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EDITED TRANSCRIPT

GE - General Electric Co. Analyst Meeting

EVENT DATE/TIME: SEPTEMBER 27, 2012 / 06:00PM GMT

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"This document may also contain 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."
"As previously announced, effective in the fourth quarter of 2012, Energy Infrastructure will be reorganized into three businesses – Power & Water, Energy Management, and Oil & Gas. Information related to these businesses is presented on this new basis and is preliminary and unaudited. Other information has not been revised."
"In this document, "GE" refers to the Industrial businesses of the Company including GECC on an equity basis. "GE (ex. GECC)" and/or "Industrial" refer to GE excluding Financial Services."

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PRESENTATION

Trevor Schauenberg ***- GE - Vice President, Corporate Investor Communications***

Good afternoon, and welcome, everyone, to our GE Infrastructure Investor Day. Sorry about some of the buses this morning from New York City. I understand there's a mega movie being filmed, so we had to reroute some of the buses to get you here on time. There's a third bus that'll be coming, so we still have a lot of people coming in in the next probably 20 minutes or so. But, thanks for coming to see us today.

Today's meeting will be webcast and recorded and available for replay. That and the slides can be found on our website at www.ge.com/investor.

For today's presentation, we have our host -- our CEO and Chairman Jeff Immelt, and all of our business leaders and CEOs from the industrial businesses. So, a lot of content to cover today. We'll probably spend a couple of hours in the presentation, and then have an hour for Q&A at the end. So, please save your questions for the end and we'll have a microphone to record it for the webcast as we go.

And then after that, we'll actually have an hour of mixer with our leadership team too. So, plenty of time for everyone in the room who came to see us today to mix and mingle with our leadership.

A couple of points about the presentation today, we actually are going to show you all the new segments for the Energy business after the energy infrastructure change. So, you'll see Power and Water business, you'll see the Energy Management business, and Oil and Gas on the new basis, the new numbers.

There's not a lot of changes, but there are a few that you'll see. Don't worry, though, you don't have to change your models for 3Q. We're going to still report it on the old basis. Then for the fourth quarter, we'll report on the new basis and we'll give you all the recasted numbers well before that, before Jeff presents the outlook meeting in December.

As always, elements of this presentation are forward-looking based on our -- the world and our businesses as we see them today, so please keep in mind that they can change in time.

With that and without further ado, I'd like to turn it over to Jeff.

Jeff Immelt - ***GE - Chairman and CEO***

Trevor, thanks. Good afternoon, everybody. Welcome to Crotonville. Most of you have been here before, but it's ever-changing. We're investing and it is used 7 by 24 every week of the year. So, this is really a home game for GE.

You get today -- as Trevor said, all the Industrial businesses -- there's David Joyce who most of you know. David is a career aviation guy. He really started designing engines and worked his way through that business.

Danny Heintzelman. Dan comes off the Aviation family tree, [spent] most of his current Aviation, then Energy, then Oil & Gas, so that's -- John Dineen right here -- our Healthcare business. John is really a protege of Lloyd Trotter, I would say, in their beginning days. Off the Plastics family tree is John's -- and he's run our Healthcare business, our Transportation business, lived around the world.

Dan Janki, most of you know, in IR. Dan has spent most of his career in finance and has run the Energy Management business for the last year or so.

Charlene Begley. Charlene has used to run the audit staff, has run our Transportation business, our Consumer and Industrial, has been running business for the last 10 to 12 years. She's also our CIO, which is a model that I like as it brings -- I'd say more business reality into IT.

Transportation. Lorenzo right here, Lorenzo is Consumer and Industrial, audit staff, has run the Transportation business since '08, lived in Budapest, Eerie, Louisville, all the garden spots around the world.

Steve Bolze. Bolze right here, Steve has been in our Healthcare business, but mainly Energy. Most of his career has been in Energy business. That's where he started 5 years in Healthcare then back in Energy for the past 6 or 7 years.

Keith is also here. The good news is Keith isn't presenting today. As most investors know, that's good news when Keith doesn't present. And then Lynn Calpeter is CFO of our Energy business. So, they'll be here for the day.

So, I can't add a lot to the environment that you don't read about in the newspaper every day. I think US is Okay. Europe we remained concerned about. Asia -- our part of Asia, particularly China, is not that bad. You know, they keep buying aircraft. Healthcare is still pretty strong.

The resource-rich countries for us are generally still pretty good vis-a-vis their investments and infrastructure. So, you know, I'd say we're pretty realistic about the environment, but we've got a few positives in our control. You know, I'd say our portfolio is the best it's been in a long time. We got an early start on the cost out program, so we've got really kind of full-fledged cost out going into the next couple of years with a lot of solid momentum.

We got a deep pipeline of growth initiatives in NPI, and service, and globalization, and a lot of cash as we go forward both from GE Capital dividend, Industrial free cash flow, NBCU in the next few years. So you get, a lot of cash. And so, I'd say these four things put a lot in our control and make us feel pretty good about how we're positioned in the future.

No real change in the strategy -- I'd say our aspiration is to be a great infrastructure company with a Financial Services Division, that that portfolio generates a ton of cash, $100 billion over the next 3 or 4 years. Our imperatives -- strategic imperatives haven't changed and we're always investing in the processes and the things that allow us to bring our scale to life.

And I'd say technology, services, globalization, these have been initiatives and imperatives around GE for the past decade, and so we really are adding momentum each year and we continue to add more texture and more capability around that.

Framework really hasn't changed in terms of how we think about 2012. There's really three updates I'd give you today. The first one is we're going to have a substantial gain coming out of NBCU, and we're going to use that gain to fund restructuring. So, that's the first change.

The second is our underlying business is still pretty good. We expect to have positive orders for the quarter ex-wind. And the third one is we're increasing the outlook for organic Industrial revenue growth for the year from 5%-10% to about 10%. So those are really the three updates to the general 2012 framework. Other than that, if you go down this page, everything is the same. So, that's the framework.

You know, our Industrial performance, I think, is gaining momentum. We see good solid organic revenue growth. Margins will grow this year. We expect margins to grow next year. If you go back to EPG when I talked about the mosaic, it's more or less the same today. We've got a big backlog of products and services. We continue to get good position in growth markets. We see our margins expanding going into this year or next year into the future.

Wind is going to be a negative. Steve will talk a little bit more about that. And, you always have developed market uncertainty, what's going to happen in Europe, what's going to happen in US. But we still expect double-digit industrial earnings growth for 2013, and we feel like we've got pretty good positioning with which to do that.

And we like our businesses. We think our businesses are well-positioned with some of the secular trends of the time. There's multiple revenue streams. There's way to add scalable platforms. We got good market shares. They're capital-efficient, and so we like the industrial portfolio, and we think this is going to deliver double-digit earnings growth this year and in '13.

We continue to change the portfolio. We've done a lot of portfolio work over the last decade. I'd say, from where we are today to where we are in the future, it's still our intent to make GE Capital smaller. As we look in the future, it's generating a lot of cash right now. We still want our Infrastructure business to continue to grow.

So we've -- I think made the portfolio safer. We've made it higher growth from an industrial standpoint. And looking forward, we expect the industrial percentage to continue to grow and financial services to be smaller over time. Our return of total capital is about 12% all-in this year. Industrial return of total capital is between 15% and 16%. Financial services continues to grow.

We expect our return of total capital to be substantially higher as time goes on. This is a function of both work in GE Capital as we make that smaller and earn more. Great disciplines from a standpoint of industrial cash flow and how we allocate capital, and we plan to reduce shares below the pre-crisis level, so below 10 billion shares. And we see good pathways with which to do that. So, we think this will continue to take place.

We attempted over the last period of time to make the industrial portfolio a faster growth, and we've done that by investing in adjacencies. The adjacencies today are -- in 2012 be in excess of $40 billion, up from $4 billion. We've really done it in three places.

We've done it by getting into new big infrastructure spaces like oil and gas. We've done it by leveraging our great industrial footprints and businesses like aviation, where we've added a systems capability and businesses like healthcare, where we've added life sciences. And we've added technical capability in places like electrification.

You know, I think about business building today, I think -- kind of the disciplines I think about are building on strength in markets we know, don't acquire roll-ups, acquire pure plays. There's no reason for us to pay somebody else's goodwill, and so a real focus on pure plays.

Look for business model changes. If I look at oil and gas today, you've got a $200 billion market cap oil and gas company that has tremendous technical needs. And today, they're being serviced in the industry by very focused small oil and gas players, low market cap companies currently spending 1% to 2% max on R&D. There is a huge gap for a technical player in oil and gas that fills the customers' needs and can be very competitive against the people that are currently in the space.

We drive organic pipeline. I think we're more confident today about doing an organic build in industries. If you take any underground mining equipment today, the program cost to get in that space is $10 million -- $10 million -- nothing. So our investors should be very unhappy if we acquired a big underground mining company. Hint, hint.

When you can take any one of the products -- we own all the guts -- 100% of the guts on any one of those products and to get into any one of those products it is $10 million or $20 million of programming spend. So having this organic capability is really important.

And maintain financial discipline -- if you look at the deals we did in '11 all between $1 billion and $3 billion, executing above pro formas, that is a space where we think we can add value. So, that's how we think about investing in the future.

Think of this just technology -- these investments are paying off. We're investing between 5% and 6% of revenue back into R&D. The Global Research Center is a big source of improvement and change. You're going to see big leadership in systems like aircraft engines, more products at more price points in our Healthcare business.

We're launching one or two new technologies out of our Global Research Center every year. That's something we hadn't done for probably 20 years. We're adding value to our acquisitions like artificial lift and submersible pumps, and we've invested a lot in manufacturing technology to make us more productive over time.

Globally -- our growth markets will continue to grow revenue in excess of double-digits this year. Even our developed revenue is up by single-digits, so that's Europe and Japan. That's a pretty good global profile. You know, we've been able to localize effectively. We've got good customers and partnerships. We've globalized our research and development.

You know, we're really very strong in the resource-rich regions around the world. We also have a great profile in China. You'll hear from John Dineen and Dave Joyce some of the success they've had in China this year. I think the good news about GE from a standpoint of globalization is we're diversified and we've got scale positions. And I think when you're diversified and you got scale positions, you can play globalization from a position of strength and that's what we're doing in the global game today.

And services remain extremely important from both growth and a profitability standpoint. You know, our install base grows between 3% and 4% every year. We want to grow our dollars for install base between 3% and 4% every year, and we want to grow our margins every year. So, this is a earnings and cash machine. We very much are focused on delivering customer value in places like efficiency, and uptime, and asset utilization. And we think that is the purpose of the Service business.

And we're spending a lot of time inside the Company -- you'll hear from the team today what we call Services 2.0, where we really not just own the material stream, but we spend a lot of time focused on the analytical layer around our equipment. We continue to invest in smart products, sensors and controls.

And basically, a product like an aircraft engine takes tens of thousands of parameters off the engine every year. And Dave will show you cases where we're modeling fuel performance. We're doing a digital work scope for our service shops. This is going to be a great way to get both incremental growth and better margins as time goes on, so we're really taking our Service business up to the next level.

We have embedded relationships. You know, GE is a brand that is respected by our customers. There's really four ways that we drive big embedded relationships. The first is global accounts. You know, each one of these big oil and gas customers could be a $500 million to a $1 billion global account, so we try to envelop these customers as we look, going forward, to the future.

Company-to-country relationships in places like Brazil, in Saudi Arabia and different places around the world, we can use the breadth of the Company as a big advantage. We can use our scale as a big asset. Big industry verticals -- things like unconventional fuels might buy from eight divisions of GE, so we look for ways to package this capability and just big enterprise selling.

One of these John Dineen will talk about is the way we use the breadth of our healthcare portfolio to improve the market share and customer outcomes. So we not only use our scale behind the scenes and our cost base, but we also use our scale with customer relationship.

We're on track for our margins, 100 basis points over 2 years. We still expect to get 30 to 50 basis points this year and 50 to 70 basis points in '13. You can see this year we've got some big mix headwinds, but we're making good progress on service margins and structural costs. And then when you look at '13 -- the hardest thing for us to always predict is the equipment service mix because you don't want to wish for lower equipment sales. You kind of let that flow through and it kind of is what it is.

I've been here 30 years. I've been -- I've been on mix councils and everything, and after 30 years you kind of come to a conclusion you get let it rip and see where things go. But our value gap ought to be good. We ought to be able to get a point and a half or so on direct material deflation, better on indirects.

And Steve will say, the energy pricing is stabilized. We're getting decent pricing in Oil and Gas and our Service business in Aviation. We've got good momentum on product cost coming down. We've got very detailed plans and simplification -- I'll go through in a second. And our service momentum on service margins is pretty good. So we really enter '13 with pretty good momentum as it pertains to our margin expansion, our margin goals.

Simplification -- I think I talked in the past about getting $2 billion of cost out between 2013 and 2014. These are now -- '13 is now dialed in to all of our businesses' ledgers, all the businesses' operating plans. So we've got $700 million to $1 billion that's kind of locked and loaded for '13 and an equal amount going into '14, maybe a little bit more in '14.

And this is really what you heard us talk about in terms of delayering in our Energy business. It's simplifying big complicated footprints like our Healthcare business, taking cost out of Europe as that market declines, a lot more focused on shared services, when you look at the big back rooms inside the Company, less indirect usage and lower indirect pricing. So, we got big buckets there. And GE Capital is going to take cost out as well.

So, this gives us some pretty good earnings momentum on the cost side going into next year. And our goal is to do this without impacting our growth engines as we look forward in the future.

And our manufacturing teams are doing a really good job from a simplification standpoint. Lorenzo is doing really big disruptive cost workouts where we're looking at ways to take tens of millions of dollars of cost out. We're driving Lean throughout the Company. Our appliance product line is completely retooled.

Dave will talk about the learning curves, in our Aviation business is being a key source of incremental earnings growth going forward. And we're localizing as we continue to globalize, particularly, in services, so you'll see more of that going on in the future. So, we feel good about our cost position and our supply chain.

And as I said earlier, we got a lot of cash. We got a lot of cash optionality. We got the GE Capital restored dividend. We think that's great news. Our industrial companies -- businesses continue to generate cash and we'll get some money out NBCU as time goes on. And the way -- the way we kind of think about is organic investment and industrial profit growth. We want to continue to grow dividends in line with earnings, and we hold that at a very kind of high priority inside the Company.

We're going to use the GE Capital special dividends to reduce shares. We're going to get the share cut down below 10 billion shares where it was in the pre-crisis time period.

You know, we're really going to stay focused in the next period of time on $1 -$3 billion on acquisitions. We just have a good experience base and doing focused deals we think is the right thing to do. We'll continue to reduce the size of GE Capital and continue to get cash out of GE Capital.

So, I think capital allocation is a big value creator for our investors. And we're probably, in any time, I can remember certainly in the last period of time, we've got more discretionary cash around the Company than any time I can remember in a long, long time.

So the guys are going to go through the -- kind of the business operations. But I thought I'd just give you a -- kind of a reflection. I think what Steve will talk about in Power and Water is just -- we used to have one product in one region -- gas turbines in the United States. We have a big gas turbine product line today, big NPI investments, big service investments.

And gas is the fuel of choice in the global energy market, and so we got a broad variety of options and capability as this wave comes at us. So, you'll feel good about that.

I'd say in Aviation, we basically have won this generation of engine battles. You know, our percentage of installed base will be higher in 2020 than it is today. And so, Dave's challenge is really more along the lines of execution and service and manufacturing technology. But we've got an awesome profile in the Aviation business going forward.

John will talk about, in Healthcare -- a big diagnostics position, a long-term winner in an industry going through change, but good opportunities for growth in services and life sciences and areas like that.

Dan will show you an Oil and Gas business, that's now of scale with tremendous opportunities to grow. And we've got the right stuff in the right places. You know, our selection of the segments we play is very strong in Oil and Gas, so good potential for growth in the future.

You know, Charlene will tell you a story really about we'll dramatically improve our product lines, and when housing comes back this business is going to make a lot of money. Our margins will be higher, our revenue will be higher, and we'll be ready for that housing cycle when it comes. It's starting to form. I don't know when that will be, but it will be. You know, that's why they call them cycles, and so this will be out there.

Dan will show you some businesses where we underachieve versus our competitors in energy management, big opportunities for margin growth and better presence and also important, technologies. When you think about power conversion, that's an important technology for the future of the company. And Lorenzo will show you really a great franchise and one we think we can scale both globally and -- in the Service business and adjacencies and have an opportunity to win big.

So, you're going to hear from each presentation kind of a view of the market and our position, and then the strategic execution in technology, global growth, service and analytics, adjacencies, and margins. And in each one, we'll give you an outlook of how their business looks in '12 and '13. And then I'll come back at the end and give you kind of a total scheme for the Company in terms of how we feel going forward.

So with that, Dave, I'll turn it over to you.

David Joyce *- GE - President & CEO, Aviation*

Thanks, Jeff. So I'll lead off for the Aviation business and start with kind of picking up on what Jeff said. Look, we're the largest provider of jet engines in the world with sales of $19 billion, 40,000 employees, 83 sites. And we really look at the business in five segments. Each one has a strategic imperative as we take a look at 2012, '13, and beyond.

In the commercial engines sector, Jeff said it -- we have had some very significant generational shifts -- changes in airplanes that require us to play. And we've done a good job capturing the next-generation of engineer-plane combinations on the right airplanes. And we'll show you what that means in terms of building out the future of the business in commercial aviation. The challenge now is execution both in engineering and in supply chain -- supply chain execution, margin expansion, as well as execution in engineering.

Commercial engine and services. I'm going to show you a story of our installed base growth all the way out through 2020. By 2020, 69% of every aircraft that takes off the ground will be powered by CFM or GE. And if you take a look at that and see what that's going to drive and -- that utilization will drive in terms of shop visits and spares. I'll show you that they have to take advantage. We are ready to take advantage of that installed base growth, and launch Services 2.0 which is the next generation of productivity and efficiencies for us as well as our customers.

Military engines and services, it's all about recognizing the changing marketplace where investments will be less. And, therefore, the effectiveness -- cost-effectiveness that is placed by the government on each one of the purchasers will be higher. We're going to capitalize on a great market position in order to drive upgrades and look at international sales. Systems, very well positioned, on the right platforms, great adjacencies. It's performing for us.

And, finally, we're very excited about taking the technologies that have made us great in the Military and Commercial Engine business and rolling them into business in general aviation, and we'll tell you that story at the same time. So, that represents the strategic imperatives that you see on the right-hand side of this page. So, let me just talk a little bit about the market drivers in the environment.

Passenger demand, demand for air travel continues to grow around 6% year-to-date. These are IATA figures -- close to 5% forecasted for 2013. Freight demand, soft; an indication of just what's happening with global trade. I'm not telling you anything new here, but we're seeing it in freight demand for airplanes, as well as cargo around the world.

Oil has been pretty stable. Jet A Fuel is up probably year-over-year somewhere between 5% and 8%. The outlook through 2013 is stable, no radical transitions in oil which would accelerate, if you will, the retirement of old equipment.

And, finally, Defense budget, that's where the big change is going to be. Just on the budget request it's down 5% year-over-year. This doesn't include the impact of sequestration or the reduction in overseas contingency as well. So, that's kind of the environment.

If you look at where we are today in commercial, this is just a terrific lineup. We added 16,000 engines between the beginning of the decade and where we are today. I'm going to show you we're going to add another 16,000 by 2020. So what we did in 12 years from 2000, we'll actually accomplish in 8 years -- over the next 8 years.

We're number one in powering regionals. We power the Bombardier 50, 70, and 90 Pax. We power -- sole source the Embraer 70 and 90 Pax. We lead in powering the narrow-body, single-aisle A320s and 737s. We'll come out of this next generational transition in narrow-body stronger than we went in.

We are in the process of replacing the best-selling widebody engine in history, the CF6, with the next-generation which is GEnx. That's been our fastest-selling engine on order. And it's performing very well in the field, and finally, the GE 90 on the 777-300ER. There's not a customer in the world that has anything but positive things to say about their 777-300ER -- the most productive and effective airplane that they're flying in that size, big twin. And we're thrilled to be on it, and it's a great franchise for us.

$19 billion of equipment backlog, $74 billion of services backlog. Backlog of equipment is anywhere from 3 to 7 years depending on the engine model. So, a very healthy position in commercial aviation.

We talked about the GEnx. It brings to the marketplace 15% lower fuel consumption and 40% reduction in nitrous oxide emissions. So far, we're flying at 6 customers today on the 747-8. 5 of those are cargo, plus Lufthansa flying the commercial passenger version. And we're flying at 4 customers on the 787, and Qatar will be our fifth. They'll take their delivery on Saturday of this week.

Let me hit the shaft. For those of you who will follow aviation, you know, we had an issue with the shaft on the GEnx. We've been working very tightly with the National Transportation Safety Board and the FAA. The field plan has been implemented. We've inspected all the shafts in service and found nothing. The inspections are completed. The field plan is executed.

We've made the changes in productions to the shaft. And, again, we're working hand in hand with both the FAA and the NTSB to get this behind us quickly. So, that actually turned out to be a very positive collaborative work arrangement with both the NTSB and FAA, and we're very happy with where we are on it.

LEAP, this replaces the current CFM. This is a next-generation of CFM products, promising and delivering 15% better fuel consumption. The main message here is we are again sole source on the 737 MAX with over 1,100 aircraft announced. We've picked up a brand new application in China with the COMAC C919, and I'll show you what that means in terms of our investment in that airplane not only on the engine, but on avionics as well as on the integrated propulsion system.

And we're one of two sources in the Airbus A320, and we're running around 51% share on the announced wins on the A320neo. So we will come out of this cycle stronger than we went into this cycle with the current CFM products.

And the LEAP right now, designs are frozen. We're procuring hardware. First engine goes to test for the China and the Airbus airplane in first quarter of 2013, and the first engine goes to test for the Boeing airplane in the first quarter of 2014. So, we're well off and running on this. It's going to be a great program for us and we're very happy with our positioning.

If you take a look at what makes this all possible, it really is our ability to leverage technology investment. You know, the one thing that GE has done over the years, it's made big investments in technologies both in terms of multi-generational technology plans and product plans, and making sure that we align the technology planning and the product planning so that we can bring it to market with the most effective and efficient cost point that we can.

So think about the GEnx as being the first really big fuel efficient move we've made in the widebody space since the GE 90. We scale that design. We change the design for higher cycle utilization because on a 73 and A320, those operators will literally run departures -- 5, 6, 7 departures a day. So the durability of the engine has to be considered as well as the fuel burn savings. And we'll put that in service in 2016.

At the time that goes into service, we'll have already accumulated 14 million hours on the GEnx on the technology that we leverage to put into the LEAP engine. We then will take the LEAP engine and, again, scale it up and put some more technology so that we can get to higher temperatures. And we'll create the engine for the next-generation 777 in 2019 entering the service called the GE9X.

By the time that engine goes into service, the GEnx will have 30 million hours. The technologies we introduce on the GEnx will now be 30 million hours in service. The CFM replacement LEAP will have another 30 million hours in it. So, the technology maturation that will be ready for the 9X is leveraged starting all the way back on the GEnx and moving up to the 9X.

This is an incredibly efficient way for us to spend their engineering dollars. It enables us to drive productivity and engineering in a very big way. It allows us to really understand our technology readiness in manufacturing and scale our footprint for the technologies of our total future product plan, not just one of our engines. And it allows us to ensure that we get the right supply chain efficiencies as we build out center of excellence around each one of these new manufacturing technologies.

So, we are the only engine manufacturer that can take technologies from the 787 widebody, then the narrow-body and put those into the next-generation big twin. None of the other guys can take this kind of incremental step, have this kind of durability demonstration, and bring this kind of technology to market with the efficiencies as we can.

Military, currently 26,000 -- almost 26,000 engines in service that represents about 48% of the world's global military fleet that are powered by Western engines. We recognize and have to position for the realities of change. That means that our strategy has to concentrate on upgrades, where we take advantage of that terrific market share and put very cost-effective upgrades that can create big value for the customers, the DOD, and at the same time, be at a much different price point in a new program.

Pushing international sales for sustaining our production. Right now, there's at least 1,000 engines up for tender internationally. Markets like Asia-Pacific, India, Middle East, those are all growth markets in the military right now. So, we're out very aggressive with our airplane customers and partners working on international opportunities.

And, finally, science and technology readiness. Just last week, we were awarded the ADVENT program, which is the science and technology program for the sixth generation of technologies in combat aircraft. It's a huge deal. We were one of two down selected, and it puts us in great position to continue to invest in science and technology programs in the military space.

Least impacted in sequestration is also where our core sweet spot is in today's DOD procurement. So Army helicopters -- 2 out of every 3 Army helicopters are powered by us. Navy aircraft -- every combat aircraft on a carrier deck is powered by us, and the science and technology programs as I just said in ADVENT.

So, we recognize the realities of a shrinking budget. We hope to take advantage -- we will take advantage with upgrades and cost-effective alternatives and drive international sales to keep the Military business in good shape.

Switching now to the services growth model, and I intimated at this on a previous page. If you look on the far left, this is our projection of the in-service fleet. Just simply based on what we know, we'll be in the order book and sell through 2020. So by 2020, we'll be at 46,000 engines in-service, up from 30,000 today. That will drive record utilization. And like I said, 69% of all departures by 2020 will be powered by GE and CFM. We'll be at 30 million departures annually.

And, finally, that will push the shop visits, as I said, about a 4% CAGR rate, so expect us to add about 1,500 shop visits a year by 2020. Today, 44% of our existing fleet has not seen us for a shop as they yet. And very, very healthy services profile just based on the tailwind associated with the installed base growth.

Now, as Jeff said, in addition to just the current services generation of products, we're working very hard on this new generation of products that are centered around analytics. And for us, analytics manifests itself really in three programs. The first one is improving the productivity of the customers' assets.

We do that by two inorganic purchases we made -- one called Fuel and Carbon and the other one called Austin Digital, where we get access to flight operations data from the airline. We take the flight operations data through these advanced analytics and we find areas for operational fuel savings, and we bring those back in a proposal to the airlines.

To give you a perspective, you take an average airline with 70 airplanes, a mid-sized airline -- 1% fuel burn reduction can save that airline $10 million annually, so this is a really big deal. A very positive momentum by our customers and excited about us moving forward in this space.

The middle one is called Integrated Vehicle Health Management, and this is all about improving the utilization of our customers' airplanes. We do that through the next-generation of remote diagnostics which are really prognostics where we can use algorithms to actually predict what's going to happen on the airplanes and on the engines far before it occurs.

By doing that and connecting it into the enterprise -- so we get right into the app centers of the airlines with the information -- we can reschedule crews, we can reschedule equipment, and we can improve the utilization of each one of the assets. And to give you some idea, if a customer has a 50-airplane fleet and we can increase utilization by 1 hour a day, we can generate $100 million of additional productivity for the customer.

And the last one on the right-hand side is all about our ability to deliver our services with more productivity. So think of a world in which all that analytical data and prognostics data on the engine is coming into GE, we're using that information to determine when we should take if off-wing and what the work scope should be when we take it off-wing. By doing that, we can literally optimize our utilization of resources and still return to the customers the right product that we said we would when we did the overhaul.

5% annual productivity, we think, is well within the cards, and that would generate [$15 million] of cost savings a year in our P&L and services. If we -- all of this is wrapped around the center of analytics in aviation. So fuel-efficiency, asset utilization, and operational efficiency are the three things we're going for.

Now, why is this really important to us? Well, today, we talked about 30,000 engines in the fleet and this is going to grow to 46,000 engines in the fleet. So we have to get this right now so that we can bring this additional value both to the customers as well as our own productivity, if we're going to try to improve margin rates within the services portfolio over the next eight years.

Finally, I want to talk a little bit about winning in China. Jeff talked about this. Currently, if you take a look at the installed base flying in China between CFM and GE, we represent 67% of the airplanes flying in China today. Now we still believe that transportation is an essential industry in China. We believe that for China's economy to continue to grow, they have to fly, and we believe they're going to take delivery of these airplanes in the backlog.

In the backlog, we represent 69% of the backlog in China. We made a big bet on the C919 because we believe this airplane has a market in China and even internationally in some other areas of the world. We bet on the engine with LEAP sole source. We're putting the integrated propulsion system around the engine through a joint venture with Safran called Nexcelle. And we have entered into a joint venture with AVIC, which went operational the first quarter of 2012 to provide the integrated avionics suite within this airplane as well.

So, we're real bullish on China long-term, and we're making the investments both in their airplane, and we also are ensuring ourselves we have the right market position on our existing engines.

The last piece of this is business in general aviation. Right now, we have five applications that we're looking at our engines going into various business in general aviation opportunities in China. Only one of them is announceable while we're standing here, but there's four more that are in the hopper right now and probably a couple of those will announce or break here within the next 3 to 6 months.

But this is another very exciting and growing space for us of taking our existing engines and looking at where the business in general aviation growth is in China, make sure we capture the engine program.

So, let me talk a little bit about business in general aviation. I did a slide and talk to you about leveraging technology between the GEnx all the way up to the GE9X over the next 8 years. This might be as important the leverage of technology as the horizontal through the product families in commercial engines.

So in turboprops, in 2009, we bought Walter Engines out of the Czech Republic. We had -- they had an existing product family. We took the product family, we upgraded it, brought our own technology in and have now created a whole new product family called H80.

We have four new applications of that, and we have -- we're hunting. We have probably four more that we'll go after over the next year. We'll increase the number of engines by 110 to 120 a year through the rest of this decade and build out that turboprop family in Czech.

GE Honda will certify the engine the end of this year. It's flying with the HondaJet right now down in North Carolina. The HondaJet is certifying in 2013. That will be the way we play the light jet space.

In the mid-size jets, there's too many engine manufacturers competing right now. There's 4 guys duking it out every day for every one of those airplanes. So for us, the play there is to go through the systems door with integrated distributed power as well as our Integrated Vehicle Health Monitor. Big wins on the Gulfstream 650 in the Bombardier new product lines in that space.

And, finally, with large cabin, we took the LEAP-X technology, we sized it down and created Passport 20 for the Global 7000 and 8000. So we're going hard at -- remember this size space -- this large cabin is kind of like an ultra-long range, long haul airplane in commercials, so it needs really, really good fuel burn. And so, taking GEnx and LEAP, and bringing it into the Passport 20 was the right move. And we're bullish about that marketplace as well.

So, we're excited about the adjacency growth. We've made investments with Passport, leveraging the LEAP technologies, investments with GE Honda in the light jets, and we're looking for more applications and investment on our own in the turboprop market with the Czech Republic.

Systems -- $17 billion and climbing. We like the way this is shaping up. Four major market segments -- avionics, mechanical. We talked about integrated propulsion, also integrated turboprop systems.

Power. We're very happy with our current power investments, and we'd like to do more. Big connection with GRC on silicon carbide technology, which is the next-generation of power distribution. And, finally, Unison, which is an ignition systems business that is not only investing in next-generation ignition systems but also adjacent markets like oil and gas and energy.

So, this business is very well-positioned now. We've got some good wins on the right platforms. It's a stable business, and we're happy with it. This is where Smith ended up landing, and it's a good plane.

Finally, in terms of margins, in '11, we -- we're 18.6. We see positive margin growth in 2012 and again in '13. Most of that is driven by exactly what I just told you. Having a differentiated product in terms of fuel burn, give us the opportunity to go get price. Price realization allows our value gap to go up.

So in addition to driving the efficiencies of our supply chain through the production system, we can also go after price in the marketplace as long as our fuel burn advantage is maintained. So value gap for us is a big deal. We're going to actually go after deflation by increasing our low-cost country buys by almost 2X over the next 4 years in addition to going after price. We will do a few strategic divestitures on low-margin businesses.

Global shared services with GGO -- we're now very integrated with Human Resources and Finance in our backrooms, which drives a lot of efficiency in our business. And, finally, going after the installed base with analytics as well as the services tailwind due to adjust the growth in installed base is a big margin escalator for us, and we have to go capture it.

I do want to mention the GEnx. Jeff made a point. The GEnx has been just a terrific product for us in terms of product cost. In the last 2 years, we've been able to take 30% of the cost out of that product, and we still have got more ideas. Every time we go after a cost reduction on these brand new technologies, it creates an entire new thought process on the next-generation of cost reductions we can take out.

It also positions the LEAP correctly in the marketplace because those same technologies become the baseline foundation for the LEAP engine in 2016. So, it gives us a great opportunity to leverage those cost reductions in the LEAP, and then we'll do it again in the 9X.

The outlook for the business is strong, revenues of $18.9 million, growing all the way through '13. Fundamentals of the industry remain strong as we talked about. Revenue passenger [demand] is up. Military needs to really pivot around more cost-effective solutions.

We've got a great strategic plan for the next generation of technologies and maintaining that leadership so we can drive price. We have done a good job on replacing CFM in the next generation and the GEnx to replace the CF6. Our customer base is strong and our profitability engine continues to move in the right direction. So a good business -- a great GE business, and we feel really comfortable about our position.

Okay?

Jeff Immelt *- GE - Chairman and CEO*

Danny?

Dan Heintzelman *- GE - President & CEO, Oil & Gas*

So, as Jeff pointed out, we built a really fantastic business here in the oil and gas space. And, this business is positioned extremely well for the future. I'll show you in a moment how we're covered very well across the sectors in this space. And what I really like about it is we've got a tremendous workforce across the world. We're located in the right places with great technology. And, the best is ahead of us here.

And when you look at this -- when you break this business down into the way we look at the market, we've got a great presence in the drilling side, the very upstream part of the market. We got great technology in the deepwater drilling space, which is a high, high growth space for us right now.

Here we have our products like the blowout preventers and the drill stacks that are used offshore. We've also got in this business -- Jeff mentioned earlier the ESPs or electric submersible pumps, which are critical to the increasing production in established wells.

In the subsea space, this is an area where we have production equipment in the subsea space. Notably we make the Christmas trees, which are crucial to production -- deepwater. We have wellheads as well for subsea and then, of course, flexible risers, which are crucial to, you know, to the offshore production platforms.

Turbo machinery equipment and services, this is the foundation of the business. This was the original acquisition back in the 90's. We have a tremendous position in LNG. You know, our share in LNG is very good across the world. This is a space where we continue to invest in the technology and we continue to bring tremendous solutions for our customers. As you know, LNG and gas is a very, very promising market for the future, and we're extremely well-positioned there.

And then we have this thing we call measurement and control, and this is a series of smaller technologies, but nonetheless crucial technologies that are aimed at data acquisition, aimed at control systems and the ability to actually improve the performance of equipment across its lifecycle.

In here, we also have a business we call inspection technologies, and this is a series of technologies that are becoming extremely important when you look at the lifecycle, the safety, if you will, and the importance of having a good handle on the status of the equipment that is in such critical application across its lifecycle. So, we've got a wonderful business portfolio and we continue to invest very heavily.

Now, when you look at the environment here, this is just really fantastic. You know, I think starting with oil, the demand for oil is going to continue to rise despite the fact that the established markets -- the OECD markets are somewhat flat. We're still seeing tremendous growth in the emerging regions. And the number of new barrels that need to come into play continues to rise. At the same time, that many of the established wells around the world are depleting and production is, in many cases, going down.

You know, we have a dynamic as well that each new barrel essentially more CapEx-intensive than the last because these new reservoirs are being found in difficult places, and the technology is critical. The continued evolution of technology is going to be critical to allowing those reservoirs to be harvested.

You know, this dynamic around aging equipment -- the reality is a lot of the equipment are installed around the world, and this equipment is very old. This little example -- about 72% of pipelines are extremely old and require surveillance, require technologies to ensure that they can be operated safely. You know, this goes beyond the pipelines, so this presents this great opportunity for us in this measurement and control business where we like to think of ourselves as healthcare for industrial assets.

The dynamic around people in this space is also extremely important. There's a generation of employees across this oil and gas industry at large that are coming into the latter years in their career, which means that there is a very big competition for talent, and there's a real opportunity for us to differentiate here as well both on the technology -- engineering technology side, as well as with the introduction of new technologies that can take advantage of the skills that the newer workforces brings with them.

Unconventionals -- unconventionals we know that this has changed dramatically the landscape here in the US. And, we've got an era of gas availability here that is really changing the dynamic in this country, and we are positioned extremely well to play in that space as well. It's a big deal here in the US today, and it will be a big deal in other parts of the world in the future.

And as I mentioned, the subsea space, this is the fastest growth area in the industry, and we've got a great portfolio of technologies that we continue to invest in. So we love the environment and we love our business, and we've got a real chance to differentiate through technology.

Now, Jeff mentioned that we've got a lot of competitors in this space. We've got some advantages, I believe. We have -- we are continuing to invest in technology taking our spend up that's giving us a chance to not only bring new technologies into the world, but to innovate and improve the products that we have.

And we have another little advantage. We get to leverage -- I invest 3% to 4%, but I get to leverage the technologies that David Joyce develops in aviation, that John Dineen develops in healthcare. And we had access to this through the GRC, and we have found a number of places where we can apply that directly into our products that allow us to differentiate and/or push on the boundaries -- a lot of material science, materials -- aviation materials and research that's paying off for us in this space.

So, we've got good relationships with our customers. And as you can see here, a number of industry breakthrough technologies that were developed with our customers, tested with our customers and are giving us a chance to push the envelope in the industry around how these hydrocarbons can be harvested in the future. So we love the ability to differentiate on that front.

Ssubsea -- subsea is a big space for us. You know, we have a business that was assembled. We have an intense focus in this area, in this part of our business on what I would call improving execution. This is a space where execution is critical, where safety and reliability of the product is critical, and where technology is going to be required to allow for future harvesting of these assets.

So, we've got the ability. And what we've done is we brought in people from around the Company, from around GE, experts in supply chain that are helping us to design the supply chain of the future. We've got limitations in this industry around capacity. All right? And we have the ability to leverage supply chain sources, if you will, that were developed for other parts of our company.

You know, we have the ability also to leverage some of the engineering process that was developed in aviation or in energy to try and drive more structured products which allow for lower costs and allow for easier deployment and better use of capacities in the future.

Our services. This is another area where I think we have real big opportunity. As you know, we've been working services for well over a decade in a number of our businesses. This business has great service potential.

As I mentioned, many aging assets that need to be cared for. We've got a big installed base, and we are investing to allow for us to participate and help our customers make those assets more productive in the future. And we're doing pretty well on the marketplace and we're very, very excited about what lies ahead.

You know, unconventionals. I mentioned this a moment ago. This is a space that's growing, and we really have three ways that we can win in this unconventionals market. The first is pretty well-established. We have a great position in LNG around the world, and as the US and the North America starts to focus on LNG as an export, we have a great position here.

And, as you know, the first of those big projects in [Shaneer] was recently approved and is moving forward. And we think there's opportunity for more of that in the future.

The second place is around upstream and production and be able to get more out of these assets, out of these wells. We sell equipment into the space. We have equipment that's used downhole. We have the ESP space. So, we have a number of equipment-related opportunities to participate in the expansion here as well.

And the third way is around demand. I mentioned the LNG. Well, we have a portfolio of technologies going all the way down to CNG through many, micro, LNG, so we have the ability to allow for demand of natural gas in the transportation field, for instance. So we're working with a number of customers. We've got real opportunities, [some] orders are ready, as that natural gas that's so economical here in the US right now starts to branch out into other sources of use.

You know, we brought in a lot of acquisitions. You know, one of the things that we look at very carefully when we evaluate acquisitions is this idea of technology insertion. And we try to identify in advance the kind of things that we can bring to the products that will allow for them to continue to grow and to improve their performance.

You know, this is an example here where our Artificial Lift business is in a fast-growing space. We have a good set of technologies on day one, but we bring in some things that will stay available in the GRC, and we have found ways to improve the performance of the product, which gives us access to more of the market, which gives us access to a higher technology space in the market. So this is a great way for us to improve -- generate value for our customers, as well as for our company.

You know, in this case, we've got off-the-shelf kind of approaches where we can improve these ESPs to allow for a higher gas content. We can go deeper. We got higher temperature capabilities. We've set our sights on a level of temperature capabilities and then of a level yet further again.

And then, reliability. When these ESPs go in the ground, they're expected to stay there. They're expected to perform reliably, and they're expected to be able to withstand the corrosive and abrasive types of environments that they're exposed to. So material science again -- key technologies around bearings and lubrication. So, again, this is a real solid example of how we can bring improvements to these companies or these technologies that we bring into the family.

You know, blowup preventers, here's another place. We brought in a crucial technology for -- into the family, and we here found a number of ways to make it better to differentiate in this space, to try and separate ourselves a little bit in some ways. You know, we've developed with customers -- again, with customers, we developed this MaxLift dual gradient mud-pump. And this is going to allow for deepwater drilling and deeper reservoirs. So this allows for more, I guess, access to some of these important fields for the future.

Safety. Safety is obviously critical in this environment. In our controls experience in aviation, in energy, we're leveraging directly into this space. We have a next-generation control that's been launched that piggybacks off all of the hours of service that we have seen in these other applications in the Company.

Early kick detection -- this is a set of algorithms that are going to allow for a little bit earlier detection when there is an anomaly down in the well which, you know, allows for more time to react and to handle the situation.

And then most recently, we unveiled a industry-leading shearing capabilities for the blowout preventer. We have the ability now to shear and seal at a higher force in a -- even through tool joints, which is previously not been demonstrated. So this is what GE does so well -- we bring technologies from other places in the Company, the sciences, if you will, and we can find ways to apply them in this business.

You know, I mentioned a little bit about global growth. You know, about 80% of our revenues are outside of North America, and we are positioning -- we positioned the Company and we continue to make investments that will allow for us to be close to (inaudible), that will allow for us to be present for the lifecycle to support this critical equipment throughout the lifecycle.

You can see in Brazil, we've invested in capacity for subsea equipment -- subsea -- the services associated with that equipment. We have increased our capacity in our flexible pipe. And then, most recently, we're also introducing new testing capabilities in Brazil at the Global Research Center.

Australia. We've opened recently a very important service center for the future. You know, the LNG coming out of Australia is enormous, and the potential for it in the future continues to be very, very big. And we've got a local shop now capable of supporting some of this giant equipment that's going into service over there.

Africa -- Angola is a huge market for us. They have discovered over now on the -- there's a lot going on on the other side of Africa on the Mozambique side. So, again, these localization investments [are] important, important not only to support the equipment, but they're important for us to compete in these markets because local content is increasingly becoming important in local jobs. So, this is helping us to win and also positioning us for long-term growth.

You know, services in this business is important just like it is in aviation or energy. You know, we have a tremendous installed base of assets in this space. We have great experience and expertise -- domain expertise on how the equipment is used.

And we are now focusing on our execution or our capability building, if you will, to support this equipment to continue to invest in the technology that will make it more valuable and more productive for the customers that own it throughout its lifecycle. So in my view, this is a real opportunity for the future for this business, and we can leverage very directly a lot of the experience we've had in these other big pieces at GE.

You know, analytics and asset management -- the subsea environment. Right? You don't have access to these. There's no direct observation of the equipment. It has to be operating extremely reliably, so we have been aiming our technology development capability toward the subsea space.

We have incorporated a number of improvements to the product today, and we've also developed some really interesting inspection capabilities for some of these older assets that are out there in service, again working hand in hand with crucial customer experience and oversight.

A couple of recent acquisitions -- small acquisitions up in Norway, but really important technology for the future in this space and -- aimed at leak detection, aimed at kind of this overall ability to go deeper, and to do so safe and reliably.

You know, so this business has real margin growth potential. We've got some solid plans. You know, this is a playbook that we've used over and over again in the Company. We see the opportunity to increase this business a point a year. We think it has the potential to be somewhere in the mid to high teens over time. And this is a playbook we know how to run -- simplification, cost structure, global footprint, supply chain.

Value gap -- we're having good success on this front as well; 6 quarters in a row of positive price. And we've also got the ability to leverage our experience in the sourcing domain or supplier world to continue to do better on that front. So -- and then, of course, over time, services is going to continue to grow, and this will also help us to improve margins.

So the outlook for this business is really good. I feel very excited about the possibilities ahead. It's -- we got a lot of work ahead for sure, but we got great support from the Company. We have continued investment in access to technology. We are in the right places in the world. We're in the right places next to our customers, and we will continue to invest to make this a platform in GE that's extremely relevant and important for the Company over the long haul.

So with that, I'm going to turn it over to John.

John Dineen - ***GE - President & CEO, Healthcare***

Thanks, Dan. GE Healthcare is an $18 billion business. And we reside in some of the -- I think the better neighborhoods in the healthcare space. So first is the global infrastructure -- high-tech infrastructure business with our diagnostic and clinical equipment.

The second is information technology and services. That's becoming more relevant as providers become more industrial in their thinking as they see real cost pressures and quality pressures in their business.

And the third is probably the most exciting high-tech and fastest-growing part of healthcare, which is the molecular medicine portfolio where we play indirectly in therapeutics. We build the factories for the biopharmaceuticals, as well as molecular diagnostics.

So, we got three great portfolios. The strategy is really to drive technology excellence in each one of these businesses, but also to start to connect these businesses and become more of the solutions provider, and I'll show you what I mean by that.

We talk a little bit about the healthcare environment. It would be an understatement to say it was dynamic. There are a lot of pressures right now in the environment, and some are positive and some are negative as you know, but you read about it every day in the paper. The first and most important is consumer demographics. People are getting older and they're getting heavier. So, I'm not alone.

But it's really -- it's driving tremendous demand in the healthcare space. You know, as people get older, they spend 60% to 70% of their healthcare dollars after the age of 60, so the demographics are driving a bow wave of demand and not simple demand, these are complex disorders -- cancer, diabetes, cardiovascular disease, and probably one that's going to become even more important is neurodegenerative diseases like Alzheimer's. So, big time demand coming. And this is not a developed market phenomenon, this is in every market in the world.

It's a multi-speed world. We got different economic situations as we know in every market that really impacts healthcare. Europe is tough right now, particularly, on capital equipment. The US is stalled, trying to figure out what's going to happen from a policy standpoint. And the emerging markets are underinvested and on a multi-year build-out. So, I got good, bad, and ugly in every part of the world here.

This is a technology-driven, highly regulated market with limited [protectionism]. What does that mean? There are huge barriers to entry. It is not easy to get into the healthcare space. It requires demand. It is highly regulated. You see a lot of companies say, we're going to get into healthcare, and 2 years later, they're out of healthcare. You have to know what you're doing in this space.

At the same time, we get relatively unobstructed access to the developing markets, limited protectionism, so we don't have to partner with some local player or state-owned company. So, you really get a clean shot. There have been a lot of industries. This is a cleaner shot at the developing market I've ever had, and I'll show you how that's manifesting itself.

Providers are becoming more industrial. They need quality and they need cost out. And precision medicine is becoming mainstream. We've got different competitors in every one of our businesses, and that actually provides a little opportunity. I'll show you in a few pages. And the strategic imperatives haven't changed from what we have been talking about the last couple of years.

This is a technology business, not a consumer electronics business. Market share is predicated by the strength of your product portfolio. You can't price your way out of bad products.

Now, a couple of years ago we told you we were going to divert our strategy a little bit, change the strategy up and move from what historically had been an arms race -- more slices, bigger magnets, higher technology to building out great portfolios with products at the low end, the medium end, and the high end, and we call that healthy imagination.

We've invested that way and it's delivering for us across the industry. We built broad leadership portfolios. We're the leader globally in ultrasound, the leader in molecular imaging. We've moved to first place in CT, and we are closing the gap in MR. And it's about developing a broad portfolio.

All the markets in the world are bimodal, China buys high end and low end, the US buys high end and low end. You have to have a great portfolio in every one of these lines if you're going to be the leader in the marketplace.

Now some people -- some of you guys a lot of the time worry about the financials of this. They say, John, you're mixing down. I'm mixing down the same way Apple is mixing down by introducing an iPad. These are very high-margin product, and they're broadening the portfolio and they're broadening the settings by which these products can be used.

Ultrasound is in cardiology. With the Vscan, we can put it in the hands of midwives in Indonesia. We're making a bigger market. And, again, the contribution margins at the low end when these products have done right are as good as the contribution margins at the high end of the product line, so we are winning with technology in broad portfolios.

We have another embedded opportunity in our portfolio that not a lot of other players in healthcare have, and that is to connect our product lines. We play in hardware, wetware, and software. Wetware is contrastings that are injected into to you to aid the diagnostic process; and software for analyzing the images.

We have different competitors in hardware, with 3 or 4 competitors in wetware. We have three or four competitors in software. We do not have competitors that play in all three of these areas. And I'll illustrate what the potential is for us and that -- it's a potential we're working to realize now.

Over on the right-hand side, you'll see what we're doing in Alzheimer's. We have the scanner. We have developed flutemetamol, which is a tracer injected into your body. It has an isotope on it and it has ligand that seeks out amyloid plaque. This binds the amyloid in your brain, and because it's got the isotope on it, when we use a camera we can see that.

We also build software systems like NeuroMarQ that quantify the extent of the plaque. This is very important in getting to early diagnosis, but it's also important because the therapies for Alzheimer's are going to arrest plaque formation. You've got to be able to quantify whether or not the plaque formation have stopped or regressed.

So, instead of offering distinct products and asking our customers to put those together in the systems, we're starting to design and engineer complete solutions to be offered into the marketplace.

And it's really, I think, an embedded opportunity that's been in our portfolio that we can take real advantage of. And as you'll see there are several other areas where we can do this [like dose] and in breast cancer screening

Now, most of the questions I get are really around my developed market risk. And it's kind of funny -- I've been in business for a long time and I've always had to talk about my developing market risk. But in healthcare, I actually have to talk about developed market risk, and that's really driven by Europe and the US. Japan has actually been a very good market for us, growing at 4% to 5% over the last 4 or 5 years consistently on the equipment side.

And I really screwed down here on equipment because that's where the economic situation is causing the biggest problem. If you look at Europe where equipment was down 10% last year, and the equipment industry is down 15% on a dollar basis this year, anything that's procedural is actually okay -- slightly up.

You know, so anything that's tied to procedures -- patients are still coming in, but governments are holding back on big capital equipment plays. And that's really -- it can only be the temporary phenomenon because more patients are coming in, and they have a very old installed base.

So, we've got to deal with that. We got US that's slow and then it starts again based on the political situation. But over the last couple of years, we've been able to make that work. And the reason we've been able to make that work is, one, we've invested in the product portfolio that we showed you. Product matters here.

But we've also really reengineered our commercial sales forces in the US and Europe into one, where we used to have 50 distinct sales forces, now putting to them together under product leaders and having them work as teams, particularly with who we think are going to be the winning customers as these markets shape out. Because we're going to have pretty big shakeouts when it comes to the provider base in both the US and Europe, and we think we've organized well around that so we can execute.

The other play here, of course, and the easiest way out of this box is to continue to grow in the emerging markets. And we told you we were going to do that a couple of years ago, and I think we've done a pretty good job here.

You know, and most of you that know me know I grew up in the emerging markets. I spent a lot of time in China and Southeast Asia in my earlier days in GE. We know how to do this as a business. We've organized around it. We have big leaders on the ground that can make decisions quickly, people like Rachel Duan who you probably met in China.

We have put big sales teams in place, made big investments in our sales distribution and marketing structures there. We have huge engineering centers. We're investing in plants. And most importantly, we're investing in products that are relevant in those markets and that is paying handsomely if you look at these growth rates. We got a $4.5 billion business growing at over 20%. China has done like 10 quarters in a row over 20% for us.

Some people say, John, do you worry about China? I worry about everything, but what you got in this portfolio is some breadth. You know, you're going to have bumps in these developing markets, but I don't depend on one developing market. EAGM last year crossed the threshold of $1 billion business. That's right up there with China.

India is not doing particularly well right now, so I don't expect every one of these markets to be hitting, but in aggregate I think we're going to continue to see this type of performance out of this portfolio. And, again, we know how to run this play. We've been doing it for the last couple of years and I only -- I think this is going to continue for us.

Services. I mentioned that providers are under pressure. They've got more patients and they've got thinner margins. And it's been a challenge for us over the years in that it was hard to get them interested in our traditional service-type offerings coming in and giving them productivity solutions.

Now that they are really challenged from a margin standpoint, we've got them much more interested in our software and service capabilities. That's the longest to build out a more comprehensive service structure. And so, we've taken our service and our software business, and we do products like DoseWatch, AgileTrac, and Caradigm.

DoseWatch is a Six Sigma tool that allows them to identify the variation in the dose in the radiology department and through process changes reduce that. And this is an example of the Antwerp hospital reducing 41%.

AgileTrac is an industrial system for scheduling, and Caradigm is a clinical system for removing clinical variance. This is a joint venture we have with Microsoft, which we are very hopeful it's going to be a very transformational investment in healthcare. So, we're taking our service capability and our IT capability and bringing productivity solutions to a customer base that now needs it.

We've -- as I said, I think the most attractive part of the businesses is -- to many, is our molecular medicine portfolio. We focus on molecular diagnostics like the Alzheimer's example I've given you, but we also play here on the therapy side. We don't make therapies, we enable the production of the therapies.

Anyone who covers pharma knows that pharma is moving from small molecules and chemistry to biopharmaceuticals and buying up biopharmaceutical companies. That's because all of their new drugs are biopharmaceuticals. So, simple recombinant products like insulin and now monoclonal antibodies. What is in a monoclonal antibody? Herceptin, Avastin, the cancer therapies that you hear about. Those are most of the new drugs coming out.

Our technologies are used to develop those drugs and, more importantly, to manufacture those drugs. We had tremendous strengths at the backend of the supply chain here on purifying these products, and we've done some niche acquisitions to really broaden our capability so that we can do the factor from the front end to the backend, so additions like PAA, Wave, and Xcellerex. I mean, small simple technologies, but it's allowing us to build out the entire factory.

And now we have find ourselves designed into over 90% of the monoclonal antibody therapies, and we expect to do the same thing with the cell-based therapies that you see coming out. This is putting us in a leadership position in one of the most valuable industries in the healthcare space. And you see the growth we've got here and the leverage that comes from the margins is terrific.

Speaking of margins, we are the most complicated business in GE from a footprint standpoint. We've got hundreds of P&Ls and we play in hundreds of regions around the world. And as we've grown and added more and more structure to the business, we found ourselves with really one of the higher SG&A levels in the entire company. So, we're going to go after that now.

You know, we've got some tougher markets in Europe and the US. This year we started to do that. You're seeing our base cost improved considerably, our variable cost structure is improved. And, as we dig into it, we've got more and more opportunities.

So, we've got some big challenges that we put on the table in terms of reducing our footprint and improving our contribution margin levels, both in the products and our service business. And this is a play that we haven't run for a long time in healthcare, but we think it's going to be a good play to be running over the next 18 to 24 months.

So, this is the business outlook and it's a dynamic industry. We're going to have some bumps along the way, but we really think it's a business that we can continue to grow, and it's a business, as you know, when we grow we get terrific leverage out of this portfolio.

The strategy hasn't changed -- the strategy that we laid out a couple of years ago, and we're going to continue to follow that. And we think it's a type of play that GE knows how to run. So, that's within healthcare.

I'm going to introduce Danny to come talk to you about Energy Management.

Dan Janki - ***GE - President & CEO, Energy Management***

John, thank you. So, Energy Management -- give you update on the business. First off, $7 billion electrical business inside GE. We serve these five primary segments. You can see our 2012 order profile across those segments to give you a feel for what we do.

Our customers here, they demand deep application technical specification capability, and they expect deep electrical products solution and services across it. To do that, we have 4,000 engineers across energy management. We invest just under 5% of revenue in our products and technology capability.

A little bit about the market and the environment we play in, $150 billion serve market, good growth dynamics underneath it. You heard Dan talk about the oil and gas. Steve will talk about power; Lorenzo on mining. These fundamental infrastructure projects have a lot of electrical infrastructure associated with them, and it provides good underpinnings of growth. Plus, in a lot of developed markets, you have aging infrastructure that customers constantly want greater reliability, greater efficiency.

In this room, you know our competitors pretty well. They're good in this space. They have good margins, good returns through cycles. The strategic imperatives and operating imperatives to our business are clear. There's five things that we're focused on.

First, executing on the power conversion acquisition. I'll share some pages on that what we're doing from a technology and an operating perspective in globalizing the business. Build a global-focused T&D business, and I'll talk to you about how the XD partnership fits into that. Third, probably one of our biggest opportunities is radically improve our competitive cost structure in the business, and I'll go for the elements associated with that.

And we have this opportunity to expand services. Right now, services are about 11% of revenue for these businesses and where we operate they should be 15% to 20%. We can broaden that franchise and capability associated with it. And I want to show you some examples of how we can add value to GE markets presence and things like oil and gas.

So, let's get started in power conversion. We just passed the one-year anniversary on September 2nd. We rebranded the business at the beginning of the year from Converteam that you may remember -- GE power conversion.

Business is performing well. Order is up 30%, driven by strength in marine, oil and gas services -- real global growth. Latin America with the marine and oil and gas activity is very strong for us right now -- [feel] good.

The integration is on track. We are on pro forma. And I will show you some [activity] but our outlook on synergies are improving. We think -- we committed to you when we announced the deal that we do 250 by year five. We think we'll do better than that.

So power conversion, the imperatives are continue to build on this vertical expertise that they have, but globalize it. They had a lot of deep application technical capability, but a lot of it was sitting in Europe. We got to get it closer to the customer. We can lean into GE to help us do that in places like Latin America, more operational capability there, Australia, China, not only technical application [engineers] technical selling, service -- field service engineers and other capabilities associated with it.

Second is continue to build off the heritage of a strong product and technology capability, things like the drives platform, expand that. There's a lot of technologies that we're pulling from corporate research and development to help accelerate that and built off. We also get some slowdown. We're getting some things out of the Aviation business that will help that -- fill some gaps around the rotating equipment portfolio -- generators, motors. And we can do a lot around controls and automation.

The third, which is operational, and this was not the heritage of the Power Conversion business. This is stuff that we've had infused GE leadership around. This is things like on-time delivery, project execution, real good field service execution. We're starting to make headway. We've got good plans here. There's a lot more we can do to have a big impact in this business.

I'll show you how we're driving the GE connections -- how do we get those synergies, how do we work better together across the portfolio. And then, lastly, just like energy management overall, this is one of the foundation blocks where we can be a lot bigger around our service franchise. It's not something that the previous team had focused on in building. And we've put these teams together and trying to build one combined service franchise.

So let me go into a couple of segments that we play in inside power conversion. Let me start with the marine segment. This is a $12 billion electrical serve market grown at 6%. That growth is driven by the trends you heard from Dan around oil and gas. In the merchant ship market, vessels that's LNG-driven. In offshore, it's around drill ships and offshore supply vessels.

Here, what we do is we provide integrated electrical system, coming off the power gen source of the actual generator all the way through the electrical distribution, the drive, the motor that's driving electric propulsion, the control systems, and also dynamic positioning to position the ship.

I'll give you a couple of examples. First of all, in LNG, here we have relationship with Hyundai. Here represents 2 additional ships we won. We now have 15 LNG ships in backlog for us, and we've done 23 with them since inception date since the mid-2000 time period.

Another one I'd like to give you a perspective on is the offshore -- offshore supply vessels. Here's the example at Swire Pacific. We'll deliver the electrical packages -- dynamic position for 8 vessels. Value from electrical perspective for us just over $70 million.

Here, again, we're providing the generation source, the electrical distribution system, the variable speed drives, the motor, and the dynamic positioning and control. What's unique here is the actual POD design. We have eliminated the gear box. We're actually putting the motor in the thruster. It actually looks -- the picture down here in the bottom left, a little bit like an aircraft engine hanging off a wing, but it sits off the [haul] -- bottom haul of the vessel. The motor is embedded with the impeller.

More efficient. It takes up a lot less space in the haul so you can haul more supply activity. And the overall, electrical system end-to-end is 10% to 20% more efficient for the operator. So this is one of leading franchise -- real technology product service capability that we have in this business.

[If I] we're to pick another one, oil and gas -- $8 billion electrical serve market for us growing double-digit. Dan talked about all the different elements from drilling, to offshore, to LNG. We're finding there's a lot of electrical infrastructure around these capabilities.

So where we get value, we have a lot of those integrated solutions where we can really add up lot more customer value is the integration with oil and gas on the mechanical side to deliver fully integrated packages for the customer. We have to do this commercially. We got to do this from product development. Dan showed a lot of advanced technologies, a number of compressors that he's working on. We're working on the electric motors and drives that drive those compressors.

Project execution -- lowering the risk for the customer from joint project execution and integrated systems. And, again here services.

So, here would be an example, LNG. This is a floating production, storage, and offloading platform. Oil and gas is providing the gas turbines. We're providing the generators. A big consumption source of that power, you have to distribute that power. We have the energy management system that's distributing the power. A consumer that powers Dan's oil and gas compressors, and we have the motors and drives driving that compressor.

So, again, here, integrated product development, you can shrink the size, space on a floating platforms in a premium, so that's a big deal for our operators. You can increase the efficiency of the integrated system and provide more flexibility to the operation. So, again, complete system approach integration that brings more value to the customer.

So, this gets into synergies. When we talked a year ago at the energy meeting, we talked about one of the big drivers for synergies was executing this in-sourcing -- working together that we had identified true due diligence closing 16 projects, $500 million that we are going to execute on. An annual activity by year five. That identified pipeline by year five today is $1 billion.

Today, this year, it will be $100 million, so it goes to show you the growth that's going to happen over the next five years. And that's a big driver to those underlying synergies. So we feel we're now on track probably for looking at year five synergies closer to $300 million for the business.

So, power conversion -- terrific business. You know, I think it is a game changer for us in a lot of ways around our electrical capability.

So what I want to do is shift gears from that and talk about transmission and distribution. We built a very focused T&D business around grid automation, protecting the generation asset down through the transmission and distribution network. We provide the monitoring control of the protection schemes associated with that, a lot of the visualization for the utility, also detection, full restoration activities.

We can manage outage management systems for them that allow them to deploy their fleet and manage outages effectively through software offerings. And that's about a $2 billion business for us.

One thing that we'd like to add to accelerate that has always been primary equipment, especially high-voltage primary equipment. This partnership with XD Electric provides us that capability. XD is a leading China T&D player. They play in one of the largest T&D markets in the world. They have good high voltage technology, a broad offering from transformers, gas [insulator], switch gears to breaker capability. They have a good cost position and good overall technology.

So, we think that the real power here for us in building this business is ability to distribute their high voltage, but to be able to package it with our grid automation offering. By doing that, we more than double the accessible market for us around grid automation, allow us to accelerate the growth of that piece of our business. Provide customers more integrated solutions, more integrated project management execution capability around it.

So, third point, margins. For us, this is a big opportunity for us. We're well below peers, as Jeff said, in regards to our execution. This is a business that we should be able to run at 10% margins more in line with our peers. We've got the opportunity to do this.

There's four primary drivers. The first being as we execute on power conversion, burn off the integration, acquisition, accounting, continue to execute on those synergies. Just getting power conversion 10% operating profit rate, delivers 200 basis points overall margin expansion for energy management, which is an important part of that. And longer term, we think we can run power conversion element more in the mid-teens.

The two other elements are about attacking the cost structure of the business. We are extremely fragmented both from a variable cost, products cost, and a base cost perspective. When you look at our product cost, we have too many SKUs, we have too many factories, we have too many suppliers, and too many sole source suppliers.

Our designs aren't modular enough with not enough late point ID. So we've got game plans around reducing those across the suppliers, the factories, the sole sources. There's opportunities to do 20% to 50% reduction across the board there. So, we're attacking that variable cost structure, proving the competitiveness of the product.

The second point is around base cost. Ready to serve cost as a percent of revenue are too high by at least a couple of points relative to the industry. Again, this is fragmentation of too many operations, too many P&Ls, too many structures that we got to simplify. We got to lean into some of the bigger company processes, and we got to simplify our IT infrastructure.

To give you an example, in these set of businesses, we started the year 39 ERPs. We will end the year at 30. That number should be no bigger than 3. So with that, as we put that infrastructure in place, reduce the applications around it and other type of activity, streamline business processes and take cost out. So, we feel good that we can run this business long-term at 10%-plus profitability rate and it's a key imperative for us to improve this performance.

So with that, in summary, what I'd say is we feel good about the long-term perspective of the business. We operate in a big attractive market overall. We really think power conversion is a game changer for us. We have clear indicated actions around changing the cost competitiveness of this business, and we're working every day to make a more competitive electrical franchise for the General Electric Company.

So with that, I'd like to turn it over to Charlene.

Charlene Begley - ***GE - President & CEO, Home & Business Solution***

So clearly, we've been operating in a very tough environment. Housing starts in 2010 at an all-time low for us. The good news is we're starting to see that come back. The projections for 2012 are about $750 million to 800,000 housing start. So that's a 28% lift from '10.

And as we see housing coming back, we should see 3 points of improvement in margin rate. And as we execute our strategic imperatives and start launching our new products that we've invested in, you should expect another 3 points of margin expansion.

Our strategic imperatives are really simple. It is about investing in products and having industry leadership products, and we feel good about what we have in the pipeline, and I'll show you some of that. It's also about sustaining price ahead of inflation, and the teams have done a very good job there as well.

You should expect us to double our margin rates by '15, and you should expect very solid cash performance. You should expect over two times net income and cash from Home and Business Solutions.

So, Jeff talked a little bit about appliances. We have and will continue to invest over $1 billion in upgrading all of our products. This year is kind of the peak investment for those programs. As we launch these, you'll see us double our Op profit by 15. These are truly differentiated products. Every single product we're launching have leadership features, great customer input, and we're seeing really, really good results.

We launched our Bottom Freezer in May. Quarter-to-date, Bottom Freezer for the industry is down 2%. We are up 8%, so the market is receiving these products really well, and we've got a lot more exciting launches this year into '13 and '14. And as we're bringing these new products back, we are making them in a more efficient way than ever.

We've taken our factories, we've guarded them, we brought the best lean technology in. And we are truly building flexible, efficient supply chain. So, we feel really good about our ability to control quality and competitiveness going forward.

In lighting, we've really had to navigate some interesting dynamics over the last 7 years. As you all know, incandescents are being phased out, and we stayed ahead of that by restructuring our plans. We've taken our supply chain's footprint down 30% since '09 and right-sized our SG&A.

We've also been dealing with rare earth inflation -- 2,000% rare earth inflation since 2010. And the team has delivered on price. We have positive value gap in '11, and we will have positive value gap in '12 as well.

And LED -- LED is huge growth. It's projected that the market will grow 5x by 2020. And we have really navigated this offering in what we consider a very capital efficient way. We have a great LED solutions portfolio, very capital efficient and you'll see some very nice growth there.

Today, we're about a $300 million LED business. You should see -- we're building that to $1 billion business in the near-term. We're very focused in LED. We're focused on roadways, retail, office, and hospitals. We had some great wins around the world with some big infrastructure projects whether it be China, Australia, Mexico, Las Vegas. The team is getting some really good wins, and we feel really, really good about our solutions offering.

Our customers are seeing 50% to 75% savings in energy. They're seeing more security and safety with LED light sources. And there is significant productivity, as you can imagine when you're putting lighting in office space and warehousing and roadway to go from a one-year light source to a 20 to 40-year light source brings pretty significant productivity for our customers.

So, as we're going through this journey, clearly '11 has been a tough year for us in margins with the housing market, and at the same time, we have significant investments in new products unlike our competitors. This is -- '11 and '12 are big investment years for us as we invest in the new product line.

But as you see that stabilize and our investment level stabilize, you'll see very nice growth in our margin rates and you'll see our new products winning share and being launched at higher margins. And, again, we'll continue to generate very good cash for the Company over two times net.

So with that, you should feel good about what you're going [to see] -- the team is executing well, and as the housing market gets better, our financial performance will get a lot better as well.

So, I'd like to turn it over to Lorenzo.

Lorenzo Simonelli - ***GE - President & CEO, Transportation***

Thanks, Charlene. Onto GE Transportation, the smallest part of business, but also growing substantially. As you look at what we have from a platform, within transportation, it's really made up of four major pieces. First of all, the iconic locomotive and service platform -- 17,000 locomotives out there globally of which over 10,000 are under service. That is really the trademark of GE Transportation. But we also have a huge share of the wayside and train management, what controls these locomotives.

In addition, we're growing a big franchise within mining. We have one of the world's best propulsion systems that goes on your highway vehicles. And we're using that as a way to establish GE Mining, and I'll talk more about that.

And, finally, the adjacencies. Energy storage, marine applications -- we are the world's largest manufacturer of diesel medium-speed engines in growth cities. So, great franchise and growing nicely.

As you look at the environment -- some of this you know -- North America from a locomotive perspective, you look at the freight numbers, pretty much stable. We're seeing a shift. Intermodal is up. Coal is down. That is being offset internationally with ongoing movement towards rail transport. You've got the commodities that are moving, but you've also got the productivity of taking trucks off the road and putting them onto rail.

Finally, on the mining CapEx, you see '13 slightly down. But, again, as you look at the historical basis, still high spend from a mining perspective. And from a long-term perspective, we feel good.

The competitors, you know them. They're well established, good competitors, but we feel we're well-positioned. And we've really got some key strategic imperatives.

Continuing to globalize -- key theme, move away from just North America and you'll see how we've done that.

Growing in the Service business, moving into the analytics, the information [of] providing prognostics. I'll share what we're doing around that.

Continuing to capitalize on energy storage -- an organic growth of the business that 10 years ago started in the Global Research Center and now is on the marketplace.

GE Mining as a platform -- a lot has been written. I'll give you a flavor of what we're doing. You heard from Jeff we don't need to make a big acquisition. We've got a unique opportunity with the capabilities we have and the products we already have.

And, finally, continuing to drive margin through simplification and productivity.

Innovation technology, this is the fastest-selling locomotive platform in history. Since 2005, we've invested over $400 million in the Evolution Locomotive. Many of you may know, in 2015, the EPA is mandating Tier 4 emissions. We're already there. We have a prototype launch. We showcased it in August, and it shows the investment and the technology advantages that we, at GE, have.

2 years ahead of the mandate, we're going to be delivering prototypes of this locomotive and going into production with pre-pilot units so that we get the testing in place. But we're ready for 2015 as it comes, and we're also continuing to invest in the platform. This is on the diesel side, but the next big thing is LNG.

You heard from Dan Heintzelman the progress that's happening on LNG. We're in a unique position within GE to leverage what we have at a company level. Rail customers are looking at this as a unique opportunity. There's a huge spread when you look at the cost of diesel to LNG.

When you look at the amount of cost they have within diesel, they can take advantage of the spread with a locomotive that runs on LNG. We have that capability. We're investing in the technology. Not only can we actually provide a locomotive that runs on LNG, we can provide the wing-to-wing system that enables them to actually refuel.

So you saw some of the micro technology of LNG within oil and gas, you saw the CNG, we can provide that wing-to-wing portfolio, and we think this is a $1 billion to $2 billion opportunity within GE. And in partnering with oil and gas, we'll be able to provide our rail customers a unique opportunity -- big item for us.

Globalization. We have taken this business from being an North America centric rail business to being a global franchise. We've been able since 2005 to shift into the global markets through partnerships and through the technology and differentiation. You can see Kazakhstan there, probably not a country that many of you have been to. I tend to go there about 6 to 7 times a year.

We have over 600 locomotives that are running. We've got a backlog in place of over $1 billion, and we manufacture and assemble with our partners about 100 locomotives. Last week alone, we announced a new order of passenger locomotives -- for 110-passenger locomotive that's worth $300 million.

It's not just Kazakhstan, though -- you look across Russia, you look across Australia. South Africa, we've delivered 143 locomotives, again in partnership. What we're doing here globally is positioning ourselves with the incumbent, we're the partner of choice providing kits. This is a business that's going to continue growing. And internationally, rail has a great future. We got to take trucks off the road.

How do you get smarter though? What's the aspects of services? Here, you can see what we're doing from a software perspective. We've got the hardware in place, but we're also now putting the smart on the hardware.

When you look at the locomotive itself, we have, as I mentioned, 10,000 locomotives on the service agreement. How do we provide remote monitoring and diagnostics? How do we provide prognostics so as to avoid a failure? That's a huge saving opportunity for our customers, and we're working with customers such as Canadian Pacific, Burlington Northern Santa Fe, providing them these tools that enables to optimize their efficiency and asset utilization.

It doesn't just go on to the locomotive itself. When you think about the total system, you think about optimizing everything along the value chain. What we have within GE Transportation through an RMI acquisition as well as through our investments that we've been making is the ability to increase velocity, increase performance and provide that wing-to-wing for our customers.

You look at the movement planner, this is again in place with Norfolk Southern, provides them increased philosophy. You go faster by 1 to 2 miles, you're talking $100 million. You look at asset utilization, a 5-point improvement in asset efficiency, $100 million opportunity. This is the way we're going to differentiate our service portfolio going forward.

GE Mining, we've been providing products to the mining industry for over 50 years. We've got a great propulsion systems in the off-highway trucks. We've also got across GE a franchise of motors, transformers, a lot of the products that go into mining from an energy as well as then from a crushing/processing perspective. What we're doing with GE mining is we're taking all of that from a GE capability perspective and offering it as GE mining to the customers.

Our customers have asked us to do this. We can differentiate through technology, and that's what we're doing on the underground space. We've made some niche acquisitions and we'll do those as it make sense, but we can provide technology differentiation through the propulsion system.

You can see we can provide the motors, the system integration, advance drive, energy storage, take the diesel engine out and we've got this great battery that goes in -- emissions reduced, productivity increased, helping the mining industry on one of their biggest challenges -- operating costs. So we think we're uniquely positioned to grow this platform organically with some niche acquisitions, bringing the power of GE to the mining sector, which is infrastructure based.

How do we do that? This is a story of energy storage. This is a technology that grew out of the GRC 10 years ago. We now have a facility in Upstate New York. We are manufacturing this today. We have orders in place. This is unique technology differentiated from lithium and differentiated from lead, much more superior from a lifecycle and also from a weight perspective, very good for the applications that require durability are in remote places such as telecoms, energy grid storage, but then also for mobile applications.

We're able to put this into an off-highway vehicle. We're able to put this in the future into a locomotive. And this we can do organically thanks to the technology we provide, and you can see the business opportunity, by 2020, a $1 billion business.

You look at how we're driving margin -- again, within transportation, using the toolkit that we have across GE -- simplification. As we go global, leverage the GGO that we have. Value gap, continuing to excel on the deflation aspects, making sure that we've got a good price performance in place.

Product cost. Jeff shared with you what we're doing with the Evolution Locomotive -- taking seven destructive cost outs, again improving margin. And service margins with the differentiation of analytics, prognostics, improving the value proposition. So as you look at this business -- growing margins -- and also the outlook, positive.

We feel good about the investments we've made, the sector we're in. And through technology differentiation, through continuing to globalize this business and taking advantage of the niche products that we're growing from energy storage, the mining industry, we feel we're very well-positioned for the next two years of solid growth and solid margins.

With that, I'm going to pass it to Steve Bolze.

Steve Bolze - ***GE - President & CEO, Power & Water***

Lorenzo, thank you. Exciting time in the Power and Water business -- three key messages for you today. First of which, we feel very good about our competitive position, and it's getting stronger. Second, we got the right strategy and experience to navigate the cycle. And third one is we got a very high return business here and you're going to see continues to be a long-term growth engine for the Company.

Now, where I want to start with you is where a lot of I kind of left off a year ago in this meeting with the energy analysts. Just about a year ago, we talked about our gas turbine portfolio, which is the biggest portfolio we got. And we made some announcements yesterday, so I thought I'd give you a little context for that.

What we announced yesterday is what we said we would do last year at this time. Last year, we announced our FlexEfficiency gas turbine portfolio to the 50 hertz world -- Asia, Europe, et cetera. And we said we will announce the 60 hertz portfolio this year. That's what we did yesterday in California with over 100 customers. We did that right in advance of an industry forum.

Three things we announced, one of which is our portfolio FlexEfficiency. This is a 260-megawatt machine, which is H-class and above 61%. Second thing we announced was $1.2 billion in orders. That's 19 units -- 6 in Japan, 8 in Saudi Arabia, and 5 of the units are in the US. So, we are seeing US activity. By the way, the Japan customer got up on the stage and says his units, which will run in Japan, will run at 62% growth combined cycle efficiency.

Third thing we announced is that we are under development of a large block machine, which will be north of 300 megawatts. That will be the largest, most flexible, high-efficient machine in the world. So we feel very good about our portfolio here. It's something we said we would do last time we were together, and we're doing that.

So, just put a little context, remind you what power and water is, it's a lot different than it was 10 years ago where, as Jeff said, we were kind of one product, one region. We've grown a lot since gas turbines in US. We're $26 billion this year. We generate a little over $5 billion in operating profits, and now less than 15% of our operating profits comes from the thermal equipment side.

It's also more global, 65% outside the US -- 50% services. But one thing that's been consistent over the course of the last 10 years is 25% of the world's electricity is generated by GE technology today. So our play is expanded offerings to address diverse segments.

Environment, a lot of macro themes that we can play off in this space. You know a lot about the [more] gas cycle. We see a gas cycle spanning the next 25, 30 years. It's investing in Heintzelman's business as well as ours.

Renewable shift -- it's dependent a little bit on policy in the world, but still it's a long-term shift. And by the way, it's intermittent power which helps gas.

Distributed power, still 1.4 billion people in the world do not have access to power. That's a big theme as we go forward.

Globalization, we've talked a lot about. Data-driven services I'll talk more about, but that is key to getting the next level of entitlement on assets for our customers. And the last of which is water reuse.

Standard set of competitors -- you've seen this before. I think two things I would stress, in the industry, the two big business areas -- thermal and wind. There's still is excess capacity in the industry. That has been putting pressure on price in those industries. We've told you that prices have stabilized. We see those bottom in those industries, and we'll continue to play through that.

The other thing I'd tell you about relative to competitive performance -- the three businesses we're in -- we generate more than 50% higher operating profit rates than our competitors. So, we continue to play through the cycle, sustain as well as grow market shares.

And then as far as imperatives, you know, we have to play to the wind cycle. I'll talk about it. Product vitality is percent of our sales from products less than 3 years old. That's up 15 points. We'll talk about that.

We got a big service installed base to [grow] around the world. And then, the standard things like productivity, adjacencies, distributed power and water we'll talk about, and then global growth. So shift the environment, outperform the competition.

So, let's talk about gas. It's probably the biggest them that's out there and it is affecting our biggest part of our portfolio in power and water. This picture on the left just shows you gas power in the world. There is 1,100 gigawatts, so about 20% of the world today is gas power.

If you exclude China, which is heavily coal, it's 24% and that will continue to grow. That's a macro trend. So by 2020, it will be 28% outside of China. And a lot of questions about our shares and positions over the decades -- over the last decade it is anywhere between 40% and 50% consistently over that time period, and as we go forward, still about that level.

So mega themes -- I'm not going to go through natural gas pricing in the US, you know that well in accessibility.

Two points, power generation shift. For the first time in history in the US in April, the amount of power on the grid from gas equaled coal, 32% each. Now, coal is still higher from a total year perspective, but by 2017, its forecasted that gas will overtake coal on the grid in the US. So, you're seeing a shift of power to gas

The second thing I'll touch on is developing regions, 70% of the growth in the gas space will be in developing regions so you have to be there. And the third of which is customer needs -- size, flexibility baseload.

As customers now are buying their gas turbines, they're buying bigger machines. So gigawatts are there as they buy smaller machines or larger machines, you'll see from GE that it will ship more gigawatts through the year, but we might ship less units because they're buying bigger machines. Okay?

So how do we grow? More gigawatts, service business growth. And upside potential -- people always ask me where are the blue birds, what could happen in the world? I think the areas we continue to monitor our reserve margins in the US, what's going to happen in China and in places like Africa that still have major power shortages that you see in the paper.

Technology investments -- this is the foundation of our business. We spend a little over $1.4 billion in 2011. That's about 5% of the sales. As you can see, that's been ramping the last 5 years. We now generate three times more patents than we did just 5 years ago. A lot of patented portfolio in our technology, and it's also showing up in product vitality. Close to 49% of our sales are from products that we have launched in the last 3 years. 300 launches, $16 billion of revenue generated in the last 3 years.

Just some big ones, we announced last year in March our 1.6 megawatt, 100-meter wind turbines. A year later, this year we'll have $2.6 billion of sales -- the fastest single new product development ramping ever.

Advance hot gas path -- that's how you upgrade the gas turbines -- fastest ramping new upgrade in our gas turbine portfolio we ever had. And then, the FlexEfficiency 50 which we talked about last year.

Biggest area within technology investment is the gas portfolio. What do we have? What we have is the broadest spectrum of gas-fired power generation in the industry, everything from 1 megawatt reciprocating engine through aero derivatives, all the way up to what we announced yesterday which were the FlexEfficiency offering. That 7-series there is 260 megawatts, so that's [H-class] which we have orders for today above 61% combined cycle.

We've also announced yesterday that we have under development a large block gas turbine, which [will be] north of 300 megawatts. So largest in the space when it comes out, highest efficiency, but it will also house all of the turndown flexibility that a customer would want. Let me give you a sense.

By the way, you can ramp these machines 100 megawatts a minute. Think about all those big wind farms. They go down, you got to ramp up the gas turbine. You can also turn them down.

[You] got a 900-megawatt plant with our new technology go down to 14% of load and you stay within the emissions parameters. That's twice lower than the level of our leading competitors. So, largest portfolio spanning everything from efficiency, size, flexibility, and the last one that's critical is fuel diversity.

When you go to places like Saudi Arabia, they not only burn gas, they burn light crude. They're going to shift in Saudi Arabia from light crude to heavy crude. That is tough to do. You don't do it right. That is tough to do. You don't do it right, you're going to mess up your service intervals for your customers. So, that's something we do and we're going to continue to invest there.

Broadest portfolio -- and just keep in mind 50% of the land-based gas turbines in the world are GE. So this a space we're going continue to stay very strong in.

Now, wind cycle -- this one is getting a lot of visibility. Let's just start with some grounding here. We, at GE, have been in the wind business for 10 years. We generated $40 billion of revenue in this space in the last 10 years, and we've run the most profitable wind business.

In 2011, we generated more profits in all the other wind players combined. 2012, we'll still run the most profitable wind business. 2013, we'll still have the most profitable, it will just be smaller. As PTC looks right now, there is no certainty on it for the US.

What do we think is going to happen? This year the team is executing very well. Next year, the US -- size of the markets is probably going to go from 12 gigawatts to 3 gigawatts. If there is a PTC, that would be bigger, but we didn't baked that into our plans at this point.

Wind strategy is clear. We got a low base cost business model, leveraging suppliers. We've cleaned out our cost structure the last couple of years. You talk about -- we talked about technology leadership; we now have over 20,000 wind turbines in the installed base, so we're to run the same service play we've run in all of other businesses.

And then, lastly, to play in an environment like this, you got to be global, so a lot of our orders now are in places like Canada, Brazil, and the rest of the world.

We'll run the most profitable wind business, we have been, we will continue to be, but this headwind is consistent with what we said in the past, it's going to be $0.03 EPS headwinds with those gains.

Let's talk about drilling globally. I've talked in the past a lot about China, which is up 50% since '09 to '11. We've talked about the Middle East. I figured I'd highlight a couple of new spaces.

Russia now up to $600 million in 2011. You saw the joint venture we announced with [Interal]. We're localizing. And the big opportunity in Russia is the old district heating units need to be replaced. That's big. Those are (ianudible).

Latin America is now up to $2.7 billion. You all know about the oil and gas reserves there. They're going to use a lot of our wind turbines and gas engines.

Third of which is Africa. I'll be there in 3 weeks for the entire week. That one is a big thing about population growth and urbanization. Places like Algeria, it's all over the papers on their power shortages today, places like Angola where Dan Heintzelman and I can see our service facilities there also.

So, that's the space. Our position is to capture the pockets of growth and localize each of these areas we have local facilities, which is important.

Service growth, as I said, it's about 50% of our business. We got a big backlog here, $51 billion. And this is a business area that we see growing 5% or 10% on an ongoing basis going forward. You know, the biggest question I get -- biggest part of Service business is gas turbine and what's going on with utilization rates?

The capacity factors of the gas turbines is up. Gas prices are lower, particularly, in the US. However, the capacity factors vary on where you are in the world. Spain, not so great right now -- 20% capacity factors. About 15% of our gas [fleet] is in Western Europe. However, you look at other parts of the world, it's good. And in the US, the capacity factors are how much of the percent of the time the customers run the units is up over 20 points in the last year. So, they are running the units more.

So, we see those dynamics. We don't see a big uptick per se in 2013 from that because they still are going through their outage intervals, but give you a sense is capacity factor is up 10%, drives outage intervals in 6 months. So, we will see this over time. It is a favorable trend.

How do we continue to get 5% to 10% growth a year? It's things like going after higher levels of customer value. $20 billion of industry waste we see across the utility industry from fuel savings potential as well as capacity utilization. We want to help the customers do that. And then things like, you know, from us, we spend $100 million a year on technology upgrades that generate a $1 billion a year upgrade business for us.

And then, customer productivity -- and those 3 facilities, I'll be in the Saudi Arabia one, on Monday Dammam with Jeff. But each of the areas of the world now, we build out local service shops for faster cycle time delivery for customers. That allows you to win.

Now, let's talk about Service 2.0 and what that means for our world. To make Service 2.0 easier, how do you get the next level of entitlement? It's all about understanding customer profitability. We make money by making our customers more money. That's how services work.

So in the gas world, what's the number one criteria for making utilities money? They need output and efficiency so they get on the dispatch curve. And by the way, things are changing now in the dispatch curve. So, what we do at the US utility? Is we go to them with new technologies based on material properties for advanced gas patch -- you can upgrade (inaudible).

So they get, in this case, one more point of efficiency, 10 more megawatts, and better cycling so that they can operate those units on the dispatch curve. That is $2 billion of customer value and $500 million opportunity for us -- all enabled by better material understanding now as well as software.

By the way, most of our gas turbines today operate better than the day they left the factory because over time, we've done a lot of things to boost entitlements.

On the wind world, we have over 20,000 units in the field, opportunities here for materials, about 20% of them are on low wind sites. You pull the rotor down, you make it bigger, put it back up -- 20% more wind capture on the same site. That is worth a lot of money to customers, $260 million upgrade potential if we (inaudible) low insight.

And on the software side, we have a bunch of our fleet is 1.5 megawatts a piece. You can have software changes with minimum control changes and by the way, they have become 1.6 megawatt units already speced, already sighted, that is big money and for us, that can be $110 million. So, grow through a better understanding of materials and analytics.

Distributed energy. We talked about 1.4 billion in the world that don't have power, this is also about power to compressor, pumps, drill rigs, basically things off grid. Most of the customer base here is non-utility customer. Big opportunities -- efficiency, temporary power. We have a $5-billion business here generating strong double-digit margin. This is just a question of scaling it.

By the way, Waukesha was our acquisition last year as part of Dresser. It is performing above pro forma and at record operating profit level.

If you go to the right, what are some of the big kind of themes here? You can do co-generation. That is not only producing the electricity but, in this case, the heat required to run the hospital. And by the way, it is more cost effective power in the UK than buying from the grid.

Emergency power -- this is where their outages -- by the way, our trailer amounts of units were the first 300 megawatts into Japan after the Fukushima nuclear plants came [down]. You can put these very quickly in sites, turn them on and run.

And then the last of which is big combined heating and power opportunity in China. That we formed a joint venture with one of our biggest customers, Huadian. That will be -- we have already done 110 million, but that will be big going forward. So, this is about capturing this space which is really (inaudible) off grid.

Industrial water reuse -- a lot of questions about water over the time, where are we focused? We are focused on tough to treat waters, and as water reuse becomes more of a mega trend of the world. You go to places like Singapore, it is 90% water reuse today; the US 6%.

A lot of you saw the Wall Street Journal last week, 50% of the water usage in the US has always been power generation (inaudible) through cooling. But by the way, if there are water shortages -- by the way, the power generators get knocked off in terms of water usage.

This is going to be a bigger phenomenon. Our technology focus is on efficiency and our advanced membranes which came from the ZENON acquisition continues to be the best in this space. We have things like mobile evaporators that help treat the water, both pre and post treatment for shale gas drilling. So those are the technologies. Wins -- we are winning all over the world in these tough projects.

This is Australia for coal seam, shale gas, this is heavy oils in places like --- this is heavy oils is up in Canada, Alberta -- you see $150 million -- and refining is in Russia. These are tough treatable waters and processes, but that is where we are focused on. Our Water business is profitable and we are scaling in this targeted area -- water reuse, industrial wastewater treatment.

So what does it all mean? Our fundamental mission -- we got to drive margin. We, today, 20% operating margin. This year, 2012, we see a little pressure as we have a lot of wind going out the door, it is lower margin wind units, but we are still able to drive total margin dollars. '13, the issue will be who will have less wind -- low margin units in the portfolio for 2013, so we should be able to be at an ongoing 20% level.

What are the things we are driving? Same as the other folks, lower cost structure, delayering, we just took out -- we are in the process of taking out $200 million worth of cost across the energy structure. SG&A down 1 point alone in the last year in our business. Product cost -- we drive $300 million of product cost out of our business every year through our engineering team.

And by the way, multi mobile facilities -- we opened our Vietnam facility which we call ultra low cost, 2.5 years ago. It covers most of our product lines and it has been a great return on investment.

Value gap, I touched on but prices we still say, stabilize in thermal and wind. The orders based price index in thermal, we still see, flat for this year which we have been telling you. And then, driving deflation. We buy over $14 billion a year and we drive deflation into it. And the last of which is service margin, which is pretty straight forward.

High return business, return on total capital is above the GE average, which helps the total company as we grow, and will be expanding margins in '13.

So where I will end is the power and water outlook, we will be up this year as we have been talking about. Next year, we will be pressured from wind as we talked about, as well as thermal, that is already in backlog from the pricing we have seen over the last couple of years but ex-wind, we will be up. You see similar growth in services, wind power and other.

And I would say come back to where I started. We feel very good about our competitive position and it is getting stronger. We know how to navigate the cycles, we have shown that and this is a high returns business that is going to continue to return through the cycles and a nice place for GE to be.

With that, I turn it over to Jeff.

Jeff Immelt - ***GE - Chairman and CEO***

Great, Steve. Thanks. Good job by the team. Just to wrap it up briefly, I left EPG kind of with this chart and confirming it again today, we still see double-digit earnings growth EPS wise this year, and next.

The five concerns we talked about at EPG -- improving margins -- I think you have seen both good ideas and I always find in a company like GE, repetition is a good thing. So the fact that you have seen consistent themes and ideas from all the operating teams, I think, should give you a sense of how we do margins and the importance with which we view it.

[Our] low natural gas prices, we talked about the opportunity in our Service business, and just what Steve said is just a long-term secular great trend for our Gas Turbine business. Managing risks in Europe -- we are restructuring Europe, we are managing cost, we've got a lot of cash. So, I think we can manage the horizon that we see from an economic standpoint.

Size of GE Capital- focus on making it smaller, ultimately 30% to 40% of the earnings. And we continue to execute well in GE Capital and both our earnings performance and our size and the capital allocation which continues to stay balanced across dividends, buy back and the targeted acquisition. So, that is what we talked about at EPG.

I would say the environment is probably -- maybe a little bit more uncertain than when we got together in May, but our cost out targets are better. You know, and that is how I kind of look at the -- puts and takes when I think about the Company going forward.

You know, priorities in the near term -- hit the cost targets. I think a growing margins into the future is a big credibility point for the leadership team and one we take seriously and one that is important.

Disciplined cap allocation, what do I mean by that? I mean dividend growing in line with earnings, I mean, using the GE Capital dividends to buy back stock and it is our intention to keep the focus on $1 billion to $3 billion acquisitions. We like our execution on these focused acquisitions. We think that size is one that the leadership team can really grab and drive good synergy on. We plan to continue that.

Execute on NPI, both Steve and Dave -- you see across all the businesses a big NPI portfolio and lots of execution in the next year. We want to keep that going.

Good momentum in the growth markets - we've got a good portfolio of growth markets and we want to continue to see the growth in those markets. We got a nice China strategy, but we also have great presence in Latin America, Africa, Russia, and the rest of the world. We want to keep doing that.

Services expansion -- big initiative around Services 2.0. You saw in each one of the businesses a nice progress on software and analytics and that continues to add value and margins in our Service business going forward. And we are going to grow the Industrial businesses faster than GE Capital, and that is really the focus of the leadership team going forward.

We always do with -- this is the third year of a 3-year long term incentive plan, we will share with you when we get together in December, the targets that we will have for the next 3 year plan which will run from 2013 to 2015. So, we are very much aligned with our investors.

And, lastly, just -- I have always thought GE as a combination of having really great businesses and really great enterprise strength, so I thought I would just recap the businesses that you see. I think in Aviation, and I think -- what Dave described was just winning in the market, huge backlog, focus on execution, technical leadership.

This is not -- when I talk about Aviation, I'm not talking about a quarter or two, I'm talking about a decade or more. So you just have to understand that. A decade or more. You know, kind of some of it already done fundamentally, and most of it, in fact are already done, and you got to feel good about that.

Oil and gas -- I think you get the sense from Dan Heintzelman, this is a great GE business, and we are positioned in the real sweet spots of where the industry is. And so, we got a lot of opportunity in the oil and gas business as you look at the future.

Healthcare, what you talked about, John, is a really broad based diagnostics company with a lot of good technology and the industry is going to change but positioned to be a winner over time. And I think John did a good job of describing that. And I think what Dan said is that when you think about the Energy Management business, you get a sense for technology we need that really helps to bundle together all of GE and an opportunity from both a margin and the market share standpoint to do better over time.

Charlene -- we are going to have better products in the next cycle in this business than we did in the last cycle. And we think that is going to help us both generate cash and margins when you look at the Home and Business Solutions business going forward.

Transportation -- a great core platform in Transportation with high market share growing around the world. I think what Lorenzo talked about demonstrated that. A chance to grow a battery business, but a chance over time sequentially through organic investment to grow in a new space called mining in a very disciplined way. Lorenzo talked about that.

And then, Power and Water. I think Steve has done a great job of just pouring it on with technology in both product and service, and we are going to hit this cycle with high market share and good capabilities.

You know, look, I think like all CEOs, we are all prone to hyperbole -- we got good businesses. We got really good businesses. Right? And they are probably as well positioned as any time I can remember in the last decade. So you got to have good businesses, but you got to run them with real enterprise strength, and we also try to do that.

You know, first and foremost, we've got to be good allocators of capital. We are going to have a lot of cash. When we have a lot of cash, it's always good fodder for speculation on what we are going to do with the cash. We are going to be disciplined with the cash, extremely focused on creating shareholder value and we think that is the right place to be. Disciplined -- buyback, smart, share repurchases, focused acquisitions. But we are going to have a lot of cash and we are going to demonstrate superior capital allocation.

A very valuable portfolio I've already talked about that, and then you see technology going from the GRC across our platforms. I think everyone of our business leaders talked about how that gets spread. Services, where we can spread a lot of intellectual capability around our Service business, both in terms of how we run the break-fix model, but also how we run software analytics and the things we do.

And growth markets is definitively a big company gain. I mean, when you go to Angola, when you got to Russia, when you go to Saudi, when you go to Brazil, when you go to China, there is a big advantage in breadth of portfolio, so we play that.

Margins are key -- we kind of bottomed the cycle around 15%. We think there is room for expansion in then next -- and I think the team did a great job of laying out simplification, value gap, product cost, service margins as we go forward. And just -- I think at the end of the day, we want to be viewed as safer investment in a volatile world -- big dividends and nice cash, good market shares, big backlog. That is how I look at it.

Ron Fisher - ***U.S. Steel & Carnegie Pension***

(Inaudible) Energy Management business and power, you've got systems, you got controls, you got sensors, you don't have an entire sort of comprehensive control system. I'm wondering, and sort of tie everything together, sort of the glue that holds everything together -- very intelligent glue. And I'm just wondering, is that something that you think you need? Can you develop that yourself or do you have to go outside to get that further capability?

Jeff Immelt - ***GE - Chairman and CEO***

So, I know -- David, I know, do you want to talk a little bit about the controls on the Aviation and how you develop them and who you work with and stuff like that?

David Joyce - ***GE - President & CEO, Aviation***

Yes, so in the aviation space, through our -- in fact, the one great benefit of this Smith acquisition has been, in so many ways, for us to have so much more insight into our controlled suppliers.

It really has made quite a difference in our negotiations. But , we have been working with a couple of these folks for a long, long time, and you take a look at BAE who provides our (inaudible) International they have been a long-time supplier of our (inaudible) digital control ever since they have been on the engine.

If you look at Woodward Governor, Woodward Governor has been a partner of ours all the way back to the original CFM56-3 engines. So we have very long-standing relationships with a few big players in the controls industry. We challenge them every year on productivity. They challenge us on more productive interfaces to make sure that they can realize that productivity and share it with us.

And that relationship is good and it keeps me from putting working capital into that area of the business where I would like to put it somewhere else.

So I'm pretty satisfied with the relationship we have got with the big controls guys.

Jeff Immelt - ***GE - Chairman and CEO***

Danny, you want to add to that?

Dan Janki - ***GE - President & CEO, Energy Management***

No, I think there are elements of controls throughout and we leverage and integrated with each other. I think the more interoperable our controls are, the better longer term, and we are working on it.

There are pieces inside power conversion where we are looking at our controls platform and we leverage Charlene's activity with the Intelligent Platform business, and use that as a base foundation.

Jeff Immelt - *GE - Chairman and CEO*

So it is Mark Little who is -- who runs the Global Research Center, this is a big -- we got a big controls COE there. I think most of the work we will do is either with suppliers or through organic development. It is not a great thing to think about acquisitions and because it is hard for us to bring enough to really run it better than the people that are in the space today, or you are acquiring places that are also -- supply our competitors where a lot of value gets destroyed.

So I kind of look at it as a combination of supply chain plus organic development -- internal development.

Yes, [Steve]?

Steve Tusa - *JPMorgan - Analyst*

Just to start with the organic growth, you guys are doing, I think, 10% this year obviously but ex-wind, it's like high single digits, maybe somewhere around 7%. When we look out to next year, obviously, that -- that slows a little bit, maybe just ex-wind to give us an idea of where you see that -- the organic revenue for next year.

Jeff Immelt - *GE - Chairman and CEO*

I think, Steve, if you look across the portfolio, we ought to remain organic growth somewhere in the 5% to 10% range even with the impact of wind, as you look at it.

Steve Tusa - *JPMorgan - Analyst*

Okay. And then on GE capital, you talked about a little bit more aggressively, winding down the portfolio. Will you be more specific about what you plan to do in December, or maybe at EPG next year? And can we think about another significant layer of that coming out? I'm just curious as to kind of the trajectory of how we get to that --

Jeff Immelt - *GE - Chairman and CEO*

So I think, Steve, when we were together at EPG, I talked about kind of going to maybe $400 billion of E&I and then maybe smaller than that. And I think I will give you more texture on that in December, and then as time goes on. And I think -- Steve, what I have always said is, look, we have specific kind of red, yellow, green on the portfolio.

We are not going to do things that are kind of premature or disruptive from a standpoint of just -- we don't feel desperate or feel like we need to make a big moves. And I just say, things aren't sacred. We are willing to take a look at the whole portfolio and see what makes sense. But the leaning is definitely towards smaller.

Steve Tusa - *JPMorgan - Analyst*

And there are some chunkier assets in there --

Jeff Immelt - *GE - Chairman and CEO*

Could be.

Steve Tusa - *JPMorgan - Analyst*

-- greater than like $10 billion and stuff like that?

Jeff Immelt - ***GE - Chairman and CEO***

Yes, I mean, it could be but more news later.

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

Okay.

Jeff Immelt - ***GE - Chairman and CEO***

Good.

Yes, Scott?

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

Thanks. Jeff, you have spoke about return on investor capital earlier and talked about your 12% number and [when you] drive that higher. When I think of all the presentations we have had over the years, return on invested capital has not been highlighted, in fact, I don't even think it was part of your compensation package and your (inaudible) for quite some time.

Has there been a transition really driving more towards return on capital and when you -- kind of the second part of that question is, what is the right number where you kind of balance growth and balance returns and --

Jeff Immelt - ***GE - Chairman and CEO***

I think it's a great -- it's a great question, Scott. I would say as a part of the 3-year LTIP that these guys all get paid on right now, it will definitely be a part of the next LTIP [there will] be return on investor capital.

You know, my view, Scott, is that we ought to be in the top quartile of our peers clearly, and that is going to be somewhere in the 15% to 20% range. When you look at financial services, the returns on financial services are never going to be as high as they were pre-crisis. We need to be realistic about that.

I think if you say, financial services ought to be somewhere -- 13% -- 15% may be max, 10% to 15% range, and then industrially, we ought to be clearly between 15% and 20% as time goes on. And we still think that we can manage whatever we need to do from a growth standpoint accordingly.

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

So I guess the natural follow up question is there has been some criticism of GE over the years to being too willing to trade price for volumes and you have outgrown the industry clearly. Most of your sub industries you have outgrown over the last you know, 5 to 10 years but at a somewhat lower or declining margin rate incrementally.

How does that change? And I mean, does that -- are you comfortable enough in your install base at this point where you can start saying no to some projects on a more incremental basis and being less -- a little bit less focused on growth and looking at the - the total --

Jeff Immelt - ***GE - Chairman and CEO***

Why don't we have some of the team just give -- Steve, maybe start with you.

Steve Bolze - *GE - President & CEO, Power & Water*

I can handle that one Scott, it's always a balance, we do say no on some projects today and have on price. You got to balance that with the overall position you are looking for, but it comes back to you have to have the best cost position and you have to have the best technology position that allows you to get price.

What I would say is especially as we [go] some of our longer cycle businesses, where you go through the cycle, I mean price does go through that. But I say our teams do that almost every day, they walk from things that just don't make sense, but you have to come back to having the best cost position technology and relationship skills.

Jeff Immelt - *GE - Chairman and CEO*

David, how about Aviation?

David Joyce - *GE - President & CEO, Aviation*

I would say the same thing, we really have to determine -- our goal is to be on the best competitive platforms going forward. And so, we have to make that assessment. You know, and we say no to a number of (inaudible) like that highlighted one in mid-sized business in general aviation.

You know, a 10,000-pound engine -- we get a call nearly once a month to do a new 10-K engines. Well, that is not a space that is sensible for us when you just look at all the competitors that are in that space and the pricing in that space. So there is another way we can get into that market, but doing it through a new engine program which is not an efficient way for for us to spend money.

So I would say that we are pretty disciplined about it right now.

Jeff Immelt - *GE - Chairman and CEO*

Charlene, your view?

Charlene Begley - *GE - President & CEO, Home & Business Solution*

Yes, I mean, we have walked away from business as we have tried and have pushed prices especially in our lighting business with rare earth inflation. And we make share trade-offs all the time and it is good for our margin and it makes sense. So, we are very disciplined on price.

And as we are launching our new products, we are launching them at higher price points and we are earning more margins. So, the discipline is critical in our business and I think the (inaudible) are executed well.

Jeff Immelt - *GE - Chairman and CEO*

Would -- Danny, last one.

Dan Heintzelman - *GE - President & CEO, Oil & Gas*

Yes, I would add one maybe more in a little different angle. I think we look at each opportunity in terms of our product and the fit versus the technical spec that we are bidding into. We try to look at across the horizon to make sure that we are very focused in those places that our product aligns best to the customer need, and then also, we think about capacity and what is our situation with capacity and what is going on in the industry.

So, we do look inclusive of those variables.

Jeff Immelt - *GE - Chairman and CEO*

You know, Scott, in the next LTIP margins will definitely be there and then -- I have been doing this a long time any time any of our sales guys loses a deal, it is because the competition dove on price. Right?

So it's just -- there is a million stories in the Naked City and this is one of them. I think at the end of the day, we got to have margins go up and pricing -- the value gap is clearly, a big driver we got to have to get our margins where we need them to be.

Yes, Steve? You're in that seat where people usually have to sit when they come in late?

So you see -- right in the front.

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

Yes, the penalty deck. Listen, the first question around capital acquisition strategy. How does that 45% payout ratio on the dividend when you think about that relative to the other opportunities change at all on your mind as you look at next year, given all the policy uncertainty? How are you currently thinking about it.

Jeff Immelt - ***GE - Chairman and CEO***

You know, Steve, it's a great question, I would say for planning purposes, you guys shouldn't count on any different than a -- than the same payout ratio growing with earnings.

We'll see where the tax bill goes. We still have such a big retail base of investors. The dividend is extremely important to most people that own the stock. I think the dividend remains a key cornerstone and I don't -- we will have to see where the tax policy -- where all that goes. But the dividend, I think, is really critical on our capital allocation plan.

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

And I guess the second part of that capital allocation question is on M&A -- so when you are talking about -- look, we are not going to do anything bigger than $1 billion to $3 billion per deal more or less, but that still leads a lot of $1 billion to $3 billion deals to fill out that cash -- fill out that cash spend that you are thinking about. Does that mean that investors should sort of think about something in experience along the lines that we had a couple of years ago?

Jeff Immelt - ***GE - Chairman and CEO***

You know, again, I don't really feel that compelled to do a lot of acquisitions, I just -- we are in a different position today than we were 5 or 10 years ago. You know, I think if you go back to 10 years ago, we basically had like -- like the US power bubble, we are like a marathoner tripping over the finish line without any juice behind it -- we are in a different place today.

We got pretty dynamic portfolios, big backlogs, big NPI spend. And I think, Steve, it's just when Dan Heintzelman sits down and reviews Wellstream, Wood Group, Dresser, he can peer in to each individual leadership team, he can peer into where the fit versus competition is, he can run those well. Right?

We are not paying for people's goodwill, stuff like that. So, I just think our own experience, right, both good and bad has given us -- that is our sweet spot.

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

Okay. And then on the simplification strategy -- so this is from my outside in observation, a major organizational shift from with domain expertise that might have been in some functions before that are now sort of going to more the GGO structure.

So are you -- how do you protect on the revenue side -- you mentioned hopefully, without affecting growth-- that was sort of the comment earlier? How do you protect the customer facing assets and the people and resources and all that domain expertise that might have been in the organization that is now being "simplified" and restructured?

Jeff Immelt - *GE - Chairman and CEO*

You know, Steve, it's a great question. I think that what you should read are -- is the sales force remains domain [that what goes] shared services is the backroom. You know, we have had -- this company has just grown massively globally. We think there is a huge backroom opportunities in places like Europe and Asia -- we think delayering.

And then, look, I think if you sat here today, and viewed energy management, oil and gas, and power and water, those were three very different business -- all big. Right? They are all it of themselves, big businesses, that each have a different competitive set and a very different and -- I just think you can see it and so can I.

And it's just easier to operate and you know, even with the fact that you know (inaudible) was a great guy -- a wonderful guy, you know, a great leader, a good operator, but I think we both agreed that this is a better way to run the company. And you know, sometimes things just are what they are. And that is the way I view the change we made in energy.

And as investors, I think, you get a sense today of sometimes, delayering, keeping the front end, but then saying on the back end -- look guys, we are going to do accounts payable, we are going to do all that stuff together as a company, that is the way to save money and that is important for us right now.

Yes, Shannon?

Shannon O'Callaghan - *Nomura Securities - Analyst*

Yes, Jeff, just to follow up on the 5% to 10% organic for '13, it says, positive ex-wind orders, just going -- I don't know what means, the last order was about 3% ex-wind. So if we are sort of low single digit ex-wind, but negative or flat with wind, how we go from that is kind of an order run rate to up 5% to 10% next year? Is it backlog timing or do things actually get better, what --

Jeff Immelt - *GE - Chairman and CEO*

I think we got huge backlog -- I mean if you look at aviation, if you look at transportation, if you look at a lot of the businesses, you just have massively big backlog. You got a service business that is going to -- kind of embedded growth that is in that range. So, again, we will give you more flavor for all of that when we get together in December, but I think we got record high backlogs that kind of blend in the revenue.

Shannon O'Callaghan - *Nomura Securities - Analyst*

So it's more of that and expecting kind of a pickup in the current run rate?

Jeff Immelt - *GE - Chairman and CEO*

You know, I don't think we are really expecting a hugely different economy. If it gets better, great.

Shannon O'Callaghan - *Nomura Securities - Analyst*

And then just maybe -- from maybe a few of the business leaders, just with the emphasis on margins that you have taken, curious as to when different leaders kind of heard that message from you and started to really behave differently and why it has sort of all supposed to come together for everybody now at the same time?

Jeff Immelt - *GE - Chairman and CEO*

So who wants to -- who has been misbehaving up here?

Charlene Begley - *GE - President & CEO, Home & Business Solution*

I got to tell you, I think we have always been focused on margins in a big way, I mean, that is kind of -- we are paved for margin growth over time.

And so, clearly, we are talking about it and we got work to do but it's been a focus since I have been here.

Jeff Immelt - ***GE - Chairman and CEO***

Lorenzo, your view?

Lorenzo Simonelli - ***GE - President & CEO, Transportation***

And I think -- we have continuously looked at the product cost and as you saw from the destructive cost now, that is something we have always been doing. You always have to look back and refresh yourself, and I think this is an opportunity of us continuously doing that. But as Charlene mentioned, the focus on margins has been there as we go out there, it's something that from a competitive standpoint, we keep a focus on.

Jeff Immelt - ***GE - Chairman and CEO***

Danny?

Dan Janki - ***GE - President & CEO, Energy Management***

You know, I think the margins on the product side, the simplification has been -- we really ramped it up and there is no doubt that when we made a decision to go after energy and delayer it and take the cost out, I think that was a message, when you go down into our organization and [to thousands] of employees, that is when it made it real for them in regards to we are going to go do this -- we are doing this in energy management, we are doing it in power and water, we are doing it in oil and gas. And it was clear through the organization.

Jeff Immelt - ***GE - Chairman and CEO***

JD?

John Dineen - ***GE - President & CEO, Healthcare***

And in the variable cost line, we are doing some things a little differently. One, we are looking at vertical integration opportunities where it makes sense, we are doing disruptive cost workouts. And we are also architecting the products a little bit differently up front rather than to come out and work the cost and down over time, we are really pushing the engineering teams to come out of the box with better cost structure.

And I would echo the comments on the structural cost. We got a lot of embedded SG&A in the business and particularly the businesses that we have built out over the last couple of years.

Jeff Immelt - ***GE - Chairman and CEO***

Steve?

Steve Bolze - ***GE - President & CEO, Power & Water***

I say, product cost, the same thing, that kind of goes on each year, we mentioned -- our engineering leader in our business --Rick Stanley drives over $300 million of direct material to product cost out every year, that has been going on for the last 6 or 7 years plus.

I would say is cost positions like having the right facilities in the world. That has been going on for a while and you have head us talk about Vietnam, China, and India, Brazil, and such. But I think the area that has gotten a lot more attention in the last 12 to [18] months is in a long cycle business, you got to put your breaks on the page cost, before the cycle hits you. And that has been going on for a while, but I think there was a simplification focus now.

As Dan Janki said, he is even more focused on is there a way we can take some structure out that if we do it towards the top, it kind of spills down to the rest of the organization. And that shows up in SG&A cost down.

Jeff Immelt - ***GE - Chairman and CEO***

Something that I would add (inaudible) to that, is from the top down, I would say the decision that the Board and I made -- before the crisis [during the crisis] anything else is the winners are going to have a lot of great technology. In the end, I think the biggest competitive advantage this company has is technology.

So we made a choice to go from 2% to 3% of our revenue in R&D to 5% to 6% and I think that is crested -- I actually think as you look forward. But that was a very specific decision was made at the top of the Company to say we are going to have better products, we are going to have more products, we are going to build -- our moat is going to be one that is hard for our competitors to match.

And I would say that is -- that has been a year or two or quarter or two, but that is something that when you listen to this group of business leaders, there is not one of them that can't talk about their products.

You know, there is not one of them that stands up and can't talk -- describe a real technical future for the business. I personally think that is so important in an industrial company today -- that is really how you are going to build --.

You know, great technology and services -- and owning the analytics around your products and being able to do -- go from Brazil to Turkey to Russia, to China to India, if you knew those three things, plus the great cost discipline, you are going to run a great industrial company - you are going to rain a great industrial company.

Jeff?

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

Thanks, Jeff, just a couple of questions. First on the gain in the quarter. Can you give us some idea of what kind of things are going after on the restructuring spend -- those things would give us some kind of visible payback in the next year in the margin?

Jeff Immelt - ***GE - Chairman and CEO***

So I'm going to have - maybe, Keith, correct me if I'm wrong, but it's basically a year and a half payback?

Keith Sherin - ***GE - Vice Chairman & CFO***

About a year and a half.

Jeff Immelt - ***GE - Chairman and CEO***

About a year and a half payback, Jeff. So it's roof top reduction. It is the stuff that can give you pretty good headway into '13 and stuff like that.

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

Great. And I just had couple of energy questions maybe there for Steve. I was a little confused by your comment about the capacity factor going up 10 points, drive service in 6 but you said you are up 20 and you are not really going to get service even picking up in '13. I may have missed something in translation, but can you just give us a little color on how you see the service playing out given the gas utilization?

Steve Bolze - *GE - President & CEO, Power & Water*

Absolutely. Capacity factors as far as gas are up. I would say an aggregate around the world over the last couple of years are up 10 points. The US is up more as you would expect given the gas price is particularly low in the US. Europe much lower capacity factors.

But, Jeff, you are seeing the units run more, it is just that you now have an average outage interval of 5 years. So if you reduce -- if you pop up the capacity factors 10%, you can pull in your outage interval of 6 months, you still have to get to the outage interval.

So it's a long-term, it's good for our business, you are going to be doing those outages sooner, it is just you are not going to show up -- you will see some of it in '13 but you are not going to see a big pop in '13.

Jeff Immelt - *GE - Chairman and CEO*

And revenue is up 5% to 10%.

Steve Bolze - *GE - President & CEO, Power & Water*

Yes, revenue, as I said, revenue is up 5% or 10% a year.

Jeff Sprague - *Vertical Research Partners - Analyst*

And just one on T&D also -- listening to David Joyce say he doesn't want to go in on 10,000 pound engine, then I think about high voltage equipment, that sounds like a bloody global price fight also.

So, I wonder really what attracts you to that space in particular and how you plan to kind of navigate how intensely competitive, especially outside the US that business is.

Dan Janki - *GE - President & CEO, Energy Management*

Yes, it is definitely competitive, there is excess capacity and that was the reason we decided to joint venture into it instead of actually owning the factory. This way, we get distribution, market (inaudible) agreement to sell, and we really own and deliver the grid automation equipment with it.

And we are partnered with XD at -- the China market, as I said, is the largest in the world. They've got a good share position and they got a good cost position, so we want that cost position so you can be competitive around the world.

Jeff Immelt - *GE - Chairman and CEO*

And, Jeff, it is a great question. You know, when we were thinking about Areva a couple of years ago, we kind of studied the world and stuff like that. And I would say in many ways, this was -- this idea kind of came out of, hey, we would like to play but we would like to do in a low capital way. We would like to be able to package it with our gas turbines when we can. And I think this is a kind of a clever way to maybe-- to your point, play a tough market in a competitive way.

Jeff Sprague - *Vertical Research Partners - Analyst*

And just one small follow-on on that, so what are you ambitions to pull that business outside of China and other regions? Can you give us a little road map there?

Dan Janki - *GE - President & CEO, Energy Management*

Absolutely, you know, our objective is that is where we actually own 80% of the world's distribution on behalf of the joint venture. So that is completely the game plan, country by country, where -- especially where we are building power plants and we have other capability, that is where we want to prioritize -- the feedback from the customers around the US and Europe and other places that has been open to it and positive.

Jeff Immelt - *GE - Chairman and CEO*

So you probably have a packaging facility here in the US, Danny, something like that.

Dan Janki - *GE - President & CEO, Energy Management*

Yes, late point packaging but all the manufacturing done out of China.

Nigel Coe - *Morgan Stanley - Analyst*

Jeff, I think you made it pretty clear that you are not looking to do a large deal in mining- a lot of chatter about that. But what is the ambition -- the logic of embedding technology within -- within the underground mining equipment? Does the same logic apply to other parts of that vertical? I think right now, you are addressing one third of the addressable market.

Is the ambition over time, to make that two-thirds and maybe the whole vertical?

Jeff Immelt - *GE - Chairman and CEO*

Lorenzo?

Lorenzo Simonelli - *GE - President & CEO, Transportation*

Yes, if you look at actually the products that we have, we have serve about 30% as you said, and we think we can actually take that to more sectors of the mining industry.

When you look at the package of GE products, we can go into the processing from a crushing perspective, we've got the motors. We can go also into the water purification because we got, again, the reuse of water and on the energy side. So, we are actually going and having company to company discussions with the customers on how do we work through either EPC or direct with you to bring the total package.

So with the technology that we have, the product portfolio, you will see our expansion into taking more of a share with the mining customers on big projects.

Jeff Immelt - *GE - Chairman and CEO*

So, Nigel, the way I look at it is kind of like the way we look at oil and gas which is we know all the customers. Right? So we know [Valet] and [BHP] by first name, we sell them locomotives, gas turbines and stuff like that.

If you dissect the basic oil and gas company or mining equipment company, they are a - is a requisition engineering organization. So they have a handful of engineers who are basically sourcing components, wrapping sheet metal around it, and making products. It's not like Intel, right, where you've got 2 million engineers that are deep in like 1,000 different things.

You know, these are light engineering, low R&D, So if you -- if you plant a few seeds you put yourself in a time machine, you get out there in 2020, you could have a big mining business in GE. It's not like any sourcing manager or would ever get fired for buying a product from GE. Right?

So I just think sometimes, you just -- sometimes when there is deep technology, you want to go into a space, you got to do an acquisition; when there is light technology in the space, you just don't. And I think that is the way we look at those guys, it is just not value creating.

Do you guys get this? I want to make sure it's like -- I'm not being critical of anybody but it's the same way you go through a -- what Danny sees when he buys somebody. You know, David Joyce, his organization probably does more metallurgical patents every year than any company in the world.

If you want to get into the aircraft engines business, I will see you in 20 years. Right? When Danny buys an organization, they are not big patent portfolios necessarily, not huge engineering organizations, there is room -- Dan, am I --

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Dan Heintzelman - *GE - President & CEO, Oil & Gas*

Absolutely. You know, we see all the time the opportunity to bring technology that we either have already or that we can iterate from a base line than exists and put it in the product.

So there is a clear path on how we can make the technology better and take the market.

Nigel Coe - *Morgan Stanley - Analyst*

And a quick follow on for Steve, I think. You threw out that number for the wind [full base] of $40 billion which is huge. Service opportunity is fractional right now, but can you maybe just quantify or scale, how big services can be in wind going forward?

Steve Bolze - *GE - President & CEO, Power & Water*

Wind business -- just give you a sense of Service business right now for us is just about $400 million -- wind. And that is just at the front end. If you think about 20,000 plus units in the world, we -- a lot of those units were put in over the last 5 or 6 years, and just look at how the units have grown in size.

If you go back 5 to 10 years ago, when we got into the business, the average reliability units were 88%, now they are 99%, but you have a lot of units out there that you can back end retrofit, software control upgrade and then at the same part, the customers get more power on the grid.

So I think going forward, as I mentioned, it's going to be the same sort of play we run in our other businesses. So do we see this in the future as a $1-billion business? Yes, and it has the potential to do that, it's just a question of how fast we can scale it.

Deane Dray - *Citigroup - Analyst*

Thanks. I want to go back to a R&D related question and software. And looking back maybe five years ago, we would not have had a big discussion about software, but software cuts across so many of the businesses today. And I know you are setting up a center of excellence for software, I'd be interested in how are the businesses leveraging some of the common technologies and where this takes us in the next couple of years.

Jeff Immelt - *GE - Chairman and CEO*

So I would maybe make an overview comment and then turn it over to the team. I think it's -- I never really see GE as being a software company per se, but I think we need to own the analytical layer around our products and be able to model that both from a standpoint of how the product is performing and then being able to sell incremental service to it.

We created, Dean, -- a center of excellence out in San Ramon, and that will probably house maybe 500 people that will kind of do in analytics what the GRC does in material science and things like that. And then that will probably be inhabited, 80% by people we hire from outside the Company, from the industry, so we are bringing in some of the best talent and be able to do that. And then the key thing is to maybe plug our businesses into that.

So maybe, Lorenzo, start with you --

Lorenzo Simonelli - *GE - President & CEO, Transportation*

First of all, I think, what it allows us to do is have a common architecture and we feed off each other. If you look at the Transportation business, we work hand in hand with the Power and Water business, the Aviation business, and the analytical strength is we now have a common software that we can utilize, architecture that we go out with, and the analytics. We all feed off of the same analytics.

So it's a huge benefit to us in the business having that center but then also working with the other GE businesses and having commonality.

Jeff Immelt - *GE - Chairman and CEO*

JD?

John Dineen - *GE - President & CEO, Healthcare*

The center of excellence is helping in a number of areas, the first is the development process and how we used Agile from a software development standpoint. And really teaching that process across all the businesses, how we architect systems better -- the center of excellence is excellent. I'm an ex-software guy. They have done a really nice job helping the businesses understand how to architect their systems.

And then, finally, their specialty services that they are offering like user interfaces, how to define excellent well -- really sophisticated user interfaces. And those are user interfaces are things that are of tremendous importance in all of our products.

So you see real COEs developing in the center that we are translating very quickly into each of the product business.

Jeff Immelt - *GE - Chairman and CEO*

Charlene, how about you?

Charlene Begley - *GE - President & CEO, Home & Business Solution*

I would also add to that, that it allows us to come up with new revenue streams because we can offer these software solutions as a service using our data centers today. And so, we host Lorenzo's movement planner technology and we are leveraging all that across the businesses, so whether it is putting the right information in the hands of field service operator, or putting that information in the hands of a customer, it gives us a new way to connect and get real time data off of our products.

And, again, the engineering teams within the verticals are using that data, for better analytics and more predictive diagnostics and it opens up a lot of new growth potential for us.

Jeff Immelt - *GE - Chairman and CEO*

David, why don't you do a deep dive on the digital work scope. Okay? Because one of the things I want you guys to understand is that I do kind of 50 -- at least 50% of this to be about better margins and better cost, and not -- it's not only about incremental revenue, a lot of this is just about how do you make your CSAs more profitable?

David Joyce - *GE - President & CEO, Aviation*

So you know, we have a services backlog of $75 billion. Right? We got an installed base going to 46,000 engines by 2020. When you sit in a room and when you think about how am I going to get productivity out of that services backlog. Right? And you take the idea of today, engines come of wing for cause. Right?

So it could be exhaust gas temperature limits, whatever, but there is a cause, a reason, that the engines come down. They come in to the shop, we then tear them apart, we define a work scope for that engine and then we go at it. We repair some things, we replace some things, put it back together -- normally have a turn time requirement and we get it back to the operator.

We are starting to think totally different about the way that we manage these services contracts in that you -- instead of coming off for cause, you come off for cost, which means if you really can understand where you are in the life cycle of the engine, and what needs to be done in order to optimize the cost point when you take it off and still meet all the requirements, turn time and everything else, and you think totally different about the digital work scope.

Now to do that, you need a lot more data. You need a lot more analytics and a lot more diagnostics to understand exactly where that engine has been, what it has seen during its operating life, and when is the right time for that to come off wing.

And so for us, analytics is exploring really -- we are pivoting through a new lens the way we think of productivity out of that services portfolio versus where we are today. That doesn't mean we are still not going to be driving variable cost productivity and services and all of the traditional ways in which we pound out margin expansion, but that won't be the only way we think about margin expansion.

So this is a different layer of productivity for us that just bolts on to the foundations of traditional pounding out productivity that we do in GE Aviation. So we are pretty excited about it.

Deane Dray - ***Citigroup - Analyst***

And just a couple of business specific questions if I could, the first is an update on MetLife. And then the second one, UTX had an analyst meeting today and the head of Pratt & Whitney made some competitive snipes at lead backs on cost of ownership versus Gear Turbo Fan. Just because it is going to be in the news -- I'm not asking you to get in some back and forth on this, but I figured you should get equal air time regarding cost of ownership on the Leap-X.

Jeff Immelt - ***GE - Chairman and CEO***

Keith, on MetLife, do you want to just --?

Keith Sherin - ***GE - Vice Chairman & CFO***

As you guys saw, we have taken the application that we had with the FDIC for the industrial owned corporation bank, and we have moved it over to the FSB which is our consumer finance business that is regulated by the OCC.

And our expectation is that we are going to go through the process with the OCC and our expectation is that we are going to go through the process with the OCC and then ultimately, this will be closed into the OCC and then ultimately this will be closed into the FSB and we will closed into the FSB and we will close with MetLife.

I hope we can do it in a reasonable time frame, I don't think, you know, we are going to lose some of the time that we have worked on the regulatory process with the FDIC but we are not going to have the same time cycle as we go into the FSB. So we are reasonably confident that we are going to have this closed and we got to work through the regulatory process.

Jeff Immelt - ***GE - Chairman and CEO***

David?

David Joyce - ***GE - President & CEO, Aviation***

I didn't hear the comment today, so I'm kind of flying blind here, so bear with me. So I'm going to talk more about the positives of LEAP and then we will go from there.

First of all, as I told you, if you take a look at the technology portfolio investment that we have done in this extent, back to the G90 and even before the G90, it is unmatched. There is no company in our space that has invested as much in technology plans and product plans as we have, and we are very proud of that.

And the connectivity with GRC puts us clearly in a position to where we can take fundamental efficiencies in a low risk architecture and bring it to the marketplace and match or beat the efficiencies of some more radical architectures.

Now, we are there because we ground out the technologies to get there. We have the patents and materials, we understand what we need to do in the engine, the GEnx is performing two points better than its competition right now in the service. And so, for us to meet and beat the requirements for productivity is easy -- I mean, not easy but is -- it's in our wheelhouse.

Now, relative to the cost of ownership, let me give you a quick perspective on this. Right? 8 days from now, I will put another million hours on the CFM 56 fleet -- every 8 days, 1 million hours. There is nobody that understands single aisle high utilization, durable operation better than we do. We've got more data from more customers and we satisfied more customers for more years than anyone ever has. And we are incredibly proud of that record.

We understand that Southwest bounces an engine off the runway 7 times a day. We understand that they don't want to open the (inaudible) other than to service the oil more than once every 5 years, we like it earlier from parts but that is the demand of a customer like Southwest.

The architecture we put in place is the simple most durable and elegant architecture that allows us to ensure that our maintenance cost is lowest in the business without complicating the drivetrain and complicating anything in the oil system or doing anything that would jeopardize the utilization of the airplane.

Southwest, if they have a problem with an air plane on the third leg of their day, where they expect that airplane to be in 4 more cities, it is a really big problem. I mean if you -- you can't believe what they have to do to re-jigger their out structure in order to ensure that they meet all the customers that are waiting for that airplane 7 departures a day.

We get that, we work with them every day and we understand it. And I'm very confident that when these two -- when these engines go into service -- game on. It is time to go at it and we are ready.

Jeff Immelt - ***GE - Chairman and CEO***

And to just add a little bit of color, the narrow-body war is kind of over. 100% Boeing, 100% C919 and 50% market share of the A320neo only because of Scott's question of what is your price going to be and your margin going to be?

So really, we go through the narrow-body conversion with higher market share than we went in. That is just the fact -- a fact. So I can maybe do this -- Dave -- David's now David has to execute--- that's how we work as a team here.

Yes, Steve?

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

David, just to put a finer point on that question, I think a specific comment or maybe not from them, was that the LEAP fuel burn was maybe running to what we refer in the marketplace, up to 4% short of the fuel burn objective. So to what extent is that not true and --

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David Joyce - ***GE - President & CEO, Aviation***

LEAP?

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

LEAP, yes that is what we've heard.

David Joyce - ***GE - President & CEO, Aviation***

Well that is the first time I have heard it, first of all, LEAP -- the first engine to test on LEAP is the first quarter of next year. So that is the first thing. The second thing, honestly, I haven't heard the numbers, so if you want to get with me afterwards and look at it, but I can tell you it's not true --

Jeff Immelt - *GE - Chairman and CEO*

The battle is over, 100%, 100%. That is a fact, GEnx is 2 to 3 points superior of fuel burn than its competitor.

David Joyce - *GE - President & CEO, Aviation*

Yes. On a 787, that is a 0.5 million of margin for an airline per airplane a year, incremental -- to give you a perspective on what the value of that in terms of us being able to price.

Jeff Immelt - *GE - Chairman and CEO*

Scott?

Scott Davis - *Barclays Capital - Analyst*

Since we are talking about competitive products and Siemens is another one that has been out there saying that they are kicking around a little bit. And maybe for Dan, we can talk about the difference between this -- the Flex 50 now the Flex 60 -- it seems like they are still a gap between their base load technology that is out there and what GE is offering.

I mean when do we -- I mean, I guess the point is, is that will the utility base in the US by the Flex 60 is a baseload product? And if they will not, when do you think the timing is of -- Steve or whoever wants to address this -- but when is the timing at least of when this bigger block is going to be available?

Steve Bolze - *GE - President & CEO, Power & Water*

Sure, let me take that one. The FlexEfficiency 50 came out a year ago -- 510 megawatt block, the first order we announced was in Turkey. And that customer evaluated it versus the Siemens 8000H. We already got that order.

So the 50 Hertz, FlexEfficiency 50 versus head on Siemens 8000H. The second order we announced was with EDF in France, the biggest utility in the world. They evaluated it versus Siemens 8000H; they chose GE.

So, FlexEfficiency 50 size right now as well as efficiency above 61%, very competitive -- big utilities are making those decisions as well as developers. If you take a look at the 60 Hertz perspective, they had one of the orders we announced yesterday was with Chubu in Japan, they run the unit based on high gas prices and the grid there, base load.

They looked at, as you would expect in Japan, MHI and our FlexEfficiency 60 Hertz which was 260 megawatts beat a J Machine which was north of 300 megawatts base load. Why? Higher efficiency, great (inaudible).

Now the question is, are there going to some people that want above a 300 megawatt unit, plus efficiency and plus turn down? And the answer to that is, yes, over time. Therefore, under development is over 300 megawatts class of machines -- we are talking to some customers about. What people are evaluating today our FlexEfficiency 50 and 60s versus J Machines, 8000Hs et cetera, and they are picking GE.

Jeff Immelt - *GE - Chairman and CEO*

Yeah Chris.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Thanks, this one is for Dan Heintzelman, if we consider maybe the Aviation and the Energy businesses as having the fully serviced -- fully developed services business models, where would you put oil and gas on that maturity curve? And how important is that to high teen margin potential?

Dan Heintzelman - *GE - President & CEO, Oil & Gas*

First of all, I would have to - you got to break it down into pieces. Right? So the first piece of the portfolio which came in in the mid-90s, around the LNG. -- right -- with compression in turbine. That piece is pretty well developed. In fact, we work every day with between my business and Steve's business, sharing ideas, technology, collaborating. So, that piece is doing pretty good.

When you look at the newer pieces of the business, though, the Drilling business, the Subsea business, we have decent service business size wise today, but when I looked at them from the point of view the things that are important to customers, the fast turnaround time when an asset comes offline - we've got a lot of opportunity for improvement.

And I personally believe that there are very, very direct lessons that we can learn, especially from David's business -- right -- a lot of time there, and I look at the way that process can work, it can be very similar and we can drive a lot of value into that space, including improving margins as you have pointed out.

Now, it is not the same as an aircraft engine, we don't have turbine blades in a Christmas tree. But the integrity of the system is crucial. Right? I mean, these things go in the water and they are expected to stay there for a long time and operate with high integrity.

So it's still a very important job to service this equipment in a high integrity fashion with -- and testing it before it goes out and to do it quick. The demands are going up all the time, meaning this equipment that is out there in service is aging rapidly. We are seeing demand going up. And I can safely say that if we can improve our service performance, we will continue to see growth.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

(Inaudible-microphone inaccessible)

Dan Heintzelman - *GE - President & CEO, Oil & Gas*

I don't see it quite the same. You know, these -- at least not yet. When I look at the business today reliability is important -- I guess I would say I see it more sort of aligned with the idea of potential for upgrades for new capabilities. Some of these products went out years and years ago, and there is a newer technologies that can everybody applied to them.

You know, the BOP is a good example. Right? You get the shear -- the ram shear mechanisms, and those could be upgraded and a lot of the equipment that is coming in for service on regular intervals now.

Regulation is going to drive that even further. The requirements are shaping and they haven't been announced yet, but there -- it's pretty clear that there is going to be new requirements for how these critical pieces of equipment are serviced. And we will have opportunities for upgrades. That said, I don't know -- we -- there may be some possibility in the future for some more creative modeling around how that works.

Jeff Immelt - *GE - Chairman and CEO*

Maybe a couple more, any -- we're good? Okay, we've got a bar outside and we all need a drink, and we look forward to more conversation.