

CNBC Squawk Box
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John Krenicki live from Baghdad

<http://www.criticalmention.com/report/2277x50024.htm>

Joe: Here we go. Let's -- we have GE Energy making a major announcement overseas today. The company's signing a power generation deal with the government of Iraq valued at \$3 billion, signing it with the Iraqi Ministry of Electricity in Baghdad. And John Krenicki is the President and CEO of GE Energy, the parent company of CNBC. You were there for the signing ceremony. Tell us about that.

John Krenicki: Joe, right behind me, I'm standing in front of Little Venice here in Baghdad, and I'm just outside Prime Minister Maliki's office. We just signed a contract just about \$3 billion for over 50 heavy-duty gas turbines. They'll double the electricity output of the country. The incremental capacity we're adding here will be about half a dozen San Franciscos. It's needed badly. You know, it's going to make things better here. And it just shows that even in tough times, there's business out there, and GE's, you know, we're on the hunt. We're trying to get all the business we can. And we're proud of what our team's done here in Iraq. And this is the beginning of bigger things for us here.

Joe: It is, as you say, your comments here, it's the backbone for the quality of life in economic growth anywhere, and at this point, it's not there for Iraq. You're talking about, what, daily demand of 10,000, what is that, megawatts? And less than 6,000 is being generated at this point.

John: That's correct. You know, you have blackouts here on a regular basis, but this order we announced today is 7,000 gigawatts, so it's more than a doubling of the capacity. And these units will be capable of burning multiple different types of fuel and be tremendously flexible. And again, the production of these units -- we'll be shipping these units in 2009.

Joe: Did the Iraqi government give you assurances that GE employees -- I mean, it's a service contract as well, installation, all these things. Do you feel confident that GE employees are going to be safe?

John: Yea, and we'll take measures and ensure that our employees will be safe. We've been here before. You know, we've been operating in the country for about 40 years. We have units that will be shipping in the first quarter of this year that's part of an earlier 600-megawatt deal. So, we have a lot of experience dealing with security matters, and we'll make sure that we take the right steps and invest and hire appropriate security forces to make sure we're in good shape here. But we wouldn't be signing this contract if we didn't believe we could run a safe situation in the future.

David McCormick (US Treasury undersecretary for international affairs—guest host): And I think, if I could just add, that this is an example of something that's really taken place in the last 12 months, where the security environment has improved dramatically, the Iraqis have been very focused on improving their investment climate, and you see great companies like GE coming into the market. So, John, congratulations.

John: Well, I appreciate it. And this comes on top of -- we just announced a couple of other record orders over the last two weeks. Our largest reciprocating engine order was in Pakistan, and we just announced over a \$1 billion service contract in Algeria. So, we're proud of what our teams are doing around the world. We're finding business, and we're excited about the future. So, appreciate the opportunity to be on here today.

Joe: John, we're going to hear about the outlook from Jeff Immelt today for General Electric, and I know you see what's written in the press, and that is that, obviously, the problems have been focusing on GE Capital. Now people are worried about infrastructure, and specifically, energy, in that we've got oil down \$100 from its highs and people are trying to estimate cancellations for orders that GE already has. What's your estimate for what we see over the next year or so?

John: You know, I would say the demand for electricity, the demand for water, demand for oil and gas is still growing around the world. We have to deal with the impact of the financial crisis on financing projects, but we've operated in these types of environments before where business has cycled. We typically get down payments in cash and have termination protection, but what we're most focused on right now is the diversity of our portfolio. So, we're operating in Iraq, we're in Algeria, we're in Eastern Europe. So, we have geographic diversity and product diversity. We're in renewables. These products here will be gas turbines. We're in the solar business. So by being so diverse, it allows us to balance our way through what will be inevitable bumps in the road. We're focused on order-by-order, customer-by-customer, and trying to win everything that's out there. So, that's the objective for our team, and that will eventually roll up and show up in better numbers.

Carl: We all understand the benefits of diversifying your markets, though, but when you wake up this morning and you see the China steel output for November was down 13%, you could understand why worries about a slowdown in infrastructure among the big players is what people have on their minds, right?

John: Yep. Well, I think, you know, on one hand, that's a problem for us, because we do business with steel companies. But on the other hand, we're a big consumer of steel. And if you looked at what happened over the last 24 months, there was so much inflation in this sector; projects did not happen because they were too expensive. So, some stabilization, some lower prices in the commodities here may result in some projects going forward that were stopped because they just collapsed under their own weight based on excess hyperinflation. So, again, this is going to play

out over months and years, but we're focused order by order, customer by customer, to win everything we can that's out there. and i think this order we have in iraq today shows that there still is business to win out there. So, we're still pretty excited about the future.

Joe: All right. John, thank you, appreciate it. Congrats. It's interesting news and it's great news, you know, on a lot of different levels. So, we appreciate it. John Krenicki, president and CEO of GE Energy.

John: Thank you very much.

Joe: You're welcome. That's -- what do you need? You need in Iraq? You need electricity, right?

Carl: Infrastructure.

Joe: Infrastructure.

David: You know, the economic side of this in terms of inflation, in terms of budget execution, reserve, accumulation, I mean, the economy really has been a poorly told story. It's been a great story.