aren't as pressured when you look at that compared to the GENx. And we've got pretty good margins in the rest of that business.

So it's not one lump sum thing down year-over-year. It is included in a lot of the run rate. It is just a pressure that does have to be absorbed by the business as we go through a lot of development and those development programs are multiyear. I mean we are investing into LEAPX. We are going to continue to invest into LEAPX, so I think it's a part of the fabric of that business but it is not one lump sum number that is like just down next year because of that. That is never what we intended it to be.

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**Jeff Sprague - Vertical Research Partners - Analyst**

That's helpful. So then just maybe to understand the run rate then obviously the margins did step down in Q3. Can you give us a sense of what the GENx impact was in the quarter?

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

No we are not giving out an individual kind of product margin, Jeff. These launch engines are definitely pressured when you look at the concession levels and also the learning curve on the engine and that will improve as we go through 2010 and go through 2011, we get up to normal volumes and it's a more normal launch prices and concessions. You are going to see that continue to improve. But we are not giving a specific margin per engine on a product line. We haven't traditionally done that. So (multiple speakers) It is part of the fact that the business was down 17 in the quarter.

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**Jeff Sprague - Vertical Research Partners - Analyst**

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Yes, you shipped physical GENx engines in the quarter, though, correct?

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

We recorded revenue on about 18 and those are for the 747s so far. That engine is certified. In the fourth quarter, the engine for the 787 will certify, we believe.

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**Jeff Sprague - Vertical Research Partners - Analyst**

And then a lot of ground has been covered here but just over onto Oil & Gas. What are the margin ramifications for this transition in the business from downstream to upstream?

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

Yes, I think the equipment margin ramifications are not -- it is not a change -- it was really a volume thing that we are talking about. The LNG margins or at least the average margins for the equipment of this business. They have done a tremendous job on winning the LNG orders around the world and those will be -- we had a little bit of Gorgon in the quarter actually.

So it's not a margin shift issue. It is really a timing of volume issue and we hope we will show you that when we look at the fourth quarter and you see the orders again and you look at the total year orders, you are going to feel pretty good about it.

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**Jeff Sprague - Vertical Research Partners - Analyst**

Is there something that is driving the delay? Is it financing? Is it uncertainty about energy prices or is it just noise, you think?

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

I think we saw projects push in the quarter across the business for whatever reason whether it is financing or it's the ability to get the resources they need to do the project in certain parts of the world. We have some constraints. You know if you look in Australia, the place is just packed with orders and opportunities and they are trying to get the ability to execute. So it is a combination of things. But it doesn't change our outlook at all on the view for Oil & Gas. That is for sure.

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

I think it is mainly noise, Jeff. I really do.

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**Jeff Sprague - Vertical Research Partners - Analyst**

Okay and just one last one. Did you say aero spares were up some 25%?

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

If you look -- the reported is down 2 at the \$22 million a day, Jeff. But we have this Aviall order than we did last year and every quarter that it was for -- not the core business production spares where they are going to handle that for us and that kind of distorts the average daily order rate. If you compare it ex that Aviall order, it is up about 25%. So at \$22 million a day -- and again, I think part of that is the comparison last year. We really dipped in the third quarter last year as the parked planes went in and as people pushed out maintenance, we were down in the \$17 million, \$18 million a day range.

So part of it is that. But at \$22 million a day, that is a really good order rate for us and a very healthy order rate for the business.

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**Jeff Sprague - Vertical Research Partners - Analyst**

Is the Aviall comp the same in Q4 and is it totally burned off at that point?

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

Q4 is the last quarter of it. I don't know the exact number, but it's in the Q4 numbers that I saw. I saw there was some Aviall.

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**Jeff Sprague - Vertical Research Partners - Analyst**

Great. Thank you very much.

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**Operator**

Bob Cornell, Barclays Capital.

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**Bob Cornell - Barclays Capital - Analyst**

Let's leave the best for last.

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

All right, Bob. How are you?

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**Bob Cornell - Barclays Capital - Analyst**

The pre-provision earnings and [had] capital less than I thought at \$2.2 billion versus an estimate of \$2.7 billion. But from what you said, it sounds like impairments were over \$1 billion because loss and impairments were \$2.8 billion. My point is that it looks like the pre-provision earnings -- the net interest margin actually was a positive in the quarter. Could you just take us through that a little bit and tell us what is going on in the impairments, what might happen in the fourth quarter?

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

Well, first -- in terms of pretax, pre-provision, I will go from 2Q to 3Q.

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**Bob Cornell - Barclays Capital - Analyst**

Right.

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

We were \$2.7 billion in 2Q; \$2.2 billion in 3Q, so it is down about \$500 million. \$300 million of that is the higher marks and impairments. You've got to remember in the quarter we had about \$200 million of that comes from the GECAS annual impairment review. And that was a little high and that was higher than what we had last year, obviously.

We had another \$100 million in treasury in marks and impairments that again at the end of the day, those hedge marks go to zero when the instrument gets to the end of its life, but that was \$100 million. And then we also had a little bit year-over-year or quarter-over-quarter when you look, we had a Regency positive in the second quarter that doesn't repeat.

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So I think if you look at it, our view is if you do pretax -- so you just do pretax, Q2 was \$700 million; Q3 is \$500 million, down \$200 million, it is really all of the impairments in GECAS -- higher impairments in GECAS quarter-over-quarter. And even at that level, it is pretty good profitability for GECS since part of this turnaround.

I mean it gives us plenty of pretax. We don't believe we're going to have any payment under the income maintenance agreement. And again, I think the impairments at the end of the day those are not run rate types of things. Those are things that we are having to deal with on a quarter-by-quarter basis and they are not going to be staying at those levels in the run rates forever.

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**Bob Cornell - Barclays Capital - Analyst**

What was the net interest margin third over second? Was that -- is it trending up or trending down?

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

I don't know what that number is, Bob.

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**Bob Cornell - Barclays Capital - Analyst**

Well, I guess the point is are you seeing some margin compression in the business?

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

No, overall we were at [5 2] versus [5 1]. So [5 1] versus [5 2] in the second quarter, [5 1] -- so it is running at about that rate. But I think the big -- the bigger thing is if you look at the new volume we did and we covered that in here in the amounts in the ROIs, you are talking about [2 6] ROI in the new volume we did. That is really attractive.

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**Bob Cornell - Barclays Capital - Analyst**

So just to make it clear (multiple speakers)

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

(multiple speakers) Come in at a very attractive rate.

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**Bob Cornell - Barclays Capital - Analyst**

You had \$300 million in the higher marks and impairments third quarter over second quarter. Is that what you said?

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

Yes, I did.

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**Bob Cornell - Barclays Capital - Analyst**

Okay, thank you.

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**Trevor Schauenberg - General Electric - VP of IR**

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Great, Noelia. I think that is the end of the Q&A. Thank you, everyone. The replay of today's webcast will be available this afternoon. Just a few housekeeping items here if you can stick with me for a minute. We will be distributing our quarterly supplemental data schedule for GE Capital later today that we started doing last quarter. And I do have several events to announce.

First, we will be hosting our GE Healthcare Analyst Meeting in New York City on November 9. Please visit our website for details. Second, we will host our GE Capital webcast on December 7. We will send out details once that is finalized.

Third, our Annual Outlook Meeting with our Chairman and CEO in New York City, which we hold every year will be held on December 14. More information will be sent out closer to that date.

And then finally, our fourth quarter 2010 earnings webcast will take place on Friday, January 21. So if you could put those on your calendar and join us, that would be great. As always, JoAnna and I will be available to take questions later today. Thank you very much, everyone.

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**Operator**

Thank you for your participation in today's conference. This concludes your presentation and you may now disconnect. Have a great day.

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