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# EDITED TRANSCRIPT

## GE - Q1 2015 General Electric Co Earnings Call

EVENT DATE/TIME: APRIL 17, 2015 / 12:30PM GMT

**OVERVIEW:**

GE reported 1Q15 revenues of $33.1b and net loss of $13.6b or $1.35 a share.

Forward-Looking Statements:
This document contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target." Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about our announced plan to reduce the size of our financial services businesses, including expected cash and non-cash charges associated with this plan; expected income; earnings per share; revenues; organic growth; margins; cost structure; restructuring charges; cash flows; return on capital; capital expenditures, capital allocation or capital structure; dividends; and the split between Industrial and GE Capital earnings. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: obtaining (or the timing of obtaining) any required regulatory reviews or approvals or any other consents or approvals associated with our announced plan to reduce the size of our financial services businesses; our ability to complete incremental asset sales as part of this plan in a timely manner (or at all) and at the prices we have assumed; changes in law, economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets, including the impact of these conditions on our ability to sell or the value of incremental assets to be sold as part of this plan as well as other aspects of this plan; the impact of conditions in the financial and credit markets on the availability and cost of GECC's funding, and GECC's exposure to counterparties; the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults; pending and future mortgage loan repurchase claims and other litigation claims in connection with WMC, which may affect our estimates of liability, including possible loss estimates; our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so; the adequacy of our cash flows and earnings and other conditions which may affect our ability to pay our quarterly dividend at the planned level or to repurchase shares at planned levels; GECC's ability to pay dividends to GE at the planned level, which may be affected by GECC's cash flows and earnings, financial services regulation and oversight, and other factors; our ability to convert pre-order commitments/wins into orders; the price we realize on orders since commitments/wins are stated at list prices; customer actions or developments such as early aircraft retirements or reduced energy demand and other factors that may affect the level of demand and financial performance of the major industries and customers we serve; the effectiveness of our risk management framework; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation and litigation; adverse market conditions, timing of and ability to obtain required bank regulatory approvals, or other factors relating to us or Synchrony Financial that could prevent us from completing the Synchrony Financial split-off as planned; our capital allocation plans, as such plans may change including with respect to the timing and size of share repurchases, acquisitions, joint ventures, dispositions and other strategic actions; our success in completing, including obtaining regulatory approvals for, announced transactions, such as the proposed transactions and alliances with Alstom, Appliances and Real Estate, and our ability to realize anticipated earnings and savings; our success in integrating acquired businesses and operating joint ventures; the impact of potential information technology or data security breaches; and the other factors that are described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014. These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.
This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.
This document also contains non-GAAP financial information. Management uses this information in its internal analysis of results and believes that this information may be informative to investors in gauging the quality of our financial performance, identifying trends in our results and providing meaningful period-to-period comparisons. For a reconciliation of non-GAAP measures presented in this document, see the accompanying supplemental information posted to the investor relations section of our website at www.ge.com."
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## PRESENTATION

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**Operator**

Good day, ladies and gentlemen. Welcome to the General Electric first-quarter 2015 earnings conference call. At this time all participants are in a listen-only mode. My name is Jeannette and I will be your conference coordinator today. (Operator Instructions). As a reminder the conference is being recorded.

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

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**Matt Cribbins** *- General Electric Company - VP, Investor Communications*

Thank you. Good morning and welcome, everyone. We are pleased to host today's first-quarter 2015 earnings webcast. Regarding the materials for this webcast, we issued the press release, presentation and supplemental earlier this morning on our website at www.ge.com/investor.

As a reminder 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 Senior Vice President and CFO, Jeff Bornstein.

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 and CEO*

Thanks, Matt. GE had a good quarter in a slow growth and volatile environment, just to give you an economic read from the world of GE. We see the US getting a little bit better every day. Europe is slightly improving. Overall China remains good for GE. Resource rich markets are mixed. We expect to have positive revenue in places like the Middle East, Latin America and Africa. Meanwhile Russia and Australia will be tough.



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We are seeing the world that we planned for. Industrial EPS grew by 14% despite having $0.03 of uncovered restructuring. Operating EPS was $0.31 excluding the impact of the capital announcement. Organically orders were up 1% and revenue grew 3%. Industrial segment profit grew by 9% or 12% organically with margins up 120 basis points.

Oil and gas had a solid first quarter. Organically they were positive in orders with revenue flat. Profit was up 11% organically. The oil and gas market remains volatile with some segments under pressure. However, our diversified Oil and Gas platforms delivered in the first quarter. We are on track for our targets in 2015.

We are running the Company well. We spent a bit of time last week discussing capital allocation. I would only reiterate that we were in full execution of our GE Capital plan. All of our CFOA targets and capital allocation goals are in line with our framework. We remain on track for industrial EPS of $1.10 to $1.20.

Orders were up 1% organically and we finished the quarter with $263 billion of backlog. Again, Oil and Gas orders were up 2% organically as they closed a few big subsidy deals. Orders pricing declined slightly.

Service orders were up 3% organically with broad-based strength. Aviation spares grew by 31% and remain robust. We remain on track for strong orders in predictivity in 2015. New install orders for Healthcare IT grew substantially in the first quarter. We launched asset performance management in the manufacturing space. Orders for Transportation, software and solutions are planned to be up 50% for the year and we expect consistent growth for wind power up and AGPs for the year.

We saw some encouraging signs in the quarter. Aviation remains very strong recording $800 million on LEAP orders. The LEAP has won 79% of all neo and MAX orders. LEAP engines for neo and C919 are flying and the LEAP for Boeing is in the test plane and flying soon. The engine is ahead of schedule. The LEAP engine has been one of our most successful product launches in history.

Healthcare equipment orders grew by 5% in the US, Transportation continued to record global wins and they received a $350 million order in Angola. Power conversion grew orders by 10% and we have solid orders performance in China of 54%. We expected Power to have tough comps in the first quarter. In addition they saw several orders slip into the second quarter but overall we see good demand for units in North America, Japan, Saudi, North Africa, Mexico and Brazil. And we anticipate a strong power orders recovery in the second quarter.

Our orders support our organic growth target for the year.

Our businesses executed well in the quarter. Organic revenue growth was up 3%, geographic growth was balanced, US was up 2% and growth markets were up 6%. We saw strength in China up 6%, Middle East up 19%, Africa up 11% and Latin America up 13%.

From a business standpoint, we had organic growth in six of seven segments and we have forecast organic growth of up 2% to 5% and remain on track for that.

Margins continue to be a good story with growth of 120 basis points. We have targeted 50 basis points of gross margin expansion for the year and we hit 90 basis points in the first quarter. We had favorable mix, value gap and productivity in the quarter.

Meanwhile simplification continues to track good results and we're seeing more benefits ahead. One of the goals for 2015 is to expand margins in both equipment and service. We grew equipment margins by 120 basis points and service by 70 basis points in the quarter. We are making progress on margins as a Company.

Industrial CFOA was $900 million. It was less than expected. Our shortfall was driven by some Aviation supply chain disruptions in Power and Water orders timing. We will recover this in the second quarter.

At the half we plan on CFOA to be significantly higher than a year ago and we are on track for our CFOA goals for the year.

Our balance sheet remains quite strong. In the future we will continue to look at ways to achieve a more efficient balance sheet.

From a capital allocation standpoint, Alstom remains on track for a second half close. We always expected that this deal would get a second look in the US and Europe. Alstom is impacted by similar volatile market dynamics as GE but we continue to see this as a good strategic and financial fit for us. And we intend on completing a deal that is good for investors.

Now over to Jeff.



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**Jeff Bornstein** *- General Electric Company - SVP and CFO*

Thanks, Jeff. I will start with the first quarter summary. As we discussed last week, we took a significant day one charge related to the exit of the non-vertical assets of GE Capital. On this page I will start with the underlying financial performance of the Company excluding those charges and then on the next page I walk you back to our reported financials.

We had revenues of $33.1 billion, which were down 3% in the quarter driven by GE Capital which was down 7%. Industrial sales of $23.8 billion were down 1%. Operating earnings of $3.1 billion were down 5% on lower GE Capital earnings.

Operating earnings per share of $0.31 were down 6% with Industrial EPS up 14% and GE Capital EPS down 21%. Continuing EPS of $0.27 includes the impact of non-operating pension and net EPS includes the impact of discontinued operations.

As Jeff said, CFOA for the quarter was $1.3 billion. We had industrial CFOA of $900 million and received $450 million of dividends from GE Capital. Industrial cash flow was lighter than our expectations driven by timing on progress collections particularly in Power and Water and the impact of an Aviation supply chain issue on inventory. These timing issues will reverse in the second and third quarter and our expectation is that the industrial cash flow will be stronger in 2Q and will be up substantially for the first half versus last year.

The GE Capital exit significantly impacts our tax rates for the quarter. As a result, we are providing both the reported tax provisions and tax rates on the bottom left side of the chart. The GE tax rate for the quarter was 23% in line with guidance we provided. The reported GE Capital tax rate is not meaningful as the charges to shrink the Company caused there to be a $6.2 billion tax expense while there is a significant pretax loss.

As we noted previously, GE Capital will have a higher tax rate going forward and we expect variability in the tax rate as we transition the business through the next few years.

On the right side you can see the segment results. Industrial segment revenues were down 1% reported and up 3% organically reflecting about 4 points of headwind from foreign exchange. Foreign exchange was approximately a $940 million drag on industrial segment revenue and about $120 million impact on op profit. Despite this headwind, industrial segment operating profit was up 9%.

GE Capital earnings were down 21% primarily driven by lower Synchrony earnings due to the minority interest and lower assets. I'll cover the dynamics of each of the segments in a couple of pages but first I want to walk these results to our reported financials.

Starting with the first column on the left and working down, as we said, industrial operating earnings were $1.6 billion, up 14% and GE Capital earnings were $1.5 billion for total operating earnings of $3.1 billion. Including non-operating pension, continuing earnings were $2.7 billion. We had an approximately $80 million benefit in discontinued operation associated with the sale of our consumer mortgage business in Australia to bring net earnings to $2.8 billion.

The next column is the impact of the GE Capital exit announcement as we reviewed with you last week. As we discussed, we took a $14 billion charge associated with classifying businesses and assets as held for sale and a $6 billion tax charge. We also took a $2.3 billion disc-ops charge principally reflecting the Real Estate transaction.

After adjusting first-quarter operations for these items, the reported amounts are shown in the third column. So $2.8 billion of operations net earnings offset by $16.4 billion of GE Capital charges works to the reported $13.6 billion net earnings loss for the first quarter, or loss of $1.35 a share.

As we move through the execution of the plan we shared with you last week, there will be adjustments and we will continue to keep you updated on progress and the impact of those actions.

Next on other items, I will -- we don't have a long list this quarter. We had $0.03 related to ongoing industrial, restructuring and other items as we continue to take actions to improve the cost structure of the Company. This was $422 million on a pretax basis with about one-third of that related to restructuring Oil and Gas. As we discussed before, we are taking aggressive actions to reduce our cost footprint given the challenging environment and Lorenzo and the team are laser focused on execution.

For the year, we will continue to execute on restructuring projects with urgency. As you are aware, we are expecting some gains this year from Appliances and Signaling transactions. In the profile on the bottom of the page we have assumed an Appliance gain in the second quarter and a Signaling gain in the second half but both are subject to regulatory approval.

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Although there will be quarterly variability in gains and restructuring time, we expect gains to equal restructuring for the year on an EPS basis.

Next I'll give an update on Power and Water. Orders for the quarter were $4.5 billion, were down 21% driven by equipment orders down 29% and services down 15%. Orders were lighter than expected due to financing delays and timing of agreements but not competitive losses. For example, we signed a deal for two 7F gas turbines this week that we expected to sign in the first quarter. Our framework for Wind and Thermal orders has not changed for the year. We expect second-quarter orders to be up double digits.

In the first quarter we booked 21 gas turbines versus 31 a year ago and 376 wind turbines versus 422 turbines in the first quarter of 2014.

In terms of H-technology, we booked another order for a 9HA in Latin America and this brings the backlog to 16 units. In addition, we've been technically selected on an additional 37 units and are bidding an incremental 50 units beyond that.

Distributed Power equipment orders were down 53% driven by nine fewer turbines. We expect Distributed Power turbines orders to be roughly flat for the year. Gas engine orders were lower by 39% in the quarter driven by softer demand in gas compression. Overall, DP will continue to be soft for the year.

Service orders were down 15% with PTS down 20% driven by no repeat of a large upgrade in Japan a year ago and lower new unit installs. AGP orders were 16, down one year-over-year. No change in outlook for AGPs or services for the total year.

Revenue of $5.7 billion was higher by 4% but was up 9% ex-foreign exchange. Equipment revenues were up 1% on very strong thermal volume. We shipped 39 gas turbines versus 17 a year ago. That was partially offset by Distributed Power down 37% and Renewables down 30% on lower unit shipments of 15 and 174 respectively.

Service revenues were higher by 7% driven by higher upgrades including AGP upgrades, 21 versus 17 a year ago.

Operating profit of $871 million was down 2%, that is flat ex-foreign exchange driven by higher volume offset by negative productivity in supply chain and engineering associated with the H ramp and negative product mix due to lower distributed power. Value gap in the quarter was a positive $12 million. Op profit margins were down 90 basis points in the quarter.

We remain on track with the outlook we provided and we expect 100 to 105 gas turbine orders and shipments this year with a good pipeline of activity. We still expect Wind shipments of around 3000 to 3200 turbines and AGP upgrades remain on track and Distributed Power will remain pressured throughout the year.

Next I'll cover Oil and Gas. Oil and Gas orders of $4.3 billion were down 6% reported but up 2% organically. Equipment orders of $2.2 billion were down 10%, flat organically. Service orders were down 27% on weak North American activity and TMS orders were down 23% with no repeat of two large LNG orders we took in the first quarter of last year.

It was still a decent orders quarter for TMS, which booked more than $700 million of new orders in the quarter.

Subsea and Drilling orders were up 74% on large deals we booked in Ghana and Brazil. Service orders of $2.1 billion were down 3% but up 4% organically. Surface was lower by 21% and TMS was down 8% largely due to foreign exchange. Subsea was strong, up 21%. M&C was down 1% organically.

Revenues of just under $4 billion were flat year-over-year organically and down 8% reported. Reported negative V% includes 7 points of foreign exchange and 1 point of disposition. Equipment revenues were down 13% with TMS down 9% reported but up 22% ex-foreign exchange and Subsea down 8% reported but up 6% ex exchange. M&C was down 8% organically in the quarter and service revenues were down 2% reported but up 4% organic with Surface down 23% and M&C up 11% organically.

Operating profit was up 11% organically, down 3% reported driven by negative FX offset by strong productivity on both base costs and product and service costs. Price was a $5 million drag in the first quarter but the business delivered positive value gap.

Margins improved 50 basis points reported and were 120 basis points better ex the impact of exchange on earnings. This will be a challenging year in Oil and Gas but the team has been aggressive on remaking the cost structure of the business and we believe that we remain within the scenarios that supported our total year industrial guidance of $1.10 to $1.20 a share.

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Next I'll cover Aviation. Air travel continues to be very robust. Global passenger kilometers grew 5.3% through February 2015 versus the same period last year with the Middle East up 8.8%, Asia-Pacific up 7.3%. Through February, freight traffic grew 7.5% compared with a year ago with very strong double-digit growth in the Middle East and Asia Pacific.

Orders in the quarter of $7.5 billion were up 36%. Equipment orders of $3.9 billion were up 64% on higher commercial engine orders of $3.3 billion, up over 2 times versus prior year. This was driven by $1.2 billion of GE9V engine orders, up 10 times versus last year from Kuwait Airlines, Emirates and includes a GE9X order for Cathay. GEnx received $360 million in orders, up 3 times and we also recorded $800 million of orders from LEAP, up 3 times.

Our total win rate for the LEAP since program launch for Next-Gen narrowbody aircraft is 79%. Commercial engine backlog was up 35% year-over-year.

Military equipment orders were down 61% driven by no repeat of two large orders from Sikorsky and Qatar Air Force from the first quarter of last year as expected. Service orders were up 14% on strong commercial spare parts, which were up 31% at $38.9 million a day and military spares were down 11%.

Revenues of $5.7 billion were down 2%. Equipment revenues were down 8% with commercial equipment revenue down 1% on lower GEnx shipments. We shipped 19 fewer units than last year, 51 versus 70, and 29 less units than our plan as a result of a supply chain disruption.

Military equipment revenue was down 32% on lower shipments and service revenue was up 4% with commercial spare parts up 28% and military services up 3%. Op profit was up 18% on very strong value gap, variable cost productivity and favorable GEnx mix, partially offset by lower volume and higher R&D. Margins improved 390 basis points in the quarter. The impact of the lower GEnx shipments improved the margin rate by about 90 basis points. This is net of some costs to remediate the disruption. We are working the issue and we expect to ship most of the delayed units in 2Q and be back on plan for the full year of 275 to 300 GEnx units.

Aviation had another strong quarter growing equipment and service backlog by 23% and 9% respectively. The business continues to execute on new technology introductions, service offerings and cost out. Aviation could perform better than we outlined at the December outlook meeting.

Next Healthcare. Orders of $4.2 billion were down 1% but up 4% excluding the impact of foreign exchange. We saw continued growth in the US, up 5%. Europe was down 4% but up 11% ex-FX. Japan was down 18%, down 6% ex-FX. The Middle East was down 43% driven by Saudi and China was down 4%.

Healthcare system orders were down 5%, flat excluding the impact of foreign exchange. US Imaging and Ultrasound was up 7% with strong growth in MR, up 41% in the quarter partially driven by the new PET/MR release in December. This was offset by softer orders in Japan, Russia and the Middle East.

Life Science orders were up 10%, up 17% excluding foreign exchange driven by strong bioprocess orders. This was offset with Core Imaging down 3% and services. Revenues of $4.1 billion were down 3% but up 2% ex-foreign exchange. Healthcare system revenues were down 6%, flat organically and Life Science revenues were up 4%. Operating profit was up 3% with 80 basis points of margin expansion driven by strong cost execution partially offset by lower price.

Looking forward we expect similar market dynamics. We believe we are gaining share in key modalities in the US and we expect the market to continue to improve. While China has slowed, we expect orders growth for the remainder of the year in China. Life Science growth will persist and the business team continues to execute on its cost out programs.

In Transportation, North American carloads were up 1.8% with intermodal traffic up 2.1%, which was impacted by the West Coast port strike. Commodities have seen broad-based increases with agriculture up 4.6% and chemicals and petroleum products up 3.2%. Coal volumes were down 2.5% in the quarter.

Transportation orders were down 38% with equipment orders down 56% and services were higher by 13%. Equipment orders were lower driven by locomotives, primarily due to not repeating the large South Africa deal we had in the first quarter of last year.

Revenues in the quarter were up 7% driven by strong equipment growth. We shipped 215 locos in the quarter versus 178 a year earlier. Overall Mining continues to be soft, down 23%.

Operating profit in the quarter was up 11% on higher locomotive volume, material deflation and cost productivity. Margins in the quarter expanded by 70 basis points. We now have 16 preproduction Tier 4 units out with our customers running on the rails. They are performing in actual operating conditions as part of our validation process. We had about 1200 Tier 4 locos in backlog at the end of the first quarter of 2015 and we expect to ship about half of those this year.

In Energy Management, orders of $2.1 billion were down 3% and up 2% organically. Power Conversion orders were up 10% in the quarter. Industrial Solutions was up 4% and Digital Energy was down 38% from no repeat of a large domestic meter order from last year. Power Conversion saw strong growth in renewables vertical up 2

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times on solar inverters and the marine vertical was up 15% on a large Canadian propulsion dynamic positioning deal in Canada, offset partially by softer Oil and Gas orders. Backlog for our Energy Management business grew 3%.

Revenues were up 1% and up 8% organically driven by foreign exchange with Power Conversion up 6%; Digital Energy and Industrial Systems were both about flat. Op profit was $28 million, up from $5 million last year on a reported basis. The business continues to benefit from restructuring with strong base cost productivity driven by SG&A reductions and positive value gap offset by unfavorable foreign exchange. Margin rates in the quarter were up 140 basis points. We expect program execution and margin rate improvement to continue throughout 2015.

Finally, Appliances and Lighting. Revenue in the quarter was up 5%. Appliance revenues were up 8% driven by strong volume. Industry core units were flat with retail down 1% and contract up 4%. The industry volume was well below the first quarter expectation of plus 8% due to the harsh weather across the US. We believe GE increases our share by 2 points in the first quarter.

Lighting revenues were down 3% on lower traditional product demand, which was down 18%. This was partially offset by continued strong LED performance, which grew 76% in the quarter. LED now makes up 30% plus of Lighting revenues and that is up from 17% of Lighting revenues in the first quarter of 2014. Op profit in the quarter was $103 million.

Now on GE Capital, before we start with the GE Capital results, I would just like to take a moment and highlight the incredible work done by Keith and the GE Capital team. Keith led an enormous and complicated effort in a very challenging window of time to get the Company to this very important strategic pivot. This is a transformational change for our Company that will create real value for investors long term.

As I have covered, the impact of last week's announcement is reflected in GE Capital's first-quarter reported financials. On the page we have provided a walk starting with the earnings from our vertical businesses which generated $352 million for the quarter. Operating earnings from the remainder of our businesses and continuing operations amounted to $1.1 billion, which was more than offset by a $14 billion day one accounting adjustments related to last week's announcement. Earnings from continuing operations amounted to a net loss of $12.5 billion.

Discontinued operations generated additional losses of $2.2 billion, which reflect the charges associated with our Commercial Real Estate business. Overall, GE Capital reported a $14.7 billion loss including $6 billion of tax expenses. We ended the quarter with $303 billion of ENI, excluding liquidity.

Our liquidity levels remain strong and we ended the quarter at $76 billion including $14 billion attributable to Synchrony. Our commercial paper program remained at $25 billion and we had $8 billion of long-term debt issuance for the quarter. As discussed last week, we do not anticipate additional issuances over the next five years.

We expect GE Capital CP balance to decrease to $5 billion by the end of the year. Starting this quarter we are transitioning the capital accuracy reporting from Basel I to Basel III in line with industry practice. Our Basel III Tier 1 common ratio was 10.6% inclusive of the day one charges. We expect this ratio to improve as we dispose of risk-weighted assets over the course of the year.

As I mentioned last Friday, we will operate through the transition in a safe and sound manner working with our regulators in determining the appropriate capital level.

Going forward the team will be very focused on executing the portfolio transformation. As we discussed last week, we have signed deals on close to 50% of the planned ENI reduction for the year and we are receiving very strong inbound interest on many of our portfolios since the discussion last week. We are prioritizing the transaction in a way that allows us to maximize franchise value, and as I said last week, we will be very transparent as we execute through this process.

Overall, Keith and the GE Capital team delivered a strong operational quarter in line with our prior guidance and are now fully focused on delivering on the portfolio transformation that we shared with you last week.

With that I will turn it back to Jeff.

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

Thanks, Jeff. We remain on track for a 2015 operating framework but we will adjust our guidance milestones to reflect last week's announcement on Capital.

Industrial EPS is on track for $1.10 to $1.20 and we are running our businesses to the high end of that range. We are generating solid organic growth and margin expansion; corporate costs are being well-managed with gains equal to restructuring, and Oil and Gas is performing to our expectations.

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We continue to invest in industrial growth. Between research and development, investment and planned equipment and information technology and the potential for bolt-on industrial M&A, we will invest $10 billion to $15 billion each year in our industrial growth. We can do this and still return significant capital to investors.

The GE Capital verticals are tracking to $0.15 per share and, as Jeff said, we are focused on the verticals and we will keep them top of mind. We have set a target of $90 billion in asset sales and this is part of our guidance. We already have approximately 50% announced and have a robust pipeline to achieve this by year end. Again, we will update this at EPG.

Free cash flow remains on track to $12 billion to $15 billion. Dispositions in CFOA are on track and we expect GE Capital to dividend between $500 million and $7 billion in line with what we talked about last week and we will update this as we go through the year.

We will continue to drive investor friendly capital allocation. The dividend remains a top priority. We are still expecting the Synchrony split to return $20 billion to you in the form of a share exchange and as you saw last week, our Board has authorized a $50 billion buyback based on the proceeds from the GE Capital sale.

So between Synchrony, the buyback and dividends we can return $90 billion to investors over the next few years.

The Company is executing well operationally and strategically. Our compensation plans have aligned us with investors and we expect to have a solid second quarter and total year.

Matt, now back to you for some questions.

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**Matt Cribbins** - ***General Electric Company - VP, Investor Communications***

Great. Thanks, Jeff. I will now turn it over to the operator to open it up for questions.

## QUESTION AND ANSWER

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**Operator**

(Operator Instructions). Scott Davis, Barclays.

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**Scott Davis** - ***Barclays Capital - Analyst***

I was intrigued by a couple of comments that you made but Jeff Bornstein, the comment you made on incoming interest into the asset sales. Give us a sense of -- I think the question really is, give us a sense of your availability to sell those assets quicker than you laid out in your timetable, meaning are the books out, do you have -- if the sovereign showed up tomorrow could you hand them the keys and a few months later it is you can get the deal done? Or is there some gating factors that could limit the timing?

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**Jeff Bornstein** - ***General Electric Company - SVP and CFO***

I would say Scott, the amount of inbound interest has been incredible in both nonbanks and banks, both domestic and international interest. So I think that we are buoyed by the demand that we see so far. It really depends on the platform and the type of transaction we are talking about and we are organized to be able to do this as quickly as possible. Our goal is to monetize these assets, these platforms as fast as we can. There will be some gating challenges on getting ourselves in a position to -- as you described -- to get all the books together, etc., etc. But we are going to go after this as fast as humanly possible and I think the positive point here is the level of interest is really quite incredible.

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**Scott Davis** - ***Barclays Capital - Analyst***

Okay. That's good. And then Jeff Immelt, you made a comment in your prepared remarks about wanting to get to an efficient balance sheet, or something in that regard. And I hadn't really heard you mention it in those terms before. How do you think of an efficient industrial balance sheet? Is there some sort of a range of leverage, or some way to measure that?





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

I think, Scott, in the near term I think you have to think about us as safe and secure and marching through this process with GE Capital and things like that. Over the long-term I think our desire is to have an industrial looking balance sheet and how fast that goes again depends on Jeff's answer earlier on GE Capital assets and things like that. But our goal is to have over time to have investors look at GE as an industrial company and have a balance sheet that lines up more or less with our peers in that space.

**Scott Davis** *- Barclays Capital - Analyst*

Okay. And then last just a cleanup item. What impact on margins was currency in the quarter. Did you have a benefit from hedges in the margin improvement?

**Jeff Bornstein** *- General Electric Company - SVP and CFO*

No, actually. FX was a drag on margins in the quarter. As I talked about in the industrial segment margin we had about $120 million FX drag and hedges were a very small offset to the total impact. We actually had negative impacts all in.

**Scott Davis** *- Barclays Capital - Analyst*

Okay. Very helpful. Thanks, guys.

**Operator**

Steven Winoker, Bernstein.

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

Thanks and good morning. Can we go to that $1.10 to $1 framework. I heard you say that you are running the businesses to the high end of that range. Maybe an idea of what does that mean and also how much -- can you just remind us, how much of that is Alstom?

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

Again Steve, the way to think about that is we have an AEIP plan, a compensation plan and that lines up with how the internal business plans work. So I think we talked to you guys, Steve, at the year-end meeting and at EPG about the comp plan we have the team to. So when you look at the AEIP plan that frames compensation for the leadership team, that is what I referred to and it's really the same comment I made in January about how we are running the place.

I think with Alston, Steve, we are counting on $0.01 for the year, so not really much impact in 2015 and more so in 2016.

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

So maybe just sticking on that then and maybe this is to Jeff Bornstein on this one. If we just walked our way from again this $0.31 and given the trending of Oil and Gas, just maybe -- I think having just a little challenge given the weakness we are seeing in other companies bringing down guidance in Oil and Gas and related areas. What gives you guys the confidence of getting to that over the next three quarters and a more than sequential second-half ramp and things like that?

**Jeff Bornstein** *- General Electric Company - SVP and CFO*

Listen, I think that the scenarios we share with you at year end we updated again in the first quarter call -- I'm sorry, in the first quarter on the fourth quarter call. We evaluated a number of different scenarios around Oil and Gas. As we communicated to you, all of those scenarios we felt were within the range for $1.10 or $1.20.





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We've got the team -- Lorenzo and the team are executing like crazy on a substantial cost plan. They are right on track, actually slightly ahead of schedule. They're going to take out close to $600 million of costs this year both base cost and products and service costs.

So when we take a look at where we ended here in the first quarter with Oil and Gas and how we think about the balance in the next three quarters, and very importantly with all the restructuring that we are doing, the benefits of that largely in the second half of the year, we feel like today based on everything we know that those scenarios and that guidance we gave you remains intact.

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

Let me add just a little bit to what Jeff said. I think he framed this year well. I think at the quarter the guys are actually probably a little bit better than what we had anticipated but you see all the volatility in the market and this is going to be something we have to continue to evaluate quarter by quarter.

But at the same time I think one of the advantages we have at GE is we can look at other businesses that have the potential to do better and over the context of the Company, we have got a framework that we are confident in even if other scenarios in Oil and Gas take place. So I think that is one of the strengths of GE. You have seen the way Aviation got out of the gate and some businesses get a chance to provide some upside maybe during the year.

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

Okay. And then just lastly on this topic, the 1.4% order pricing negative order pricing in Oil and Gas again, that is really -- how should we think about that in terms -- are these additional -- is there any additional renegotiation or existing backlog happening, or is this new and where are you seeing the weakness on that front?

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**Jeff Bornstein** ***- General Electric Company - SVP and CFO***

Yes, so when you look at order pricing, Steve, that 1.4% is almost entirely associated with the Ghana subsidy order we took. So it's not broadly across the portfolio. We have not renegotiated any prices from existing backlog. So that's where we are today.

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

Okay. I will hand it on. Thanks a lot.

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**Operator**

Andrew Obin, Bank of America.

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**Andrew Obin** ***- BofA Merrill Lynch - Analyst***

Maybe I will let others ask questions on Oil and Gas. Let's focus a little bit elsewhere. As I look into 2016 and what about Renewables? And I guess I will touch on Oil and Gas, what about Subsea because the industry timing on Subsea suggests that orders will be very strong this year. But what does it mean for 2016 in Power and Water and Oil and Gas given the specific regulatory dynamic and industry specific dynamic in these two sub segments?

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

So I think with Renewables, again what I would say, Andrew, is we always think about the US in the context of the PTC and there is nothing we see today that indicates that the PTC is not going to get rolled over in some capacity. So that kind of keeps the US at a kind of let's say steady-state. And then when you look around the world, you see growth. I think if you look at Brazil, if you look at places in Europe, if you look at even Africa and Middle East, we see pretty good growth -- China -- we see pretty good growth in wind globally. So --

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**Jeff Bornstein** ***- General Electric Company - SVP and CFO***

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I think we are thinking we will do another 3000 turbines is our current estimate in 2016 as well. There is a shift. It's going to be more international than domestic as we move forward, no question about that.

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

Yes.

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**Jeff Bornstein** - ***General Electric Company - SVP and CFO***

But roughly the same kind of volume.

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

I think the way to think about Subsea is on the incoming order standpoint, each project is going to get a ton of scrutiny whether it is the Ghana project that we signed or Bonga in Nigeria or projects in Australia or things like that. But once a project is going, it is unlikely that it will be stopped. In other words, you already have fixed costs and when it gets into the production mode it is unlikely that it is going to slow down. So we still think Subsea in 2015 and 2016 are going to be okay within that context.

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**Andrew Obin** - ***BofA Merrill Lynch - Analyst***

And just to follow-up a little bit shorter term looking to the second quarter you highlighted some delays in Power and Water and Aviation. So if these two segments recover actually into the second quarter, what does it imply for organic industrial growth in the second quarter?

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**Jeff Bornstein** - ***General Electric Company - SVP and CFO***

Well I think at the moment here we have given you guidance for the year here. We expect organic growth will be 2% to 5% for the year. We were at 3% here in the first quarter. I think that is generally the trend we expect to be on throughout the year.

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**Andrew Obin** - ***BofA Merrill Lynch - Analyst***

But directionally that would imply that ex-Oil and Gas there should be some room for acceleration in the rest of the business, right?

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

Again, we see those segments getting better in the second quarter but again we don't want to do organic revenue guidance quarter by quarter, Andrew. (multiple speakers). We are comfortable in the range and we will leave the rest to you.

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**Andrew Obin** - ***BofA Merrill Lynch - Analyst***

I tried. Thank you very much.

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**Operator**

Shannon O'Callaghan, UBS.

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**Shannon O'Callaghan** - ***UBS - Analyst***

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So maybe just on the equipment margin improvement, 120 basis points -- pretty impressive. It looks like some benefit from mix in the quarter. As we go forward assuming you can't count on that mix every quarter, value gap, cost productivity and some of those things Jeff Bornstein and Dan Heintzelman are working on, does that ramp as quickly as 2Q, 3Q and maybe just a little expectation on how you see that equipment margin playing out through the year?

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**Jeff Bornstein** *- General Electric Company - SVP and CFO*

So we expect that the initiatives that the teams have going and that Dan and I are working with the businesses on will gain momentum as we move throughout the year. As you saw on Jeff's page when he walked through the margins, we had 60 basis points of mix. I think what we talked about at year end when we talked about the year was mix that probably wanted to be -- or hopefully would be something more neutral. So I would expect us to do -- to gain momentum on the cost line, in the product service cost line and we will see were mix plays out but I would assume for the year that mix will be roughly neutral.

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**Shannon O'Callaghan** *- UBS - Analyst*

And any segments so far as you are attacking that cost structure, any segments that you are particularly encouraged by the opportunity you have seen?

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**Jeff Bornstein** *- General Electric Company - SVP and CFO*

I think every single one of these businesses have enormous opportunity. When you look at the first quarter results, particularly around equipment margins, just about every business had improvement with the exception of Power and Water and Oil and Gas. So I think it is not unique to any one business. Every one of these businesses has an enormous opportunity to get product and service cost at another level.

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**Shannon O'Callaghan** *- UBS - Analyst*

Okay. And then just maybe on Alstom, Jeff Immelt, you mentioned some of the difficult trends in the market that Alstom would be facing that you are also seeing, obviously. Can you still get to the plan there even if the markets are a little tougher? Any update in terms of the regulatory process and how some of the concerns of the European Commission around heavy-duty gas turbine concentration might be remedied?

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

Yes, I would say -- let me answer the second piece first, Shannon. I would say there's nothing really that has been a big surprise as we go through this, so we always thought that there would be a second request or that process would take until this summer and so I would say so far nothing really is a surprise.

I think on the financials, we still look for high teens return and $0.16 accretion in 2016, so we still feel that is achievable and synergies are quite robust and we like that.

And the last thing I would say is look, at the end of the day just like every deal, we have always reserve as we do these transactions that we will only do deals that are investor friendly and that achieve good returns. And so I think we have established that in this case and I think we are optimistic about how Alstom fits with GE.

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**Operator**

Julian Mitchell, Credit Suisse.

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**Julian Mitchell** *- Credit Suisse - Analyst*

Just a question on Power and Water. The services orders were down a decent amount, sales though were up. So maybe give a little bit of color around what is going on in the Thermal Services business in particular by region because it does seem as if the orders are softer, AGP as well, and sales are still okay.

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**Jeff Bornstein** *- General Electric Company - SVP and CFO*



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So Julian, I would start with orders were soft year-over-year largely because we had a very large upgrade in Japan last year that we just didn't repeat this year. Secondly, the number of new unit installs that the services business worked on in the quarter were fewer year-over-year. So that is most of what we saw in softness in Power Gen Services. AGP is about flat. We told you we think we would do about 100 for the year. We will do 100 for the year. I don't think we are changing any of the outlook there. So I don't think there is a broad theme here even geographically around Power Gen Services.

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**Operator**

Barbara Noverini, Morningstar.

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**Barbara Noverini** *- Morningstar - Analyst*

So is predictivity growth tracking your expectations since you spoke about your plans back in the fall? And can you talk about which of your operating segments are driving the most demand for predictive analytic solutions this year?

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

So we see again I would say 30% to 40% growth pretty consistently across the business in software and predictivity. I just had a review with all the businesses last week and so there is a variety of different initiatives. I would say clearly the power and power upgrade, things like power up on the wind turbine side, we've got 10 installs but really another 100 behind that that is quite exciting.

As I mentioned, the rail business has got an expectation to grow orders about 50% for the year, so we're seeing both from a software and things like movement planner side growing.

The radiology IT piece is up 13% in terms of new bookings in the quarter, so some pretty good activity there. We've kind of launched what we call asset performance management, APM, in Oil and Gas, so we are seeing an original service funnel in that activity. So I would say macro kind of in the 30% to 40% range with strong double digits in each business as we look at software and predictivity for the year.

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**Operator**

Deane Dray, RBC Capital Markets

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**Deane Dray** *- RBC Capital Markets - Analyst*

A couple of questions on the Aviation side, that spares number being up 31% really jumps out. Do you see changes in airline behavior? Is this coming through because of lower fuel and how sustainable is this through 2015?

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**Jeff Bornstein** *- General Electric Company - SVP and CFO*

Well, you heard the revenue -- the volume numbers are pretty good. Revenue passenger miles are very, very strong. There is no question that most of the forecasts are that the aviation industry globally -- probably having its most profitable year in history this year. I think IADA is estimating almost $25 billion of profit. And the airlines are no question stocking inventory. You will recall that in 2012 there was a really large destocking that went on and since that destocking in 2012, spares have improved each of the last couple of years.

So it may be that the airlines based on the profitability of operations are more aggressively replenishing some of that destocking that happened a few years ago. But very strong.

Now we don't expect that rate of 31% to persist for the year. I think we talked about double digits and we're probably talking about mid double digits, midteens maybe. But it's not going to be 31% for the year.



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**Operator**

Jeff Sprague, Vertical Research.

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

Just wanted to circle back around to Alstom. Given that there was kind of such an abrupt change in strategy around Capital and you are achieving kind of your business mix goal kind of through subtraction largely, how do you actually feel about Alstom here? Is that really the right asset? Is there a way to back out of that if the EU is a little too demanding?

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

I would take that in two pieces. I would say the premise for the deal, Jeff, is as relevant today as it has been in the past, which is very complementary products, opportunity to drive excellent synergies, good return on investments. And we feel at -- 4 times EBITDA post synergies is a pretty attractive entry point into an investment like that, so high double digits returns in a market we really know.

And then I think just like -- I would back up and say the Company has gotten probably 100 deals through Brussels in the past decade, something like that, so I think we know how to approach this and know how to get these things done. But just like every other deal we've ever done, if this one ever would become unattractive, we wouldn't do it. So that's no different than any other transaction we have ever done as a Company.

**Operator**

Robert McCarthy, Stifel.

**Robert McCarthy** *- Stifel Nicolaus - Analyst*

It looks like we've reached the lightning round of the call so I've got one question. I'll make it count. In any event, just in terms of the timing of the divestiture of a large part of these GE Capital assets, obviously the inbound [call] volumes are very encouraging but at the end of the day given the size, scope and nature of a lot of these businesses, you are going to be dealing probably with a lot of large, SIFI-like institutions. How do you reconcile the need for speed killing in terms of getting to these divestitures versus getting the right price? And how are you thinking about those decisions and do you think the timeline is practical?

**Jeff Bornstein** *- General Electric Company - SVP and CFO*

Well, I think that the plan that Keith laid out with all of you last week -- we laid out a plan that spanned 2 1/2 years here roughly. But that we thought that the bulk of this work would be done by the end of 2016. Now we're going to try to outperform that, there is no question. I think that when we think about the risks associated with this, including price and value, speed is the single biggest mitigant. We have a market today that is incredibly receptive to these kinds of assets and so we need to be able to capitalize on that.

There is no question we've got to balance from an execution standpoint the nature of the buyer and the size of the transaction to the extent that we are relying on maybe a back-end regulatory approval by the buyer with doing smaller transactions that maybe, maybe not, may be better from a price perspective than doing several large big bulk deals.

But I think my guess is that Keith and the team will run almost a parallel process there where we will evaluate on both tracks, platform by platform, portfolio by portfolio the level of interest there versus a couple, several maybe, much larger deals that try to sweep up many of those platforms simultaneously.

So we are completely aware of exactly what you are asking and we have a process and we will make sure that we evaluate in those lights, but speed is the key.

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



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Rob, I just want to say that the lifetime achievement award winner, JoAnna Morris, is working the phones this morning, so don't blame Jeff Bornstein or me for any of this activity. And I want to echo just what Jeff Bornstein said, which is you've got to think of each one of these assets having multiple options for what we do. So it's not like for any one of these there's only going to be one game plan. There is going to be multiple for every platform.

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**Operator**

Steve Tusa, JPMorgan.

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**Steve Tusa** *- JPMorgan - Analyst*

So just to be clear, is the Oil and Gas guidance -- what is that now for the year? I'm not sure there was like an explicit comment on Oil and Gas. And then if you could just opine on the -- a little more clarity around what happened with the Aviation supply chain? There has definitely been a lot of noise from maybe sub suppliers and stuff like that around that supply chain, so just curious as to how you guys are fitting into that puzzle?

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**Jeff Bornstein** *- General Electric Company - SVP and CFO*

We didn't change anything on our guidance on Oil and Gas, Steve. So I think what we said is down 0% to 5%, probably closer to 5%. We evaluated scenarios beyond 5%. All of those were considered in the guidance we gave you $1.10 to $1.20. We've got the team executing to a plan that supports the $1.10 to $1.20. As Jeff talked about, he has incented the team and our targets internally on the higher end of that range, not the lower end of that range. So no change to anything we've shared with you in the two calls previous to this.

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

And then I would say, Steve, the production is ramping in 2Q and getting back on schedule and no real update other than what Jeff Bornstein said on the call.

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**Operator**

Joe Ritchie, Goldman Sachs.

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**Joe Ritchie** *- Goldman Sachs - Analyst*

The first question -- I guess first and only question is really on the order of priority on the asset sales. Can you just discuss a little bit both on CLL and Consumer? And I guess specifically as it relates to US versus international, how you are thinking about the order of priority because I would imagine that given your goal to de-designate the non-bank SIFI I would imagine would be focused on the US assets. So any color there would be helpful.

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**Jeff Bornstein** *- General Electric Company - SVP and CFO*

So what Keith and the team are focused on first and foremost are those platforms where we might be more concerned about the franchise value itself where the people are a big component of the value creation process. So he has prioritized the focus based on that first.

You are correct, I would say the second order of priority would be we think in the US our ability to execute quickly and in scale is very favorable today and it is a big part of the discussion around the SIFI status. So having said that, it is not as though we are not going to do anything outside the US. We are going to be working the international platform in parallel here as well.

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**Operator**

Nigel Coe, Morgan Stanley.





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**Nigel Coe** *- Morgan Stanley - Analyst*

So Jeff, I think you are going to win the prize for most bullish CEO this quarter. The $1.20, I just wanted to define what you mean by working towards the high end because right now the consensus is close to $1.10. So are you encouraged enough to raise our numbers and if so, do you see a path to 5% organic, or is it primarily midpoint to low point but offset by margin? So any comments there would be helpful.

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

Nigel, this is the exact same comment I made in January that just centers where the internal incentive plan sits. And the internal incentive plan sits towards the high end of the range and we were transparent about this at year end and we have been transparent about in January and I am transparent about it in April.

Again, I think the value of a portfolio is that you've got a series of businesses that are doing well and you've got markets that are still volatile out there and we just want to see how that continues to evolve.

Like I said earlier, like Jeff said, we are pleased with where Oil and Gas finished in the first quarter but that market is extremely volatile right now and we just want to see how we continue to progress, what happens in the marketplace and let's see what happens.

There's plenty of chance to make other changes as the year goes through but let's see how we do quarter by quarter and beyond that look, I think we are -- we've got a good diversified set of businesses that are doing well in the industries they are in and we need to see how the world continues to evolve.

**Matt Cribbins** *- General Electric Company - VP, Investor Communications*

Okay. A couple of announcements before we wrap up. Next Wednesday we will hold our annual shareholders' meeting in Oklahoma City. On May 20, Jeff will present at EPG and on June 16, we will hold our Paris Airshow Investor Meeting. As always we will be available later today to take your questions. Jeff?

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

Great, Matt. Thanks. Thanks, everybody. We announced a lot last week on really positioning the Company for the future. We are excited about that strategic change, that strategic pivot. The underlying performance of the Company both Industrial and GE Capital is per our expectations for the year. We continue to make progress. We are pleased by the execution of the team in the first quarter and we look forward to the rest of the year. Thanks, Matt.

**Operator**

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

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