



Conference Call Transcript

GE - Q4 2009 General Electric Earnings Webcast

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PRESENTATION

Operator

Good today, ladies and gentlemen, and welcome to the General Electric fourth-quarter 2009 earnings conference call. At this time, all participants are in a listen-only mode. My name is Noelia and I will be your conference coordinator today. (Operator Instructions). As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Trevor Schauenberg, Vice President of Investor Communications. Please proceed.

Trevor Schauenberg - General Electric Company - VP of IR

Thank you, Noelia. Good morning and welcome, everyone. We are pleased to host today's webcast. Regarding the materials for this webcast, we issued the press release earlier this morning and the presentation slides are available via the webcast. Slides are also available for downloading and printing on our website at www.GE.com/investor. We'll have time for Q&A at the end.

As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Those elements can change as the world changes. Please interpret them in that light.

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For today's webcast we have our Chairman and CEO, Jeff Immelt, and our Vice-Chairman and CFO, Keith Sherin. Now I would like to turn over to our Chairman and CEO, Jeff Immelt.

Jeff Immelt - General Electric Company - Chairman and CEO

Great, Trevor. Thanks and good morning, everyone. On the first page, which is the overview page, I would make just a couple points that will tee up our presentation for the quarter.

First, the GE environment has improved. We've seen orders strengthening, service orders grew by 14%. Our delinquencies have stabilized, non earnings are down so the world we look at really has improved and we're looking forward now into 2010.

The GE business model has performed in the fourth quarter. The things we've talked about in the past in terms of how we are running the Company I think really did achieve and perform on plan in the fourth quarter. Services grew nicely. Our margins and cash flow performance were very strong. We won a lot of the big global orders and the capital finance metrics are either at plan or better than plan as we end of the year.

The 2010 framework we talked about in December is achievable and balanced we think. The outlook for Capital Finance is improving. We've got high visibility in our backlog and margins and again our service revenue is very strong. We've done a substantial amount of restructuring over the past few years and a lot of those benefits will carry over into 2010 and beyond. So we think that really gives us a real sense that the 2010 framework is very solid.

We are positioned for growth in 2011 and beyond. We think that losses in Capital Finance will stabilize in 2010 and start to decline. The infrastructure visibility again is very high and by the end of 2010 and during the year, we should have \$25 billion of cash at the GE parent that we can use to keep the Company safe and secure and also have ample opportunities to create shareholder value.

And we've just taken a lot of strong actions to position the Company for the future. The portfolio is simpler and stronger. Our R&D investments increased in 2009 so we have lots of new products. We are very well positioned globally, so I think we accomplished a lot in the quarter and feel pretty good about how we finished the year.

On the next page, just some results versus the December outlook meeting. I'm not going to go through all of these but on the left-hand side, here are some of the key things we talked about in December versus how we finished and we are at or above plan -- or at or above outlook on virtually all the metrics. There are some encouraging signs, orders strengthening, service is very strong. We are able to do more restructuring in the fourth quarter than we originally thought. Cash and margin levels at near -- margin performance at near record levels, losses stabilizing, and high margins on new lending, and there's still some cautious areas.

We're still very cautious about commercial real estate and there is excess capacity, high unemployment, so we are cautious about certain areas, but as we finished the year, we did see some encouraging signs.

Now, there are four areas of execution that we have talked about as we went through 2009 in a very difficult economy and I want to recap each one of those. The first one is the focus on keeping GE Capital safe and secure and really we are ahead of plan on virtually all the metrics that we've talked about. We are fully funded for 2010 and we've done \$4.4 billion of funding in 2011 at attractive spreads. So we feel great about our funding performance.

Our commercial paper is below \$50 billion. We are again ahead of plan there. Our leverage reduced in the quarter and again ahead of plan there. Our common -- tier 1 common ratio continues to improve. We have lots of GECS equity. We are very strong and getting stronger in terms of balance sheet strength and our ending net investment is ahead of plan at \$472 billion. So really strong execution by the GE Capital team.

From an orders standpoint and the slow economy, very important to get the orders that are out there. We saw a good bump quarter over quarter, a \$3.7 billion improvement quarter over quarter. Our total orders were only down 3% versus the fourth quarter of last year, which was still a pretty good quarter for the Company.

From an equipment standpoint, we are seeing a pretty good bounce back as we went through 2009 and we think equipment orders should be positive for the year of 2010 versus 2009. Services were very strong. I mean, a 14% service fee was as good as any quarterly service fee we had even pre-crisis, so we feel great about how our services are positioned.

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Our backlog is at record levels. A lot of that is driven by service, but again at or ahead of plan. And we won a lot of the big deals. Our Oil & Gas business won a lot of the big global deals in Australia. Healthcare, we really saw good strength across all geographies. About 60% of our orders are global. It's a very diverse global framework. Subiya from Kuwait, Australia, India, you really go across the board and we saw pretty good order strength in the fourth quarter. We are increasing our backlog going into 2009 -- going into 2010.

The third area of execution was on margins and what we did here is we broke out our Infrastructure and Consumer & Industrial margins and then total Industrial, which includes NBCU. We did that really for two reasons. One is that our focus going forward is going to be Infrastructure and C&I with the Comcast -- announced Comcast deal. And the second one is just the Olympics tend to distort what we are doing. And I think what you see here is very good margin accretion both in the fourth quarter, total year, and also in Infrastructure and C&I, we see margins improving again in 2010.

The basic is we've got the dynamics of margin enhancement really are working and really are repeatable and I will just recap those. We've done lots of restructuring. It has enabled us to really take lots of structure out of the Company. We've closed more than 400 facilities. Our headcount is down and these benefits will carry over into 2010 and beyond.

The second point is that our services are growing faster than equipment, which has a nice mix impact. At the same time, the margin in our service business is also improving. So that's really a double tailwind, if you will. Our contribution margins have grown and are growing. Our pricing is reasonably stable and deflation is accelerating, so that adds to our value gap improving in 2010.

We have had disciplined execution around discretionary costs. Our indirects are down 16% and so those are the things that have helped our margins expand. At the same time, we've continue to invest in R&D. Our R&D investment grew 7% in 2009. It is planned to grow 15% to 20% in 2010, so we have lots of high-margin new products coming into the pipeline as well. So we think the margin story is very good and very good compared to our peers in 2009.

Lastly on cash, which was a big focus area for the year, we started 2009 with a target of \$14 billion to \$16 billion of Industrial CFOA. We actually beat the plan with \$16.6 billion of CFOA. The teams did a great job of producing working capital by more than \$3 billion.

And so where that leaves us right now between GE Capital and the GE parent, we have \$72 billion of consolidated cash on the balance sheet. We've got \$8.7 billion of cash at the parent. If you add in the announced dispositions of Security and the Comcast JV, that's an additional \$10 billion.

So our cash execution has been strong. We've got lots of cash we will be accumulating during the year and we think this really helps us from a financial flexibility standpoint.

So with that, I will turn it over to Keith to go through the fourth-quarter performance.

Keith Sherin - General Electric Company - Vice Chairman and CFO

Thanks, Jeff. I'm going to start with the fourth-quarter consolidated results summary. For the quarter, we had revenues of \$41.4 billion, which were down 10%, better than we had during the first nine months of the year. Industrial sales of \$28.3 billion were down 9% and financial services revenue of \$13.5 billion was down 14%.

We earned \$3 billion of net income, which was down 22%, principally driven by the GE Capital comparisons. For earnings per share, we earned \$0.28 including the cost of the preferred dividend and as Jeff covered, the total cash flow from operating activities was \$16.6 billion, exceeding the high end of our estimated range for the year, and that's a great result.

In terms of taxes, the consolidated rate for 2009 ended at a negative 11%. You can see the GE rate excluding GE Capital came in at 22% in line with our third-quarter outlook, and the GE Capital rate of 173%, it reflects the fact that we have a large tax benefit or credit divided by negative pretax income at the total GE Capital services level, and that results in the large positive rate similar to the first nine months of the year.

I'm going to cover more on taxes on the next page for the impact in the fourth quarter.

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On the right side you can see the segment results. Infrastructure businesses had \$4.3 billion of segment profit and that was down about 4% from last year. For the total year, the Infrastructure businesses were up about 1%, pretty good performance in this economy.

NBCU segment profit of \$602 million was down 30%, again consistent with the first nine months of the year. GE Capital Finance earned \$336 million. That's down 67%, also in line with the first nine months performance.

And C&I had another good quarter. They delivered \$136 million of segment profit, almost triple from what their results were last year. So overall, the segment profit was down 16% and the difference between our total earnings down 22% and segment profit down 16% reflects the additional restructuring that we did in the fourth quarter and I will cover some more of that in a minute.

So I'll cover all the business details in the next several pages. Before I get into the business results, I just want to summarize the fourth-quarter items that impacted the quarter. The first one is one we've done all year long. We had \$0.09 of restructuring and other charges that were recorded in Corporate. We continue to invest in lowering our cost structure and this \$0.09 was aligned by business. I will give you a couple of the numbers as follows.

Capital Finance was \$256 million. Energy Infrastructure was \$130 million. Technology Infrastructure was \$110 million. C&I was \$102 million and NBC was \$48 million. The balance was in Corporate, primarily environmental.

The significant projects that we completed in the quarter included exits of some non-core leasing platforms in our equipment services business in GE Capital. We closed some factories in lighting in Europe and we continued service shop consolidations in energy, so a continued reduction of our cost structure.

The second item in the quarter, we had a gain associated with FANUC. As you know, we dissolved our FANUC JV this quarter. We transferred the CNC business back to FANUC at fair value and that resulted in a gain of about \$0.01 after tax.

Then the third item in the quarter is our Industrial taxes, and as I showed on the previous page, the fourth-quarter industrial rate was 10% and that was low versus our total year estimate. I signaled that in the third quarter and that contributed about \$0.05 of earnings in the quarter versus a mid-20s average rate for the industrial earnings.

The rate is lower in the fourth quarter to true up to the total year rate. For the first nine months of the year, the Industrial rate was higher than our total year estimate because of the mix of financial services low taxed earnings. And then in the fourth quarter we had to reverse basically the first-quarter charge to get to the expected annual rate of about 22%.

So net-net if you look \$0.09 of restructuring, \$0.06 of positives from tax and the gain is additional \$0.03 of charges that basically help us improve our cost structure going forward.

For the business results, I will start with Capital Finance. Mike Neal and the team continue to make progress while we're working through this tough credit cycle. For the fourth quarter, revenues of \$12.5 billion were down 15%. Again that is driven by our assets being down as well as lower interest rates. Segment profit of \$336 million was down 67%, driven by lower tax benefits in GE Capital quarter over quarter, lower assets as we shrink the book, fewer gains, and that was partially offset by having lower impairments in the quarter and also lower costs.

Assets of \$537 billion were down 6% year-over-year. They were down 10% excluding the impact of FX and assets were also down \$14 billion from the third quarter. I'll cover more on assets as I go through the businesses.

So if you start on the right side of the page and you look at the activity that the team has done, first we've done a great job on funding. If you look at constant FX rates, we reduced our ending net investment by \$53 billion from the year-end 2008. We completed our 2010 long-term debt needs. We also absorbed the extra cost from pre-funding our debt maturities and carrying that extra cash.

We did \$34 billion of commercial originations for the year and fourth quarter was \$10.9 billion, up 7% from last year's fourth quarter but up over 50% from the third quarter, so the origination team is fully engaged and back in business and allocating capital to high-margin opportunities. A return on that volume was over 3% in the fourth quarter.

Total year losses came in at \$10.9 billion and losses and impairments were \$12.6 billion, which was below the Fed base case that we laid out in March. Reserve coverage continues to be higher. I'm going to cover more on reserves in a few pages and the team took out \$3.3 billion of SG&A

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costs during the year, a great job on controlling costs and reducing our cost footprint and helping to deal with the problems we have in the credit cycle.

If you look on the left side, I will make a few comments by business. As we said, every business was profitable in the quarter except for Real Estate. Starting with Consumer, our Consumer business delivered \$259 million of earnings. That was down 69% from last year principally because we had lower tax benefits, partially offset by lower credit losses, so a little improvement in credit year-over-year.

In the Consumer business, a couple of the pieces, Global Banking earned \$184 million, which was down 50% from last year because of higher credit costs. Our US Retail Finance business was profitable in the fourth quarter. They earned a modest amount and again, that was driven by lower credit losses and lower costs. And our restructuring operations earned \$90 million, up -- over \$90 million because of lower credit costs and principally in the UK Home Lending business.

The Real Estate business had a loss of \$593 million in the fourth quarter. We incurred \$350 million of after tax credit costs, which helped boost our reserve provisions and we also had \$315 million of marks and impairments on the equity book.

Reserve coverage increased 47% and reserves are up to \$1.5 billion now in Real Estate. And we just continue to see pressure on property valuations and we will build reserves as they are needed.

Commercial Lending and Leasing had a good quarter. The business earned \$362 million, a positive \$500 million swing from last year as marks and impairments improved by \$300 million and costs were lower by \$200 million.

GECAS had another great quarter. They earned \$277 million. That was up 16% driven by core growth. We also funded \$2 billion in new volume at over 4% ROI and asset quality remains strong, with only three aircraft on the ground at year-end.

And finally, Energy Financial Services earned \$31 million, down 86% from lower gains and lower tax benefits. So overall Capital Finance earned \$2.3 billion of net income for the year and let me go into some of the portfolio quality details.

First on portfolio quality, the stats on delinquencies and non-earning assets and on the left side is our Commercial Equipment Finance data. The 30 day plus delinquencies for Equipment are down 20 basis points from Q3 to Q4, which is a good sign. Americas delinquency was down 27 basis points and we also had declines in both Europe and Asia. Commercial nonearning assets declined \$600 million from Q3 to Q4, which is another positive sign, and we remain well collateralized on the remaining nonearning assets.

In Real Estate, 30-day delinquencies were up 14 basis points to 4.33% and nonearnings were actually down almost \$70 million in the fourth quarter, down 11 basis points.

Over on the right side on the Consumer data you can see the delinquency data has leveled off. We have had a slight decline in the Mortgage delinquency which is good news. For North American Retail, the delinquencies were up 32 basis points to 7.59% and a lot of that is driven by seasonality. In a normal Q3 to Q4 seasonal change, we would have over 50 basis points of increase in delinquency. So I think it's up a little bit but manageable relative to the normal seasonality.

The good news in the Consumer segment came also in the UK Home Lending business. Delinquencies were down 52 basis points from the third quarter. The UK Mortgage portfolio is performing better. We had six months now of house price increases in the UK and we continue to realize gains on the properties that we repossess and sell and our inventory also declined, our inventory of homes that we've repossessed declined by over 36% in the fourth quarter versus the third quarter. So some good signs in the UK Home Lending business.

Global Banking delinquencies were stable at 4.6% and on the right side, the far right, on nonearnings, you can see the Consumer nonearning assets, they were up about \$100 million, up slightly in the fourth quarter, but the Mortgage nonearners declined and the non-mortgage increased about 30 basis points, driven by continued pressure in the US with the high unemployment rate. So a pretty tough environment, but I think some signs of stabilization with a leveling off of delinquencies and a decline in nonearnings.

If you look at reserve coverage, we increased our reserve coverage every quarter last year. You can see that in the bars here. In the fourth quarter, our provision for loss was \$2.9 billion and with write-offs staying flat in Q3, we increased reserves by another \$730 million. Coverage was up to 2.36%. In December, we had forecast that we would have coverage about 2.25%, so more than 10 basis points better in the final close here.

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For the Commercial business, our reserves increased over \$500 million, principally in Real Estate. As I mentioned, nonperformers came down over \$600 million and we continue to benefit from our strong collateral positions.

For Consumer, you can see the reserves were up \$230 million. Coverage was up 24 basis points and the impact of secured and unsecured consumer lending comes out here. If you look, our North American Retail coverage is up to 7% and then in the secured lending on the consumer side where we have the mortgage collateral and the mortgage insurance coverage, the coverage is up to 1.62%. And on the houses that we are repossessing, we are realizing all year long, all four quarters, 115% proceeds versus the foreclosure marks on our mortgage assets. So pretty good performance on taking over the assets.

For the year, we increased our reserves by \$2.8 billion and the coverage is up 94 basis points. Now, the nonperforming charts on both Commercial and Consumer we put those in the supplemental deck, but you can see we continue to believe that we are adequately reserved for the nonperforming assets for each of the business segments.

To wrap up Capital, I thought I would just summarize the sub business dynamics that Mike Neal and the team outlined in December for 2010 outlook. If you start at the top, Commercial loans and leases, that represents about \$200 billion of our assets. The outlook for 2010 is much better. Losses will be lower. Most of the portfolios in this business have stabilized already in terms of delinquency and lower nonperformances and the outlook is pretty good with the new volume that we are originating.

For US Consumer, 2010 should also be better. Losses should be stable but our underwriting discipline that paid off in 2009 should continue to give us benefits as we have raised our underwriting standards and we've cut open lines to buy and we have been very disciplined on collections. Overall the result here is going to depend on where unemployment goes.

For Global Banking, the outlook is also better. Losses should be stable and we expect to benefit from the positive growth where we operate. CEE, Central and Eastern Europe, GDP growth should be over 2% in 2010 versus 2009 and that is good for these businesses.

I mentioned the UK mortgage is improving. We expect lower losses in 2010 as the market dynamics continue to improve and for the verticals, we expect about flat performance. We are being cautious in this aviation cycle, but our business does remain highly secured and well positioned here and when you look at the asset performance we have.

Finally for Real Estate, we expect continued pressure. We expect losses to be higher but we are working our way through this cycle. We've got an intense focus on operations and risk management and some liquidity has returned to the real estate market.

So if you look in December, our outlook for Capital Finance was about flat. We have some encouraging signs that show the potential for earnings growth in 2010 and we should be well positioned for solid capital growth in 2011 based on the outlook we have today.

So let me switch to Industrial. I will start with NBCU. For the quarter, revenues of \$4.3 billion were down 4%. Segment profit of \$600 million was down 30% and just a few comments on the market before I cover the business segments.

The advertising market is definitely improving. Probably the best indicator of that would be the scatter pricing that you get on top of the inventory that you sold in the upfront. We have available inventory that is sold in the quarter and pricing on scatter for the Broadcast Network was up low double digits in the fourth quarter and the outlook for the first quarter, it is up over 20%. And then pricing on scatter for Cable was up over 30% in the fourth quarter and it is also up over 30% in the first quarter. So we are seeing benefits on the Network and Cable and the Local Stations and the ad market is definitely getting better.

If you look at the business segments, Cable had another great quarter, revenue of \$1.3 billion was up 8%. Op profit was up 8%. It was led by entertainment. USA delivered more total viewers in prime than any other cable network in history, so they continue to have just a great performance.

We've got a bunch of great new shows that are -- new series coming. Syfy, Bravo and Oxygen were all up over 20% and on the news side, CNBC had a revenue and profit growth despite tough comparisons with last year's fourth quarter. So they are performing well in this economy.

On the broadcast side, revenues of \$1.6 billion were down 2%. Op profit was down in broadcast, driven by the NFL sports fees and by new programming investments that we have been making. Everyone is aware of our decision to move Leno back to the Tonight Show and to reset the 10 p.m. lineup after the Olympics. I am not sure I could report more than has been written on this subject.

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News continued its leadership position and the Local Stations also had good earnings growth in the fourth quarter.

You know, the toughest part of NBCU and the thing that has driven our earnings all year long has been film. Revenues of \$1.2 billion were down over \$400 million in the quarter and we didn't have any big films in fourth quarter in terms of theatrical, but we had very tough DVD comparisons.

In the fourth quarter of '08, we sold over 33 million DVDs with hits like Mamma Mia, Hulk, and Wanted. And this year we only had 12 million, with Inglorious Basterds and Public Enemy, the two biggest. So that was really challenging. The Film op profit was down over \$200 million in the quarter, which really drove the NBC results not only in the quarter but for the whole year.

So NBCU ended 2009 with segment profit down 28%. For the first quarter, we are seeing pretty good demand for the Olympics. As I said, the advertising market is picking up. Revenue should exceed our December estimates for the Olympics by \$25 million to \$50 million, but even with that demand we expect a loss of somewhere around \$250 million on the Olympics in the quarter.

Obviously the big news in the fourth quarter for us was the Comcast announcement. We are working jointly on preparing our regulatory filing and our other notices with the Department of Justice and the FCC to get that under way.

Next is Technology Infrastructure. John Rice and the team delivered revenues of \$11.3 billion. They were down 10% and segment profit of \$2.1 billion was down 16%. You can see the business results on the bottom left. Overall this was a tougher quarter for Aviation and Transportation, but we saw some very positive signs in Healthcare.

Let me just take you through the three businesses here. Aviation fourth-quarter orders of \$4.4 billion were down 16% year-over-year. Major equipment orders of \$1.5 billion were down 48%. Basically the airframe or backlogs are still full. We had \$900 million of commercial engine orders, \$600 million of military orders, and the backlog on equipment ended the quarter at just under \$20 billion, down about 5% versus last year. So still a very solid position.

Service orders were up 19%, driven by one large order, a \$350 million order with Aviall for parts deliveries that will occur in late 2010 and most of 2011. Without that, commercial spares of \$19.5 million per day were down about 11% and commercial overhauls was pretty good, up 8%.

Revenue in the quarter was down 8%, driven by equipment revenue down 21% partially offset by service revenue up 8%. The main driver on that was fewer military engines. We shipped 238 military engines, down 14%. We actually shipped 516 commercial engine, which was up 5% in units but still a tough revenue comparison.

Op profit in the quarter was down 18%. It is primarily driven by the absence of some prior fourth-quarter '08 transactions that don't repeat and also lower spare parts shipments in the quarter. Spare parts shipments were down 4%. Excluding those, op profit would have been about up a slight amount as positive pricing offset lower volume and higher R&D costs in the aviation business.

If you go to healthcare, the fourth quarter was the most positive orders quarter we've seen since the third quarter 2008. Orders of \$5.1 billion were up 11%. Equipment orders of \$3.4 billion were up 13%. We had about 4 to 5 points of benefit from FX, but the trend was very broad. If you look, I'm just going to give you a lot of numbers on the different modalities and regions of the world. They are all positive.

Diagnostic Imaging was up 24%. We have not seen a quarter like that in a long time. Inside diagnostic imaging, if you look globally, China was up 32%, India was up 53%, US was up 34%. It's very broad. Clinical systems was up 8%. Life Sciences was up 11%. Surgery was up 13%.

In the US, equipment orders were up 9% and CT globally was up 20%. MR globally was up 36%. X-ray was up 16%. The lowest growth was MDX and that was up 1%. So service orders were up 6%. Healthcare IT was up 4%. It is just a much better quarter than we've seen in a long time.

In terms of the actual results in the quarter, revenue of \$4.7 billion was down 2%. That was driven by equipment being down 2% and services down 3%. Segment profit was down 3% as the lower volume and a little bit of price were mostly offset by deflation and cost productivity.

If you go to Transportation, that team continues to deal with just a really challenging environment. Orders of \$900 million were positive though, they were up 3%. Equipment orders of \$500 million were up almost \$300 million, driven by international orders, including 300 EVO kits for China, 50 units for Brazil. Service orders, though, were really tough. They were down 40% and that is driven by the impact of the parked locomotives. You know, we still have about 5,000 parked locomotives and that is impacting the service business in transportation.

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Revenue of \$600 million was down 56%. We are delivering significantly fewer locomotives. We did 91 locomotives in the fourth quarter of '09 versus 219 in the fourth quarter of '08.

And then finally, we had a service contract review in Erie as well. Over the last two years, we completed reviews of our service contract portfolios in Aviation and Energy and in the fourth quarter, we finished a project to relook at our total contract cost estimates in Transportation and we had a charge of about \$300 million in the quarter. That took Transportation's results from a positive \$150 million to a negative \$160 million and this does complete our service contract review for the three businesses.

We have also had a lot of structural costs out in the business to counter the effect of the slowdown taking out close to 30% of the employee base in the business as we're just going to have lower locomotive shipments as we go into 2010.

For the year, Transportation earned \$470 million of operating profit and with the lower locomotive forecast for 2010, we currently expect the team to deliver about the same result, same total result next year.

So overall, if you look, Technology Infrastructure for the year delivered \$7.5 billion of operating profit, down 8%.

And the final business is Energy. John Krenicki and the Energy team finished the year strong. Revenues of \$10.4 billion were down 9%. It is a similar profile to Q3. We had positive operating leverage with segment profit of \$2.2 million, up 9%. You can see the business results on the bottom left and let me start with energy.

Energy orders of \$8.8 billion were down 6% versus last year, so the trend continues to improve and they were up 33% from the third quarter, which is a nice sequential improvement. Thermal orders of \$1.7 billion were down 19%. We had orders for 40 gas turbines versus 70 last year. All 40 orders were for outside the US. And if you look at the orders price, it's still pretty good. The thermal order price index was up 1% for the quarter.

Wind orders of \$1.5 billion, they were down 25% from last year but they were also up 20% from the third quarter. We are seeing more activity. We had also quite a few push-outs. We had about \$400 million of European orders that pushed into Q1 and we haven't included in orders any of the \$1.4 billion Caithness commitment that we announced in the fourth quarter. So pretty good activity in Wind and the Wind orders price index was down 2% in the quarter.

Aero orders were down 40% to \$400 million. Jenbacher orders were up 3% to \$270 million, seeing pretty good demand there. Service orders were up 15% to \$4.5 billion driven by just strong contractual service commitments. During 2009, we also built a \$700 million backlog in Smart Grid orders that will deliver in 2010 and 2011.

So revenue in the quarter at Energy was down 13% to \$8.3 billion. That is really just driven by the lower volume. Wind unit revenue was the main driver. It was down about 30%, thermal revenue was down 6%. We shipped 585 wind turbines versus 988 last year and we shipped 34 gas turbines versus 58 last year and service revenues were up 2%.

On that revenue segment profit was up 11% and we got the benefit of the higher prices that we've had in the backlog. We got the benefit of deflation and pretty good service productivity, which more than offset that lower volume. Segment profit margins also grew 470 basis points to 21.9%, overall just a great performance in the Energy business.

Oil and Gas, they also had another good quarter. We are seeing some positive orders growth globally, a lot of demand in the LNG segment. Orders of \$2.5 billion were up 30% in the quarter. Equipment orders of \$1.4 billion were up 30% and that's driven by the strength in LNG and also drilling and production. Subsidy, great demand. We had \$600 million of orders just from the Gorgon project in Australia, and there's several more projects coming in Australia around LNG.

Service orders were up 30% driven by incredibly strong repair and field service orders. They were up 20% plus we had solutions orders for equipment upgrades to help people with their productivity. That more than doubled to over \$230 million.

Revenues of \$2.3 billion in the quarter were up 10% driven by the strong pipeline and services revenues, and segment profit of \$422 million was up 4%, driven by a positive deflation partially offset by some higher project costs as they implement these projects globally. So overall for the year the energy team just had a great year. They delivered \$6.8 billion of segment profit. It was up 13%.

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I want to walk through the next page a few of the changes that we're making, some simplification that we are doing to help make things a little bit cleaner in GE as we do our reporting and also as we operate the Company. These are going to be effective January 1.

First, we are going to put everything associated with Industrial, Electricity, Equipment and Components and Smart Grid into Energy. So the Industrial business out of C&I is going to go into Energy. The businesses from Enterprise Solutions associated with Sensing and Inspection and Digital Energy are going to become part of Energy. It is going to align everything we have around Smart Grid. I think it's a good move.

As a result of this change, we are going to transfer about \$3.5 billion of revenue and about \$300 million of segment profit into the Energy business and that will start again as I said as of 1/1.

Second if you take the Industrial business out of C&I, we are going to leave Appliances and Lighting together and they are going to be combined with the intelligent platforms from FANUC and it renamed GE Home & Business Solutions and it helps us to further focus Appliance and Lighting on the energy efficiency game. Compared to the current C&I segment, revenue in '09 for the Home & Business Solutions will be about \$1.3 billion less and it will have a minimal impact on segment profit.

The third thing we are going to do on simplification I think is a great benefit for simplifying reporting for investors. You know, we have had Capital Finance as the reporting segment for Mike Neal and his team and then we have GECC, the registrant, GE Capital Corporation, and then we have GE Capital Services.

We are going to make Capital Finance equal GECC starting 1/1 and basically what that will do is it will take the Treasury operations and the Corporate costs and it will put it into Capital Finance and it will streamline our reporting and simplify our reporting. On that basis, Capital Finance's net income will be \$1.7 billion for 2009, so around \$600 million of after-tax expenses that are in Corporate and Treasury will show up in the segment instead of Capital Corporate and I think this is just going to be a nice simplification.

To help with the changes in the supplemental package that we put out today, we have a summary of all three of these changes on the reporting basis. We have the full year 2007 then we have by the quarters for 2008 and 2009. So it is not a big deal but we tried to give you this to just simplify how we are going to change the reporting and I look forward to this in 2010. I think it streamlines things for investors and for our management team.

The final thing on the fourth point here on the shelf, one of the results of the SEC settlement we had last summer was that we lost what is known as a well-known seasoned issuer status for GE for a period of three years from the time that we file our 2009 10-K. Now that does not affect GE Capital but because of this, we're going to have to file an updated registration shelf statement prior to filing the 10-K, which we anticipate will be sometime in the end of February. This is not a substantive change but procedurally we will have to file a shelf as a result of that settlement.

So next just for 2010, I thought I would revisit the framework that we covered with you in December. You know, we expect the Industrial profit to be about flat. Basically as you look at the businesses we are going to have growth in Energy, Oil & Gas, and Healthcare, and that's going to offset any potential pressure that we have in Aviation and Transportation.

Media will be down, driven by the Olympics, as I mentioned. Otherwise about flat for the year. Capital Finance will be about flat and now that Capital Finance will equal GE Capital Corporation, based on the early signs we see in delinquency, nonearnings and margin, GE Capital is positioned for upside. We've got to remain cautious on real estate, but the outlook has improved.

Corporate will also be about flat. We are going to have higher pension costs in 2010 versus 2009, but that is going to be partially offset by the fact that we have lower restructuring and again, the total amount of restructuring will depend on the projects that we develop during the year and what the paybacks look like.

Then we expect another very solid year of cash flow, \$13 billion to \$15 billion from our Industrial business in 2010. So we're not giving EPS guidance, but those drivers we will describe our operational outlook as you look at 2010.

And finally, I wanted to just cover one page of about the outlook going forward for cash and the macro picture for GE. The fourth quarter of 2008, most of 2009 was just a really tough period for GE and our teams executed very well. We've dramatically changed our future financial flexibility and I think this page summarizes it.

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On the left side, you all know the Capital story. We closed 2009 with \$64 billion in cash. We prefunded our 2010 long-term debt needs in 2009 with our focused shrinkage and our alternative funding, we're going to redeem \$71 billion of long-term debt this year. We're going to keep our commercial paper below \$50 billion and we are going to be able to prefund \$25 billion of 2011 long-term debt.

We're managing our collections ahead of our originations. Our restructuring business is funding growth in other areas. Our quality of earnings are going to be better. We're going to deliver growth in pretax, preprovision earnings in 2010 and losses are going to peak and our capital ratios are going to stay above the regulatory requirements.

So our estimate right now is that we're going to contribute about \$2 billion of equity into GE Capital in 2011 based on our income maintenance agreement and that is the extent of what we see as the potential capital needs that GE might have to put into GE Capital.

On the right side is the parent story. We continue to grow our cash balance from free cash flow. We are very cash efficient as a Company. We expect \$10 billion of proceeds from the security and the NBCU transactions and we should end the year with over \$25 billion of cash at the parent level.

So that is going to lead to a different framework for us in terms of capital allocation. We've pretty much reserved the \$2 billion for GE Capital, but we're going to be able to invest in Infrastructure. We are going to be able to look at a buy back. We are going to be able to grow our dividend in line with earnings. And you know, Jeff, when you think about this picture versus where we have been, I just don't think it's an either/or here on this menu. I think these are things we are going to be able to do when we get this flexibility.

Jeff Immelt - General Electric Company - Chairman and CEO

No, I think, Keith, this is an immensely stronger story for the Company. I think we always look at bolt-on acquisitions in Infrastructure. We think they will be available. We will be very opportunistic on the buyback and look at where the share price is and look at the preferred and things like that. And then I think we really see the ability to grow the dividend in line with earnings by 2011.

So we are committed to safe and secure for the Company, but we've got lots of flexibility to enhance shareholder value as we get through this picture during 2010.

Keith Sherin - General Electric Company - Vice Chairman and CFO

I think it is just a tremendously positive outlook. (multiple speakers)

Jeff Immelt - General Electric Company - Chairman and CEO

The team has done a great job here.

Keith Sherin - General Electric Company - Vice Chairman and CFO

Lastly, just I think to recap something we talked about in December in terms of how you think about the Company going forward, we end the year 2009 at \$1.03 a share. We see solid earnings growth in 2011 and 2012 and it really doesn't require a dramatic change in the global economy. We think things are getting better in GE Capital. We should get earnings rebound post this loss cycle. Fourth quarter is encouraging along those lines and as losses probably level off from peak in 2010, this just portends I think good earnings -- a capability for GE Capital in 2011 and beyond.

70% of our industrial earnings are in services. I really think that the service business model has been validated during this cycle, that the earnings have continued. And the fourth quarter just confirms that and so I think that's quite strong. Our equipment backlog is still strong. We see the markets generally better. Our margins are good in backlog. We have increased the R&D so we've increased the number of products.

And what we just talked about, the cash optionality that we are going to deploy in an investor friendly way and this story just gets better. And when you look at the years 2010 to 2012, the management team is going to be compensated to deliver these results for you in terms of EPS cash or OTC and funding. And so the management team is incredibly aligned with investors to accomplish what we have laid out here.

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Lastly just to summarize some thoughts that we left you with in December, we've positioned the Company for solid earnings and cash flow growth in the future. 2010, solid growth in 2011. Our strength in technology services global markets really position us we think well today. We kept investing in the downturn. Our pipeline is strong of new products. We defined the business that fully utilize the GE competitive advantage. We've got a simple and strong portfolio where we can invest and grow.

We think the worst is behind us in financial services and that GE Capital will be smaller but still a meaningful contributor in the future. We should get this profit snap back as losses go down and we are generating significant available cash to be thoughtful and we will be thoughtful about creating long-term shareholder value. You know, we want to be safe and secure but we also are going to have lots of optionality as we look at the future.

So with that, Trevor, I turn it back over to you and let's take some questions.

Trevor Schauenberg - General Electric Company - VP of IR

Great. Thanks, Jeff and Keith, for that. Noelia, I think we are ready to open up the phone lines for questions now.

QUESTION AND ANSWER

Operator

(Operator Instructions) Bob Cornell, Barclays capital.

Bob Cornell - Barclays Capital - Analyst

Thanks very much. You know, going back to just the Capital Finance, could you give us an idea of what you provide -- I apologize for the granularity of this question in a big picture quarter, but in the Commercial Real Estate loan book in the quarter, what sort of provision did you take there? Was that -- can you tell us. Keith?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Sure, I mentioned it. In the quarter --

Bob Cornell - Barclays Capital - Analyst

Let me simplify the question. What was the provision for loss in the Commercial Real Estate loan book for the year? The charge in the third quarter was something like \$559 million. What was that charge for the year?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Fourth quarter was \$350 million after-tax. If you go to Real Estate for the whole year, we started the year with \$300 million of reserves and we ended the year with \$1.5 billion, so it is a \$1.2 billion increase for (multiple speakers).

Bob Cornell - Barclays Capital - Analyst

That's in the loan book?

Keith Sherin - General Electric Company - Vice Chairman and CFO

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That's correct.

Bob Cornell - Barclays Capital - Analyst

Okay, I guess the question is when you take off all the pieces of Capital Finance, the only piece you target as being a problem is the Commercial Real Estate -- is Real Estate, so how much realistically could the provision go up in '10 and '11 even given the cycle off the \$1.5 billion that you had in '09?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Well, I don't have a forecast for what the provision is going to go up. I can tell you that in December when we showed you our outlook for 2010 - and we don't have a 2011 framework here, Bob -- for 2010 on Real Estate basically we said that we thought you could end up with losses and impairments being somewhere between \$1.9 billion and \$2.9 billion in the Real Estate business for 2010. So that's a combination of what we put on the books as provisions. What's left in the reserve will depend on the write-offs. But I think that's the range. If you look at the business lost \$1.5 billion this year and the range included in that was about \$2.2 billion of losses and impairments and then for 2010, we are basically estimating the losses and impairments could be \$1.9 billion to \$2.9 billion. I think it gives you a range for how to think about how we are thinking about Real Estate (multiple speakers) --

Bob Cornell - Barclays Capital - Analyst

I'm sorry, apologize, what was the '09 summary and the 2010 summary for Real Estate losses and impairments? Just let me have those numbers again.

Keith Sherin - General Electric Company - Vice Chairman and CFO

\$2.2 billion.

Bob Cornell - Barclays Capital - Analyst

I guess the point I'm getting too, Keith, is if you don't see a big increase in the losses and impairments in Real Estate, then out of the \$11 billion in total provisions for this year and everything else coming down, why aren't we going to see a bigger drop in the overall provision for loss in the Capital Finance in '10?

Keith Sherin - General Electric Company - Vice Chairman and CFO

You know, I think you look at it, we've tried to give you a framework based on the framework of stress cases in December that said the losses and impairments should be about flat in 2010. There could be an increase in Real Estate and there could be stabilization in other places and there could be declines in other parts of the portfolio. I think that when you look at what we see on delinquencies and on earnings, that is why we are basically cautiously optimistic. We think there could be some upside in GE Capital, Bob, but you are dealing with a call on future outlook based on what happens to unemployment, what happens to the real estate valuations, and you've just got to be sensitive to that.

I think we have given you a pretty good framework. I think we feel pretty good about it today, but there's a lot of activity that will happen between here and there.

Bob Cornell - Barclays Capital - Analyst

Okay, a totally changed question. You talked about wins and big projects, Jeff. I mean you had the Koreans out there won a number of nuclear projects. I understand the pricing of those projects is pretty aggressive. What are you seeing with regard to some of these big project wins globally? Are you seeing some pretty tough pricing environment?

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Jeff Immelt - General Electric Company - Chairman and CEO

I think Keith said it, Bob. I think the pricing of what's going in the backlog is still pretty attractive. I think the number for Energy was that gas turbines was up 1%. Wind was only down 1% or 2%. Meanwhile our deflation is very strong. So look, I think on balance we won the deals we wanted to win and the margins in backlog are still pretty attractive.

Bob Cornell - Barclays Capital - Analyst

Good enough. Thank you very much, guys.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - JPMorgan - Analyst

Hi, good morning. Thanks for that bar chart on 2011. I appreciate it. On the Transportation business, when you look at what happened in the quarter, you said there was a \$300 million charge. Is that -- can you just explain the accounting and what you are doing there? And then you said I think it's going to be flat next year. Is that sales or is that profits are going to be flat next year in Transportation?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Sure, basically when you look at our services business, we have to look at the lifetime revenue that we're going to get from our customers. We estimate the lifetime cost over these 10 to 12 year customized service arrangements. And what we had to do was update those estimates based on the activity we see, the utilization in the fleet, the costs that we have as estimates of what it is going to cost to keep the fleet running with whatever the productivity and efficiency guarantees that we may have made. And as I said, you know, over the last couple of years we've done those reviews in Aviation and in Energy and in 2009, we completed that review in Transportation and basically with 5,000 parked locomotives and with the cost estimates of what we have for what we are going to need to do over time, we had to true the cost estimate at a lifetime of those CSAs for about \$300 million.

That is not something that repeats and when I said profitability for the business, we said they made about \$500 million of op profit in 2009 and we expect the business to make about \$500 million of op profit in 2010 on much lower locomotive volume deliveries.

Steve Tusa - JPMorgan - Analyst

Okay, so even adding back the \$300 million, you are still going to be down -- on a core basis, you are going to be down next year.

Keith Sherin - General Electric Company - Vice Chairman and CFO

On a core basis, we will be down but a lot of that \$300 million, some of that \$300 million would relate to 2000 activity. Some of it might relate to prior periods as a cumulative catch up. So -- hard to split (multiple speakers).

Steve Tusa - JPMorgan - Analyst

Right, so they set some things. Shouldn't that be a tailwind to next year's profit?

Keith Sherin - General Electric Company - Vice Chairman and CFO

It should be, but if you look at the locomotive deliveries, Steve (multiple speakers)

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Steve Tusa - JPMorgan - Analyst

That answers my question, that's great. On the GE Capital side, you are still deciding to pre-fund even though the capital markets continue to heal up. How much do you estimate pre-funding in 2009 hurts your net interest margin? And then when you look out in 2010, how much do you estimate?

I understand you are originating more than probably we would've thought here in the fourth quarter so you are starting to put some of the money to work, but can you give us an estimate of how much pre-funding has been a headwind for the last year and maybe in 2010?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Sure, I think we have -- first of all, everyone has recognized you got to carry more cash from a liquidity perspective on how you run the business. I think the extra cash, the calculation we have is it is about \$700 million of impact on GE Capital for the pre-funding and the fact that we are carrying a lot of cash where we borrowed that money, we are not earning that same amount obviously on putting it to very safe and short-term places. So it's about \$700 million.

We're not going to continue to carry \$60 billion plus of cash. We are going to bring that down over time but we've got quite a few debt maturities that we will refinance and in the first quarter, we will bring it down quite a bit, actually.

But -- so on a year-over-year basis, I think it's in the run rate. It could be a little bit better, but last year it was \$700 million.

Steve Tusa - JPMorgan - Analyst

Right, and then one more question. Just price cost, what would you -- what was it in total for the Company, the value gap in 2000? And what would you expect that to be in 2010?

Jeff Immelt - General Electric Company - Chairman and CEO

Steve, in 2009, it was a very good year. It was probably in excess of \$1 billion. In 2010, it will be a couple hundred million dollars, something like that.

Steve Tusa - JPMorgan - Analyst

Okay, great. Thanks a lot. I appreciate it.

Operator

Terry Darling, Goldman Sachs.

Terry Darling - Goldman Sachs - Analyst

Maybe just trying to gather up all the pluses and minuses versus where your thinking was in December, very clear on GE Capital that you've gotten a little bit more positive there. Your numbers have come in. You've got better confidence there.

On the Industrial side, Jeff, I thought I heard you talk a little bit more positively about the value gap in your opening remarks, but I think the \$200 million or so is kind of in line with where you were thinking before. On the Industrial side, what else has changed overall in terms of giving you a little bit more positive outlook on the 2010 picture?

Jeff Immelt - General Electric Company - Chairman and CEO

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Terry, why don't I do something -- Keith -- if you want to, you can -- I would say that -- I went through the value gap on equipment. I think you've got to like the services orders and the services margins. So another part of the overall profit drivers are there, so I think that's quite encouraging.

I think the second thing is the Healthcare performance in the quarter. As Keith went through, it's just broad-based both geographically and technically, so I think that's a plus. Then the third thing I would say, Terry, is that we did a lot of restructuring in the quarter and as we are able to do that restructuring, that allows us to improve cost base in 2010 and beyond.

So those would be the three things that I would talk about. I would say the last thing is the orders in general were slightly better than probably we had thought about even in December.

Keith Sherin - General Electric Company - Vice Chairman and CFO

I'm sure -- maybe I can -- I'll add a little bit of framework in terms of last year and year-end we talked about the commercial deliveries, Terry, that we had and I will lay those out by business.

So if you look at aircraft, in 2009, we had about 1939 commercial engine deliveries. The 2010 plan has 1846, so it's down about 5%. In 2009, we had about 915 military engines deliveries and in 2010 it's 874. It's down 4%. So the outlook in Aviation is for equipment to be down.

I think you've seen the spare parts order rates and those are going to be a key determinant of how Aviation performs in 2010.

For locomotives, it's a big change. I think in 2009, we delivered 511 locomotives. In 2010 right now the team is planning on 250. It's a very difficult environment in terms of equipment. I think the outlook for '12 and '13 looks great based on environmental standards that are going to come into place but in 2010, they are really going to be dealing with the lower volume outlook.

And then Energy, 2009, we had about 134 gas turbines. 2010 the plan is somewhere around 117 and wind turbines are about flat. We had 2633 units in '09 and we've got 2616 in 2010. So the units in Energy are a little more stable.

So that helps us put a little bit of framework around what we think the volume is going to be in the major equipment drivers for 2010.

Terry Darling - Goldman Sachs - Analyst

That does. And, Keith, on the Aviation services and spares in total, that whole piece of the puzzle, are you expecting profit down in that piece as well did you say?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Not at services in total. I think if you look right now for the year the commercial spares orders were down 4% and, you know, we've got a lot of - it's been a tough year for Aviation, right? But there's some positive signs. In the first three quarters of the year, revenue passenger miles were down. Freight traffic was down.

If you get into the last quarter, though, the last three months passenger traffic was up 0.3%, 0.6%, and 2.1%. Cargo grew almost 10% in November. Load factors have held up around 75% and I think the main positive for us in Aviation, if you think about it, we've got about 23,000 engines. We actually had 1000 net adds in 2009 because our engines are going in and they're not the ones being retired. The less fuel-efficient ones are the ones being retired.

Jeff Immelt - General Electric Company - Chairman and CEO

Terry, the price will be up as well, catalog price up 5%.

Terry Darling - Goldman Sachs - Analyst

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That helps.

Jeff Immelt - General Electric Company - Chairman and CEO

I think services in general across the Infrastructure businesses will have good revenue and op profit growth next year.

Keith Sherin - General Electric Company - Vice Chairman and CFO

We're counting on about flat overhaul, about 1600 overhauls.

Terry Darling - Goldman Sachs - Analyst

Keith, just on restructuring expense, can you give us the all-in dollar number for '09 and kind of where that's pegged for 2010? It sounds like you may move that number higher over the course of '10, but maybe just give us the starting point thinking there, please.

Keith Sherin - General Electric Company - Vice Chairman and CFO

In 2009, we spent \$0.20 in restructuring and other charges. It was pretty split between Tech Infrastructure and Capital and C&I and Energy and about \$100 million in NBCU. For 2010, we've got that down somewhere less than half of that. We have to see -- we will see what the projects are.

We have pension going up. Pension should be up and I think it is a little less than what people thought, about \$1 billion pretax in 2010 versus 2009. That includes the impact of the discount rate and it includes the impact of the losses in 2008. That's about \$0.07 after tax, so that's a good item.

And then that gives us a chance to be able to be flexible as we see good projects to be able to do restructuring and we don't have a final number pegged, but we do have the opportunity to do more restructuring in 2010 to continue to work on the cost structure.

Terry Darling - Goldman Sachs - Analyst

Okay, then just lastly thinking on Industrial tax rate for the year at this point, 2010?

Keith Sherin - General Electric Company - Vice Chairman and CFO

You know, our outlook for 2010 would be that the Industrial tax rate will be in the low to mid-20s somewhat similar to this year, maybe a little bit up from this year.

Terry Darling - Goldman Sachs - Analyst

Thanks very much.

Operator

John Inch, Merrill Lynch.

John Inch - BAS-ML - Analyst

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Thank you. Good morning, guys. Keith, just a follow-up on the restructuring question. What sort of a restructuring contribution are you guys expecting in 2010 based on the activities that you did in 2009? And the follow-up would be just are you expecting any kind of material compensation headwinds perhaps because you have to restore merit pay or anything like that this year?

Jeff Immelt - General Electric Company - Chairman and CEO

John, I think all the compensation stuff is factored into the way the plans that we have outlined. I think on restructuring we basically get a two-year payback, so we ought to get to \$1 billion in benefits or something like that. I would say beyond that if you go back to 2007, 2008, we also had pretty good restructuring in those years.

And if you think about just base costs between -- if you go from 2008 to 2010, our overall base costs will be down \$5 billion or \$6 billion, something like that over that time period. At the same time, we will have increased R&D 7% in 2009 and probably 15% in 2010. So those are just some of the dynamics.

John Inch - BAS-ML - Analyst

No, I appreciate that -- what is -- by the way, Keith -- or Jeff, what is the outlook for the gas turbine business in the US and possibly the wind business as well if you kind of frame it between what happened this year, your orders next year, how do you see that business shaping up?

Jeff Immelt - General Electric Company - Chairman and CEO

I would say there is a macro and a micro there, John. I think the macro story is that gas and wind are the fuels of choice, right? And so there's always a lot of interest from the US utilities around both of those businesses.

Then it comes down to the demand for electricity was down in '09, it's probably flat in '10, so where will the excess capacity be needed? And then the third part is just how many more projects like Caithness will we see vis-a-vis the US focus on green energy and renewable energy? I think there will be some of those in 2010. So, Keith, would you agree to that?

Keith Sherin - General Electric Company - Vice Chairman and CFO

I agree. I think that's right.

Jeff Immelt - General Electric Company - Chairman and CEO

We like being in gas and wind. We think longer term in the US those are going to be the fuels of choice.

John Inch - BAS-ML - Analyst

It sounds like it's still going to be an international story at least for the next couple of years. Is that --?

Jeff Immelt - General Electric Company - Chairman and CEO

At least for '10, that would be my sense, John.

John Inch - BAS-ML - Analyst

Can I ask you just -- it's been reported in the press the proposed financial crisis responsibility fee, you guys didn't really talk about it. I think -- I don't remember what news service quoted possibly \$800 million could be ascribed to GE Capital. What are you thinking about that or is it too soon to sort of even talk about it?

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Keith Sherin - General Electric Company - Vice Chairman and CFO

Well, I would say it's a little early. I think there's a lot of activity that still needs to go on that. Based on what we understand from the press conference and then there was a clarifying call this week, for GE Capital if this were enacted exactly as it is proposed, we would estimate that it would be about \$500 million after-tax impact on GE Capital Corporation. For a full year, our understanding is it is effective after June 30, so on a half-year, it would be about \$0.025 if it were enacted exactly as proposed.

And our expectation is that based on the outlook we have that we would still be able to stick to our framework if that were put in place that way and still have GE Capital about flat.

John Inch - BAS-ML - Analyst

Maybe just lastly, Keith, if I look at your \$11 billion of net income this year, I think about 35% came from Capital tax credits. Where do you guys stand in terms of the ability to maintain those credits, call it in 2010, 2011? Like I'm presuming they can still be held relatively intact as long as there's offsets. Is that fair? Otherwise on paper it kind of looks like these could be some significant headwinds.

Keith Sherin - General Electric Company - Vice Chairman and CFO

No, that's true. We don't anticipate in the framework that Mike Neal and Jeff Bornstein laid out in December the tax credits being anywhere near that level. We had about \$3.8 billion of tax credits as you said in GE Capital. This year it's not only -- it's from our structural benefits we have but also the fact that we have the losses in GE Capital. And it's the benefit of GE and GE Capital being together. We are able to offset those losses with our GE Industrial income from a tax perspective.

We expect in Capital somewhere around \$2 billion of tax benefits in the framework that Jeff Bornstein laid out in December, so it would be substantially less and we absolutely believe that we will be able to continue to utilize all those benefits with the consolidation of GE and GE Capital without creating any deferred tax assets or anything like that.

John Inch - BAS-ML - Analyst

With spill over into 2011, theoretically?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Well, theoretically in 2011 you are going to be dealing with pretax profitability in GE Capital that will end up with -- you are still going to get tax benefits from our structural benefits as long as the legislation that's in place today stays in place. But we expect substantially more pretax, which would in some ways lower the overall tax benefit at GE Capital, John.

John Inch - BAS-ML - Analyst

Okay, great. Thanks very much.

Operator

Steven Winoker, Sanford Bernstein.

Steven Winoker - Sanford C. Bernstein - Analyst

Good morning. Could you all just clarify total marks and impairments, so not the charge-offs, just the marks and impairments for GECS for the quarter?

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Keith Sherin - General Electric Company - Vice Chairman and CFO

In the fourth quarter the marks and impairments were \$430 million after-tax.

Steven Winoker - Sanford C. Bernstein - Analyst

Okay, and Real Estate?

Keith Sherin - General Electric Company - Vice Chairman and CFO

\$315 million.

Steven Winoker - Sanford C. Bernstein - Analyst

Of that, just so I'm clear on that. Secondly, in the wake of the Capital One call last night, it sort of raised the question of the increase in the 166, 167 reserves coming up magnifying the sensitivity of loss provisions to improving economic conditions down the road. In other words, the reserve release for private label credit cards, as you think about it going forward, how are you guys thinking about that?

Keith Sherin - General Electric Company - Vice Chairman and CFO

I think Jeff Bornstein laid that out pretty clearly in the December. We can go back to those charts. I don't have them in front of me, Steve, but the way 167 is going to work is we are going to put those receivables back on our books. We already have the retained interest on our books. We will have a charge to equity in the first -- January 1 as part of the accounting change to reflect the reserve posting associated with those receivables and then we will earn on the full balance as we go forward in the year that will more than offset the fact that we don't have securitization gains.

So I think in total for the year it will be a slight net positive. We have already included from a capital ratio perspective a risk weighting on those assets in our ratios that this won't have a big impact on the ratios in terms of capital. We have accounted for those receivables and what we deal with the rating agencies and what we thought about in terms of our capital ratios for the year for GE Capital.

So Jeff showed you what the impact was on those ratios, but I think --

Steven Winoker - Sanford C. Bernstein - Analyst

I think the question was more -- was that but also more the magnitude of the coming release, but basically you're saying it's no change from what Jeff shared with us?

Keith Sherin - General Electric Company - Vice Chairman and CFO

That's right.

Steven Winoker - Sanford C. Bernstein - Analyst

Okay. And then in terms of the Healthcare business again, I am just trying to get my head around the sustainability of those margins going forward, of the incremental or the decrements in the business. Can you just lay that out a little more in terms of not only did you see a really strong quarter but your expectation for sustainability as you look through 2010?

Jeff Immelt - General Electric Company - Chairman and CEO

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You know, Steve, I think that the demand was so broad and deep, in other words so many different geographies and so many different product lines that -- and the quality of the backlog was high, so the backlog build, that leads me to believe that the market has at least stabilized and might be improving. I think we've got a nice lineup of products.

I think, look, there's still some uncertainty around reform and what it means and things like that, but if you go back to meeting you guys had with John Dineen last fall, the average age of the installed base is old. Our offerings are strong. I think you have to at least be guardedly optimistic about how this business can perform in 2010.

Keith Sherin - *General Electric Company - Vice Chairman and CFO*

There has certainly been some market paralysis based on all the discussion in the US about what's the reform, what are the changes in reimbursement going to be, what will hospitals plan on from a budgeting perspective? We certainly saw some of that free up with more clarity in the fourth quarter and I think that just certainty around what the regime is going to be is a real positive as you look at the US specifically. Global growth was great. (multiple speakers)

Jeff Immelt - *General Electric Company - Chairman and CEO*

From a working capital standpoint, I think the team is executing better. And so I think our ability to sustain margins and cash are I think quite strong.

Keith Sherin - *General Electric Company - Vice Chairman and CFO*

Yes.

Steven Winoker - *Sanford C. Bernstein - Analyst*

Okay. And the finally on the capital allocation discussion that you put out there in terms of the cash you are going to put to use, can you maybe, Jeff, provide a little more strategic color again about how to think about what you will define as attractive -- in terms of acquisitions so that investors -- we won't be surprised to see -- as you as you announce things over the next year.

Jeff Immelt - *General Electric Company - Chairman and CEO*

What I would say is that the cash builds during the year. I think any acquisitions we do will be bolt-ons and they will have a good way to execute towards a 15% cash return by year five. With experienced management teams and clear synergies both on cost and revenue.

Steven Winoker - *Sanford C. Bernstein - Analyst*

When you say bolt-on, that means in your parlance smaller than what?

Jeff Immelt - *General Electric Company - Chairman and CEO*

Look, I hate to limit it, Steve, but I just don't see us doing a big deal. I think they are going to be reasonable sized from a couple hundred million dollars to maybe a couple billion, in that frame.

Steven Winoker - *Sanford C. Bernstein - Analyst*

Fantastic, thank you.

Operator

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Nigel Coe.

Nigel Coe - Deutsche Bank - Analyst

Thanks, good morning. So it sounds like you had a fairly huge month in December for the major equipment orders, probably the CSA as well. How do we interpret that? Is this just customers holding back on their budgets until the last possible moment or is there a real improvement in the end markets you are seeing? Maybe then has that trend continued to generate?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Look, I don't think if you look at the long cycle businesses there is anybody looking at their budget in the quarter when they buy gas turbines or aircraft engines. These are long-term projects that people plan for and we are piece of the scope. So I think if you look at the Energy business, you look at the oil and gas business, those are based on economic activity globally.

Aviation again, we are dealing with a phenomenon where we had such great orders over the last three years that the airframe or backlogs are pretty much full through 2012, 2013. And then finally, in Healthcare I think you see a little bit of both, as Jeff said. I'm sure some people had budget money and they spent it but that's not a driver of the overall orders when you look at major equipment orders for the Company, Nigel.

Nigel Coe - Deutsche Bank - Analyst

Okay. So the uptick we saw is a real uptick and should be sustainable?

Keith Sherin - General Electric Company - Vice Chairman and CFO

We had real global growth, Nigel.

Jeff Immelt - General Electric Company - Chairman and CEO

I think there is some real global growth, Nigel. I think we've tried to be in '09 and '10 appropriately conservative about what we see and when we see it and maybe it is just some of that.

Keith Sherin - General Electric Company - Vice Chairman and CFO

I think the comparisons back in '08, '07, '08 were just really a little lofty. So I think these also -- we look -- while there may be a negative (inaudible) on some equipment here, Nigel, these are very healthy levels for us to operate the business at when you look at these order levels. We have a negative (inaudible) but we can run the business profitably at these levels.

Nigel Coe - Deutsche Bank - Analyst

Okay, sure, and then on the financial crisis or subsidies fee, first of all, you mentioned net of taxes. Can you clarify that that will be eligible for tax reduction?

Keith Sherin - General Electric Company - Vice Chairman and CFO

There was a conference call this week with the administration where that was clarified publicly is my understanding.

Nigel Coe - Deutsche Bank - Analyst

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Okay, then if it does come to pass in its current form, what are your options in terms of limiting that? Could you reorganize GE Capital offshore? Do you shrink the balance sheet more than you are currently guiding?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Well, I think there are incremental things. First of all, there's a lot of work to do in terms of what's the basis for this fee. If it's a TARP loss recovery, is it on financial services and auto? So there's some macro questions that I think need to be answered above what we are thinking about. I think at a GE level, some of this right now we've just calculated off our total liabilities except for our Tier 1 equity and our deposits, FDIC deposits. We've got TARP. We don't have any TARP but we do have TLGP debt. We paid a fee on that. Does that get concluded in the [base] liabilities or not?

Finally, the size of GE Capital, obviously we're going to continue to shrink GE Capital. As we bring GE Capital down, that will benefit us. But again, I think those are around the edges, I think there's a strategic question about what comes out in the president's budget, what does the Congress passed, and then how does it get implemented by the regulators? Those are -- there's three steps here that we are going to have to work our way through.

We've given you if nothing changes based on our understanding today without deducting anything out of the liability bucket other than what has been defined, \$0.05 on a total year basis; \$0.025 in the second half is our current estimate.

Nigel Coe - Deutsche Bank - Analyst

Okay, and then just a couple quick ones here. First of all, if I back out the \$300 million [service 2] down I guess within Transportation, it looks like your underlying margins about 24%. Is that right? That's pretty remarkable with these kind of volumes. Is that sustainable?

Keith Sherin - General Electric Company - Vice Chairman and CFO

I'm not sure if you backed it out -- is that out of the Tech Infra segment in total?

Nigel Coe - Deutsche Bank - Analyst

That's within Transportation so if you add back the \$300 million, I think you get about \$150 million.

Keith Sherin - General Electric Company - Vice Chairman and CFO

No, that's also in revenue. If you do it that way you'll get closer to their 17%, 18 percent margin range.

Nigel Coe - Deutsche Bank - Analyst

Okay, fine. If you could just call out what the pretax on the FANUC gain.

Keith Sherin - General Electric Company - Vice Chairman and CFO

It was a couple hundred million dollars.

Nigel Coe - Deutsche Bank - Analyst

Okay. Thanks, Keith.

Operator

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Jeff Sprague, Citigroup.

Jeff Sprague - Citigroup - Analyst

Thank you. Good morning, everyone. Just a couple questions. I don't recall ever hearing one of these adjustments in service like this. If it was, I don't think it has ever risen to this size. How frequently do these reviews take place?

Keith Sherin - General Electric Company - Vice Chairman and CFO

First of all, in the size of Transportation, it is more significant. That is why you are seeing it here in the quarter in that business. We basically over the last few years have done a complete review of all of our service contract businesses. We started in Aviation. We moved into Energy and we completed those.

Today the process is on an annual basis every contract with a customer that has a CSA with us is reviewed. Usually it's about a quarter of the contracts each quarter and we will do a complete update of our long-term forecasts of what the total revenue over the life of the contract and the total cost over the life of the contract are. And if it needs an adjustment, we make those adjustments every quarter.

So they are more in the actual ongoing operations of the Aviation and Energy. They are every quarter. In Transportation, our practice was not to do it on a contract by contract basis until this year and in the fourth quarter we said we've got to standardize this across the company, have every business do it the same way. And in 2010, Transportation will do about a quarter of its long-term service contracts every quarter and review them the same way the rest of the Company does.

So we have been going through this for a number of years. We haven't had in a business on a relative basis something of this magnitude, but we have had adjustments in both Aviation and Energy. Some of the adjustments in Aviation were back in some of our corrections we made two years ago, Jeff.

Jeff Sprague - Citigroup - Analyst

I guess the thing that just raises the concern is I just think about the demand disruption in electricity demand the last couple of years. Has there been pay-as-you-go headwinds in energy on just lower gas turbine utilization?

Keith Sherin - General Electric Company - Vice Chairman and CFO

There have been, and on the cost of the overhauls of everything, if you look at the last several years -- if you go quarter by quarter in Aviation, we've had periods in every quarter where we have had a little pressure in service costs and energy. We've talked about it, so yes, absolutely every quarter those are looked at and adjusted.

Jeff Sprague - Citigroup - Analyst

And just moving on, I think price was addressed a little bit earlier on. Just looking at my notes, I think you guys said wind price was up 10% in Q3 and now it is down 2% in Q4.

Keith Sherin - General Electric Company - Vice Chairman and CFO

No, you are dealing with revenue. The price in the backlog was very strong. The orders price in the fourth quarter was down 2. So the backlog pricing in wind is very strong. The orders pricing for the year is about flat in total. Then the quarter was down about 2.

Jeff Sprague - Citigroup - Analyst

Okay, so you still have positive price coming through backlog?

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Keith Sherin - General Electric Company - Vice Chairman and CFO

Absolutely.

Jeff Immelt - General Electric Company - Chairman and CEO

And our material deflation, Jeff, is probably 4%, something like that for next year.

Jeff Immelt - General Electric Company - Chairman and CEO

For next year. Right now we've got about 1.5% this year. So again, I think the value gap will remain positive.

Jeff Sprague - Citigroup - Analyst

Great, and then just on commercial spares, actually a very strong performance, down 4 and for the year I think you said. Obviously you had very good utilization relative to what was being parked and what was not being parked. But was there any comparison issue there that creates any particular headwind into 2010?

Keith Sherin - General Electric Company - Vice Chairman and CFO

No, I think if you look at the numbers that I am giving you on spares rates, they take out the impact of any one-time order with AVL or anything like that. The fourth quarter spares orders were \$19.5 million a day. That was down 11 in the quarter but for the year, as I said, down 4 at 19.4.

Jeff Sprague - Citigroup - Analyst

And does the guidance in any way anticipate or allow for potential gains on Security and NBCU? Would those be restructured or (multiple speakers)?

Keith Sherin - General Electric Company - Vice Chairman and CFO

No, I don't have anything in the guidance on that.

Jeff Sprague - Citigroup - Analyst

And then finally, Jeff, I think you addressed it in December and actually I'm just looking at my notes and I don't have it clearly. On your last slide, you talked about driving people to compensation as it relates to these metrics. Obviously all we are seeing on the slide is kind of the triple plus for 2012. But what is it exactly that people will be compensated for? And how are they being measured?

Jeff Immelt - General Electric Company - Chairman and CEO

You know, Jeff, we have a three-year long-term incentive plan and so they have always been aligned with earnings per share growth, return on total capital, cumulative cash flow. So those will be the metrics that are the backbone of it and they will be reflected in the team with the double plus and the triple plus.

Jeff Sprague - Citigroup - Analyst

Are we going to know what those are, though? Is that going to show up in the proxy? Are we going to be able to kind of track and measure the Company relative to that so we know how you're doing?

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Jeff Immelt - General Electric Company - Chairman and CEO

I haven't looked at the proxy yet. We haven't historically done that, Jeff, but again, I just want to make sure you get a sense that the people are very much aligned with what I would say will be a strong performance on earnings per share in the future.

Operator

Lee Rosenbaum, Loomis Sayles.

Lee Rosenbaum - Loomis Sayles - Analyst

Keith, can you just refresh me in your comments when you were discussing income maintenance agreement, did you cite \$2 billion in 2011? Did I hear that correctly? If so, what was your prior thinking on that number?

Keith Sherin - General Electric Company - Vice Chairman and CFO

Well, yes, that is what I said. We forecast as part of the stress cases in March that 2011 could be anywhere from \$2 billion to \$7 billion. Today we are recommitting that our current outlook based on the GE Capital plan is somewhere around \$2 billion and that would be put in in 2011.

Lee Rosenbaum - Loomis Sayles - Analyst

Okay, thanks a lot.

Operator

Jason Feldman, UBS.

Jason Feldman - UBS - Analyst

Good morning. So just a couple of quick ones here. Enterprise Solutions, obviously profit was up a lot, but was that entirely attributable or almost entirely attributable to the gain or is there something (multiple speakers)

Keith Sherin - General Electric Company - Vice Chairman and CFO

No, that's right, the (inaudible) gain is in there.

Jason Feldman - UBS - Analyst

Okay, so basically it wasn't doing all that much different?

Keith Sherin - General Electric Company - Vice Chairman and CFO

A couple hundred million dollars, otherwise it would be close to flat.

Jason Feldman - UBS - Analyst

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Got it. On finance, a little bit higher-level question I guess but you are talking I think a little bit more optimistically than you had been about the commercial side, the Commercial Lending and Leasing, but it sounds like Consumer is more stable, not necessarily down next year but fairly stable. Typically earlier last year and certainly when we talk to our finance guys you would expect the Consumer business to turn around faster and the Commercial tends to be later cycle.

Is there something different going on there or are those dynamics different this cycle or is it just your business mix? Any thoughts there?

Keith Sherin - General Electric Company - Vice Chairman and CFO

I think we are just looking at unemployment kind of staying in around 10%. That's kind of what keeps the delinquencies and keeps the nonearnings where it is, so it hasn't crested over. I think if you look at the Commercial side, we actually see nonearnings go down by \$600 million in the quarter, you see delinquencies starting to roll over. Basically we have dealt with the restructuring on quite a few of the early companies that went into distress part of the recession and that is starting to show some signs of improvement.

Jeff Immelt - General Electric Company - Chairman and CEO

So we see both positive next year. They're both positive.

Jason Feldman - UBS - Analyst

Okay, but was I wrong to say that you perhaps were more optimistic on the Commercial side or seemed a little bit more positive there?

Keith Sherin - General Electric Company - Vice Chairman and CFO

There's more visibility on Commercial outside of unemployment on Consumer.

Jeff Immelt - General Electric Company - Chairman and CEO

I think Consumer was actually slightly better this year than we thought it was going to be. We finished the year (multiple speakers) so I think actually in some ways this is playing out -- some of it started in the second half of the year on Consumer and will carry over and then the Commercial I think gets better during the year.

Jason Feldman - UBS - Analyst

Okay, and then last one. You talked a little bit in terms of cash deployment on the kind of criteria that you might use for acquisitions. Are there particular kind of broader business areas that seem more or less attractive going forward?

Jeff Immelt - General Electric Company - Chairman and CEO

I think we just talked about Infrastructure in general as being the sweet spot of the Company and that's where the capital will go.

Jason Feldman - UBS - Analyst

Okay. But within that just very broadly, not one particular part relative to the others?

Jeff Immelt - General Electric Company - Chairman and CEO

You know, it's just our little secret.

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Jason Feldman - UBS - Analyst

Okay, fair enough. Thank you very much.

Trevor Schauenberg - General Electric Company - VP of IR

Great, Noelia. I think that's the list of questions. We've gone through everything. Just to close out today, the replay of today's webcast will be available this afternoon and Joanne and I are always available to take questions.

Just to announce our first quarter earnings release will be held on April 16, so please reserve that date. Thank you, everyone, for your time today.

Operator

Thank you for your participation in today's conference. This concludes your conference call. You may now disconnect. Have a great day.

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