GENERAL ELECTRIC CO
Form 10-Q
November 02, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file number 001-00035
GENERAL ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | 14-0689340 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3135 Easton Turnpike, Fairfield, CT | 06828-0001 |
| (Address of principal executive offices) | (Zip Code) |

(Registrant's telephone number, including area code) (203) 373-2211

______________________________________________
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 10,109,239,000 shares of common stock with a par value of $0.06 per share outstanding at September 30, 2015.

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FORWARD LOOKING STATEMENTS

This document contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target."

Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about our announced plan to reduce the size of our financial services businesses, including expected cash and non-cash charges associated with this plan; expected income; earnings per share; revenues; organic growth; margins; cost structure; restructuring charges; cash flows; return on capital; capital expenditures, capital allocation or capital structure; dividends; and the split between Industrial and GE Capital earnings.

For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

obtaining (or the timing of obtaining) any required regulatory reviews or approvals or any other consents or approvals associated with our announced plan to reduce the size of our financial services businesses;
our ability to complete incremental asset sales as part of that plan in a timely manner (or at all) and at the prices we have assumed;
changes in law, economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets, including the impact of these conditions on our ability to sell or the value of incremental assets to be sold as part of our announced plan to reduce the size of our financial services businesses as well as other aspects of that plan;
the impact of conditions in the financial and credit markets on the availability and cost of GECC's funding, and GECC's exposure to counterparties;
the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults;
pending and future mortgage loan repurchase claims and other litigation claims in connection with WMC, which may affect our estimates of liability, including possible loss estimates;
our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so;
the adequacy of our cash flows and earnings and other conditions, which may affect our ability to pay our quarterly dividend at the planned level or to repurchase shares at planned levels;
GECC's ability to pay dividends to GE at the planned level, which may be affected by GECC's cash flows and earnings, financial services regulation and oversight, and other factors;
our ability to convert pre-order commitments/wins into orders;
the price we realize on orders since commitments/wins are stated at list prices;
customer actions or developments such as early aircraft retirements or reduced energy demand and other factors that may affect the level of demand and financial performance of the major industries and customers we serve;
the effectiveness of our risk management framework;
the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation and litigation;
adverse market conditions, timing of and ability to obtain required bank regulatory approvals, or other factors relating to us or Synchrony Financial that could prevent us from completing the Synchrony Financial split-off as planned;
our capital allocation plans, as such plans may change including with respect to the timing and size of share repurchases, acquisitions, joint ventures, dispositions and other strategic actions;
our success in completing, including obtaining regulatory approvals for, announced transactions, such as the proposed transactions and alliances with Alstom and Appliances and our announced plan and transactions to reduce the size of our financial services businesses, and our ability to realize anticipated earnings and savings;
our success in integrating acquired businesses and operating joint ventures;

the impact of potential information technology or data security breaches; and
the other factors that are described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements. This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

## HOW WE TALK ABOUT OUR RESULTS

We believe that investors will gain a better understanding of our company if they understand how we measure and talk about our results. Because of the diversity in our businesses, we present our financial statements in a three- column format, which allows investors to see our industrial operations separately from our financial services operations. We believe that this provides useful information to investors. When used in this report, unless otherwise indicated by the context, we use the terms to mean the following:

General Electric or the Company - the parent company, General Electric Company.
GE - the adding together of all affiliates other than General Electric Capital Corporation (GECC), whose continuing operations are presented on a one-line basis, giving effect to the elimination of transactions among such affiliates. Transactions between GE and GECC have not been eliminated at the GE level. We present the results of GE in the center columns of our consolidated statements of earnings, financial position and cash flows. An example of a GE metric is GE cash from operating activities (GE CFOA).
General Electric Capital Corporation or GECC or Financial Services – the adding together of all affiliates of GECC, giving effect to the elimination of transactions among such affiliates. We present the results of GECC in the right-side columns of our consolidated statements of earnings, financial position and cash flows. It should be noted that GECC is sometimes referred to as GE Capital or Capital, when not in the context of discussing segment results.
GE consolidated – the adding together of GE and GECC, giving effect to the elimination of transactions between GE and GECC. We present the results of GE consolidated in the left side columns of our consolidated statements of earnings, financial position and cash flows.
Industrial – GE excluding GECC. We believe that this provides investors with a view as to the results of our industrial businesses and corporate items. An example of an Industrial metric is Industrial CFOA, which is GE CFOA excluding the effects of dividends from GECC.
Industrial segment – the sum of our seven industrial reporting segments without giving effect to the elimination of transactions among such segments. We believe that this provides investors with a view as to the results of our industrial segments, without inter-segment eliminations and corporate items. An example of an industrial segment metric is industrial segment revenue growth.
Total segment – the sum of our seven industrial reporting segments and one financial services reporting segment, without giving effect to the elimination of transactions among such segments. We believe that this provides investors with a view as to the results of all of our segments, without inter-segment eliminations and corporate items.
GE Capital Verticals or Verticals – the adding together of GE Capital businesses that we expect to retain, principally its vertical financing businesses—GE Capital Aviation Services (GECAS), Energy Financial Services (EFS) and Healthcare Equipment Finance—that directly relate to the Company's core industrial domain and other operations, including Working Capital Solutions, our run-off insurance activities, and allocated corporate costs.

## OTHER TERMS USED BY GE

Revenues – unless otherwise indicated, we refer to captions such as "revenues and other income", simply as revenues.
Organic revenues – revenues excluding the effects of acquisitions, dispositions and foreign currency exchange.
Industrial segment services revenues – refers to the sales under product services agreements and sales of both goods (such as spare parts and equipment upgrades) and related services (such as monitoring, maintenance and repairs) as sales of "product services" or "services," which is an important part of our operations.
Earnings – unless otherwise indicated, we refer to captions such as "earnings from continuing operations attributable to the company" simply as earnings.
Earnings per share (EPS) – unless otherwise indicated, we refer to "earnings per share from continuing operations attributable to the company" simply as earnings per share.
Operating earnings – GE earnings from continuing operations attributable to the company excluding the impact of non-operating pension costs.
Segment profit – refers to the operating profit of the industrial segments and the net earnings of the financial services segment. See page 14 for a description of the basis for segment profits.
Operating pension costs – comprise the service cost of benefits earned, prior service cost amortization and curtailment loss for our principal pension plans.
Non-operating pension costs – comprise the expected return on plan assets, interest cost on benefit obligations and net actuarial loss amortization for our principal pension plans.

## NON-GAAP FINANCIAL MEASURES

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the SEC rules. Specifically, we have referred, in various sections of this Form 10-Q Report, to:

Operating earnings (loss) and operating EPS
GE Industrial operating + Verticals EPS
Operating and non-operating pension costs
Industrial segment organic revenue growth
Oil & Gas organic revenue and operating profit growth
Industrial cash flows from operating activities (Industrial CFOA)
Adjusted Corporate Costs (Operating)
GE Capital ending net investment (ENI), excluding liquidity
GECC Tier 1 common ratio estimate

The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are included in Exhibit 99(a) to this Form 10-Q Report. Non-GAAP financial measures referred to in this Form 10-Q Report are designated with an asterisk (*).

OUR OPERATING SEGMENTS

We are one of the largest and most diversified infrastructure and financial services corporations in the world. With products and services ranging from aircraft engines, power generation, oil and gas production equipment, and household appliances to medical imaging, business and consumer financing and industrial products.

OUR INDUSTRIAL OPERATING SEGMENTS

| | | |
|---|---|---|
| Power & Water | Aviation | Transportation |
| Oil & Gas | Healthcare | Appliances & Lighting |
| Energy Management | | |

OUR FINANCIAL SERVICES OPERATING SEGMENT

GE Capital

Operational and financial overview for our operating segment are provided in the "Segment Operations" section within this MD&A.

THE GE CAPITAL EXIT PLAN

On April 10, 2015, the Company announced its plan (the GE Capital Exit Plan) to reduce the size of its financial services businesses through the sale of most of the assets of GECC over the following 24 months, and to focus on continued investment and growth in the Company's industrial businesses. Under the GE Capital Exit Plan, which was approved on April 2, 2015 and aspects of which were approved on March 31, 2015, the Company will retain certain GECC businesses, principally its vertical financing businesses—GE Capital Aviation Services, Energy Financial Services and Healthcare Equipment Finance—that directly relate to the Company's core industrial domain and other operations, including Working Capital Solutions and our run-off insurance activities (together referred to as GE Capital Verticals or Verticals). The assets planned for disposition include Real Estate, most of Commercial Lending and Leasing (CLL) and all Consumer platforms (including all U.S. banking assets). The Company expects to execute this strategy using an efficient approach for exiting non-vertical assets that works for the Company's and GECC's debt holders and the Company's shareowners. An element of this approach involves a merger of GECC into the Company to assure compliance with debt covenants as GECC exits non-vertical assets, and the creation of a new intermediate holding company to hold GECC's businesses after the merger. The Company has discussed the GE Capital Exit Plan, aspects of which are subject to regulatory review and approval, with its regulators and staff of the Financial Stability Oversight Council (FSOC) and will work closely with these bodies to take the actions necessary over time to terminate the FSOC's designation of GECC (and the new intermediate holding company, as applicable) as a nonbank systemically important financial institution (nonbank SIFI).

REORGANIZATION AND EXCHANGE OFFERS

The merger and creation of a new intermediate holding company is part of a reorganization of GECC's businesses (the Reorganization) pursuant to which GE will also separate GECC's international and U.S. operations. GECC's international operations will be consolidated under a new international holding company (GE Capital International Holdings) and will have a separate capital structure and be supervised by the U.K. Prudential Regulation Authority. The Reorganization, Exchange Offers (as described below) and establishment of GE Capital International Holdings are intended, among other things, to establish an efficient and simplified capital structure that is satisfactory to GECC's regulators, a key step in terminating the nonbank systemically important financial institution designation for GECC. In addition, the Exchange Offers were designed to align the liabilities of GE Capital International Holdings to its assets from a maturity profile and liquidity standpoint, taking into consideration asset sales, and where appropriate, shortening the maturity profile of targeted liabilities.

As part of the GE Capital Exit Plan, on September 21, 2015 GE Capital commenced private offers to exchange (the Exchange Offers) up to $30 billion of certain outstanding debt for new notes with maturities of six months, five years, ten years or twenty years. On October 19, 2015, given the high level of participation, the offering was increased by $6 billion with the aggregate principal amount of $36 billion of outstanding notes being tendered for exchange and settled on October 26, 2015. The new notes that were issued at closing are composed of $15.3 billion of 0.964% Six Month Notes due 2016, £0.8 billion of 1.363% Six Month Notes due 2016, $6.1 billion of 2.342% Notes due 2020, $2.0 billion of 3.373% Notes due 2025 and $11.5 billion of 4.418% Notes due 2035. Of the $16.2 billion exchanged into the Six Month Notes, $1.3 billion is in short term borrowings at September 30, 2015. GECC will continue to evaluate the opportunity to repurchase debt while maintaining our liquidity at the levels communicated as part of the GE Capital Exit Plan. The new notes have been fully, irrevocably and unconditionally guaranteed by GE.

SALES AGREEMENTS

During the first nine months of 2015, GE signed agreements to sell approximately $94 billion of ENI, excluding liquidity (as originally reported at December 31, 2014), of which approximately $45 billion and $33 billion related to the CLL and Real Estate businesses, respectively. CLL transactions signed in the third quarter 2015 included approximately $9.3 billion related to its Healthcare Financial Services U.S. lending business with Capital One, approximately $7.6 billion related to its Transportation Finance business in the U.S. and Canada with BMO Financial Group, and approximately $1.8 billion related to its Mubadala joint venture with MidCap Finco. Ltd., which is managed by Apollo Capital Management. Of the signed agreements, approximately $60 billion have closed, including approximately $30 billion and $21 billion related to Real Estate and CLL, respectively. The Real Estate transactions that have closed included the majority of GECC's Real Estate debt and equity portfolio sold to funds managed by The Blackstone Group (which, in turn, sold a portion of this portfolio to Wells Fargo & Company). In connection with The Blackstone Group transactions, GECC provided $3.2 billion of seller financing to The Blackstone Group, which GECC intends to syndicate by 2016. As of September 30, 2015, GECC has collected or sold approximately $0.4 billion of this seller financing. The CLL transactions that have closed included its U.S. and European Sponsor Finance businesses and the majority of its Global Fleet services business.

In addition, during October 2015, we signed agreements to sell approximately $32 billion of ENI, excluding liquidity (as originally reported at December 31, 2014) related to our CLL business. These signed CLL transactions included approximately $30 billion related to our global Commercial Distribution Finance, North American Vendor Finance and North American Corporate Finance businesses with Wells Fargo & Company and approximately $2 billion related to our Corporate Aircraft portfolio with Global Jet Capital.

AFTER-TAX CHARGES RELATED TO THE GE CAPITAL EXIT PLAN

In connection with the GE Capital Exit Plan announced on April 10, the Company estimated that it would incur approximately $23 billion in after-tax charges through 2016, approximately $6 billion of which are expected to result in future net cash expenditures. These charges relate to: business dispositions, including goodwill allocations (approximately $13 billion), tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets (approximately $7 billion), and restructuring and other charges (approximately $3 billion).

In the nine months ended September 30, 2015, GE recorded $21.1 billion of after-tax charges related to the GE Capital Exit Plan, including $0.4 billion of after-tax charges recorded in the third quarter of 2015, primarily exit-related charges in our CLL business, partially offset by income associated with operations in CLL and Real Estate. A description of after-tax charges for the nine months ended September 30, 2015 is provided below.

$9.8 billion of net loss primarily related to the planned disposition of the Real Estate business and most of the CLL business, which is recorded in discontinued operations under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

$6.2 billion of tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets, of which $6.1 billion is reported in GECC's Corporate component and $0.2 billion is reported in our Consumer business all recorded in continuing operations under the caption "Benefit (provision) for income taxes" in the Statement of Earnings.

$4.7 billion of net asset impairments due to shortened hold periods, of which $3.2 billion is recorded in continuing operations in our Consumer business primarily under the captions "Provisions for losses on financing receivables" and "Revenues from services" in the Statement of Earnings and $1.5 billion is recorded in discontinued operations in our CLL business under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

$0.4 billion of restructuring and other charges, of which $0.3 billion is recorded in continuing operations in GECC's Corporate component under the caption "Other costs and expenses" in the Statement of Earnings and $0.1 billion is recorded in discontinued operations in our CLL business under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

GUARANTEE

As part of the GE Capital Exit Plan, on April 10, 2015, the Company and GECC entered into an amendment to their existing financial support agreement. Under this amendment (the Amendment), the Company has provided a full and unconditional guarantee (the Guarantee) of the payment of principal and interest on all tradable senior and subordinated outstanding long-term debt securities and all commercial paper issued or guaranteed by GECC identified in the Amendment. In the aggregate, the Guarantee applied to approximately $184 billion of GECC debt as of September 30, 2015. The Guarantee replaced the requirement that the Company make certain income maintenance payments to GECC in certain circumstances. GECC's U.S. public indentures were concurrently amended to provide the full and unconditional guarantee by the Company set forth in the Guarantee.

SYNCHRONY FINANCIAL EXCHANGE OFFER

On October 14, 2015, the Federal Reserve Board approved Synchrony Financial's application to operate as a publicly owned savings and loan holding company following completion of the exchange offer, conditioned on Synchrony Financial complying with certain conditions, including receipt of all required regulatory approvals, and on the commitments made in connection with Synchrony Financial's applications.

On October 19, 2015, GE commenced an offer to exchange GE common stock for common stock of GECC's approximately 84.6% owned subsidiary, Synchrony Financial. This exchange offer is in connection with the previously announced separation of Synchrony Financial and is expected to conclude the week of November 16, 2015. We estimate that the exchange will reduce the outstanding shares of GE common stock by approximately 6-7%. Following the completion of the share exchange, GECC expects the Federal Reserve Board to act in due course on its application to deregister as a savings and loan holding company but cannot predict the timing of the Federal Reserve Board's action. For further information about the Synchrony Financial transaction, see the Form S-4 filed by Synchrony Financial on October 19, 2015.

PRESENTATION

The consolidated financial statements of General Electric Company (the Company) combine the industrial manufacturing and services businesses of General Electric Company (GE) with the financial services businesses of General Electric Capital Corporation (GECC or financial services).

We integrate acquisitions as quickly as possible. Revenues and earnings from the date we complete the acquisition through the end of the following fourth quarter are considered the acquisition effect of such businesses.

Amounts reported in billions in graphs within this Form 10-Q report are computed based on the amounts in millions. As a result, the sum of the components reported in billions may not equal the total amount reported in billions due to rounding.  Certain columns and rows within the tables may not add due to the use of rounded numbers. Percentages presented are calculated from the underlying numbers in millions.

Discussions throughout this MD&A are based on continuing operations unless otherwise noted.

REFERENCES

The MD&A should be read in conjunction with the Financial Statements and Notes to the consolidated financial statements.

For additional information related to the GE Capital Exit Plan, GE Capital segment operations and the credit quality of financing receivables, refer to the General Electric Capital Corporation quarterly report on Form 10-Q for the nine months ended September 30, 2015.

CORPORATE INFORMATION

GE's Investor Relations website at www.ge.com/investor-relations and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts, including @GE_Reports, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

KEY PERFORMANCE INDICATORS

(Dollars in billions; per-share amounts in dollars)

REVENUES PERFORMANCE

| | 3Q 2015 | YTD 2015 |
|---|---|---|
| Industrial Segment | (1)% | (1)% |
| Industrial Segment Organic* | 4% | 4% |
| Financial Services | (1)% | (9)% |

INDUSTRIAL SEGMENT PROFIT

INDUSTRIAL SEGMENT MARGIN

EARNINGS PER SHARE

Earnings Operating Earnings*

INDUSTRIAL ORDERS

Equipment

Services

INDUSTRIAL BACKLOG

Equipment

Services

(a) Prior period reflects an update for Oil & Gas services backlog.

IND'L OPERATING + VERTICALS EPS*

Verticals include businesses expected to be retained (GECAS, EFS, Healthcare Equipment Finance, Working Capital Solutions, and run-off insurance), including allocated corporate costs.

GE CFOA

GECC Dividend

Industrial CFOA*

*Non-GAAP Financial Measure

SIGNIFICANT DEVELOPMENTS IN 2015

On October 19, 2015, we launched the Synchrony Financial share exchange, after the Federal Reserve Board approved Synchrony Financial's application to operate as a publicly owned savings and loan holding company.
At September 30, 2015, we had an agreement to sell our consumer finance business in Australia and New Zealand for approximately 6.0 billion Australian dollars and 1.4 billion New Zealand dollars, respectively.
We announced the GE Capital Exit Plan in April 2015 and GECC's Real Estate business and most of the CLL business have been classified as discontinued operations.
We acquired Milestone Aviation Group, a helicopter leasing business, for approximately $1.8 billion on January 30, 2015.
The effects of the stronger U.S. dollar in the nine months ended September 30, 2015, primarily related to the euro, decreased consolidated revenues by $3.9 billion.
GE returned $7.2 billion to shareowners in the nine months ended September 30, 2015 primarily through dividends.

CONSOLIDATED RESULTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30
(Dollars in billions)

REVENUES

INDUSTRIAL SEGMENT EQUIPMENT & SERVICES REVENUES

Equipment

Services

COMMENTARY: 2015 - 2014

THREE MONTHS ENDED

Consolidated revenues decreased $0.4 billion, or (1)%.

Industrial segment revenues decreased 1%, reflecting the unfavorable impact of foreign exchange of $1.2 billion. Industrial segment organic revenues* grew 4%.

Financial Services revenues decreased 1% as a result of higher impairments and the effects of currency exchange, partially offset by higher gains and the effects of acquisitions.

The effects of acquisitions increased consolidated revenues $0.1 billion and $0.3 billion in 2015 and 2014, respectively. The effects of dispositions decreased consolidated revenues $0.1 billion and $0.6 billion in 2015 and 2014, respectively.

NINE MONTHS ENDED

Consolidated revenues decreased $1.9 billion, or (2)%, primarily due to the impact of foreign exchange of $3.9 billion.

Industrial segment revenues decreased 1%, reflecting the unfavorable impact of foreign exchange of $3.5 billion. Industrial segment organic revenues* grew 4%.

Financial Services

revenues decreased 9% primarily due to the effects of the GE Capital Exit Plan.

The effects of acquisitions increased consolidated revenues $0.5 billion and $1.5 billion in 2015 and 2014, respectively. Dispositions affected our ongoing results through lower revenues of $0.4 billion and $3.0 billion in 2015 and 2014, respectively.

*Non-GAAP Financial Measure

THREE AND NINE MONTHS ENDED SEPTEMBER 30
(Dollars in billions)

EARNINGS (LOSS)

Earnings Operating Earnings*

INDUSTRIAL SELLING, GENERAL & ADMINISTRATIVE (SG&A) AS A % OF SALES

COMMENTARY: 2015 - 2014

THREE MONTHS ENDED

Consolidated earnings increased 1% primarily due to:

Industrial segment profit increased 5% with five of seven segments growing earnings.

Industrial segment margin increased 100 basis points (bps) driven by higher productivity and volume, partially offset by the impact of the stronger U.S. dollar.

Financial Services earnings decreased 13% primarily due to core decreases, including charges associated with the GE Capital Exit Plan and higher impairments, partially offset by higher gains, the effects of dispositions and lower provisions for losses on financing receivables.

The effects of acquisitions on our consolidated net earnings were insignificant amounts for both 2015 and 2014, respectively. The effects of dispositions on net earnings and settlements were an insignificant amount in 2015 and a decrease of $0.1 billion in 2014.

Industrial SG&A as a percentage of total sales decreased to 13.9% primarily as a result of favorable impacts of global cost reduction initiatives and lower restructuring costs, partially offset by higher non-operating pension costs.

NINE MONTHS ENDED

Consolidated earnings decreased $10.1 billion primarily due to lower financial services income resulting from charges associated with the GE Capital Exit Plan of $9.7 billion, which consisted primarily of tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets and asset impairments due to shortened hold periods.

Industrial segment profit increased 6% with five of seven segments growing earnings.

Industrial segment margin increased 100 bps driven by higher productivity, volume and pricing, partially offset by the impact of the stronger U.S. dollar, the effects of inflation and negative business mix.

Financial Services earnings decreased significantly primarily due to charges associated with the GE Capital Exit Plan.

The effects of acquisitions on our consolidated net earnings were increases of $0.1 billion in 2015 and $0.2 billion in 2014. The effects of dispositions and settlements on net earnings were an increase of $0.3 billion in 2015 and a decrease of $1.5 billion in 2014.

Industrial SG&A as a percentage of total sales decreased to 14.6% primarily as a result of favorable impacts of global cost reduction initiatives, partially offset by higher non-operating pension costs and restructuring costs.

See the "Other Consolidated Information" section within the MD&A of this Form 10-Q for a discussion of income taxes.

*Non-GAAP Financial Measure

SEGMENT OPERATIONS

SEGMENT REVENUES AND PROFIT

Segment revenues include revenues and other income related to the segment.

Segment profit is determined based on internal performance measures used by the Chief Executive Officer (CEO) to assess the performance of each business in a given period. In connection with that assessment, the CEO may exclude matters such as charges for restructuring; rationalization and other similar expenses; acquisition costs and other related charges; technology and product development costs; certain gains and losses from acquisitions or dispositions; and litigation settlements or other charges, for which responsibility preceded the current management team.

Segment profit excludes results reported as discontinued operations and accounting changes. Segment profit also excludes the portion of earnings or loss attributable to noncontrolling interests of consolidated subsidiaries, and as such only includes the portion of earnings or loss attributable to our share of the consolidated earnings or loss of consolidated subsidiaries.

Segment profit excludes or includes interest and other financial charges and income taxes according to how a particular segment's management is measured: