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EDITED TRANSCRIPT

GE - Q4 2014 General Electric Co Earnings Call

EVENT DATE/TIME: JANUARY 23, 2015 / 01:30PM GMT

OVERVIEW:

Co. reported 4Q14 revenues of $42b and operating earnings of $5.6b or $0.56 per share.

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 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: current economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets; the impact of conditions in the financial and credit markets on the availability and cost of General Electric Capital Corporation's (GECC) funding, GECC's exposure to counterparties and our ability to reduce GECC's asset levels as planned; the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults; pending and future mortgage securitization claims and litigation 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; 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 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 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, 2013. These 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.
"This document contains non-GAAP financial information. Management uses this information in its internal analysis of results and believes that this information may be informative to investors in gauging the quality of our financial performance, identifying trends in our results and providing meaningful period-to-period comparisons. For a reconciliation of non-GAAP measures presented in this document, see the accompanying supplemental information posted to the investor relations section of our website at www.ge.com."
In this document, "GE" refers to the Industrial businesses of the Company including GECC on an equity basis. "GE (ex-GECC)" and/or "Industrial" refer to GE excluding Financial Services."
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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric fourth-quarter 2014 earnings conference call. (Operator Instructions) My name is Larissa and I will be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

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

Matt Cribbins - ***General Electric Company - VP Corporate Investor Communications***

Great. Thank you. Good morning and welcome, everyone. We are pleased to host today's fourth-quarter webcast.

Regarding the materials for this webcast, we issued the press release, presentation, and GE supplemental earlier this morning on our website at www.GE.com/investor. 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.

For today's webcast we have our Chairman and CEO, Jeff Immelt, and our Senior Vice President and CFO, Jeff Bornstein. Now I'd like to turn it over to our Chairman and CEO, Jeff Immelt.

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

Hey, thanks, Matt. Good morning, everybody. Look, we still see the global environment as generally positive with a lot of volatility. GE had a strong fourth quarter, with some elements better than we indicated in December.

Operating EPS was $0.56, up 6%, led by Industrial EPS, which grew by 23%. Orders grew by 3%, which was 5% organically, and our backlog expanded to a new record. Industrial organic growth was up 9% and margins expanded by 50 basis points.

Our initiatives continue to deliver results. Industrial CFOA was $7.2 billion, up 64% reported in the quarter, or 30% ex- the 2013 NBCU taxes. Capital's quarter was consistent with our expectations.

The US continued to strengthen, as did Asia. Some businesses are seeing more momentum, like Aviation and Healthcare. Our Oil & Gas team executed well despite volatility; they're underlying performance was revenue flat and earnings up 6%, and we believe that our diverse and integrated model worked for investors in the quarter as it will in 2015.

We delivered on our key commitments for the year. Industrial segment profits grew by 10%, driven by 7% organic growth and 50 basis points of margin expansion. GE Capital reduced ENI by $17 billion and hit their earnings plan.

CFOA was in the middle of the range at $15.2 billion. Free cash flow was $11.2 billion, up 6% for the year.

Our capital allocation choices were in line with expectations. On the M&A front, Alstom should be a financial and strategic driver; Appliances is well priced and done at a good point in the cycle; and the Synchrony spin will result in a substantial reduction in GE shares.

We are executing a valuable pivot at GE, one that improves our business mix while delivering EPS growth and expanding returns.

Now for orders, total orders grew by 3%, which is pretty good in the environment. As I said earlier, organically, this is 5% in total, with 3% in equipment and 8% growth in services. Orders grew by 7% for the year.

We had strength in services, which was up 6% in the quarter and 10% for the year. And we grew backlog by $17 billion year-over-year.

Power & Water had a solid quarter, but comps were impacted by the huge Algerian deal in 2013. Without that, orders were up 13% in the quarter. We now have 15 H orders with another 30 technical selections.

Oil & Gas orders were down 4% organically, consistent with our expectations. Turbomachinery actually saw orders grow by 16% in the quarter.

Aviation orders grew by 15%, and they end the year with a record backlog. Aviation commercial spares grew by 37% in the quarter.

Importantly, the US Healthcare equipment orders grew by 17%, demonstrating renewed strength in our biggest market.

Our success with the Tier 4 locomotive continues. We took 1,355 orders in 2014 and are positioned for record shipments in 2015.

The US was strong, with orders growing by 18% in the fourth quarter, following a 25% growth in the third quarter.

Growth markets were mixed. For instance, Middle East and North Africa was negative in the quarter due to the Algerian order I talked about earlier, but was up 20% for the year. And Asian growth market orders grew by 21%.

We closed 2014 with a backlog of $261 billion. In December we called out a 2015 organic growth range of 2% to 5%, and we still feel good about this range.

For execution, our team really executed well in the quarter, with organic growth up 9% and margins up 50 basis points. For the year, Industrial segment profit was up 10%, with 7% organic revenue growth and 50 basis points of margin enhancement.

Our initiatives are driving growth ahead of our peers. Our product lineup is quite strong.

The H-turbine is winning in the market. Our Aviation wins are huge, with 79% LEAP share to date. The Tier 4 continues to win. Our Healthcare products are gaining share in CT, MR, and Ultrasound.

Aviation commercial spare shipments grew by 24%, and PowerGen services grew revenue by 14%. As I said earlier, growth markets revenues expanded by 7% in 2014, with five of nine regions growing.

Also, an update on a few of our adjacencies. Life Sciences grew earnings by 15% for the year. Water hit a 10% operating profit rate in the quarter, with 26% earnings growth for the year.

And we won the Boeing 777X onboard computing system. This is a huge win and positions GE as a Tier 1 avionics supplier.

Margins continue to be a good story, up 50 basis points for the year. Simplification and services again are the big drivers.

We hit 14% of structural costs as a percentage of sales for the year, with another $1.2 billion of cost-out and Corporate costs, ex-gains, restructuring, and NBCU, declined by more than $900 million.

We are seeing the impact of analytics on service productivity. Service margins grew by 270 basis points in the quarter. We have momentum in every business, and with an intensifying focus on gross margins in product cost, we're on track for another year of margin growth in 2015.

Now on to cash. For the quarter our Industrial cash grew by 64% to $7.2 billion. This is consistent with our expectations for the quarter and the year.

We finished the year by shipping a tremendous amount of volume, and our teams did a great job on working capital, which reduced by $2 billion in the fourth quarter. Free cash flow for the year was $11.2 billion, up 6%. And the GE Capital dividend was $3 billion, below the $6 billion they delivered in 2013.

We ended the year with substantial liquidity and financial strength. GE Capital ended the year with Tier 1 common ratio of 12.7%, substantially above the regulatory guidelines. We returned about $11 billion to investors in dividends and buyback, and we remain on track for $12 billion to $15 billion for free cash flow and dispositions in 2015.

We will allocate our capital in line with the discussion we had in December. Our priority is to execute on Alstom, fund organic growth, and continue to grow the dividend. Remember that Synchrony at the current pricing should return $18 billion to $20 billion to investors in a share exchange.

In any environment where we have an uncertain macro economy, it's important to talk about execution. In 2014 in our performance, you can see the tangible results of how we are running GE.

Our underlying business has significant operational momentum supported by the changes to how we are running GE day to day, with more transparency and more accountability. This was an excellent execution quarter for the team, and now Jeff will give you the business details.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Thanks, Jeff. I'll start with the fourth-quarter summary. We had revenues of $42 billion, up 4% in the quarter. Industrial sales of $31 billion were up 8%, and GE Capital revenues of $11.5 billion were up 4%.

Operating earnings of $5.6 billion were higher by 4%. Operating earnings per share of $0.56 were up 6%, with Industrial EPS up 23% and GE Capital EPS down 17%. Continuing EPS of $0.52 includes the impact of non-operating pension; and net EPS includes the impact of discontinued operations.

We had $0.01 impact in discontinued operations this quarter associated with WMC. This was driven by a reserve increase of $142 million to reflect WMC's current assessment of its loan loss exposure based on recent settlement activity and negotiations. WMC ended the quarter with $809 million in reserves, flat with fourth quarter of 2013.

As Jeff said, CFOA for the year was $15.2 billion. We had Industrial CFOA of $12.2 billion and received $3 billion of dividends from GE Capital. In the quarter, Industrial generated $7.2 billion of CFOA, up 64% on a reported basis and up 30% excluding the impact of NBCU taxes from last year.

The GE tax rate for the quarter was 13%, bringing the year-to-date rate to 17%. In the quarter, we benefited from the passage of the extenders bill and deductions from higher restructuring and impairments. The GE Capital tax rate was 5% for the quarter and 2% for the year, consistent with the low single digits estimate that we previously communicated.

On the right side you can see the segment results. Industrial segment revenues were up 6% reported and up 9% organically, reflecting about 2 points of headwind from foreign exchange and 1 point from acquisitions and dispositions.

Foreign exchange was approximately $600 million drag on Industrial segment revenue and about $180 million impact on op profit in the quarter. Despite this headwind, Industrial segment operating profit was up 9%.

GE Capital earnings were down 19%, primarily driven by lower gains and tax benefits associated with the Swiss and the BAY transactions from the fourth quarter of last year.

I'll cover the dynamics of each of the segments in a couple of pages. First, I'll start with the Other items page for the quarter. We had $0.04 of restructuring and other charges at Corporate, but with $0.02 of that related to ongoing Industrial restructuring and other items as we continue to take actions to improve the Industrial cost structure. At $353 million pretax, this was approximately $75 million higher than the plan and reflects the acceleration of some restructuring opportunities from 2015.

We also had a $217 million pretax charge for an impairment related to a strategic investment in the Energy space. This investment has underperformed in the market, but we continue to expect there to be long-term value in the asset.

In November of 2013 I reviewed with investors our plan to invest $1 billion to $1.5 billion in restructuring to accelerate the repositioning of our Industrial cost footprint and position us to grow earnings through the pivot in 2015 and 2016. On the bottom of the page is the profile of those restructuring and other charges that we took in 2014 by quarter, and the $0.01 gain associated with the Wayne disposition. For the total year, net charges were $0.11 per share or $1.7 billion pretax.

Next I'll give you an update on Industrial cost dynamics. On SG&A, we have made a lot of progress. We ended the year at 14% SG&A to sales, which is down almost 2 points from 2013.

This was driven by a combination of cost-out efforts in the Industrial segments and Corporate. For the year, we took out $1.2 billion of structural costs, in line with the $1 billion-plus we've been communicating with you.

On the bottom left you can see Industrial segment gross margins excluding Corporate. For the year, segment gross margins were down 80 basis points, which is driven entirely by negative mix as we grew equipment revenues faster than services, particularly in Wind, GEnx, and Thermal.

As we discussed at the December outlook meeting, Dan Heintzelman, Jamie Miller, and I are driving a focused initiative to improve Industrial gross margins through an intense focus on product cost, similar to our programmatic approach around SG&A. We are targeting to improve gross margins by 50 basis points in 2015.

On the right side you can see the Corporate operating costs. The bar graph excludes gains, restructuring, and NBCU operations from 2013, so you can see our true operating expenses.

We have taken significant actions on Corporate costs, with about $950 million reduction for the year. This includes functional headquarter cost improvements, lower global and growth spend, operating pension and retiree health cost improvements, and nonrepeating charges in 2013, principally the EBX charge we took in the second quarter of 2013.

The focus on reducing Corporate costs will continue into 2015, and we expect Corporate costs to be about $2.3 billion to $2.5 billion for the year. We'll continue to reduce Corporate costs, but this will be partly offset by higher pension expenses, as Jeff outlined during the Outlook Meeting in December.

Now I'll go into the segments and start with Power & Water. Orders in the fourth quarter totaled $9.5 billion, down 8%. Orders were higher by 13% excluding the Algerian mega-deal in the fourth quarter of last year.

Equipment orders were down 12%, driven by Thermal down 62% as a result of a difficult comparison to last year's 270% increase, including Algeria. We had orders for 41 gas turbines in the quarter, flat with last year, excluding the Algerian deal.

The fourth quarter received an order for two H-turbines, bringing units in backlog to 15 H's, and we have been selected for another 30 units on projects and are bidding an additional 61 units as we speak. Total gas turbine order count for the year finished at 105 units, representing 18 gigawatts of power.

Partially offsetting Thermal's orders decline was Distributed Power, which was higher by 66%, and Renewables was up 47% in the quarter. Distributed Power equipment growth was driven by turbines, up over 100%, partly offset by a decline in engines.

The turbine strength was attributed to a large win in Egypt consisting of 20 trailer-mounted units, 14 LM6000s, and some balance of plant. The 20 TMs and six of the 14 LMs converted to sales in the quarter. For the year, DP recorded orders for 167 turbines versus 174 in 2013.

Renewables equipment orders were up 47%, reflecting orders for 1,251 turbines. The US was up 16%, including 138 Safe Harbor units associated with the PTC extension. We saw significant growth in Latin America, the Middle East, and in regions we took no orders in the fourth quarter of 2013, including China and India.

Service orders were down 2%, also driven by no repeat of the Algerian deal. Excluding Algeria, service orders grew 9% on strong transactional upgrades and outages. AGPs in the quarter were 26 versus 25 last year, bringing the total year AGP count to 80.

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Power & Water revenues of $9.4 billion in the quarter were up 22% with very strong equipment revenues, up 37%, and service revenues up 7%. Equipment revenue was driven by strength in Thermal, up 64%, with sales of 44 gas turbines versus 28 last year, and Renewables up 20% on 206 more wind turbines, and DP up 33% in the quarter.

Operating profit in the quarter totaled $2.1 billion, up 13% versus fourth quarter of 2013. Earnings were driven by higher volume and cost productivity, partially offset by negative value gap, principally price, and unfavorable mix of higher equipment sales versus services. SG&A in the quarter was down 12% year-over-year, and margins in the quarter were down 190 basis points.

As you look into 2015 we expect to continue to grow services, including upgrades. We anticipate a flat gas turbine market but expect to gain share. We are planning for Wind to deliver 3,000 to 3,200 units, and Distributed Power will continue to be pressured as we look into 2015.

Next, Oil & Gas. Oil & Gas orders at $4.9 billion were down 10% in the fourth quarter. Excluding the effects of FX and the Wayne disposition, orders were down 4%.

Notwithstanding the volatility of oil prices in the fourth quarter, we believe the relative impact was modest, with more impact expected in 2015. Equipment orders of $2.5 billion were down 15% reported; down 9% organically.

The Subsea orders were down 38%, with no repeat of large fourth quarter of last year orders with Petrobras and ENI. Downstream Technology orders were down 46%, driven by a large Shell order in the fourth quarter of last year in our distributed gas solutions business, partially offset by strong growth of 7% in our Downstream products platform.

Measurement and Control equipment orders were up 6% organically as we continue to see improvement in end flow and process markets. Drilling and Surface orders were down 2% with Drilling down 72%, as expected, partly offset by 7% growth in our Surface business.

Turbomachinery was up 60% on natural gas orders in North America, the Middle East, and in Russia. Service orders were down 4% but up 1% organically, and TMS orders were down 10% on lower installations in the quarter, partly offset by 6% organic growth in M&C, Downstream Technology growth of 16%, and Drilling and Surface higher by 11%. For the year, total orders were flat with, backlog up 1%.

Oil & Gas revenues in the quarter of $5 billion were down 6% reported and flat organically, driven by 3 points of FX and 3 points of disposition impact. Equipment revenues were down 5%, with Subsea down 10%, but flat excluding exchange.

M&C was higher by 3% organically; and Downstream Technology and Drilling and Surface were up 10% and 11%, respectively. Service revenues were down 6%, primarily driven by TMS down 11% and M&C down 5%, but M&C was up 12% organically.

Operating profit in the quarter was higher by 1% versus the fourth quarter of last year, and up 6% organically driven by strong value gap and cost productivity, offset by the effects of foreign exchange. Margins expanded 110 basis points in the quarter, and 100 basis points for the year.

As we outlined in the December Outlook Meeting, 2015 will be a challenging year for our Oil & Gas business. Lorenzo and the team are focused on executing on the cost-out actions to offset volatility and deliver on their commitments.

Next up is Aviation. Aviation demand continues to be strong, with revenue passenger kilometers November year-to-date up 6.1% on international routes and up 5.3% on domestic routes. Freight growth was 4.4% November year-to-date.

Orders for Aviation were strong, up 15% in the quarter. Equipment orders of $4.4 billion were higher by 8% and service orders grew 25%.

Equipment orders were principally driven by commercial engines. GEnx orders of $1.2 billion were up 23% on large orders from American and Air France. GE90 orders were up 2.5 times to $900 million in the quarter; and LEAP and CFM recorded $1.2 billion of orders. Our total win rate for the LEAP since launch is now at 79% on narrow-body aircraft.

Military equipment orders were down 59%, driven by the slow military environment.

Service orders, up 25%, were driven by strong commercial spares orders at $35.6 million a day, up 37%, and stronger military spares. Orders for total-year 2014 grew 8% and backlog grew 7% for the year to $134 billion.

Revenues in the fourth quarter were higher by 4% to $6.4 billion, driven by commercial equipment revenues, up 8%; services, up 3%; and military equipment, down 3%. Commercial spares were strong, up 24%.

We shipped 77 GEnx units in the quarter and 287 for the year. Leverage and operating profit was strong with 12% growth from volume and positive value gap, partly offset by mix and higher R&D. Op margins improved 140 basis points in the quarter.

Overall, the Aviation team had a strong quarter and year, and we expect strong performance to continue into 2015.

Next is Healthcare. Healthcare had a better quarter than the headline results would suggest.

Orders were up 1% in the quarter, but up 4% excluding foreign exchange. The US was quite strong, up 9%.

Latin America and China were both up 2%, offset by Europe: down 1%, but up 5% organically. Japan was down 23%, driven by the consumption tax and reimbursement reform, and the Middle East was down 26%, mostly driven by Saudi.

Healthcare system orders were down 3%, but up 2% organically, driven by US imaging and Ultrasound equipment orders, which were up 12% in the quarter. We saw growth across most modalities with particular strength in CT, up 22%, from our new Revolution CT introduction, and Ultrasound up 15% from our new Voluson product in the women's health diagnostic space.

This was offset by softer orders in Japan, Russia, and the Middle East. China orders were up 2%, reflecting delays in government tenders we've seen over the last several quarters.

Life Science orders up 13% driven by bioprocess, up 60% on very strong demand in the US and Europe, offset partially by core imaging, down 7%. Revenues of $5.1 billion were flat, but higher by 3% ex-foreign exchange. HCS revenues were down 3%, but up 2% organically. Life Science revenues were up 9%, and up 6% organically.

Operating profit was down 4%, but was up 1% organically. The strong cost execution, including 5% lower SG&A, was more than offset by price and foreign exchange.

Looking forward, we expect the US market to continue to improve. Although final industry figures have yet to be published, we believe we are winning share in key modalities in the US, and China should grow modestly as we look into 2015. The business will continue to drive structural and product costs out as we move forward.

Next, Transportation, which had a strong orders quarter, up 62%, with equipment orders up 107% and services higher by 19%. In 2014 Transportation had its strongest orders year ever, at $9.6 billion, up 89%.

Locomotive orders in the quarter were 284 units versus 70 last year, driven by North America where we took orders for 235 additional Tier 4-compliant units. For the total year 2014 we received orders for 1,355 Tier 4-compliant locomotives.

Backlog for the year grew 43% to $21 billion, with equipment higher by 148% and services higher by 22%.

Carloads grew strongly in North America, up 4.4% in 2014, led by intermodal up 5.4%. Commodities including agriculture were up 3.7%, and petroleum was up 12.5% for the year. In the fourth quarter, petroleum volumes continued to grow, up 16% year-over-year.

Revenues in the quarter were up 8% driven by locomotives up 8%, services up 14%, partly offset by Mining down by 31%. For the total year, revenue was down 4%, largely driven by Mining.

Operating profit in the quarter was up 13% on higher locomotive volume, material deflation, and cost productivity, partly offset by lower Mining volume. The Transportation team has executed well and has positioned the business to capitalize on the new Tier 4 requirements in 2015.

Next, Energy Management, which earned more in the fourth quarter than it earned in the entirety of 2013. Orders in the quarter were down 2%, largely driven by softer Marine orders and Power Conversion, which was down about 16%, partially offset by Digital Energy, up strongly at 17%, and Industrial Solutions up 5%. Backlog grew 9% to $5 billion.

Revenues were down 2%, but up 2% organically. Power Conversion revenues grew 6%; Digital Energy grew 1%; Industrial Solutions was down 6%.

Operating profit of $113 million was higher by 2.5 times on strong value gap and cost execution. For the year, we earned $246 million of operating profit, up 124%. Execution continues to improve and we expect substantial improvements again in 2015.

In Appliances & Lighting, revenue in the quarter was up 5%. Appliance revenues were up 8%, driven by strong volume. Industry core units were up 8% with both retail and contract markets up 8% as well.

Lighting revenues were down 1% on lower traditional product demand, which was down 15% and more than offset the strong LED lighting growth of 72% in the quarter. LED now makes up 27% of Lighting's revenues, up from 16% in the fourth quarter of last year.

Operating profit of $188 million was up 32% in the quarter, and margins expanded by 160 basis points.

Next I'll cover GE Capital. GE Capital's revenue of $11.5 billion was up 4%, primarily from lower marks and impairments. Net income of $1.9 billion was down 19%, principally driven by lower gains and tax benefits, including those related to last year's portfolio exits, including the Swiss and BAY Bank transactions, partially offset by lower credit costs, marks, and impairments.

ENI, excluding liquidity, of $363 billion was down $17 billion or 5% from last year and down $2 billion sequentially. Nonstrategic ENI was down $12 billion to $132 billion or 8% versus last year.

Net interest margin in the quarter at 5% was essentially flat. GE Capital's Tier 1 common ratio on a Basel I basis remains in a strong position and ended the year at 12.7%. This is up approximately 60 basis points from the third quarter and 150 basis points year-over-year.

Our liquidity levels are strong, ending the quarter at $76 billion. This includes $13 billion attributable to Synchrony.

Our commercial paper program remains stable at $25 billion, and we had $10 billion of long-term debt issuance for the year, excluding the activity related to Synchrony. In 2015, we've already issued $7 billion of long-term debt as part of our total year plan of around $20 billion.

On the right side of the page, asset quality trends continue to be stable, with significant improvements in our mortgage portfolio, driven primarily by the sale of a $0.5 billion nonperforming loan portfolio in our UK home lending business, which generated a small gain during the quarter, and the move of our Hungarian bank to held-for-sale. We expect to complete the exit of the Hungary bank during the first half of 2015.

In terms of the segment performance, Commercial Lending and Leasing business ended the quarter with $172 billion of assets, down 1% to last year, largely driven by foreign exchange. Global on-book volume was $12 billion, down 10%. However, we continue to see strengthening in the US, largely in equipment financing, with volume up 4%.

New business returns in both lending and equipment were largely in line with the first three quarters of the year. Earnings of $549 million were up 109%, driven by lower marks and impairments. In 2014, the CLL business earned $2.3 billion, up 16%.

The Consumer segment ended the quarter with $136 billion of assets, up 3% from last year, with earnings of $1.1 billion, down 45%. Our share of Synchrony earnings was $451 million, down 3%, driven by minority interest and partially offset by core growth.

Consistent with last quarter, as a now publicly traded company, CEO Margaret Keane and the team will host their own investor call later this morning. Separation efforts remain on track.

Excluding Synchrony, assets were down 17%, as we continue to reduce our presence in nonstrategic portfolios. Earnings excluding Synchrony were $686 million, down 57%, driven by the non-repeat of gains and tax benefits recorded last year for the Swiss and BAY transactions, partially offset by a $594 million gain associated with the sale of the Nordics Consumer platform.

Just as a reminder, as a result of the accounting guidelines, roughly half that gain was recognized in prior quarters as tax benefits in GE Capital Corporate. These benefits were reversed in the fourth quarter, and the gain was taken in the Consumer segment, resulting in a net gain in GE Capital of $300 million in the fourth quarter.

In 2014, the Consumer segment earned $3 billion, down 30%.

In Real Estate, assets of $34 billion were down 11% versus prior year. The equity book is down 35% from a year ago to $9 billion. Net income of $299 million was up 134%, driven by higher gains and portfolio earnings, partially offset by higher impairments.

In the current quarter, we sold 350 properties from our Real Estate equity book, with a book value of about $2.1 billion, for $320 million in gain. In 2014, the Real Estate business earned $1 billion, down 42% on lower gains.

In the verticals, GECAS earned $218 million, up 207%, driven by lower impairments, partially offset by lower gains and lower assets. Overall, the portfolio is in great shape, and we finished the quarter with zero delinquencies and three aircraft on the ground.

New volume remains strong at $2 billion, up 50% with attractive returns in line with the first three quarters of the year. For the year, GECAS earned $1 billion and was up 17% from prior year. The Milestone acquisition continues to progress, and we expect to close during the first quarter of 2015, pending regulatory approvals.

Energy Finance earned $111 million, down 5% in the quarter, in line with lower assets. EFS's volume was up 31% year-over-year at very attractive returns. In 2014, EFS business earned $401 million, down 2%.

Overall, Keith and the team continue to execute the portfolio strategy and deliver solid operating results. As we look forward to 2015, we expect GE Capital to generate about $0.60 on an EPS basis, as Jeff discussed last month during the annual Outlook Meeting. We expect GE Capital to earn approximately $1.5 billion in the first quarter of the year.

Lastly, I wanted to spend a minute and talk about the framework for 2015 and cover four points. On the left, you have our segment outlook as Jeff shared in December. Overall, there is no change in that framework.

On the right side, first -- positively -- we are seeing strength in the US Healthcare market. Orders were strong, up 9%; and equipment orders were up 17%, with particular strength in imaging and Ultrasound. Orders have been on a positive trend in the US since the first quarter of 2014, and, after the final fourth-quarter results, we are more encouraged that this trend will continue into 2015.

Second is Aviation, which we feel is stronger. Spares orders grew 25% in 2014, and we are targeting high single digit growth in 2015. Revenue passenger kilometers and freight miles continue to be strong; and low Jet A should be a meaningful positive for our customers in this space.

When you think about currency, we planned 2015 assuming a stronger dollar, but we've seen some continued strengthening since the December meeting. Assuming the euro at today's rates for the entire year, foreign exchange would have a modest impact, about $0.01 a share, so very manageable in the context of the total Company.

In December, we also outlined our expectations for Oil & Gas, with a backdrop of oil at $60 to $65 a barrel. Since then, prices have fallen further.

When we planned the year, we relied on multiple scenarios, including a further fall in oil prices. Lorenzo and the team are laser focused on executing against their backlog and their costs. The team is reducing employment, executing restructuring and simplification projects to materially reduce their cost structure, all predicated on a tougher scenario.

Additionally, across the Company we expect to realize some incremental benefits in direct material and other logistical and variable costs as a result of lower fuel costs.

Oil & Gas represented about 15% of our Industrial segment earnings in 2014. We believe that, within the context of the Company portfolio, the potentially tougher Oil & Gas scenario is manageable and consistent within our framework.

With that, I'd like to pass it back over to Jeff.

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

Thanks, Jeff. We remain comfortable with our framework for 2015. We expect the Industrial EPS of between $1.10 and $1.20 behind solid organic growth and margin expansion.

Corporate costs will be substantially lower. Remember, we funded $0.11 of uncovered restructuring in 2014. In 2015, we will offset restructuring with gains.

In addition, we should have the impact from six months of Alstom. Capital results are on track, with Synchrony timing the main variable.

Free cash flow and dispositions are on track for the $12 billion to $15 billion we spoke about in the year. Again, cash return to investors depends on Synchrony timing; but it would be substantial if we do the split this year.

So, closing the year, and since the Outlook meeting, the GE world remains balanced. There are always puts and takes in the global economy. For instance, the US is quite strong, which has a positive impact in businesses like Healthcare and Aviation; and the price of oil has declined even further since December.

Our job is to manage the Company through volatility. And while we'll see the potential for risk to Oil & Gas based on current oil prices, we are aggressively working offsets through cost actions and positive opportunities elsewhere in GE.

We're also seeing stronger momentum in several of our other businesses. In total, this demonstrates the strength of our portfolio approach.

Looking back in 2014, out of eight Industrial businesses, three beat their plan, three met their plan, and two missed their plan. But together we did what we set out to do, growing core earnings by 10%.

In addition, let me give you more insight to the plan I gave you in December. We have an internal plan that is above the midpoint of the range I gave you.

The business results that deliver that plan are embedded in our teams' new incentive compensation for the year. In other words, our leaders achieve their IC when we hit an EPS that is above the midpoint of this range.

Now I want you to have transparency on how we think about the world and manage our team. Our targets encompass a thoughtful approach to the environment and a broad range of macro dynamics.

So, let me reiterate. We feel comfortable with our framework. 2015 is an important year for the Company, and we plan to deliver for you.

And now, Matt, back to you and let's take some questions.

Matt Cribbins - ***General Electric Company - VP Corporate Investor Communications***

All right. Thanks, Jeff. We will take your questions now.

QUESTION AND ANSWER

Operator

(Operator Instructions) Scott Davis, Barclays.

Scott Davis - ***Barclays Capital - Analyst***

Hi, good morning, guys. Thanks for the color. This is a better presentation than we've seen in a while, so thanks for that.

I know this is going to be really tough to answer, but it's going to be really important for us to try to ring-fence the Oil & Gas profit downside. Is there some sort of scenario analysis you could share with us? Or at least a sensitivity that -- hey, if we are off 35% on upstream, what kind of profit drop you'll see on that.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Listen, Scott, this is Jeff. Scott, I mean, the way we've thought about it, particularly when we went through it in December with you, is we evaluated multiple scenarios including a general expectation at that point that we would be down zero to 5%. But we evaluated scenarios that were down beyond that on lower oil prices.

When we talked about the range with you of $1.70 to $1.80 in total, $1.10 to $1.20 Industrially, we included in that our view of what those downside scenarios are. So I think you've got to step back and look at it.

Oil & Gas is 15% of our segment earnings in Industrial. Being down beyond 5% I think is manageable within the context of the Industrial portfolio.

And I think importantly, Lorenzo and the team are like laser focused on driving the cost and the productivity in their business. And the programs they launched were the programs needed to support a lower downside scenario than what we even talked about in December.

So I think we feel reasonably comfortable -- as comfortable as you can be -- that, within the context of what we've shared with you, that we can manage this inside the portfolio, our Industrial portfolio.

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

I think, Scott, I would add to what Jeff said. Just to say -- I think any time in our world we have multiple hedges -- you know, we have the hedge inside the Oil & Gas business driven by the cost action they are taking. We have other upside of what lower oil prices mean inside the Company.

And then there's businesses inside the Company that are doing better as we close the year. So I really -- I think we've envisioned different scenarios for Oil & Gas, and we still feel quite comfortable on the way we talk -- the way we described the Company in December.

Scott Davis *- Barclays Capital - Analyst*

Okay, fair enough. Because there wasn't anything additional, I don't think, that was said on the call on Alstom, and there was a bit of a price adjustment we saw in the quarter; I think it was something like $700 million or something.

Can you give us a sense -- and I know you are probably five months away from close here. But can you give us at least some sense of your confidence in the asset?

And given the new world, that the offsets -- I mean, we've got a better euro environment for Alstom; but on the other hand you've got some North Sea oil headwind. So can you give just a better sense of your confidence of the puts and takes of that transaction, and maybe a little color around the $700 million adjustment?

Jeff Bornstein *- General Electric Company - SVP, CFO*

Yes. Why don't I start with the adjustment, and then Jeff can give you some color on the company.

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

Great.

Jeff Bornstein *- General Electric Company - SVP, CFO*

So, effectively what we -- there were several points within the contract that were open to negotiate post-signing. We made a couple of adjustments.

It's about EUR250 million more that we will pay at closing. Part of that was a payment we are making at our request. The legal entities we wanted to restructure and buy into, we wanted to change a bit for our benefit long-term, in terms of taxes and otherwise.

So part of that EUR250 million was a payment to ask them to close differently from a legal entity perspective than what was originally contemplated.

The second was we originally agreed to about a five-year use of the Alstom brand. We extended that in this agreement to 25 years. That was about $85 million associated with that, and then there were some other very small items.

I think you'll hear Alstom talk about EUR400 million. They're counting about $100 million of interest that they contemplated owing us on cash that they used over the course of the year. We never modeled that; we never counted that.

So we see it as about a EUR250 million adjustment to the purchase price. But we get a lot of long-term value as a result of that legal entity restructuring.

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

So I would say, Scott, always puts and takes. Their grid business is reasonably strong. I would say their renewables business is consistent with -- and also reasonably strong. I would say the power business is in a flat market, kind of the same market we see.

Clearly the euro devaluation helps the purchase price. And other than that, the puts and takes are pretty consistent with how we kind of underwrote the business going in.

Their year-end is in March, and we don't expect -- we don't really have a change in closing date. We still expect -- we still for the purposes of the plan, plan on July 1 for everything, more or less.

Scott Davis - ***Barclays Capital - Analyst***

Okay, great. Thanks for the detail, guys. I'll pass it back.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - ***Morgan Stanley - Analyst***

Thanks, good morning. So, to Jeff, you talked about a pretty limited impact from the dollar on your plan. But I'm just wondering maybe if you could just address how the strong dollar and the weak oil price could impact the broader emerging market demand for infrastructure.

I wonder: are you seeing any backlog or project deferrals as a result of that?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Well, I'd say --

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

There's multiple Jeffs here, Nigel, so you never know quite --

Nigel Coe - ***Morgan Stanley - Analyst***

Yes, I don't mind who.

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

Well, we'll both answer everything. How's that?

Nigel Coe - ***Morgan Stanley - Analyst***

Sounds good.

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

Go ahead, Jeff.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

So I'll start. You know, there's multiple dimensions to this, obviously. My comment was at about $1.15 and $1.16 we've opened up softer than that this morning. It's about $0.01 a share.

We do hedges; we're not 100% hedged. We hedge all our transactional exposure to the extent we can. We are subject to some translation, and we do very short-term hedging around earnings in a quarter.

So, there will be some volatility associated with currency. But I think my point was that in the context of the Company we are not at a point yet where we think it's something that's not manageable across our portfolio.

We do have natural hedging. We have the ability in some of our businesses to move our manufacturing base globally, which allows us to take advantage of changes in currency. And in a couple of our businesses where that matters we are actively looking at our build plan for the year to make sure we take as much advantage of that as possible.

I would say in the short run here, we've seen very little -- that I'm aware of -- very little impact on our order performance as a result of currency. That may play out more in 2015; but through fourth quarter of this year, we've seen very little of that.

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

Then I would say on the -- you had a multi -- both currency and oil price. I think if you took a tour around the world -- look, our biggest market is still the US. The US had orders up 25% in the third quarter and 18% in the fourth quarter. So I would always start by reminding people that actually the US is the best we've seen since the financial crisis.

Then, what we call rising Asia, Nigel, which is really China, India, ASEAN, stuff like that, those are actually quite positive for us right now from an order standpoint. And then the resource-rich countries I think are going to be mixed, depending on what your cost position is and things like that.

So we still, I would say, on an underlying basis see pretty good underlying demand in the Middle East; but clearly places that are marginal producers like Iraq or Venezuela or things like that, those are going to be places that we are not counting on much business in 2015. So it's kind of a mixed bag.

And then Europe for us is flattish, I would say, if you look at the organic. And if the stimulus increases European demand, that's a good thing for us.

Nigel Coe - ***Morgan Stanley - Analyst***

Okay, that's really helpful. Then just switching to the mix in 2015, and obviously tremendous margin expansion on services in 4Q, how does the 150 bps look between service and OE in 2015? And how does the mix shake out on the 2% to 5% between OE and service?

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

I think on the mix -- look, I think if you look at -- in the 2014 I would say product margins were flattish and service margins were up. And look, we described to you guys -- we described to our investors in December an extremely intense focus on gross margins and product cost, and so our expectation is that that delivers in 2015.

So we are looking to get some OE margin enhancement in 2015 along with continued service enhancement. Then Jeff, do you know on the revenue mix?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Well, I would just say on the revenue mix equipment, service should be a little less impactful next year than it was in 2014. That's our plan.

I think the gross margin focus that we have going, which is particularly centered on product service cost, is driving at the OE margin (multiple speakers)

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

Yes, product and service costs, yes.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Product and service costs.

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

Yes. Okay? Great.

Operator

Deane Dray, RBC Capital Markets.

Deane Dray - ***RBC Capital Markets - Analyst***

Thank you and good morning, everyone. Hey, a couple questions.

First for you, Jeff Immelt, a macro strategic question regarding balancing your framework priorities. And then I've got one for Jeff Bornstein about truing up on tax and restructuring benefits.

So, to start on the macro question, you're pretty clear you're in a volatile environment. But I'd love to get an update on how you are balancing the framework priorities.

You've got longer-term big mix changes and could be near-term disruptive to the organization; and then meanwhile you're on an EPS framework with a cadence of earnings, quarterly earnings. And I've always called it a bit like trying to change a car tire going down the highway at 55 miles an hour.

So how are you balancing these big mix changes versus earnings expectations for 2015?

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

The best way I can describe it, Deane, is since the -- I would say since 2013 inside the Company, or even longer, we've been talking about and executing around this kind of mix shift that we've described to investors. I think Jeff earlier in the presentation talked about the investments we've made in restructuring in 2014 to set us up for 2015 and beyond, which, again, everybody in the leadership team is on.

So the way I would look at this, Deane, is on the Industrial side I think the teams -- their world is in front of them, their incentives are in line, they know exactly what they need to do. We've got Alstom coming in; Appliances going out.

And that is -- that team is laser-like focus between Dave Joyce and Lorenzo and Steve Bolze, and those guys know exactly what they need to do in this environment.

On a GE Capital side, look, we're just going to make it smaller if we can as time goes on. We're going to execute on Synchrony, and that's what the Capital team is doing.

So I think you've got to look at it in terms of every team knows exactly their piece of how we need to execute here. There is absolutely no confusion on the Industrial side. And Financial Services, we're just going to look for opportunities to continue to make it smaller.

We talked about 75/25 as a goal, but we really run the place with that as an output function, not an input function. Right? We run the place to execute well on our businesses, and we think 75/25 is the output.

Deane Dray - ***RBC Capital Markets - Analyst***

Got it. Then for Jeff Bornstein, maybe you can true us up on the tax outlook for 2015 and restructuring benefits that should carry in, and anything unique about the first-quarter tax.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Sure. On tax, Industrial tax we think is going to be -- the core rate will be what it has been, which is kind of high teens. We will do the Appliance transaction; that will be a high tax transaction, which will bump the rate up to low 20%s for next year.

And I think that's consistent with what we've communicated. The trend will probably be higher in the early part of the year, lower in the later part of the year on Industrial tax.

On restructuring, same discussion. We're going to do restructuring next year. It's critical to delivering on everything we've talked about.

We've assumed the gains. The Appliance and signaling transaction will happen midyear. We will do restructuring in the first half of the year before those gains manifest themselves, but we still believe that for the total year our restructuring and gains and to some degree the impact on mortality are all going to offset. We are not going to be doing, today anyway, naked restructuring.

Deane Dray - ***RBC Capital Markets - Analyst***

What's the carry forward of restructuring benefits in 2015 from actions in 2014?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

What we've gotten in our makeup, in our cost roll, is about $500 million. We will get in incremental benefit for new restructuring we do in 2015. As you know, we'll get partially it depending on where we execute those projects.

But the carry through from, I would say, both 2013 and 2014 is about $500 million for 2015.

Operator

Steven Winoker, Bernstein.

Steven Winoker - ***Sanford C. Bernstein & Co. - Analyst***

Thanks and good morning. Hey, could you just give us a better sense of the detail around the gains that happened within GE Capital in the quarter? Just the major gains including -- as well as the Real Estate side, but across the whole business. And did the Norges thing come through all that?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Yes, so I'll start with Norges. We did close Norges. The impact in the quarter was just over $300 million.

The headline impact in the segment reporting in retail was the full $600 million. And that's partly because we did the tax accounting earlier in the year that recognized the tax benefits for about half the gain. We reversed that in the fourth quarter, and the full effect of the disposition took place in the fourth quarter in the retail segment.

So within the fourth quarter about $300 million; $600 million for the year. In addition, I talked about -- we sold the nonperforming loan portfolio in our UK home lending business for about $0.5 billion; had a very small gain associated with it, about $20 million, but a big deal for our UK portfolio.

I talked about $2.1 billion of Real Estate sales in the quarter led by Japan multifamily that we sold. That specifically was about $229 million.

I think total Real Estate gains for the quarter were closer to $330 million. And that made the bulk of what GE Capital gains were in the quarter.

Steven Winoker - ***Sanford C. Bernstein & Co. - Analyst***

Okay, great. Then just maybe pausing on the order price profile for the quarter and the trend line in some of these. I know we've talked about Oil & Gas a little bit; it was down 20 basis points. And Power & Water down 70.

Are you seeing pressure in the existing backlog at all in terms of any kind of renegotiation activity happening?

And also, currency: are you also feeling any pressure? We talked about currency a little bit, but are you feeling any pressure to use pricing to make up for any of the segments, whether it's Power, Healthcare, or Lighting, where you might have broader international competition? Any of that coming through?

And then Healthcare I guess as part of that same thing, which is -- I know this is the business model, to be down every quarter and take costs down by more. But that can't be a good thing for too long. So maybe some thoughts on that too.

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

So, you know, Steve, here's what I would say. I would say most of the pricing impact that we see in the fourth quarter is more mix driven than anything else. For instance, in Power you've got most of the heavy-duty gas turbine action is in the H; that really is not in the base yet, but those are higher-price, bigger units. You get a little bit more competitiveness on aeros, but not a lot to talk about.

Oil & Gas, we really haven't seen it yet. Nor have we seen -- there's some initial letters and stuff like that on pricing, but no real action.

I think that's all -- again, I don't think we've seen it in the fourth quarter. We haven't seen it yet.

But this is early days, so I'm -- I think there's going to be -- there's certainly going to be chatter out there. So I don't really take all the stuff that's happened necessarily in the fourth quarter as what's going to happen throughout the rest of 2015. I think we just have to be ready on all fronts.

And I would say no conversation at all around currency and anything along that yet. We'll see how that plays out.

In terms of Healthcare, look, I think you're right. This has been the historical business model.

But I also think what we're doing, Steve, with Jeff and Jamie and Dan Heintzelman is we are ripping apart the critical [X's] and gross margins across each one of these businesses. I think in Healthcare managing the pricing is going to be a key part of how we get enhanced gross margin improvement in that specific business.

Steven Winoker - ***Sanford C. Bernstein & Co. - Analyst***

Okay, thanks, guys. I'll pass it on.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - ***JPMorgan - Analyst***

Hey, good morning. Just to make one thing clear, what were the impairments in the fourth quarter? Total gains of $650 million in GE Capital; what were the impairments?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Hold on one sec; I'll get it for you. What's your next question, Steve? And I'll run that down.

Steve Tusa - ***JPMorgan - Analyst***

My next question would be another detail question. Lufkin specifically in artificial lift, we've seen some varying reports on inventory destocking. I think PCP yesterday talked about their oil and gas business, implied down like 50% to 60% in some of their -- on a quarterly run rate basis, showed some destocking.

Did you guys see destocking in your artificial lift business, the Lufkin business?

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

Not yet, Steve. Look, when you look at -- like, revenues in the quarter were up mid single digits in Lufkin. Orders were down mid single digits, so not enough to read into.

Again, a lot of this I think in Oil & Gas has yet to play out. But I would say the fourth quarter was pretty much inside of our expectations for Lufkin.

Steve Tusa - ***JPMorgan - Analyst***

Got you. Then just one last question, just on cash. Jeff, just philosophically around the dividend, you guys are bumping up against an 80%-ish type of payout ratio on the free cash when it comes to the dividend. I mean, there is a pretty significant -- it's a big dividend relative to your free cash flow.

Is that dividend viewed -- I mean, is there a fine line here? Given obviously the location of cash makes it a little bit complicated as far as moving things around and being able to pay that. Would you -- is there a fine line as a percentage of free cash flow that you don't mind going over Industrial free cash flow and paying the dividend?

I mean is it -- and as far as growth, do you view the dividend, it's a must-grow over time? I'm just trying to get my hands around how much you defend that dividend.

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

You've got $16 billion of cash on the balance sheet right now. We are going to do Alstom this year. You're still sitting on top of substantial excess cash in GE Capital.

Look, I view the dividend as being key. We have capital allocation choices we make. We're going to continue to grow our free cash flow as time goes on, and we're comfortable with where we are right now.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

I'd say, listen, we've been running at slightly above a 50% payout ratio. I think long term we expect to be slightly less or to about 50% payout ratio.

So as we work through the pivot through 2016, we made a conscious decision that we were going to run a little hotter to our target payout ratio. But the dividend, as Jeff said, is certainly a priority for us and very important to our retail base.

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

I would add, Steve, just one -- just something that I just want to make sure people don't forget. And that is, look, the Synchrony transaction is effectively going to be a $20 billion buyback whenever we execute that.

So that's another big capital allocation choice that's just going to be executed in a lump, in a different way. But that's quite meaningful to our investors as well.

Steve Tusa - ***JPMorgan - Analyst***

Sure. And the impairments?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Yes, the impairments. As you would expect, impairments year-over-year were down substantially, about $550 million. You recall in the fourth quarter of last year in CLL we took the Momentive charge; and we took a little -- we took a second charge on business aircraft. And then the big item in the fourth quarter of last year was the GECAS aircraft impairment.

So year-over-year, impairments were better by $550 million pretax. In the quarter, we really didn't have a lot of big impairments. We had one big impairment on a Real Estate property domestically, for just under $100 million pretax; and that was really about it of consequence.

Operator

Jeff Sprague, Vertical Research.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Hi, thank you, gentlemen. Good morning. Hey, just a couple quick ones. I know we are running tight on time.

Could you just reconcile the comment on Lufkin orders down mid single digit versus Drilling orders down 72%? I know, obviously, there is a little bit more; but that's a little bit of difference there. But that sounds like a fairly sizable disconnect.

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

Yes. Look, it's -- I'm just looking at fourth-quarter orders, Jeff. Go ahead.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

We report Lufkin separately from Drilling and Surface. Drilling and Surface orders were up 4% in the quarter, so antithetical to what you would expect in this environment. And Lufkin was down 6% in the quarter.

So I would say generally, as I went through the script, if you went through the orders for Oil & Gas in the quarter, they are not necessarily what you would expect in this environment. The things you would think would be stronger, including Downstream and the Surface-related stuff --

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

Turbomachinery.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

-- Turbomachinery, were good to slightly down. And the things you would think would be most impacted -- the upstream stuff was a little stronger in the quarter year-over-year.

So I think we're way too early. You're not yet seeing an impact on behavior with our customer in the current order rates. That's to come in 2015.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Okay. You did say Drilling down 72% though, right?

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

No.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Yes, Drilling was down, Surface was up.

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

Yes.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

So Drilling BOPs were definitely down substantially, but Surface was up. We report it as one group, Drilling and Surface.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Okay. And I know the H price is not in the index, but can you give some color on how that's pricing versus expectation?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Well, it's not in the index. I would say, without giving away any real competitive information, I would say sequentially pricing is improving order to order.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Okay. Then just one really quick one on FX. Is the $0.01 headwind or so that you are talking about for 2015 now incremental to what you were thinking previously? The reason I ask is you had $0.02 in Q -- in --?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Yes, Jeff. What I was trying to say was, when we did the framework in December, if you look at that versus -- I did that math at $1.15, $1.16. The move from December to $1.15 to $1.16 for us meant that we were working with a $0.01 headwind that we would figure out.

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

But again, I would come back to -- there's other mitigants to a lot of this stuff.

Jeff Bornstein *- General Electric Company - SVP, CFO*

Yes. And we'll --

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

As you look through the system. We're just trying to give you guys --

Jeff Bornstein *- General Electric Company - SVP, CFO*

I'm not changing guidance in any way. I'm not changing --

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

We're trying to give you guys the pieces, because I think that's -- we want you to know how we think about it. But there is a lot of other things inside the Company that we use to offset it, just like we did in Q4.

Jeff Bornstein *- General Electric Company - SVP, CFO*

Right.

Operator

Andrew Obin, Bank of America.

Andrew Obin *- BofA Merrill Lynch - Analyst*

Yes, good morning. Hey, just a question, two questions. The first: part of the reason for creating Oil & Gas was actually to deliver to national oil companies in an environment like this. Could you share some of the conversations that you are having with these customers?

How are you guys positioning versus the competition? And are you seeing that your structure is actually making a difference? From the outside, how do we know that it does make a difference?

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

Well, look, I would say again, there is not one size fits all. But I think clearly the national oil companies look differently at this cycle than some of the integrated oil companies do. So I would just say in the case of a company like Saudi Aramco, they are going to continue to produce and there's a number of strategies that are associated with that.

Similarly, to a company like Petronas and things like that. And then there's other places that are in more stress.

So, look, I would just echo back, Andrew, to a comment I made in December. We like the Oil & Gas business; we like how we are positioned in it; and we think these cycles give us an opportunity to pick up market position similar to what we did in the Aviation business, in the Power business, and other businesses.

But short of going through private conversations with customers, I can just say that we still think with a lot of the NOCs, or a certain segment of the NOCs, there is still potentially going to be some good business to be done in 2015.

Andrew Obin *- BofA Merrill Lynch - Analyst*

Just to follow up, what's the latest strategic thinking on Energy Management and the progress that they are making?

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

Look, I think we're in a pretty good strategic position. This is a business where Alstom adds some competitive capability and scale.

Our pathway has to be one that gets us to margins that are more competitive with the ABBs and the other players in this industry and that's -- and we can accept nothing less. So I think the way I look at it right now, Andrew, we're in it to win.

We expect margin accretion and earnings growth year after year in this business. And here's one where the ceiling is very high in terms of what we should be able to do in this business.

Operator

Shannon O'Callaghan, UBS.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Good morning, guys. Hey, maybe first for Jeff Bornstein. When you think about driving this swing from down 80 bps gross margin this year to up 50, how do you see that phasing through 2015 numerically? And also where are you and Dan and Jamie at in terms of what you're doing to drive that?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Right now, Shannon, we're doing very deep dives with each business. Basically -- I hate to get too tactical, but basically we are starting with the outcome and building back the project decks from there.

So on every element of product and service cost, direct material, inflation, deflation, direct material usage, warranties, scrap, operating cost per hour of our different facilities, every -- labor, etc., building the project decks that support delivering at each of the segment levels their share of gross margin improvement at the segment level.

And that's where we are today. Jamie, in parallel with that, is continuing to drive and support the businesses with ERP, which is a big part of giving them visibility and driving our ability to consolidate, etc.

So we are in the process right now of building very detailed action-oriented plans that have every dollar of cost between sales and the gross margin line owned by somebody with a plan. So that's where we are today.

I would say this is going to accelerate throughout the year. We're early in the process now.

But I'm quite confident if we get at it the way we have programmatically around SG&A, I think we can make a big difference here. And I think there's a lot of opportunity, as Jeff said earlier, particularly around original equipment margins.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Okay, that's great; really helpful. Then in terms of just the US Healthcare strength, can you give us a little more color there?

What are you hearing from customers? And where do you really think that market is and decision-making is at this point?

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

Shannon, the only two data points I can give you is just what we saw, which was pretty good -- we don't have the market data yet, so we don't know share and things like that, but we had good products and good activity. And we've got to believe that we gained a little bit of share.

Then just I would say the other data point I could give you is conversational. Which is, as I see hospital CEOs when I travel the circuit, you just get a lot more positive in terms of their ability to know what the next few years are going to be like, to do their planning, to do their growth plans and things like that. And that didn't exist, let's say 24 months ago.

So we're guardedly optimistic. But it's too early to call it a trend, I would say.

Shannon O'Callaghan *- Nomura Securities - Analyst*

Okay, great. Thanks a lot.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell *- Credit Suisse - Analyst*

Hi, thanks. Just on the Healthcare business, you talked about how the Q4 performance was something of a blip. But I guess the profit drivers down, price and FX probably persist through the whole of this year. So maybe talk a little bit about why you're so confident that Healthcare earnings are going to rebound.

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

Again, I would say, Julian, on the comment you made, this is -- as Jeff went through this, his presentation of stuff, there's always going to be concern about FX and stuff like that in this business. Nonetheless, the US is just a big powerful driver of Healthcare profitability, mix, things like that. So when I look at 2015 that, in addition to momentum we've got in Life Sciences and stuff like that, I think that offsets all the other, let's say, headwinds we might see in terms of FX and otherwise.

Jeff Bornstein *- General Electric Company - SVP, CFO*

Julian, I'd just add, I didn't -- if you took it that way, I apologize. I didn't mean to describe the Healthcare performance as a blip. What I meant to say was organically the performance was better than headline, when you think about the impacts of FX.

And I completely agree with Jeff. The developed markets feel like they are getting stronger for Healthcare. We're going to have challenges in some -- Russia and some of the emerging markets.

But the bulk of our -- percentagewise, the US is still the biggest single market we have in Healthcare. And we feel much better about the strength there than we have in the past.

Julian Mitchell *- Credit Suisse - Analyst*

Thanks. Then just the gross margin up by 50 bps. What are you including for price or for value gap in there? Because I guess value gap was a decent tailwind in 2014. Do you think it's flattish this year?

Jeff Bornstein *- General Electric Company - SVP, CFO*

Yes, I think in our working construct for the year, we expect value gap to be roughly what it was this year. We ended this year at about $300 million net value gap -- $300 million value gap, and our expectation is that that will likely be what 2015 looks like.

Operator

There are no further questions at this time. Mr. Cribbins, do you have any additional remarks?

Matt Cribbins - ***General Electric Company - VP Corporate Investor Communications***

Yes, thank you. Before wrapping up, just a couple of quick announcements. The replay of today's webcast will be available this afternoon on our website.

We will be distributing our quarterly supplement for GE Capital later today. On Friday, April 17, we will hold our first-quarter 2015 earnings webcast.

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

Great. You know, Matt, I just want to reiterate as we close: the framework we've got for 2015 really has a ton of strength and thoughtfulness in it, in terms of the scenarios that we are seeing globally. So I would just echo that and just reiterate. We talked about the new compensation plan that the leaders have inside the Company. That really has each and every business aligned to deliver in a very effective way for our investors as we go forward, Matt. So I would just make those two points in closing.

Matt Cribbins - ***General Electric Company - VP Corporate Investor Communications***

Thank you. As always, we'll be available later today for questions.

Operator

This concludes your conference call. Thank you for your participation today. You may now disconnect.