

March 12, 2009

Research Update:

General Electric Co. And Units Long-Term Ratings Lowered To 'AA+'; Outlook Stable

Primary Credit Analysts:

Robert Schulz, CFA, New York (1) 212-438-7808; robert_schulz@standardandpoors.com

Scott Sprinzen, New York (1) 212-438-7812; scott_sprinzen@standardandpoors.com

Table Of Contents

Rationale

Outlook

Ratings List

Research Update:

General Electric Co. And Units Long-Term Ratings Lowered To 'AA+'; Outlook Stable

Rationale

On March 12, 2009, Standard & Poor's Ratings Services lowered its long-term ratings on General Electric Co. (GE) and units, including General Electric Capital Corp. (GECC), by one notch to 'AA+' from 'AAA'. We affirmed the 'A-1+' short-term credit ratings. The outlook is stable.

The main factor in the downgrade was our assessment of the stand-alone credit profile of financial services unit GECC, which we now view as 'A', compared to the 'A+' we had indicated before. (We do not assign an outlook to this stand-alone credit profile). We believe that GECC is under increasing earnings pressure, due to recent sharp deterioration in general economic conditions around the globe. This will result, in our opinion, in rising credit losses across key segments of its finance portfolio. This is also causing weakening of the value of its real estate holdings and investment securities.

In addition, we expect some deterioration in earnings and cash flow from GE's industrial businesses during the next two years, given the very difficult global economic outlook. Still, we believe that GE's industrial businesses will generate about \$2 billion in discretionary cash flow (after dividends) in 2009 and a significantly greater amount in 2010, aided by the 68% reduction in the common dividend that the company recently announced.

The ratings on GE continue to reflect our view of its excellent business risk profile, its significant cash flow and liquidity, its strong corporate governance, and management's commitment to maintaining very high credit quality. In our view, the company has a track record of managing its businesses (including its financial services unit GECC) in a variety of difficult markets, and a demonstrated ability to earn solid profits from these businesses and generate substantial cash, even in very tough economic conditions.

GE has been proactive in the face of negative economic and capital market conditions that we expect to persist into 2010. In light of the turmoil sweeping the global financial services sector, Standard & Poor's Ratings Services continues to monitor closely any effect on GECC's funding. We will continue to monitor the balance between liquidity and capital resources at GECC and at the parent.

Despite current U.S. and developing international economic weakness, we expect GE's broad business and geographic diversity to allow for continued generous cash flow alongside a strong financial risk profile and maintenance of adequate capital at GECC. After having contributed \$15 billion of equity into GECC, we expect that the company will end 2009 with at least \$5 billion of cash at the industrial parent, having benefited during the second half of 2009 from the planned 68% reduction in the common dividend.

GE has strong leadership positions across its global business platforms.

In our view, GE's diversity is unparalleled, customer concentration is negligible, sales are geographically dispersed, and its end markets run the gamut of economic activity. Still, its operations are exposed to varying degrees of cyclicalities, correlation, and price pressures, which were clearly evident in 2008 and will remain so in 2009. Certain segments—notably portions of GECC and some industrial segments (appliances and lighting; parts of NBCU) are suffering because of weak economic conditions in a variety of end markets, including the consumer market. Some key segments, such as the energy business, are benefiting from underlying global economic fundamentals and we believe they will increase their earnings in 2009. We believe the company is well positioned against the broader global slowdown—the backlog is diverse, and advance payments of 70% or more are collected on large equipment orders. Still, we expect that industrial revenues will decline in the mid-single-digit range this year. We also believe that margin erosion will be mitigated by cost reduction and operational efficiency actions.

We expect the large amount of high-margin service and aftermarket sales provides significant earnings support throughout the business cycle. The company reports that very profitable customer service agreement backlog was about \$120 billion at the end of 2008. We expect this backlog will generate about \$38 billion of revenue—at 25% or better margins—in 2009.

GE's business strategy traditionally has included both bolt-on and strategic acquisitions, as well as divestitures; but we expect acquisition activity to be light for the next year in light of the current economic weakness and uncertainty. We view the substantial shifts in its portfolio of industrial and financial businesses in recent years as having eliminated many risky or vulnerable operations. But we do not believe GE is likely to complete certain other divestitures in the near term, such as Consumer and Industrial or private-label credit cards, given the economic outlook for 2009.

We view as somewhat ambitious GE management's expectation that 2009 industrial segment profit (excluding Consumer and Industrial) will be flat to up 5%, with results in Consumer and Industrial down sharply, albeit still profitable. We view the strength of the industrial businesses as broadly intact but under pressure during 2009 and 2010 because of the weak global economic outlook.

In 2008, GE reported industrial cash from operating activities of \$16.7 billion, higher than 2007 levels. In 2009, we expect industrial cash flow to decline, but to be at least \$14 billion, and we expect that discretionary cash flow will be at least \$2 billion in 2009. GE has reduced the dividend for the second half of 2009, and this will save around \$13 billion by the end of 2010. Despite sharp declines in the common stock price, we do not expect GE will undertake share repurchases. We expect strong internal cash flow to keep GE's industrial debt at least flat during 2009 and 2010. Total funds from operations (FFO) to adjusted debt in our analysis declined for 2008 to 58% from over 100% recently as a sharp swing to a \$7 billion global underfunded pension position resulted in an increase under our adjustments to debt-like postretirement obligations of \$11 billion at the end of 2008. We would view a portion of higher retained balances at the industrial parent as a partial offset to GE's now net underfunded postretirement obligations, but would expect GE to eventually take actions to improve underfunding.

While GE's management had previously given guidance of full-year 2009 net

income at GECC of \$5 billion, we now believe, based on our analysis, that the financial services unit's results will be considerably weaker: indeed, there is the potential for a modest net loss, even after substantial tax credits. Moreover, we believe that GECC's subpar financial performance could well continue through 2010. In our view, there are mitigants to the adverse affect on GECC's credit profile, including its efforts to reduce its dependence on confidence-sensitive short-term funding in the form of commercial paper and improve back-up of commercial paper by building excess liquidity and maintaining substantial committed credit facilities. GECC is also effecting a significant reduction in financial leverage, helped by reduced loan originations, a reduction in dividends paid to GE, and an equity infusion from GE to GE Capital totaling \$15 billion (including \$9.5 billion to be completed by the end of the current quarter). In addition, in our view the shrinkage in GECC's asset base has reduced long-term funding requirements, and notwithstanding volatile capital markets conditions, GECC has indicated that it already funded the bulk of its requirements for 2009, including through debt issuance under the FDIC's Temporary Liquidity Guarantee Program. (Such FDIC-guaranteed issues remain 'AAA' and are not being downgraded.) We assume that GECC will maintain its more conservative funding and leverage posture, even as market conditions improve.

Liquidity

GE has substantial liquidity. We expect cash and equivalents should be at least \$5 billion at year-end 2009, after contributing \$15 billion in equity to GE Capital since late 2008. The company raised \$15 billion in common and preferred equity in late 2008. Our expectation is for about \$1.5 billion for daily operating needs in the industrial businesses. We expect cash flow to be lower in 2009, but the large dividend reduction will result in greater certainty about discretionary cash flow, which we expect will be at least \$2 billion in 2009. GE also has committed bank facilities totaling about \$13 billion (\$58 billion in total including GE Capital).

Both GE and GECC have a large number of units we believe they could sell, but we do not currently place significant emphasis on this potential source of liquidity in light of current market conditions. We do not expect GE to need to make any substantial cash pension contributions in 2009. GECC has lowered its reliance on commercial paper as a percentage of total debt meaningfully below previous levels. Still, given GECC's still-large balance sheet relative to GE's, we believe there are limits to the financial support GE could provide to GECC, especially in a short period.

Outlook

The outlook is stable. We believe that GE's cash generation capabilities remain fundamentally strong--even in the face of enormous global economic headwinds--and that it will generate growing cash balances from current levels over the next two years. We do not anticipate that GE will benefit from any meaningful earnings or cash flow from GECC through 2010.

We expect GE's commitment to maintaining very high credit quality, the

still-solid prospects for many of its business segments (despite economic weakness), and the company's ample financial flexibility should continue to support the ratings at the current level and the stable outlook.

However, we could reexamine our outlook if, for example, we came to believe that GE would fail to generate discretionary free cash flow (after dividends) of around \$2 billion in 2009 and significantly more in 2010 and retain a very substantial portion of this cash--we would view a portion of this cash as available to support GECC. In light of the recent sharp reduction in the dividend, we expect this would likely require net earnings below \$9 billion in 2009, which we believe could occur if revenues fell more than 5%, if industrial gross margins fell 100 basis points or more, and GE had little success in managing working capital in 2009.

We would also expect to review the outlook or rating if we came to expect that GECC would report significant losses for an extended period of time, if the company shifted its financial policies, or if strategic shifts in GE's portfolio of businesses were to jeopardize our view of the company's excellent business risk profile.

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed	To	From
General Electric Co.		
Corporate Credit Rating	AA+/Stable/A-1+	AAA/Negative/A-1+
Senior Unsecured	AA+	AAA
General Electric Capital Corp.		
Senior Secured	AA+	AAA
Senior Unsecured	AA+	AAA
Subordinated	AA	AAA
Subordinated	AA+	AAA
Junior Subordinated	A+	AA-
Preferred Stock	A+	AA-
General Electric Capital Corp.		
Counterparty Credit Rating	AA+/Stable/A-1+	AAA/Negative/A-1+
Ratings Affirmed		
General Electric Capital Corp.		
Commercial Paper	A-1+	
General Electric Co.		
Commercial Paper	A-1+	
General Electric Capital Corp.		
Senior Unsecured*	AAA	
Commercial Paper	A-1+	

*FDIC guaranteed.

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: research_request@standardandpoors.com.