

# FINAL TRANSCRIPT

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## **GE - Q3 2011 General Electric Co Earnings Conference Call**

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**Jeff Immelt**

*General Electric Company - Chairman of the Board and Chief Executive Officer*

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the General Electric third-quarter 2011 earnings conference call. At this time all participants are in a listen-only mode. My name is Chanel and I will your conference coordinator today. (Operator Instructions). As a reminder, this conference is being recorded.

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

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**Trevor Schauenberg** - General Electric Company - Vice President, Investor Communications

Thank you, Chanel. Good morning and welcome, everyone. We're pleased to host today's third-quarter 2011 earnings webcast. Regarding materials for this webcast, we issued a press release earlier this morning and the presentation slides are available via the webcast. Slides are also available for download and printing on our website at [www.GE.com/investor](http://www.GE.com/investor).

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

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

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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

Great, Trevor. Thanks. Good morning, everybody. We had a solid quarter in third quarter with earnings up 11%. Growth was fairly broad-based. Organic revenue growth was 8% and orders were very strong. Energy, which has been a drag so far this year, should turn positive in fourth quarter.

The environment was more volatile particularly in Europe and with US housing and this had a negative impact on both healthcare and appliances. However, emerging market growth was very strong. We have a strong balance sheet and we continue to execute a balanced capital allocation plan.

Significantly, we retired the Berkshire preferred shares and this will improve EPS by \$0.03 in 2012. So in all it was a good quarter in a volatile environment.

Orders grew by 16% in the quarter, which is a good indicator for the future. Organic orders growth was 6%. Order pricing is flat versus previous year, which is a positive sign. We ended the quarter with \$191 billion of backlog, and this is the highest in our history. Our market momentum gives us confidence in solid organic growth going forward in 2012 and beyond. So overall, we think a very good orders story.

For growth, our growth investments are paying off with higher market share. Our revenue and growth markets are up 24% year-to-date. We have had eight of nine regions experiencing 20% plus growth. Services growth year to date is up 15% and we see continued momentum in this important space.

Our investment in R&D is paying off with more launches in important segments and we are seeing great success in energy behind the Flex 50 and new gas engines. Aviation is winning across the board and we enter the fourth quarter with a strong NPI pipeline in both healthcare and appliances. So third-quarter industrial revenue organic growth of 8% is -- we consider to be very strong.

Margins hit a low for the year in the third quarter. We expect improvement in fourth quarter. Energy is the big driver. In the quarter, we shipped wind and thermal units with pricing below last year. We see that improving for 2012.

Our R&D spend is normalizing and should decline as a percent of revenue in 2012. Meanwhile acquisitions and services are improving.

As we said in a second-quarter call, we've seen margins come in below our expectations for 2011 but we now see solid margin growth in 2012, so that really is the margin story.

For cash, we see CFOA coming in about \$12 billion for 2011. We have more working capital in line with higher growth. As I said earlier, we have executed on a balanced capital allocation plan. In the quarter, we bought \$1 billion of stock. We completed the

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Convertteam acquisition and we have now retired the preferred shares on October 17. So between the Berkshire preferred and the buyback of the quarter that's about \$4 billion. We end the quarter with \$91 billion of cash on the balance sheet, so extremely strong and liquid balance sheet.

In GE Capital, we've given this update in the past. I just wanted to give you an update on GE Capital funding and capital levels. With the \$3 billion of debt we did last week we have substantially completed our 2011 long-term borrowing. We will continue to do some reverse inquiries throughout the year. We kept our commercial paper flat and with \$83 billion of cash, we are really in a great position for our 2012 maturities.

As you know, the long-term debt maturities go down to \$35 billion for 2013 and beyond so we have a much different funding profile. With earnings in a smaller GE Capital, our Tier 1 common went to 11%, so we are ahead of plan on shrinking GE Capital, leaving us with dry powder for bulk origination opportunities in the future. So this is really I think at GE Capital a very good and strong story.

So we've got really strong liquidity and capital positions and the GE Capital teams did a great job.

So with that, let me turn it over to Keith to go through more details on the operations of the Company.

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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

Thank you, Jeff. I will start with a third-quarter summary. We had continuing operations revenues of \$35.4 billion which were flat, industrial sales of \$23.2 billion were reported, down 2%. However as you can see from the notes on the bottom of the page if you exclude the impact of not having NBC revenues, revenues were up 12% in total. That's also reflected in the segment results on the bottom on the right size. You can see the industrial revenues.

Financial services revenues of \$12 billion were up 1% and the earnings in EPS reporting for the quarter is a little complicated this quarter so we thought we would list all the iterations and then let me explain them line by line.

First is the measure that most analysts and investors and the GE management team use. We earned \$3.4 billion of operating earnings, which was up 11%. We earned \$0.31 of EPS also up 11% and here's where retiring the Berkshire preferred comes in.

We made the commitment to retire the preferred in September. That resulted in an impact to equity for a preferred dividend which was the difference between the carrying value we had on our books and the redemption value that we paid for the preferred as outlined in our 10-Ks. So operating EPS including this preferred impact was reduced by \$0.08 and with some rounding, that's the line that says \$0.24 of EPS including the redemption of the preferred.

Next is continuing EPS of \$0.22. The only adjustment there is you include the non-operating pension. And the next is net earnings of \$3.2 billion, which includes discontinued operations. That's up 57% reflecting the improvement from last year's charge of discontinued ops.

Finally, net EPS of \$0.22, up 22%. That includes everything. That is with discontinued ops and the impact of the preferred.

Jeff covered the cash flow of \$6.5 billion. The third quarter was consistent with the first half. For taxes on a year-to-date basis, our consolidated tax was 34% or 18% if you take out the highly taxed NBCU gain from the first quarter. We previously indicated that we expected a low 20s GE rate for the year excluding the NBCU gain. We now expect the GE rate to be 19% to 20% for the year. Since it was above 20% in the first half, the third quarter is lower, 18%, and that averages to the 20% year-to-date rate.

The GE Capital rates, 14% on a year-to-date basis, that rate is up significantly from 2010 due to the higher pretax income. We had previously indicated a GECS tax rate for the year in the high teens but our current view is 12% to 14%. While the tax benefits

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are down from 2010, in the third quarter international benefits increased so that our run rate of total tax benefits went from about \$350 million per quarter as of Q2 to about \$400 million per quarter now. And because our view of the total year reflects those higher tax benefits we needed to book to a lower rate in the third quarter decrease in the third quarter rate by about 10 points.

As we have said before, we have the '06 and '07 audit that's close to completion. We also have other planning that could affect our rate in the fourth quarter relative to our current year total framework of 19% to 20% for GE and 12% to 14% for GE Capital.

On the right side, you can see the segment results. Industrial revenues were up 19%, driven by transportation and energy. Industrial segment profit of \$3.2 million was down 1%. GE Capital earnings were up 79%, driving the overall segment earnings up 15%. I will cover each of the segments in more detail as we go through this morning.

Before I get to the businesses, I will cover the other items page. On the positive side, we have two items. First we had a true up this quarter to our NBCU gain from Q1. The valuation of our initial 49% investment was finalized with outside advisers resulting in \$131 million after-tax gain. That was recorded at corporate.

We also realized a \$98 million after-tax gain from the sale of the Unison rings business, which was recorded in our aviation segment results.

We also had some one-time costs in the third quarter. First, we had \$77 million of after-tax costs resulting from the termination of two supply arrangements. Those were also recorded in the aviation segment and we had \$60 million of after-tax costs related to our M&A, things like transaction costs, severance, and inventory step up and we have \$50 million of after-tax restructuring in corporate principally for healthcare and energy. So there were offsetting items in corporate and there were offsetting items in the aviation segment in the third quarter.

I'm going to start the businesses with the energy. Energy infrastructure was less negative in third quarter in terms of earnings growth. However, the energy results in 3Q still more than offset the profit growth in oil and gas. For energy, we saw very strong orders growth especially in equipment. Overall, the orders of \$8.6 billion were up 15%. Equipment orders of \$4.7 billion were up 56%. They are up 38% even excluding the impact of M&A.

Renewable orders at \$1.8 billion were up 68%. We had orders for 781 wind turbines versus 501 last year. We had large orders in the US, Brazil, Romania, and Canada. Air derivative orders of \$600 million were up 2X over last year. Industrial solution orders of \$780 million were up 29% and the one negative was thermal orders of \$400 million, they were down 49%. We had orders for 16 gas turbines versus 19 last year but the commitment activity that we see remains strong.

Order price index was down 1.7%. Renewable orders was down 4.2% and thermal orders price was down 7.5%. Service orders in the quarter of \$3.9 billion were down 12%. We had a \$550 million order from Calpine in the third quarter of last year that did not repeat. The primary driver of the v. Partially offsetting that, our Energy Services adjacency orders of \$2.8 billion were up 6%.

Revenues of \$8.5 billion were up 25%. That was driven by the strong volume. Ten points of the growth came from the new acquisitions.

Thermal revenue was up 60% in the quarter. We shipped 27 gas turbines versus 24 last year. We also had four more steam turbines. We had 21 more generators and we had \$280 million more balance of plant revenue at low margins, which was driving the revenue in total.

Renewables revenue of \$1.3 billion was down 6%. We shipped 633 wind turbines versus 616 last year. Some of the revenue was from mix but pricing was down 9% or about \$130 million in the quarter. Service revenues of \$4 billion were up 13% ex the acquisitions.

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For segment profit, we earned \$1.2 billion. That was down 12%. We earned \$60 million in the new energy acquisitions and excluding that, profit was down about \$230 million. The main driver continued to be the wind business. That was down over \$200 million in the quarter and we also had a drag from our continued investment in programs and global growth. So now we continue to see the pressure from the renewables business and I will show you the future energy outlook on the next page.

On the right side, we also want to cover oil and gas. We continue to experience very strong growth organically plus we have some growth from the recent acquisitions and some impact from the weaker dollar in the third quarter. Orders of \$3 billion were up 77%, 34 points of that growth came from the M&A, 8 points from FX, so still organic orders in the segment were up 35%.

Equipment orders were very strong, up 83% ex M&A. We saw turbo machinery orders up 33% and drilling and production was up 2.6 times. Service orders were up 13% in the quarter ex M&A. So a good, strong organic quarter in oil and gas.

Orders price index was basically flat at negative 0.1% in the quarter and revenue of \$2.5 billion was up 42%, up 17% ex the M&A. Equipment revenue was up 23%, service revenue was up 10%, and segment profit of \$319 million was up 11%. That was driven by the impact of the acquisitions plus a strong volume partially offset by pricing and our global growth investments.

On the next page, I just want to give you an update on the outlook for energy infrastructure for the fourth quarter. Third quarter year to date we've earned \$4.4 billion, which is down 12%. At the second-quarter earnings call we showed you the growth in volume from the first half to the second half. Lots of that volume was in the fourth quarter. We also said we expected second-half profit to grow, so we are planning on a strong fourth quarter for energy.

And if you look at the chart, the drivers are listed on the right side here. You can see the volumes and these units are in backlog so down the left side wind turbines will be up 35%, gas turbines will be up 70%, steam turbines will be about flat and aero will be down slightly. This is going to be a big volume quarter for the energy team.

We are also experiencing strong outages and overhauls for the service business. Our spending levels on programs will not be a drag on margins in the fourth quarter and we will have a full quarter of all our acquisitions and the acquisitions continue to perform.

So the positive energy growth starts in the fourth quarter. We looking forward to that and we expect it to continue into 2012.

Next is aviation. The aviation team had another strong quarter in Q3. Orders of \$5.7 billion were up 14%. Commercial engine orders of \$1.9 billion were up 18% driven by GE90. Military engine orders, \$528 million, were also up 15%. The equipment orders price was up 1.5% and we ended the quarter with a backlog of \$21 billion, up 7% versus last year.

Service orders of \$2.9 billion were up 18%, driven by strong spares. Our commercial spare parts orders were \$27 million per day, which was up 21%, and military services were up 11%. Revenue of \$4.8 billion in the quarter was up 10% driven by the equipment volume. It was up 11% primarily from an increase in commercial engine shipments, which were up 16%.

We shipped 102 more units in Q3, driven by CFM and small commercial. We shipped 28 GEnx engines in Q3 and that volume nearly doubles in Q4 as both the 787 and the 747 with GE engines begin deliveries to customers.

Service revenues were up 9%, driven by the strong spares, up 11%, and partially offset by military, which was down 2% in the quarter.

The segment profit of \$862 million was up 7%; that was driven by the strong volume. We had a positive value gap and the net benefit of the transactions that I covered on the other items page, partially offset by higher R&D and the new engine launch costs.

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For transportation, the business also had another strong quarter in Q3. Orders of \$1 billion were down 28%, driven by no counterparts at two large multiyear orders last year. Equipment orders of \$439 million were down 55%. Included in that, there were bright spots. Mining orders of \$193 million were up 54% and the equipment backlog in total is very strong, closed at \$3.9 billion, up 2% over last year.

Service orders of \$572 million were up 30% and the revenues were \$1.3 billion were up 48%, driven by the higher volume. We shipped 169 locomotives versus 96 last year. That drove the equipment revenues up 64%. And service revenues were up 30% on strong parts sales.

Segment profit of \$196 million was up 94% over last year driven by the higher volume and continued improvement in services.

Next is healthcare. The healthcare team delivered another quarter of positive growth with continued reinvestment. Orders of \$4.6 billion were up 11%. Equipment orders of \$2.6 billion were up 13% with DI up 16% and clinical systems up 11%. Orders were up 4 points from the weaker dollar.

US equipment was up 7% and non-US was up 18%. Just to give you some of the pieces, China was up 27%. India was up 25%. Latin America was up 33%. Europe was up 2% but if you adjust for the FX, it was down 8% and that gave us some pressure in the quarter versus our expectations.

Service orders up 9%; the total orders price was down 1.2%. We ended the quarter with an equipment backlog of \$4.3 billion, which was up 9% from last year.

Revenue of \$4.3 billion was up 9% driven by the equipment up 12% and service up 7% and for revenue just by product line, ultrasound was up 20%; devices were up 8%; CT was up 5%; MR was up 1%; life sciences were up 12%; x-ray was down 4%; and services were up 7%.

For the quarter, segment profit of \$608 million was up 5%. That's driven by the higher volume, better productivity, partially offset by the negative price and \$30 million investments in new products.

On the right side of the page, home and business solutions had another challenging quarter. Revenues of \$2.1 billion were down 1%. Segment profit was down 63%. Intelligent platforms revenue was up 8%. Lighting revenue was up 7% and appliance revenue was down 7%. The results in the quarter were driven by appliances.

Domestic market was down 5% in units. We also saw material inflation. We are just starting to see the impact of our August price increase and we are also continuing to invest to develop the new products which will start to roll out in 2012. So another tough quarter in home business solutions driven by the housing market here in the US.

Next is GE Capital. In addition to the charts that we have in this morning's pitch here, we also have other GE Capital information in the supplemental deck for your reference and that's on the web.

Mike Neal and the team had another strong quarter in the third quarter. Revenues of \$11.1 billion were flat and it was down 4% if you adjust for FX in line with our ending net investment down 4%.

Pretax earnings of \$1.6 billion were up 2.3 times over last year and net income of \$1.5 billion was up 79%. On the right side, you can see the asset quality metrics, they are about flat for Q2. We had good volume in the quarter, \$10.6 billion in CLL, up 31%. Our margins remain strong especially on new business. Our ending net investment at \$452 billion is shrinking ahead of plan and just on ending net investment, it declined \$5 billion from the second quarter. That decline was driven by 100% by our red asset portfolio, mortgages, real estate and equipment services which were down \$7 billion from the second quarter and core ENI was up \$2 billion mostly in CLL and retail finance.



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From a business perspective, I will start with consumer. Our consumer business had another strong quarter. We ended Q3 with \$141 billion of assets, which was down 3%. The net income of \$737 million was down 5%. That result reflects the loss of over \$100 million from prior-year dispositions like Garanti and Colpatria, excluding the disposition impact, consumer was up 19%.

US Retail Finance had a good quarter. They earned \$462 million, up 40%. That is driven by lower loss provisions as delinquencies improved by 130 basis points over 3Q of '10. Volume was \$21.9 billion, up 11%, and as expected, our credit costs increased from the seasonally low 2Q '11 levels to more normal levels in the third quarter.

Europe also had a good quarter in total. They had net income of \$123 million on a reported basis. That's down 39% driven by the loss of the Garanti income in Turkey but partially offset by lower credit losses. If you exclude the Garanti disposition, Europe was up 7%.

UK home lending earned \$57 million in 3Q. It's the eighth consecutive quarter of positive earnings. Our UK home lending assets declined \$1.6 billion year-over-year. It's down to \$17.6 billion. We realized 116% on the mortgages that we liquidated in the third quarter. Our REO stock is down to 540, the lowest since the fourth quarter of '07. And from the peak of second quarter in '08, we have reduced our global mortgage balance from \$79 billion at that time to \$39 billion today, so down \$40 billion over that period.

Commercial real estate, they had a nice improvement versus last year and versus 2Q. We lost \$82 million in the quarter but that was \$320 million better than last year and \$250 million better than Q2.

In Q3, we had \$32 million of after-tax credit losses. We had \$146 million of after-tax margin impairments and during the quarter, we sold 115 properties for \$800 million recording \$68 million worth of gains.

Our assets are down 17% year-over-year excluding FX and down 4% from Q2. Again from our peak in the second quarter of '08, our commercial real estate assets are down \$32 billion.

While the commercial market has definitely benefited from some more liquidity in the third quarter, we still see economic volatility in Europe. We will complete our portfolio valuation review in the fourth quarter and that could result in higher marks and impairments in the third quarter but we still expect performance to continue to improve year-over-year.

Commercial lending and leasing business also had another strong quarter with earnings of \$688 million, up 55% from last year. Results were driven by lower losses and improved margins. CLL volume was \$10.6 billion, up 31%. Americas drove most of the income growth, with earnings of \$547 million, up 58%. Europe was flat and Asia was up slightly.

GECAS had a strong quarter, earnings of \$208 million, up 31% from last year. That's driven by lower impairments. We recorded \$107 million net of after-tax impairments in Q3 as part of our annual review mostly on 737 classics. That was \$62 million less than last year and we ended the third quarter with one aircraft on the ground.

Energy Financial Services also had a good quarter, earnings of \$79 million, which was up 44%. That's driven by higher core income and lower losses, so overall a very good quarter, very strong quarter in GE Capital.

With all the volatility in Europe last quarter we wanted to share some facts about our businesses in Europe. So we put a page together about our GE Capital & industrial franchises. On the left side is GE Capital. Our businesses are profitable. Through three quarters, we've earned \$940 million, which is up 32%. Excluding the benefit of the Garanti gain, our results are up 18% year-to-date.

You can see our assets by country and by business. Our asset performance remains solid. In terms of delinquencies, our CLL delinquencies are at 4%. They are down 20 basis points year-over-year. Our consumer delinquencies are 9.8%. They are down 74 basis points year-over-year.

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We are very diversified. We have over 700,000 commercial customers. Probably the most important point on the page is our business model, over 85% of the assets here are secured by collateral.

We do have around \$300 million of sovereign debt in the focus countries. It's in Greek and Italian bonds that we've talked about before. We do not have any sovereign debt in Portugal, Ireland, or Spain. We actively manage our counterparty exposures here. We stress test the entire portfolio twice a year and it results in us taking proactive actions to reduce exposures where we feel it's appropriate.

Our view is that the assets are going to continue to come to market here at attractive prices as the banks need to downsize or exit certain areas and we put \$2 billion to work in energy assets and in factoring businesses so far at good prices and we're optimistic that we're going to see some more opportunities here in Europe as things go forward.

On the industrial side, Europe represents 18% of our revenue. We have seen some slowdown in orders as listed below the chart but the overall decline has been very manageable. And with our global cost position, we've seen very nominal impacts from currency.

So Europe, it's an important region for us. We've been there a long time. Our businesses are performing okay and we are monitoring the situation closely.

With that, let me turn it back to Jeff.

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**Jeff Immelt** - *General Electric Company - Chairman of the Board and Chief Executive Officer*

Great, Keith. Thanks and just to wrap up, just going back to the operating framework that we presented in December, I just give you an update. We're kind of three quarters of the way through the year.

We expect industrial growth for the quarter and the year. Energy, which has really had negatives through the first three quarters goes positive in the fourth quarter. Aviation and transportation are really slightly better than we thought when we put the framework together. Healthcare and appliances will be slightly lower.

Capital momentum is going to continue. We see organic growth industrially in excess of 5%. We see solid double-digit operating earnings for the year. I think if you think about the pattern for the year, so third-quarter year-to-date, industrial has been about flat year-over-year and financial services, GE Capital has been growing significantly. I think when you look at the fourth quarter, our industrial earnings go positive. Financial services stays at a very strong rate. And so you get in fourth-quarter momentum and that momentum continues into 2012.

So we are confident in the total year framework and for 2011, very strong, solid double-digit growth, gaining momentum as we end the year and the leading indicators remain positive. So I feel really good about what the third quarter said, how the fourth-quarter momentum is looking, and how we feel in terms of closing the year.

Then our final chart is just kind of a framework development for 2012 and just this is kind of a framework that we presented at EPG and then talked about at the end of the second quarter. I just wanted to give you a few reflections as we look at it for the fourth quarter and kind of what we can expect when we do our December dinner and then into 2012.

So we see the key factors around GE Capital continuing to improve. I think the real estate turnaround is underway and that shows up in the third quarter. Our balance sheet strength is very strong and our liquidity remains high. Industrial, healthcare and transportation, a lot of the elements and fundamentals should continue and we should continue to grow.

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I think we are lined up to have solid growth in aviation and energy. We've got a full year of the acquisition impact in energy and we will have good momentum in the fourth quarter.

Our margins should improve in 2012 versus 2011. We are going to continue to watch the situation in Europe, but as Keith said, it really does appear manageable today. In 2012, really we should have both solid organic growth and expanding margins. So we think the promise of that and the execution around that is key.

We have retired the preferred shares. We basically have done what we said we were going to do on capital allocation and I think the retirement of the preferred shares really provides the EPS lift for 2012 and we feel good about that.

So we like our portfolio. We think our outlook is strong and we are well-positioned in this volatile environment. So with that, Trevor, let me turn it back to you and we will take some questions.

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**Trevor Schauenberg** - General Electric Company - Vice President, Investor Communications

Great. Thanks, Jeff. Thanks, Keith. Chanel, I think we're ready to go to the Q&A now. I know we have a lot of people that have a lot of questions but if we could try to limit it to one per person with the amount of time we have, that would be great.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Steve Tusa, JPMorgan.

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**Steve Tusa** - JPMorgan - Analyst

Good morning. I just wanted to make sure you guys have the margin number here. I'm not sure if you gave a revenue number but what is the absolute profit number in rough terms for either the quarter or for the year? I think \$7 billion was kind of around what you were talking about before. Is it around that number for the year?

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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

You're talking energy now, Steve?

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**Steve Tusa** - JPMorgan - Analyst

Sorry, energy.

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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

No, I think we are still kind of in that neighborhood for the year.

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**Steve Tusa** - JPMorgan - Analyst

Okay and then one last question just on the price there and what you are seeing -- hearing from your customers in the US. Anything going on there in the US and also just what's the price outlook going forward?



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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

The order pricing, Steve, in the quarter was a little bit better than it was in 2Q, still down slightly for energy.

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

It went from negative 2.9 in 2Q to negative 1.4 on equipment in the third quarter.

**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

In Q3, I think from a macro sense, Steve, we see good wind demand in the US for '12. I think the gas turbine demand is going to continue to come from outside the United States. And I don't see -- I think kind of what the guys told you in the investor meeting in September around pricing is still kind of holds. I think it's firming, but it will continue to be a competitive market.

**Steve Tusa** - JPMorgan - Analyst

Okay, thanks.

**Operator**

Scott Davis, Barclays Capital.

**Scott Davis** - Barclays Capital - Analyst

Good morning, guys. I am wondering, can you give a sense of the outlook on healthcare? Growth is good and I wonder when we get to 2012, is there -- given what's going on in Europe and such, what are your customers telling you on spending plans?

**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

Scott, I'd say Europe and Japan, if you think about those two markets in the second half of this year, probably cost us about \$70 million of operating profit, something like that in the second half. Just those two markets and I don't -- I think Japan could get better. I think Europe we are going to stay cautious on Europe.

The US is surprisingly strong. Our orders in the US, as Keith said, were very solid and then the growth in the emerging markets is booming. So we see phenomenal demand globally. You know, Scott, I think the R&D expense in Q3 was more driven by some of the investments we are making in home health and healthcare IT. We are launching this [Colivia] product in healthcare IT, more so than what I would call classic MRCT type of activity.

So a lot of the R&D that you see is really more in the life sciences, IT, Home Health space. When we think about '12, we haven't done our operating plans yet, but when we think about '12, I think the profile of mid to high-single digit revenue growth, double-digit op profit growth, is still the way we think about '12.

Keith, I don't know, would you add anything to that, Keith?



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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

I think our strength clearly is in the emerging markets. You can see the orders growth. We have invested to localize our business and globalize our business. I think the team is doing a great job of that. I think U.S., as you said, is a little better than we thought and we've got to do a good job executing there. Europe is probably going to stay slow based on reimbursements and the current stress from a government perspective. So I think it's a pretty good outlook.

**Scott Davis** - Barclays Capital - Analyst

Jeff, I think I could ask this question for pretty much any of the big segments, so maybe I will just ask it in a bigger picture sense. How do you feel about your cost structure? Obviously, you had a weak pricing environment, but maybe that's also a reflection of your cost structure could have been, I guess, theoretically a little better and you could have shown a better incremental margin. But if we do hit a bit of a roadblock in 2012 and things slow down, what is your confidence at least on the cost side?

**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

I'd say, Scott, when you look at our -- when you look at the variable cost productivity and what we are doing in sourcing and direct costs, I think that continues to be very strong. We have increased the investments in global growth, and we have increased investments in R&D. We think a lot of those investments are in place and are showing up in the revenue line.

Our organic growth is great. Our growth in the growth markets is superior to our peers. Our growth in services is superior to our peers. So we think, Scott, that we are well-positioned for 2012. That's really the basis on which we have made these investments are 2012 and 2013.

Our R&D expense as a percentage of revenue will decline in 2012. But I think when you look at our backlog, when you look at our organic growth, when you look at our revenue run rates, they are extremely strong and I think fare well versus our peers. That's really why we made the investments.

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

I think on the back office, we've got to continue to streamline. I think we have opportunities. We are investing in IT projects to try and consolidate and get consistent global ledger platforms. We're going to look at back office outside the US on a broader basis so I think there's always opportunities there for us, Scott, and I think that will help us to kind of offset some of the funding that we've done on the growth side.

**Scott Davis** - Barclays Capital - Analyst

Fair enough, good luck, guys.

**Operator**

Deane Dray, Citi.

**Deane Dray** - Citigroup - Analyst

Thank you. Good morning, everyone. This new projection of double-digit earnings growth in 2012 really puts GE among the very few companies today to draw the line in the sand and say you can have that kind of earnings growth. And it's certainly



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welcome news. But can you share a little bit more of the assumptions most importantly kind of the geographic splits, core revenues? And can we start there, please?

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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

Yes, why don't I start and then, Keith, you fill it in. I think -- I will start with GE Capital, Deane, and just say kind of arithmetically we continue to progress. The returns expand -- the returns stay high on the ENI base and the amount of red offsets run off and so I think from a GE Capital standpoint, double-digit growth is kind of arithmetic.

Then when I look at our big -- two big businesses, aviation and energy, extremely strong backlogs, tremendous product profiles, really good geographic mix. And I would say comparing to -- at least in the case of energy, easier comparisons in 2011 versus 2010. So I like the way our two big industrial businesses are positioned but I particularly like the backlogs and how they are positioned.

From the standpoint of transportation, kind of more of the same as it continues to expand and healthcare I described earlier.

So our belief is we ought to see very attractive organic growth and expanding margins industrially in 2012 and a lot of our positioning is in growth markets so a lot of our order strength and a lot of our positioning is there.

You know, I think it goes back to Scott's question. We position to win in '12. I don't think the environment has really surprised us so much and we have positioned our Company to win in '12 in this kind of environment. So we got the goods I think from a product background and from a backlog standpoint. Keith, anything to add?

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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

I don't have specific geographic numbers but take a look at kind of where we are third quarter year-to-date 59%, 58%, 59% of our revenue is outside the US. Our orders are up 16%. It's pretty well split domestically and globally. We are getting a lot of growth out of the emerging markets. That's going to continue. Our backlog is very strong and it's going to -- we're going to continue to get 59%, 60%, 61% of our growth out of -- outside the US. So I think in terms of that, that's one way to look at it.

The other thing is I think as we get into the fourth quarter here, we are going to do our operating plans and obviously in December, you will have a more thorough discussion of what we think the framework is by business. This framework is off of our growth playbooks that we've done in the summer and off of our business updates that we've done after the third quarter. We feel pretty good about it.

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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

And \$191 billion of backlog is the most backlog we've ever had. We're really not counting on much in the US in the gas turbine field and stuff like that. So we're really not -- we are just not looking for that much from the developed economies.

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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

You are going to see a good wind -- good wind activity. As you saw the orders in the quarter, that's going to help and obviously that's going to be one thing that will be positive in the US and in '12, we will have a good amount of wind activity as people work to get those units in place to qualify for the production tax credits that are available.

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**Deane Dray** - Citigroup - Analyst

Just on that last point for the -- all eyes are on the energy margins and 2012 and at the analyst day, it was a plus 15. So will we get a better sense of how much plus 15 there is in the fourth-quarter turn?

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

It should be the starting point. You know, we have said they are going to improve off of where we have been this year. They've got a big volume quarter and it should be directionally what we are trying to achieve for 2012.

**Deane Dray** - Citigroup - Analyst

Great, thank you.

**Operator**

Christopher Glynn, Oppenheimer.

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

Good morning. Just wanted to take I guess a segment angle to Scott's question, cost structure or otherwise. But at energy, can we have a little more detail block on how profit is actually down on 25% revenue growth and some added perspective there?

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

Sure, if you look -- I will do it by the margin percents maybe, Chris. So in the third quarter last year, we are a little over 20% margins. The wind business alone drove margins down by 2.9 points in the energy segment. A lot of that was price, as I mentioned, and some of it was the mix. M&A -- acquisitions drove margins down by 0.6 point and then our global programs, investments and the balance of plant revenue that we talked about account for the other 1.3 points.

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

Okay, and then just directionally with aviation, you get 2X the GENx shipments in the fourth quarter. Would we be looking at a similar magnitude of margin impacts sequentially as we saw 2Q to 3Q?

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

I'll have to take a look at that. I would say that I think that with an increase in the GENx engines you will be closer to flat on op profit V than you will up 7%. I think that's probably a way to think about it. I don't have the final aviation number for the fourth quarter, but it will be less of a positive V obviously in the fourth quarter than what we had in the third quarter just based on that GENx ramp.

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

Okay, thank you.

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**Operator**

Jeffrey Sprague, Vertical Research.

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

Good morning, guys. Just a question on capital allocation. Keith, you mentioned just things improving at Capital and maybe in position to start some bulk originations. I think investors are kind of expecting a dividend out of capital and maybe it comes back in share repurchase and I've even heard people talking about a dividend beyond kind of the normal December hike. Is that the way to think about things? How does cash flow and capital allocation actually play out in 2012?

**Keith Sherin** - *General Electric Company - Vice Chairman & Chief Financial Officer*

Well, we expect to have a stronger CFOA from our industrial businesses in 2012 than in 2011. We won't have the drag of not having the NBCU cash year-over-year and we will have the growth in the industrial businesses including the acquisitions and obviously the growth in our earnings.

From a capital perspective, our plan is to have a dividend out of GE Capital back to the parent in '12. We've got a lot of work to do on that. We have obviously worked hard over the last couple of years to strengthen our capital ratios. You saw the numbers there. They are very strong compared to peers and other standards out there.

As you know, though, the Fed just became a regulator in mid July. It's very early in the process of them getting to understand us and we are working constructively and transparently with them, so we will have to give you an update as we go forward with them on that. Our objectives are still the same and we've got a lot of work to do to get at that.

**Jeff Immelt** - *General Electric Company - Chairman of the Board and Chief Executive Officer*

You know, Jeff, I think we expect to have a lot of cash to allocate in 2012 and I think we still want a balanced approach. We like the dividend growth. We like doing small deals but we think the energy team has plenty on its plate right now and so we will be selective in terms of where we do M&A. And then buybacks, we've done -- I think being able to do \$1 billion in the quarter plus the Berkshire preferred is really \$4 billion in Q3, which is going to benefit investors next year. So we will continue really with the balance and disciplined capital allocation approach.

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

And then just finally from me, just thinking about R&D and aero going into next year, you've got the GENx ramp. There's some comments out there about fuel burn on GENx. I don't know if that's kind of normal new engine stuff, but can you speak to what you think you need to spend in '12 on both GENx and LEAP-X and can aero margins actually drift higher next year in the face of that?

**Jeff Immelt** - *General Electric Company - Chairman of the Board and Chief Executive Officer*

I think we are just kind of in the normal launch on the GENx and the performance improvement programs really look to be either on or ahead of schedule, so we feel good about that. And then again, I think for next year we've got a shot at expanding margins in aviation and we are launching these new engines but that's really where our focus is. We've got a lot of the GENx is going to be in the run rate this year in terms of the shipments. So we are kind of -- don't have that headwind when we look at 2012 and I think that's a real positive for investors and that's what we are kind of getting behind us this year.

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**Jeffrey Sprague** - Vertical Research - Analyst

Great, thanks a lot.

**Operator**

Julian Mitchell, Credit Suisse.

**Julian Mitchell** - Credit Suisse - Analyst

Thanks, I just wanted to follow up on energy infrastructure pricing, just in terms of the dollar effect negative from price on your earnings. I guess for this year year-to-date it's maybe \$400 million or something for energy infrastructure as a whole. The full year is maybe nearer \$500 million plus. When you were saying you feel good about the energy backlog, I understand the volume outlook is improving but does that also mean that the price hits your energy infrastructure earnings in '12 should be a smaller number than we are seeing in '11 right now?

**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

Yes, I still expect it to be negative next year but it's not nearly going to be of the magnitude that it has been this year. I think we had -- this was a particularly tough comparison year, Julian, just given the wind margins in 2010. So I think that's just the run rate that we see to be less -- much less of a headwind next year than this year.

**Julian Mitchell** - Credit Suisse - Analyst

Okay, thanks. And then just within the oil and gas margins specifically, obviously down a fair amount year on year. Is there anything going on in terms -- I understand there's probably some dilutive effect from acquisition integration but is there anything going on in terms of the pricing environment?

And maybe you've seen around oil and gas pumps a couple of companies in the past 10 days have talked about slowing orders because projects are getting pushed out. Could you just give an update on sort of the volume order outlook and also what the effects from price are in oil and gas specifically on the margin? Thanks.

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

The volume continues to be incredibly strong, as you saw in our orders, turbo machinery and also drilling and production. For the quarter we -- I can do it again on an op profit walk and we had a little over 16% op profit in the third quarter '10. Negative price was about \$30 million. That's 1.4 points down. The acquisitions were about 0.7 points, so again we are earning money but at a much lower margin rate than our core business. And then the global investments that we've been making are about another 0.7 points, getting close to the 13% they had, 12.5% they had in the quarter.

**Julian Mitchell** - Credit Suisse - Analyst

Great, thanks.

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**Operator**

Terry Darling, Goldman Sachs.

**Terry Darling** - *Goldman Sachs - Analyst*

Thanks, good morning. A couple follow-ups. First on capital allocation, is -- do we have any update on or sense of timing on the completion of the Fed process and is that completion a necessity in terms of moving on the dividend? Are those two tied at the hip I guess?

**Keith Sherin** - *General Electric Company - Vice Chairman & Chief Financial Officer*

They are. We are working cooperatively with them. Imagine being parachuted into GE Capital in July and saying you know the whole place, they've got a lot of work to do. We are cooperating with them. I think we're just going to have a constructive, open dialogue. We are having a lot of meetings and a lot of work is going on. But we are going to respect the Fed and we're waiting for them to work cooperatively with us on when we make a decision on a dividend back from GE Capital. I think they've got a lot of learning to do and we have got a lot of information to share with them and we've got to work constructively on that.

So it does matter and it does depend on them and we are going to work cooperatively with them to get to that point.

**Terry Darling** - *Goldman Sachs - Analyst*

Keith, just to be sure I'm clear there. So is just the dividend up from capital or any dividend at the beginning of (multiple speakers)

**Keith Sherin** - *General Electric Company - Vice Chairman & Chief Financial Officer*

It is the dividend (multiple speakers) out of capital that I'm referring to.

**Terry Darling** - *Goldman Sachs - Analyst*

Just the dividend out of capital.

**Keith Sherin** - *General Electric Company - Vice Chairman & Chief Financial Officer*

Well, I mean, we will work with the Board as we always do on the dividend plans for GE in total and Jeff mentioned it's a real priority for us in terms of capital allocation is the dividend to our investors and we want to keep around a 45% payout ratio and we feel we got a pretty good outlook to deliver on that.

**Jeff Immelt** - *General Electric Company - Chairman of the Board and Chief Executive Officer*

You know, Terry, I just want to make sure that that is well understood that the GE dividend to our investors is a real priority. I think that moves really independently of the Fed process and from the Board and from my standpoint, it remains an extremely strong priority for the Company.

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**Terry Darling** - *Goldman Sachs - Analyst*

Helpful, and then in terms of the capital allocation thought process between acquisitions and continuing this kind of pace of buyback with some of the dislocation asset prices seem to be some opportunities out there that you mentioned on the capital side. What are you seeing on the industrial side or should we think that buyback remains a priority at least in the near term?

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**Jeff Immelt** - *General Electric Company - Chairman of the Board and Chief Executive Officer*

You know, Terry, I kind of take it segment by segment. I think the energy guys have enough on their plate right now so I really think we are full throttle execution mode in energy.

Aviation and healthcare, if we do anything, it's going to be kind of on strategy and accretive and in our wheelhouse and in the size range that we've talked about the past. So we always want to stay opportunistic. We always want to stay focused on our key growth segments in the future.

Like I said earlier, I really like our backlog. I like our product profile. I think we have positioned ourselves to get -- nobody can predict the environment. We live in a more volatile world, but I think if you look at our backlog and our product profile, the odds of us having organic revenue growth equal to or greater than our peers is quite high just with the stuff we've got in our backlog right now.

So we don't think we need acquisitions to deliver on what the Company needs to do for our investors in 2012.

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**Terry Darling** - *Goldman Sachs - Analyst*

Okay, and then just lastly, Keith, is there any way to put an EPS number on the dilutive effect from acquisitions all in this year and what you are expecting EPS accretion all in next year based on the deals that have been done at this point?

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**Keith Sherin** - *General Electric Company - Vice Chairman & Chief Financial Officer*

I don't know about an EPS number. In terms of the results, we are going to earn somewhere around \$300 million in the deals for 2011. I think the offset -- and that's mostly in the energy and oil and gas segment. The offset to that is in the BD cost and some of the restructuring we've been taking at corporate, it's pretty much a wash for 2011.

We will have incremental growth in 2012 from the acquisitions. It should be quite healthy and we will have a real decline in the offsetting costs that are coming into corporate. So I think the acquisitions are going to be pretty accretive next year. I don't have an earnings per share but it's going to grow from the \$300 million plus at the energy segment into 2012 just based on a full year.

We also expect to start getting some of our synergies and you'll have a nice offset by not having some of those costs at corporate.

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**Jeff Immelt** - *General Electric Company - Chairman of the Board and Chief Executive Officer*

It's a good question, Terry. We'll make sure that we show that in December.

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**Terry Darling** - *Goldman Sachs - Analyst*

Sorry, if I can get one more. Any tax thoughts for 2012, Keith, that you would want to start us out with here?

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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

I really don't have a framework for that yet. I would really love to wait until kind of the December outlook to be able to give you a better look at what we think 2012 taxes are.

**Terry Darling** - Goldman Sachs - Analyst

Okay, thanks very much.

**Operator**

John Inch, Bank of America.

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

Thank you. Good morning, everyone. Keith, where there gains in the CLL business? I'm just trying to -- I realize the provisions were down but I'm just trying to understand a little bit why exactly the profits were up 55% if the revenues were flat? Are you getting better spreads or what --?

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

There is some better margin in there. I didn't have any gains of big amounts over \$50 million that I recall in CLL. In terms of the walk of profitability from a net income from third quarter last year to this year, the losses were \$120 million and the base income was up \$125 million. A lot of that was margin.

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

And is that margin in North America mostly I'm assuming?

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

I don't have a split of where it is. I see there are improved margins in North America. That was a lot of it. There's a little bit of margin improvement in Asia and margins were about flat in Europe.

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

And then can I just ask you guys -- I appreciate the color on the Europe profile. Maybe one of the ways to kind of stress test this would be to just sort of look back and try and understand a little bit what your experience was in Europe in the previous recession, just because all else equal, North America looks still pretty resilient but Europe seems headed for a recession.

So the question kind of comes down to if we do roll into that sort of an environment, what do you think the risks of some sort of a haircut to the asset base and the associated book equity would be under that scenario? Is there a way to think about that? I realize a lot of your -- a lot of the loans are collateralized. The GECAS planes can be flown out or reassigned them. I'm just curious.

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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

We've got a couple different stress cases. If you have a normal slowdown in the economy, you're going to have higher delinquencies and that will roll through in sort of normal losses. I don't think there's anything precipitous about that. We have run other stress cases that are a lot tougher in terms of the total capital markets look in Europe and we still think those are manageable.

But I think if you're just talking about Europe is going to -- look, we're expecting Europe to have slow growth. They are going to be deleveraging. And there's going to be some volatility and we lend money on that basis.

So I think we would have higher delinquencies and as you have higher delinquencies, you probably will have some higher losses in Europe but our base stress test was a scenario of a slowdown, a little slow down in Europe is very manageable for us. The normal credit cycle I would say.

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

Just lastly, Jeff, as you think out, is there some reason why you wouldn't want to prospectively manage capital lower than the kind of 30 to 40 target over time? I don't mean quickly but over time, is there some strategic reasons why 30 to 40 you feel good about that positioning today?

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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

You know, John, what I have said is right now what we have tried to give to investors is a sense of what's in our control. And I think we've kind of executed since the financial crisis. Those things are in our control so that's what we talk about 30 to 40. I think if we look out over time, it's just to me it's what's the way to maximize value of GE for investors. And what is the right split of businesses and what is the right capital allocation?

So we're going to have to reflect on that once we kind of go through the processes we are in today, but it's going to be -- it is going to be how do you maximize shareholder value? What's the right split?

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

Yes, fair point. Thank you.

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**Operator**

Nigel Coe, Morgan Stanley.

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**Nigel Coe** - Deutsche Bank - Analyst

Thanks, good morning. So I understand the Fed is still doing their work and there's not much to say there, but any sense as far as whether GE Capital Services or GECC is the right entity? Both have strong Tier 1 ratios but the 1.3 point difference between the two has a meaningful impact on the potential service capital that you could maybe bring back to the parent. But any sense on whether it's GECS or GECC?



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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

We are still working with them on what's going to be the holding company level. I think you've seen we strengthened the ratios in both entities consistently over the period and both are manageable. There's a runoff operation in GECS. The runoff insurance operations don't relate to the ongoing running of GE capital and we will have to see which entity is the right one to land on.

At the end of the day we are going to be responsible for both. We consolidate at the GECS level and we will be responsible for all the operations of that entity no matter which gets picked for the regulation. The regulation is going to be throughout the Company is the bottom line, Nigel.

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**Nigel Coe** - Deutsche Bank - Analyst

Okay. And then one final one. Obviously you got a big maturity coming up in 2012 in GE Capital, \$81 billion, but you've also got a lot of cash on the balance sheet. How much of the \$83 billion of cash is earmarked for those maturities?

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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

Well, we plan on having a very solid funding year in 2012. We're going to end the year just coincidentally somewhere around \$87 billion which is very close to the number we have today. We plan to issue probably \$25 billion to \$30 billion. We're still working on our plans for next year. We did obviously \$25 billion this year. We did \$24 billion. We will do \$25 billion.

We've got alternative funding growth of \$5 million to \$15 million. We've got \$1 billion. We've got the business cash flows and then we have the maturity. So we are planning on bringing that cash pool down substantially next year. Basically we have immunized a lot of long-term debt maturities in 2012 with cash. We borrowed it in advance and so we are planning on bringing that cash pool way down in 2012 by the end of the year being closer to \$50 billion than it is to the \$80 billion that we have today.

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**Nigel Coe** - Deutsche Bank - Analyst

What's the impact on earnings? Because obviously you have the positive spread as you pay down debt with cash.

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**Jeff Immelt** - General Electric Company - Chairman of the Board and Chief Executive Officer

I think you will start to get some of that in '12 and you'll get some of that in '13. Right now the negative carry is several hundred million dollars a year for having all this excess cash.

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**Nigel Coe** - Deutsche Bank - Analyst

Okay, thank you.

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**Operator**

Steven Winoker, Sanford Bernstein.

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

Thanks for fitting me in. So just I guess big picture for a second. You have been talking about double plus signs in that 2012 since your last outlook last year in December. What is your conviction or confidence level as we start talking about that energy number, the tax rate, the dividends. I know there's a lot of moving parts here but if you sort of gauged your confidence level around getting that on each of those points relative to where you've been over the last I guess it is nine months or so, talking about this that whole time.

**Jeff Immelt** - *General Electric Company - Chairman of the Board and Chief Executive Officer*

Again, our order rate backlog market position, and by market position I mean our share position and key products has only improved since the first time we've talked about this. Clearly we have got to be mindful of what's going on in Europe and things like that but just when you look at our backlogs and aviation and energy, they are quite strong and we've got a full year carryover of the acquisitions, to what Keith talked about. We have done a good job from a capital allocation standpoint retiring the preferred stock. That's behind us.

I think in GE Capital, you're going to have a better commercial real estate year next year than this year so I think if you look at the big drivers, Steve, it's just either in backlog or the momentum we had in Q3 helps us -- helps solidify that view going forward.

**Keith Sherin** - *General Electric Company - Vice Chairman & Chief Financial Officer*

So -- I think it does depend obviously what happens in the world. Our view is we're going to have a slow growth developed world. We're going to have slow growth in the US and slow growth in Europe. Europe could be flat next year even or maybe it's in a recession. But it's not -- we are not planning on a real huge decline in Europe or in the US.

And in the developed world, we expect -- the developing world we expect to have continued good orders momentum and it's very broad-based. It's in all these growth regions that we are operating in and we think that's going to continue with some volatility.

I don't think -- you don't think Brazil goes straight up forever and China will have since slowdowns from 9% to 8% or whatever.

So we're planning on a slow growth developed world, continued high growth developing world based on the businesses we are in. We are in heavy infrastructure and that's where those capital expenditures are being made in those growth regions. And we are -- we've got a lot in the backlog, as Jeff said. We're going to go through our operating plans here in the fourth quarter and we will give you good update in December.

But it feels pretty good about where we are positioned today. The fourth quarter and the energy performance is going to be an important indicator for us. We've got to execute and we will have to show you that and we feel good about that outlook and we will give you an update as we said in December.

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

That pricing in the backlog, you are basically -- you're saying it is not getting any worse at a minimum and getting better really the way you're looking at it?

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**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

I think the comparisons are certainly easier. Obviously when you look at what we've had to deal with with the margin compression in 2011, we are still going to have price pressure as Jeff said in 2012. I hope it's less than what we had in 2011 when you look at the full year. We've got a lot of orders to come to see what happens with that in 2012.

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

Okay, and you took provisions up to over \$1 billion this time, but not by a huge amount. Was that provision increase -- how much of that was just driven by your current loss experience versus your concern about what you are seeing in Europe and other places?

**Keith Sherin** - General Electric Company - Vice Chairman & Chief Financial Officer

Yes, the main driver in the quarter was what we talked about. The retail business went back to a more normal level of delinquencies. We had in the US about \$300 million impact in the provision in the third quarter versus the second quarter. That was driven by delinquencies in the US retail business going up 39 basis points.

Now on a historic basis, you go back three or four years and you average the third quarter versus the second quarter, it normally goes up 55 basis points so a little better than historic but as we planned and that's the main driver for the provision change upward in the quarter.

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

Okay, great. Thanks guys.

**Trevor Schauenberg** - General Electric Company - Vice President, Investor Communications

Great, just a couple of items to close out, housekeeping announcements. The replay for today's webcast will be available this afternoon on our website. We will be distributing our normal quarterly supplemental data for GE Capital around noon today.

And I do have a couple announcements for upcoming investor events at year-end. First, we will host our GE Capital investor meeting in person on December 6 at our -- near our headquarter site at Norwalk, Connecticut. We will send out details once that is finalized.

Second, our annual outlook investor meeting with our Chairman will be in New York City at the normal place on December 13 and more information will be sent out closer to that date also.

Finally, our fourth-quarter 2011 earnings webcast will be on January 20.

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

**Operator**

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



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