Company: General Electric
Executive/s: Jeff Immelt - Chairman and Chief Executive Officer
Event: Electrical Products Group Conference
Date: 5/23/2012

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OK. So we go through the end, and closing out the conference part as always is Chairman and CEO, Jeff Immelt, GE. Thanks.

Jeff Immelt

Great guys and thank you. Good morning everyone. Good to be back at Longboat Key. I'll just start straight away. So, five big messages for GE here at the conference. We've got a very strong industrial outlook. We see good margin accretion over the next couple years. We're getting cash out of GE Capital. We think that's good news. We're in the process of making GE Capital smaller, and that will continue.

We've got investor friendly cap allocation under way. We're going to take the $4.5 billion special dividend from GE Capital and we're going to put that to a buy-back. We plan to continue growing the dividend in line with earnings. We think we've got good outlook on cash. We're going to apply it in an investor-friendly way. We feel really good about how the company is positioned.

You've heard a lot of economic reports so far this week, so I don't think ours is going to be all that different. We see the U.S. really, I'd say, a little bit better. Europe continues to be slow and a place we watch. The emerging markets are still pretty good for us, and if in fact they slow down we think that will be good for our input prices. The way you kind of want to place at a time like this you manage your costs hard, you reallocate to the places that are growing, you keep investing in growth, and we've got a lot of levers that are good safety levers; excess cash, things like that, in case things get worse.

I think the year so far is more or less the way we had planned it. All of us had planned for volatile Europe and that's more or less what we've gotten. The framework for the company is really unchanged. Industrially, I'd say, we think spares in Europe and aviation may push our aviation growth from double digit to single digit, but we think healthcare in the U.S. is doing a little bit better. That could be double digit instead of single digit.

Energy is on track. Transportation is on track. Capital is very strong. We see the framework still very positive when I look at 2012 and how we're positioned. When I look

at the rest of the company corporate, there's no surprises I think in corporate. More or less on track.

The operating framework for how we see the year, still very solid. Catch is going to better because of the dividend, the special divided in GE capital so cash will better than the last time we looked at the framework.

From a revenue standpoint we think industrial organic revenue growth is going to be strong. We'll continue to shrink GE Capital so the revenue [??] for GE Capital will be probably equal to or lower than planned on our balance. We don't see any big changes in revenue.

Then when I think about the mosaic in terms of what drives GE over the next couple years, on the macro side it's the growth market, it's a big backlog, lot's of new products. We do well on the trade with oil prices relatively high and gas prices relatively low.

Oil price is high. Drive more consumption of fuel efficient jet engines. Gas prices low. Drive more optionality around the power generation cycle. We think commercial real estate will continue to improve. Losses will be good. We have a lot of cash flexibility. I think those are all positives when you do your models for 2014, 2015, 2013, and beyond.

The negatives are clearly Europe. My view from a planning assumption is that Europe stays slow for a period of time. It's the fiscal and macro challenges, what happens as those continue to change. From an inflation standpoint, that's both a plus and a minus, depending on how the global economy goes.

We see a decent time period for the company, with very strong industrial outlook, capital getting smaller and capital being more profitable in the short term. That's the mosaic for the company.

Strategically, we see pretty similar strategy driving capital efficient organic growth that we have. The portfolio is strong. We've got a good infrastructure portfolio, especially finance. We've got adjacencies that we think allow us to continue to drive solid growth in the future.

Three big growth initiatives have been in place a long time, technology, growth markets and services continue to drive dollars per installed base, and I would say, a pretty good investor friendly outlook, 5% to 10% organic growth.

We should have $100 billion of cash to allocate over the next 5 years, and expanding returns of total capital. That's the play we have been running. We think it shapes up well for this cycle. We like the way we are positioned.

Energy is always important for G.E. What you need to emphasize is that this is not your father's energy business. As you look back ten years and look at where we are today, this is a broadly diversified energy business. Packed generation continues to be important, but

we've got a big distributed energy platform, a big energy management platform, and a very big oil and gas platform.

When I look at over the next two years, we've got some real strength as it pertains to the natural gas cycle and where we are, a very good healthy outlook for our oil and gas business, and some new growth segments in places like power conversion. We've got a lot of good tailwinds.

I think the headwind is the energy business. None of us are counting on the PTC being extended. We think that's about 3 cents in 2013. We're still looking at developed markets, what the demand for electricity is going to be.

We should see good solid double digit earnings growth for the energy business in 2012. We think it's very well positioned for continued growth, based on the diversified platforms that we have, and the very strong global position that we have in this business.

The oil and gas business is executing well and is very well positioned for the future. It's a good illustrious story of the way we think about building out platforms. We've invested in a lot of the fast growth segments in the oil and gas business, things like L&G, subC, unconventional fuels. We have seen the way we built the business over time, so from about a billion dollars ten years ago to mid-teens today, expanding margins. Pretty disciplined as it pertained to the acquisitions. And I think it's, the purpose of this chart's not just to show you what we do at oil and gas, but I think it's illustrative to how we think about building franchises over time.

We like being in big businesses where we know the customers, we like doing very controlled inorganic moves that are small and focused on technology. We want GE investors to be the ones that accrue the benefit as we add technology as we add technology, and services, and globalization. We have ways to bring value, if you look at the oil and gas space our competitors spend one to two percent on R&D, we're able to do things in R&D that they can't do and then we try to drive operating leverage. If you look at this business the margin rates are, let's say, 13 and a half, 14%, in 2011. We don't see any reason why this can't be closer to power generation and aviation over time, which in the 18 to 20% range. And so we expect to drive operating leverage in this business as time goes on.

So the purpose here is to say not only is oil and gas good, but this is the disciplined way we're going to build franchises going forward into the future. We've got a lot of good franchises already underway and these are the adjacencies that have drive a lot of the growth over the last 10 years. In the case of [??] medicine, we've built a pretty strong diversified position, business is growing organically five to 10% and we lead in places like bio process manufacturing, and areas like aviation systems we've gotten some of our first tier one applications. Business is growing five to 10%, developing a great position in the business jet space.

In areas line mining, you know, I think you've seen us grow, we've got a $2 billion position, we know all of the customers. You saw us do a small niche acquisitions last week. I think the way to think about that business inorganically is, we would only do small niche acquisitions over time as we built that business over time because we think we can bring a ton of value as that industry continues to unfold. Distributing energy is a high gross segment, these are gas engines, air derivative turbines, these are places like where Walker-Shaw fits as time goes on. And then energy management, you saw us make a move in T&D when we bought the Sakon [sp] XD, that's a little bit about China, but it gives us now a competitor that can go toe to toe with some of the other players like, ABB, and Siemens' in every corner of the world. So we've got spaces in energy management that we can continue to grow.

So this has been some platforms that we can invest in in a very disciplined way and continue to grow over time. GE Capital is just in a good segment or in a good time period right now, the earnings should continue to grow, we think return on an investment will get to two percent in the next year or so, we'll continue to shrink the balance sheet, our focus is going to be on mid-market lending and leasing, real estate is going to be smaller over time, consumer is going to be smaller over time. We continue to run off the red assets and we have real competitive advantage in the businesses we're in. If you look at the way we originate, the distributed underwriting that we do, the strength we have with mid-market customers, this is a business where we have good competitive advantage as we shrink. Pricing is still good. Disciplines are there. Losses are lower, so you are going to see good, solid earnings growth this year. I would say Commercial Real Estate providing some upside. We'll continue to shrink this business going into 2013 and beyond, but we like the way GE Capital from an industry standpoint, inside the industry, we have really strong competitive advantage and are well-positioned going forward.

Lead initiatives, inside the company, lead with technology. We invested through the downturn, and we are somewhere between 5% and 6% of investment as a percentage of our industrial revenue. That will come down over time. In other words, the percentage of industrial revenue and R&D is starting to come down.

I think the good news for investors is that the pipeline is really quite full. We've got a tremendous amount of big, new systems that we are launching. We're filling in product gaps that can drive incremental growth. We've got innovative new segments like Energy Storage. We've invested in manufacturing technology. I think these are the years where investors are going to reap benefits financially from the investments we've made in technology. This is going to drive a big chunk of our organic growth in the next few years. We're very well positioned technically in the markets that we're in.

A key one there that is really all about technology is Aviation. We continue to really run the tables and do a great job in this segment. The installed base continues to grow. We continue to have share growth in the segments that we are playing in.

If you just look at the right-hand side of the page, some of this is just arithmetic, so if you look at the GEnx engine, which is on the Boeing 747, 787, we've got 100% market share

of the 747. We've got in the mid-60's market share of the 787. We've got a fuel burn advantage versus the competitor. On the Leap, we've go hunks of market share of the MAX. We've go 53% market share of the campaigns on the neo, and we've got 100% market share of the C919.

So when we look out in the next ten years in Aviation, we will have higher market share than we had the last ten years. This isn't just a quarter or two. This is the next generation of commercial aviation that we're executing on. Beyond that, I review our manufacturing and cost position on these engines a lot. I like the progress we're making on composites. It's very strong, coming down the cost curves very well. This is what technology is all about is winning in these big systems and building strong competitive advantage.

Globally, we continue to see a good story in our industrial revenue in the key growth markets. You guys spoke with John Rice, some of you were there in Rio. You got a chance to see the strength of the franchise. I think we've invested in people. We are investing in capability. We are investing in these big relationships and we're just building a great platform. And I think Life Technology, this is a place where GE is going to have strong leadership.

You know we divided the world into the resource rich parts of the world. That's the biggest part of our growth platform. It's still growing very well. And what we call rising Asia, which is China, India, ASEAN countries. In China, we're still seeing great growth. India has definitely slowed down, and ASEAN continues to be strong. So that's kind of the global panorama and how we see it.

Six things we do as we try to win around the world. The first one is we prioritized winning in the resource rich parts of the world. So we prioritized Latin America, Australia, Canada, Africa, Russia, places like that. And we just have big wing-to-wing leadership. If you go to places like Latin America now, if you go places like Brazil, you'll see multiple sites, you'll see great teams, project management, tremendous skill sets, and doing very well.

I think we've played China in an intelligent way. So we have segments where we win, aviation, healthcare. Segments where we have big share positions, not just today, but for a long period of time, where we're winning in a very substantial way. I think we have partnerships we're creating where we can use the momentum of China to develop great global platforms. So the avionics joint venture with AVIC, the XD joint venture. These opened up new segments for us on a global basis, and I think this combination of market and partnership helps us a lot.

We've got world class partnerships around the world, from Russia to the Middle East to Latin America. We continue to have a great portfolio of geographies. We'll probably have five more countries cross the $1billion in the next few years. We're planting new flags in places like Myanmar. We continue to drive global platforms. We have a tremendous low-cost manufacturing base in places that we continue to invest. And we've got market

innovation and key new technologies that are going to drive and open up new markets around the world. Dual fuel power generation, low cost CT scanners, things like that.

So market growth, cost, partnership, long-term investing. I think, again, this is already in place. Just like technology, we've laid the investments in place. I don't view that we have to do a lot of incremental investing as we go forward. If anything, we're going to be able to drive more efficiency as time goes on, and the organic growth should be there, it should come, based on the positioning that we've done.

And the last big pillar is services. We continue to have a great service franchise. We'll grow the service revenue in the next few years in the high single digits. We think about 8%. We continue to build the backlog. We kind of won, as it pertains to capturing the installed base, adding value, getting on the same side as the customer, things, like that. It's say the next horizon for us, that we're excited about in services, is some things we can do to help our customers eliminate waste. I show the example up here of an airline, where dollars per available seat mile is the way they measure profitability. And if you think about an airline, a 10% improvement in the use of a plane, or let's say one hour per week aircraft utilization, doubles an airlines profitability, a 10% improvement in fuel, doubles in airlines profitability, and a 10% improvement in maintenance gross profitability by 30%.

So if I looked across all of the industries we're in, and all the customers we're in, and all the amount of available I would say waste reduction, it's an excess of $100 billion. Now we approached that through $150 billion of service contracts, that are already hooked up with our customers, and the investments that we are making here is in analytics, it's in sensing technologies, it's in all the things that are going to allow us to model our CSAs for more profitability, or sell incremental services to our customers, as time goes on. And this is something we started over the past couple of years, but I think we're now starting to see some of the benefits, and should see even more, as time goes on.

So if I look at the way these things work, so if you look at CSAs in the oil and gas segment, we've got the opportunity to allow our oil and gas customers to get more utilization, and less down time of what they've got that allows us to get more price in our CSA. We're building models around our engine, so that as a plane is flying into the service shop where it's going to have repair you're going to be able to print the billing material, as that plane is under way so that the service people are going to know what they need to do to that engine when it lands, tremendous amount of cost in productivity as that comes in. So we think getting more CSA margin rates through price and cost, based on these analytic models, is going to be a big improvement going forward.

On the right-hand side, we've got some software programs, and some analytics that we're selling to the customers outside the CSAs. For instance, we have about $100. million franchise, in fuel optimization on locomotives that get sold outside of the CSA. This is about a 10% improvement in a locomotive that our customers can recognize, and the big enterprise stuff are things like integrated vehicle, health management systems, decision support in health care. So we've got about a $3 billion software business that's growing

15% a year, this is going to help us grow the dollars per install base over time, by 5% to 10%, and we think we can get about a 100 bases point of CSA productivity as you go through this. So we think this is the next leg of services, and, we're quite excited about where we're going.

So just to wrap up on organic growth, we like a lot of what we're seeing in the first quarter of the year, we saw good organic growth, we saw good global growth, we saw record backlog, share up in key segments. And I think a lot of our leading indicators, when you look forward in terms of the margins on new orders coming in, the installed base growth. The adjacencies that we continue to fill out, like we've done in oil and gas, big pipeline of MPI. We fill pretty good about where we are from a growth standpoints.

So even in volatile environment, I think the investments we've already got in place, and the backlog that's been captured, makes us feel decent about the position of where we are right now.   So like we did last year, I'm going to shift gears now and just talk about the things that are on your minds. So last year, you know kind of areas of specific interests, and we had six areas we talked about last year and I think on the bottom five we kind of answered those, and kind of improved them, and executed. Did what we said we were going to do. The ones we carry forward is a look at margins. We're going to talk about the impact of low natural gas. We're going to talk about just enterprise risk in general, but just a brief talk on Europe. We're going to talk about the size of GE Capital and capital allocations. So, these are the things that, I read your notes, and listen to what's on your mind, these I think are the big things that we want to talk about in the rest of the meeting today.

The first one on margins you know we continue to make progress. I'd say the split between '12 and '13 is going to be specifically a function of wind turbines. My hunch is we're going to ship more wind turbines in '12. That's going to have a negative mix effect in '12, and fewer in '13. That's going to have a positive mix impact in '13, but on balance the 100 basis points we feel good about, and we'll see good accretion and margin rates in the second half of the year.

And then the whole focus on margins is really going to be about simplification, value cap management, and taking these 40 GE Advantage projects that are really wing to wing process projects and applying them to our cost base. So we've got very strong, I would say, programmatic focus on productivity and margins that we're going to start seeing in the second half of this year, that's going to carry over into '13 and '14.

Simplification; this is where we look at RTFs, G&A as a percentage of revenue. Today in '011 it's about 18.5%, that's going to go down in '12, it's going to go down in '13, it's going to go down in '14. We're doing this on a very programmatic way, so we're targeting $2 billion of cost down. And enabling functions in RTFs and G and A over the next 3 years starting this year and going forward in to the next few years.

Something going to happen in Europe as we continue to restructure Europe. We're driving a big focus on global share of services. We've got some consolidation of P&Ls,

reduction of layers, indirect expense reduction, and price advantage, and ERP IT consolidation. The way I think about this guys is a decade ago we were 70% inside the U. S., 30% outside the United States. It's almost flip-flopped. Some big portion, 40% or 50% of the businesses, or the industrial revenue in the next few years are businesses we weren't in necessarily five or ten years ago. So we just have opportunities to consolidate backrooms and take costs out of the place.

We're going to drive that very hard. We've assigned a couple GE officers to do this task and we think this is going to be a big opportunity, a big boost for margin rates going forward. So $2 billion over the next few years.

Value cap is always important in our business. We get good price improvement in our service businesses, but continued focus on pricing and cost down is important. We've seen good price momentum in the first quarter of this year. We think that's going to continue for the rest of the year. So energy will be equaling up and all of the other orders pricing is going to be positive for the year, it's a little bit of an anomaly just because some of health care works on the computer model, so they get a good cost out as it pertains to their sourcing at the same time as pricing.

So we've got some big programs on the pricing side with Energy Services and Transportation. All of the appliance that we're launching are going to be higher margin products. We've got a big initiative going on inside of the company to eliminate sole source agreements, so we've got a lot of dual-source activity going on in our supply chain.

Again, we think the value gap was very negative last year and really hurt margins. It goes positive this year, and we think the value gap is going to continue to be positive in '13 and '14 as we drive these programs and get the order pricing, most importantly, positive year-over-year. That's kind of the trend and what we see right now.

Then, just programatically, with the G Advantage projects, we've got a lot going on in product costs. Aviation, you guys all know the type of learning curve that we go down when we launch big, new products like the GeNX and the Leap-X. We've got a big team focused on driving lean labs, accelerating benefits, trying to manage the right volume, and really driving this learning curve compression, so that we can get more cost out of the engines earlier on.

Health care, we launch between 70 and 80 new products every year? Big G Advantage project there to make sure that all of the new products have higher margins than the products that they are replacing, so we get big CM accretion in terms of health care. So these are being driven by black belt resources, lean resources inside the company, and we're seeing good progress. We think this is going to be a good leading indicator in long-term productivity.

Then, Services continues to be a big part of how we drive productivity and margins as time goes on, and we've had a good track record of increasing margin rates in our Service

business. We've got a big project going in our locomotive business to have no unplanned downtime. As we're able to do that, that drives great productivity for our customers and us.

In the case of Energy, we actually have these bonus backlogs if we can reduce the degradation of the turbine in use. That's where some of these analytical models can improve margin rates. We've got about a $200 million to a $300 million bogey. If we can improve the degradation of the turbine this is revenue and money that flows to GE. So it's another way to drive margins inside the company.

Simplification, I think when John was talking to you earlier, he said a billion. We've kind of upped that to 2 billion. Positive value gap being led by orders pricing and very strong initiative and programmatic focus inside the company driven in a big initiative called G Advantage. It's staffed, underway, building momentum. It should continue to drive the company going forward. I actually feel pretty good about our ability to execute on margins as time goes, so we look forward to proving that to you.

Natural gas, everybody can speculate whether the price is going to be $2 or $4 or $5, but I think we've disconnected natural gas from oil for a generation, so that disconnection is taking place. People are finding gas all over the place and you have this weird anomaly of the places in the U.S. being extremely low vis-a-vis the rest of the world. And the combination of all these things drives opportunity in new generation, gas turbine utilization. When I talk about investment in the value chain what that really is an investment in transporting L and G, and so it's L and G terminals and things like that. It is the clean fuel and GE is lawing these technologies.

From a power generation, from an extraction, from a transportation and we're evening lawing in things that if there is a broad scale conversion from other fuels to natural gas over time, we've got technologies at mini LNG and CNG that can help drive that going forward, so there's just lot's of ways that GE can win in this space. And so I think when you think about the base case has to be that this set of assets grows nicely over the next few years, just based on usage and conversions and things like that. So, what I tried to do on this page is show the ways that investors can win.

The first one is there is an industry forecast of going from 50 gigawatts to 60 gigawatts over the next three years, how could that be better, you know, if China goes faster, Europe replacements, Russia needs a complete redo of it's electricity grid, Japan needs more power, it's got 52 nuclear reactors offline, there's a number of ways where this could work as time goes on. Services we've got great fifty billion dollar plus backlog of services. You know, when we look at just planned outages because this has to sync up with how our customer's have scheduled their outages.

We see a pretty healthy growth rate kind of '13, '14, '15 that sync up with how customers are using it. But the usage of the gas turbines is really high right now so that ought to be good for the service business. Big expansion and distributed energy, the demand for power and transmission distribution never keeps pace, so there's a big demand for

distributed energy and these products that are sold globally, air [??] and gas engines, so we see good growth there.

And in then the fourth one is a bluebird, it says what is several big locomotives went from diesel to natural gas. And for us that is a retrofit opportunity and all the locomotives, it's an LNG, mini LNG opportunity to get the natural gas to the locomotives, and, you know, you guys are smart guys, conversations like this are going on all the time, so turbine sales, service sales, distributed power sales, distribution, transportation sales, that's the way I think about where this could be and what some of the positives could be going forward.

Risk is important, clearly, as you look at the world I just comment on enterprise risk, we think about managing the company in terms of people, process, technology, and cash, right? People, we have more [??] experts in risk today than we have ever had, focused in an intense way with clear metrics. Process, we've got risk committee sub-segment on the board today. Very strong enterprise risk practices that I lead and share inside the company, so very strong practices there. Technology, big simplification efforts in ERP and IT, to simplify the company. And cash; you guys see us have a lot of cash. So I think we've tried to make the company so that we can manage it well and with excellence in a volatile time period like the ones we're living in today. And then, in Europe, it's less of a percentage of the company, each and every year.

This is a chart you've seen before, revenue flat last year. We've done restructuring. There's places in Europe that still aren't bad. Germany and Northern Europe where we can continue to grow. We'll do more reductions as time goes on and GE Capital is a secured lender and we've exited great bonds and we've made the place safer and it's going to be a smaller part of the company going forward, and if things get worse, we'll be ready for that as well. So that's what we think about risk management in Europe.

And with GE Capital, we've talked about getting down to $425 billion and any other than that investment by the end of this year, we're going to take it lower in '13, so we're going to continue to shrink the size of GE Capital. We're going to invest in great assets. We're going to have less real estate and consumer as time goes on. And we're going to continue to originate at high margins. We're going to take commercial paper down to $25 billion, because of backup lines and where we are, we're going to need less, let's say, surplus cash in GE Capital, and these are the ways that we're going to run the play.

You've read about the dividend. We thinking in addition to dividends, over the next few years, we ought to be able to get $20 billion of excess cash, coming out of GE Capital. We've already seen $4.5 billion, so we think there's another, let's say, $15 plus that can come out of GE Capital in excess dividends as the time goes on, and in addition to the standard earnings dividends. So we're going to get some cash out. We're going to make it smaller. We're going to drive the returns. We're going to be good in places. We're going to be smaller in other places, and this is just the play we're going to run in GE Capital, going forward.

So, that's kind of consistent with where we've been. We're going to do it in ways that's under our control. In other words, I think, we want to execute. We want to do what we say, just like we've done in the last three years. We want to keep on that path where we tell you what's in our control, what we can do, and then go execute on it and keep doing that, and that's kind of the way I think about GE Capital going forward.

And that leaves capital allocations. This is $100 billion kind of magic pot, and this comes from dividends from GE Capital, industrial cash flow, getting cash out of NBC as time goes on and the way I think about it is, we got plenty of capital to grow the company. We're going to keep growing the dividend in line with earnings. We think the vast majority of our investors like the dividends. We're going to do bolt-on acquisitions in the $1 billion to $3 billion range.

We still get mentioned every time somebody breathes on doing stuff, but this is what we're going to do. We like doing single point bolt- on acquisitions. We're going to stay on that strategy. We think it's in the best interest of the company and I hope I make that as clear as possible on that. And then we're going to buy back stock. We're going to reduce the flow to the company and a lot of the dividends that we get over time from GE Capital, that are surplus dividends, are going to be reducing the float. So I think a balanced investor view, a pretty focused execution view, and that's just how we run the place. And I think that's what we talk about going forward.

So just to wrap up. This chart we've used in the past, a little bit changed today. You know I think we've got a very good industrial outlook. When I sit around and look at it, we've got any company as big as our always has puts and takes, but I think we see energy continuing to grow into 2013 at the same pace we've seen in 2012, so we feel good about how Energy is positioned. You always have a ticket that says, you're long in natural gas. Natural gas feels good. If there's incremental upside, we're going to benefit from that incremental upside.

Healthcare is all an emerging market growth story and having good products that can gain market share in the market place. Transportation is very strong with high market shares and good global position. A good aviation cycle, where we are right now. I worry a little bit about spares in Europe, but the rest of the world seems pretty good, and we're launching good new products there.

Acquisitions, you do them one year, you kind of get them right the next year and probably the second or third year is where you start seeing margins accrete. So 2013 ought to be a good year for acquisitions.

And then wind, wind going to be bad next year. Right. I mean that's just, I'd say the good news for you guys is that we kicked butt this year. Our market share, we'll probably have in excess of 50% market share in the U.S. this year. The 1.6 is good, and our yields, our manufacturing has been outstanding, so we'll do even better this year, and it will be headwind next year as that thing unwinds. The good news is we've done it with a very, you know, we've never been vertically integrated in wind. We've always been broadly de-

verticalized. The work force that's assembling a lot of the turbines are temporary workers. So we don't have a big hangover, as this thing goes up and down, and our products are good, with high quality.

GE Capital, I'm thinking is maybe single digit growth next year as we shrink it. And I think that's probably the prudent thing to do for our investors. We think good margins are going to continue, commercial real estate. We could grow this double digits if we want, but I think we're just going to make the choice, in other words, our margins are good. If you just were able to look at financial services in isolation, we have less competitors today, than we've had in a long time. But it's a tough neighborhood, so we're going to continue to shrink this and get cash out of it, and we're going to have a good buy back, both this year and next, as you look forward.

So I think for 2013 we like it. The profile may be a little bit different, and there's good strategic reasons why we're doing the things we're doing. So that is the GE story.

Nigel Coe, Morgan Stanley

A quick question on the mix between buybacks and M&A. It looks like you give up $45 billion, $50 billion of capital to allocate to those two areas. You said you are ambitious to get to certain levels. But given the current multiples in your stock, let's say you don't get benefits from multiples over the next couple of years, do you have an ambition to reduce as much furtherment?

Jeff Immelt

The good news is that we are going to have a lot of cash. I think that's great. I like the platforms that we have to invest in. By this time I've had the opportunity to study what we do well and what everybody else does well on M&A, and to study it in multiple different ways. We have a huge game board. We think a lot about M&A. We spend a lot of time talking about it.

I look at what we've done in oil and gas. We've generated a tremendous amount of shareholder value. We've actually built a huge growth platform and our returns on total capital are 16%. I think that is the right vision to have for GE.

We love dividends. We think the stock is a good value right now. If we do more, we do more. We don't have any aspiration to do big deals right now. We've got a lot on our plate. We have a lot of good execution. I think we have margins. I want the team very focused on margins. We ended LTIP this year. LTIP is a three year incentive plan. We start a new three year incentive plan in '13, '14, '15. Margins are going to be right there.

So our guys know what they need to do. We like the spaces we're in. If it ends up being more than that, we do more than that. Stocks are a pretty good investment right now. Why not?

So, Steve, can you get us to a new venue? I know some of you have grown to like this place though.

Steve Winoker, Sanford Bernstein

No, we're going to keep the focus on GE right now. We will be doing a survey, as I mentioned, to everybody. Then from the input of that survey will we take action as appropriate.

Now, on the margin side, on Page 19, I think I saw 30 to 50 basis point expansion. As I recall in the last two sessions I had, it was more 20 to 50. So can you just elaborate on that.

Jeff Immelt

More wind volume. 100% more wind volume. So next year, better, this year, I hate to be trite but, headwind. This year is just mix. It's because we have the orders and the pipes are more efficient. We will get more out this year.

Steve Winoker, Sanford Bernstein

The contingency is there weren't others, or are others?

Jeff Immelt

We still have the contingency, Steve. I would love to beat it but I think the revenue could be hot. It could be at lower margins. It's hard to manage a macro-mix on a company this size. I think we've up-sized simplification from a billion to two?

OK, so I'm thinking '12 looks good from a standpoint of where we're at right now, and '13 is going to get a little more turbocharged on margins.

Steve Winoker, Sanford Bernstein

OK, and on the margins on the whole OPI side, we heard some of your competitors again, talking about pricing gas turbines, so can you give us a sense of where that is, where it's headed, and also your view of those orders coming in in 2013 versus 2014?

Jeff Immelt

I think the OPI on just gas turbine units was slightly down in Q1; my hunch is that it will be a little better than that in Q2. You know there is always a lot of puts and takes in the market and stuff like that, but I think price down has stabilized and it's starting to get a little better.

Steve Winoker, Sanford Bernstein

2013 versus 2014?

Jeff Immelt

Yeah, you know how the cycle works. We go from commitments, to orders, to shipments, and that cycle is 12 to 18 months. So, 1st quarter is pretty good, 2nd quarter should be better, stabilization should be taking place, that bodes well for 2013 part shipments. And again, I don't want to beat the fence about it, our sales of heavy duty gas turbines are important to all of us, to you and to me. But this is a broadly diversified company, we get a lot of price in our service businesses, we get good price in the aero derivatives and stuff like that, so there's other things that are also important.

Scott Davis, Barclays Capital

Jeff, just to follow up on gas turbines just a bit, can you talk a little about the gas in your positioning here? You've alluded to re-rolling out the H-series, you know six or seven years ago we used to talk about H and then it went radio silent for awhile, and now we're talking about it again, and on top of that can you talk a little about your expectations for market shares? If you had 50% share in the last, bubble if you will, can you get share anywhere close to that with kind of the-

Jeff Immelt

It's a great question Scott, we'll do a good block of flex gas turbine, already underway and already have commitments on it. Again, the way to think about big block is, it's China, but it's the U.S. someday. It's when it replaces coal, is when that comes in. So we'll do a big block flex turbine, that goes along with H's capabilities as well. And I'd say the right market share for us is in about the 45-50% range, that's kind of where we run. There's always big units one way or the other, I think Siemens is more or less in the same neighborhood, maybe a little bit less than us, and I think we may nose them out. I think the two of us go toe to toe in every corner of the world.

I don't have anything negative to say about MHR Austin, other than they're just not as good as we are. We've studied them, we know them, we know what they're doing, we've studied their products, we don't take them for granted, but this is a game of execution, supply chain trust, product performance, all that stuff and that's what gives it a pretty high barrier entry. We do think a little bit in terms of what's the right market share to have, and what countries you want it in and stuff like that.

Scott Davis, Barclays Capital

Just to follow up, Jeff, I think there were several new slides in kind of your competitive positioning in GE Capital, and made some new comments about how you will shrink it over time of course. At what point can you actually start to sell some assets, and what I mean is you had things on the table like private label credit cards before obviously.

Maybe a business we could all argue. It's not ideal in the portfolio. When do see a liquidity window being open enough that you could sell . . .

Jeff Immelt

You know Scott, another great question. I think it's still not yet. Clearly you guys know we've got good experience on multiple cap hold markets, transaction type things. We know how to do an IPO. We know how to do joint ventures with exits. All those are on the table.

Look, I would say there's always a lot of conversation on retail finance. Look, we're going to do what's in the best interest of investors on retail finance. We're going to do it in our control. If it makes sense to keep it, we'll keep it, but if makes sense not to keep it we'll do that too.

We run it well. We've run it very well. It's been better than we thought but it's not one of those things that we don't think strategically about all the time. I think to your point earlier, that markets are still volatile. I think the one thing we've done is, we basically over the last few years since the crisis we told you what we were going to do and we did it.

I think what we don't want to do is start getting out too far in things and things that aren't in our control. I just think that's why. Smaller, more focused, good margins, better liquidity profile, less commercial paper, that's all the stuff we think we want to do in financial services.

Brian Langenberg, Langenberg & Company

Jeff, I want to ask you about your stock and earnings of power. As you point out, you have a very different asset base than you did four, five years ago. 2007 you reported a little bit over $2. We're in a different world. I'm not asking about 2013, but after you put in that $2 billion of cost outs, two things.

First of all tell us how much of that is over and above your [gracing] plans on things you've done. What is your blue sky in what you think the earnings power is today of General Electric with all the assets you have in a good economy. I'm trying to tie that into timing where we could see your dividend get back to $1.24 it used to be.

Jeff Immelt

Look, I think it starts with the industrial assets. I think if you said, I think the company we have Brian, is capable of growing organically at a multiple of GEP. Let's say 5% to 10%. We're in pretty good businesses that are growing.

We've got a good balance exposure to the growth markets. We've got good market shares. We've got investment platforms that could be creative over time, like oil and gas has been. We grow on mining. We could do other things like that.

Then when I sit down and triangulate what kind of margin rates the company should have as time goes on, it's higher than we are today. I think if you guys took the bubble off the table, right. If you look at the late 90's, early 2000's, that was a bubble. Say OK, how do you in a decent market could you be a couple hundred basis points, 100, 200, 250 basis points higher than we are today? Yes, maybe. We ought to be hunting that, given the platforms that we have.

Then you've got some excess cash, so you can buy back stock, and you've got some good cash generation that you can drive the dividend. That's industrial. And then GE Capital is just arithmetic. I think it's [??] investment times ROI. You guys, in my mind, you can model your perfect GE model and say, do the math, and it ought to be this investment size at this ROI and, hopefully you get this kind of cash out of it. But I think we want to run the company to have good organic growth, good reliable organic growth, accreting margins.

Brian Langenberg, Langenberg & Company

There's growth and recovery. They're not the same things. I understand that you're not responsible for predicting the world, but just let's talk about the actual potential earnings power of what you have, and then if you could address that $2 billion. Is that over and above the integration expectations on deals you've done or does it include deals that you've done in the last couple of years?

Jeff Immelt

I would say, Brian, it's basically over and above, but it might include some of the deal integration at the same time. In other words, when I talk about the $2 billion, it's taking the readiness to serve G&A down by yeah, yeah, and then, look, I just can't predict the markets. I just don't know. Look, I read your notes. I read your notes and some guys talk about long cycle, short cycle. I don't know what cycle we're in. I think just the classic definition of what used to comprise cycles in this economic world of... it used to be a cycle would be consumer driven where the fed would raise interest rates or lower rates based on inflation, in the olden days, like five years ago.

Today, it's emerging markets, it's more fiscal than monetary. It's the emerging market consumer, not the U.S. consumer. So it's hard for me to predict broad economies. I'll come back to you, Jeff. Let me go over to Terry. Get the left side here.

Terry Darling, Goldman Sachs

Yes, Jeff, maybe sort of clarification. The single-digit, not double- digit growth in '13 on capital, you're talking about GE Capital net income?

Jeff Immelt

Yes.

Terry Darling, Goldman Sachs

Okay. In terms of shrinkage of the book, what sort of framework might you advise us with there as you think about . . .

Jeff Immelt

Terry, we're going to give you a better perspective on that as the year goes on. I think it's got to be under our control. It'll be orderly. It won't be dramatic unless markets really open up and get a lot better than they are right now. But just steady. Think about it in terms of being steady reduction, much less commercial real estate, and then all the global mortgage stuff and a lot of the other consumer stuff gone as quickly as we can. So steady decline.

Terry Darling, Goldman Sachs

Then just lastly, I hate to drag the conversation down with a pension question, but you've got a pretty significantly underfunded plan relative to peers. It's not really an item on your use of cash . . .

Jeff Immelt

It's included in the bottom bar there, Terry. So, in other words, when I showed what it takes to operate the company, we envision pension as part of that. I think it's in the highly manageable range, and then at some point in this forecast period it actually starts going down again. The funding starts going down. So I view that as being highly manageable. Yes, Jeff.

Jeff Sprague, Vertical Research

Thanks, Jeff. Two questions. First on the capital dividend. Backing into what you did, kind of the notion of the arithmetic, it looks like you're targeting a 10% Tier 1 ratio for year end 2012. I'm just wondering, with the guidance of another $15 to $20 billion to come out, would maybe suggest that you don't think that can go lower? I'm just wondering, do you actually think you can bring that Tier 1 ration down as you actually shrink the book and maybe free up more cash?

Jeff Immelt

You know Jeff, to really answer that is, we just don't know. I think we are where we are for right now. You math is not bad, as you think about it. I think $20 billion ought to be

doable and then depending on where the size is and how much more cash we have, it could be more than that, as time goes down. But that's not a bad way to think about it.

Jeff Sprague, Vertical Research

A second one, maybe a little tougher question. There's a lot of debate on U.S. gas turbines and coal retirements and how that all plays out. And clearly you guys would prefer not to have had Homer City put back to you, but to see you're willing to but $750 million into a 2 gigawatt coal plant, kind of suggests that maybe the notion of all the coal plants going off line doesn't hold, or there's some other reason to make this investment.

Jeff Immelt

Jeff, I think it's a good question. I think that tended to be just about Homer City. I would say don't ask me or Peter Lozier [sp] or people like that., talk to U.S. utilities CEO's. I would urge you guys don't talk to me, talk to them. And if you find one that's going to build a new coal plant, you call me. OK. I'll buy you dinner. I would ask Tom Fanning, and those guys. You'll hear a pretty compelling story on just how profound the conversion is going to be. Now the demand for electricity is still not that great in the U.S. and there's a bunch of other things, but if you guys had 30 utility CEO's here today, you wouldn't be having one conversation, you know, you do what you've got to do to meet the EPA standards, but gas is king right now.

Deane Dray, Citigroup

Thanks Jeff. Going back to GE Capital, a data point that you just gave was interesting, bringing commercial paper down to $25 billion. That's a quarter of where you were at the peak.

Jeff Immelt

When we were AAA.

Deane Dray, Citigroup

Exactly. Just put that in context. How much of that is because of the shrinking book? Are you going to do more term?

Jeff Immelt

I think we're going to do more deposit taking, more alternative funding. In other words, what we want to do is diversify. People love giving us commercial paper. And the rates are low and stuff like that. I just think it's just the right place to be, and I think it fits where the company is right now. So we've got alternative funding that's going to be available to us.

Deane Dray, Citigroup

And just to follow up on the news last week regarding the resumption of the dividend from GE Capital. It was 30% not 45% and you're in a tough spot because GE Capital cannot buy back stock, but you got the go ahead on the special dividend, and there's an expectation there's a lot more to come. Is that 30% capped over the near term? I know the Fed won't say explicitly but it seems like . . .

Jeff Immelt

It's just one of those things that we'll sort out over time. It's just that these things are private. I think our judgment was, in the end, to be in line with the big banks. It's not a bad place to start. I think that with the plus the specials will be good for the stock over time. We will just sort through the rest as time goes on. Great! We will do one more right over here.

Shannon O'Callaghan, Nomura Securities

Yes, thanks, Jeff. I know you want to do shrink of GE capital on your own terms and wait for market conditions to be right and things, but do you have a general timeline in your head when you would like to see GE Capital closer to 30% than north to 40?

Jeff Immelt

You know I don't really. There are just so many things are out of my control on that, that's hard to make predictions. What I will say is that we have a good industrial outlook. You know as we shrink, the returns are still pretty good. And what I would like do to is I'd like that to take care of itself, both by industrial improving and by capital shrinking to hit that right. But it's just hard to predict the exact time period. I think, in general, smaller is better and we will get to the right point as time goes on.

Shannon O'Callaghan, Nomura Securities

But at some point. That's going to take a long time, right? If you are going GE Capitals in high singles, it is going to a long time to redo the mix. And even if you going to sell off some red assets, those things aren't making any money, right. So, you are open to . . .

Jeff Immelt

Definitely, no, definitely. I just think it is the last thing you guys want me to do is announce big dispositions that are out of my control.

Shannon O'Callaghan, Nomura Securities

Right.

Jeff Immelt

In a market that is like the one we are in today, that is not investor friendly. And, so we are going to do it in a smart, clever, investor-friendly way.

Shannon O'Callaghan, Nomura Securities

Got it. Thanks.

Jeff Immelt

Great. Thanks, guys.