



Conference Call Transcript

GE - Q3 2009 General Electric Earnings Conference Call

Event Date/Time: Oct 16, 2009 / 12:30PM GMT

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Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the General Electric third-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 - VP, Investor Communications

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. The slides are also available for download and printing on our website at www.GE.com/investor. We will have time for Q&A at the end of the presentation.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

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 Vice-Chairman and CFO, Keith Sherin. Now I would like to turn it over to our Chairman and CEO, Jeff Immelt.

Jeff Immelt - General Electric - Chairman & CEO

Great, Trevor, thanks. Good morning, everyone. Just going to the first page on the overview. I think GE had another solid quarter. The global environment is improving, but we are expecting a gradual recovery. For the quarter, we earned \$2.5 billion, \$0.22 per share, down 51%, really driven by Capital Finance. I think the good news is the Industrial segment profit was up 4%. Infrastructure, Media and C&I all had positive earnings. Capital Finance was positive at \$263 million, down to 87%, basically driven by a favorable tax credit as expected. We had aggressive cost out. We had another \$0.05 per share of restructuring and other charges in Q3.

I think particularly noteworthy was solid execution in the quarter. We had cash flow of \$4.4 billion. Our year-to-date CFOA is now \$11.5 billion, up 1% and we are positioned for greater than \$15 billion of industrial CFOA for the year. We've got lots of cash on the balance sheet. We had really substantial margin expansion, up 260 basis points.

Our infrastructure orders declined by 18%, but backlog increased and we had good orders growth sequentially. Capital Finance reserves continued to expand in the quarter and we are still investing in the long term. Our R&D spend is tracking to be higher in '09 versus '08. We did several small acquisitions and we continue to invest in the long-term growth of the Company.

The environment has definitely improved in the third quarter. We had a couple of factors as we ended the year, a dramatic financial crisis. That is definitely better. The credit markets are improving, pricing on new lending is attractive, but losses still remain high. Keith will go through that in a bit here.

We expected a difficult recession; I think that has really bottomed. We see signs of life. The appliance market improving sequentially, orders strengthening, scatter pricing at NBC better, delinquencies are leveling off, but there is still a lot of excess capacity and we are going to deal with high unemployment. And there is global growth. The emerging markets remain relatively strong and there is growth out there to be had. So the environment definitely improved in the third quarter.

Earlier in the year, we set out on some key priorities to execute as we went through this recession. The first one was to stabilize Capital Finance. We think our funding is well ahead of planned; our capital ratios are improving; we have got good margins. And we are going to work through a difficult real estate cycle. All the other businesses at GE Capital are profitable except for Real Estate and that is the one we are really going to have to work through.

We wanted to outperform in a tough economy by focusing on backlog and services, getting global marketshare, expanding margins and that is really performing as expected. And we wanted to strengthen the balance sheet through strong cash generation and to maximize financial flexibility. And we would say that is much improved versus where we were in previous this year.

Just turning to GE Capital, we really have made significant progress to make GE Capital safe and secure. We have shown this chart to you in a repetitive basis this year. On long-term debt funding, we basically have pre-funded almost all of 2010. We feel great about that. Our commercial paper and GECS is really at our goal of \$50 billion. Our leverage continues to decline. In the fourth quarter of '08, we were at 7.7 to 1 leverage. We are now 5.7 to 1. All of our ratios have improved, our Tier 1 common ratio is now at 7.5%. And importantly, the equity at GECS has increased to \$71 billion.

And we have been able to shrink GE Capital ahead of plan. We now are putting out there an even more reduced balance sheet plan for the fourth quarter. This has a negative impact on GE Capital revenue, but we think it is really consistent with our strategy and approach. So strong execution through the crisis, ahead of plan on all metrics.

Looking at the Industrial side, I think some good news in that our backlog grew by \$5 billion in the third quarter. If you look at equipment, our orders improved about \$700 million sequentially quarter-over-quarter. Our service orders were up 3% driven by strength in energy with Smart Grid and our backlog and services grew by \$5 billion. We think that the trend on orders, particularly equipment orders, will be up sequentially from the third quarter, again in the fourth quarter when we look at our backlog of what is in our funnel. So we really do look at the second quarter

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

as potentially the low spot on equipment orders. And keep in mind that these results don't include some big commitments we received in energy in Kuwait and aircraft engines with American Airlines. So I think when you look at a total backlog of \$174 billion, that should give our investors I think some comfort in terms of the visibility we have got for the future.

We continue to focus on Industrial revenues. Last December, we set out some key initiatives and key priorities as we went through this year. The first one is to protect backlog and really the backlog is up \$4 billion versus the beginning of the year. Cancellations remain extremely low and again, we think this is a great job done by our commercial teams. We wanted to focus on growth in emerging markets and this shows you some progress we are making in China, India, Eastern Europe. We are winning big orders in the Middle East and we continue to think that emerging markets represent real strength for the Company going forward.

We are launching more new products in 2009; our R&D spend is up. We feel good about our share position overall. We are extending product lines. We have got big initiatives in healthcare and clean energy. We have got some new product launches that are gaining hold and growing our adjacencies. So this continues to be a big focus.

And the stimulus really hasn't shown up yet. We expect to ramp up in the fourth quarter and 2010. You will see in the fourth quarter some wind commitments coming out of the stimulus. We have more orders in the funnel on Smart Grid. Healthcare IT we expect to pick up in Q4 and some big global rail projects that are funded by other governments we are quite encouraged about as well.

I think importantly, the services model remains intact. The service revenue is solid. The backlog of CSAs continues to grow; our margins continue to expand. We had nine new aviation CSAs in the quarter. Healthcare is growing its service business in China and India. Our oil and gas service backlog has grown and even in transportation, we are seeing some of the segments have some upward trends. So total backlog is at \$174 billion. It is a record high. We have got good visibility on those backlog orders and we feel good about how we are positioned.

We have continued to execute well in 2009 and we think we are well-positioned for 2010. Our margins grew by 260 basis points in the quarter, up to 16.3% and they grew across all the major segments. We had contribution margin rate expansion, a positive value gap of price versus cost, service margins expanded. And keep in mind that we did have a 100 basis point expansion by not repeating the Olympics, but even without that, this was excellent performance by the team. So we are on track for growth for the year.

We continue to reduce base cost. Throughout the year we have done significant restructuring to date and our third-quarter base costs are down 10% and we have got more ideas for restructuring. We have got a funnel of about \$2 billion plus on ideas all with a two-year payback. We announced some in the third quarter in lighting and transportation. We have got another \$700 million being reviewed for potential fourth quarter and 2010 execution. So we think this gives us some good momentum going into 2010.

Lastly, industrial cash flow is a big highlight for the Company in the quarter. We generated \$4.4 billion of Industrial CFOA in the quarter. It puts us up 1% in Industrial CFOA year-to-date. This strong focus we have had on working capital is really working throughout the Company, so we feel great about that.

Just in terms of where we stand, we have got consolidated cash of \$61 billion on the balance sheet right now and importantly, I think when you look at our quarterly CFOA, less the reduced dividend, it allows us to grow the cash at the parent substantially quarter after quarter after quarter, which we think is quite appealing for the Company as we go forward. So CFOA is on track for greater than \$15 billion for the year. I think last December we said we would be between \$14 billion and \$16 billion. We think this really speaks well for the execution of the team and positions us well for the future. So with that, let me turn it over to Keith to go through the third-quarter performance.

Keith Sherin - General Electric - Vice Chairman & CFO

Thanks, Jeff. Good morning, everyone. I would like to start with a summary of the third quarter. On the left side is the summary for continuing operations. Revenues of \$37.8 billion were down 20%. That is as we expected. Industrial sales at \$25.1 billion were down 13%. You saw in the press release organic growth was, on Industrial, was down 9%. Financial Services revenue at \$12.7 billion, down 30%. I will explain more on that when I get to the Financial Services page. We earned \$2.5 billion in net income, which was down 45% and for earnings per share, we earned \$0.22. That does include the cost of our preferred dividend.

As Jeff covered, total cash flow from operating activities was \$11.5 billion, which was a great result through the three quarters and in terms of taxes, I will separate this between the GE and the GE Capital rates. The GE rate for the quarter of 22% is down about six points over last year due to higher [global] benefits from our lower taxed European operations industrially. Year-to-date, the GE rate is 26%. That is somewhat above our

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

current estimate of a GE tax rate of a low to mid 20% for the year, so we would expect a lower GE rate in the fourth quarter to bring the total year down to that level.

For GE Capital, because there is a large tax benefit and a pretax loss, this is a negative divided by a negative. We have a high positive rate for the quarter. The larger tax benefit in the quarter is mainly due to lower pretax income. If you look year-over-year, GECS pretax income was down \$2.6 billion and at a regular tax rate, that is \$900 million of lower taxes, which more than explains the change in the rate in the quarter. The credit in GE Capital drives the consolidated rate to a negative 7% third quarter year-to-date.

On the right side, you can see the segment results. Our Infrastructure businesses had \$3.3 billion of segment profit, which was flat with last year. NBCU segment profit was up 13%. I'll explain the benefits from the A&E transaction on the next page. GE Capital Finance earned \$263 million, including the favorable tax credits and C&I had a nice quarter, \$117 million of segment profit, more than double last year. Overall segment profit was down 26% and the difference reflects the restructuring completed at quarter between the 26% and the 45% in earnings.

So let me go into the details of the businesses in a few pages, but before I get into the businesses, I will just cover some of the third-quarter items that impacted our results. First, we had \$0.05 of restructuring and other charges that were recorded in corporate. We continue to invest in lowering our cost structure and the pretax charges were aligned by business as follows. It is not on the page; I will just give you some of the numbers.

Tech Infrastructure was \$234 million of lower-cost programs; C&I, \$161 million continued restructuring, a lot of work on reducing our incandescent footprint; energy infrastructure, \$77 million; Capital Finance, \$57 million and the balance was in corporate.

The second items, we had \$0.06 of marks, after tax marks and impairments in GE Capital. If you look at the details, the largest items, we had \$0.02 of impairments in our commercial Real Estate business. We had \$0.01 in GECAS in our annual evaluation review. We had \$0.01 for additional FGIC write-offs where basically the FGIC investments are down to somewhere around \$15 million now and we had \$0.01 in treasury ineffectiveness in the quarter.

And then finally, NBCU, we had some pluses and minuses in NBCU. First, we did realize a gain from the sale of a little more than a third of our ownership stake in A&E. A&E, as you know, combined with Lifetime in the quarter and that gain was \$283 million after-tax at the GE level. That was partially offset by a write-down of, first, NBC's stake in NDTV, which is an Indian entertainment investment. We also had our share of an impairment on the value of the Weather Channel, plus we had some programming asset write-downs. The net impact of those items was \$89 million positive after-tax included in the NBC segment results. So that is \$0.01 positive on the net of the four items. Year-to-date through Q3, we have executed \$1.9 billion of restructuring as Jeff said and we continue to reduce our cost structure going forward.

I will start with a few pages on Capital Finance. Mike Neal and the team continue to execute well in a very challenging environment. For Q3, the revenues of \$12.2 billion were down 30%. That is driven by our assets being down \$70 billion year-over-year. It is also driven by the impact from deconsolidating Penske, which was about six points of revenue decline in the quarter. And we also had lower revenues because we have lower gains, principally in Real Estate and also from lower interest rates with our floating-rate book. Capital Finance earned \$263 million. That was down 87% driven by the higher credit costs. I will cover that in more detail. Lower gains and the impact of again shrinking the business.

I'm going to start on the right side and then I will cover the businesses. Our most recent update was July 28 and from that meeting, a few of the key categories of items we covered. First, funding. Our funding is in even better shape. Jeff showed you we have now completed about 90% of our pre-funding for 2010, which is great to have done. We need to do less than \$5 billion for the remainder of this year. And when you look at the profile going forward right now, if you go back to the July schedules, we are only planning on doing \$20 billion of long-term debt in all of 2010. So the funding is in great shape.

Originations continue to be attractive. We underwrote \$7 billion of commercial volume in the third quarter at about a 3.3 return on investment, so that continues to remain very positive.

Losses, third-quarter year-to-date losses and impairments are \$9.3 billion and if you just annualize that rate, they would be about \$12.3 billion or about \$700 million lower than the Fed base case we presented in March. I will cover Real Estate in a separate page. We increased loss reserves \$757 million in the quarter and our coverage is up over 2%. And we continue to be ahead of our plan on all the cost-out metrics. We started the year, as you know, with a target of over \$2 billion and we are tracking close to \$3.7 billion for the total year for cost-out.

So a few comments by the businesses on the left side. First, our consumer business delivered \$434 million in net income. That is down 45%. That is driven by the higher credit costs. A few of the pieces, North America private label credit card business earned \$118 million even with \$6.5

billion of lower assets year-over-year. Our global banks earned \$151 million despite higher credit costs and our restructuring operations, including the UK home lending, earned \$125 million in the quarter.

Our Real Estate business obviously had a very tough quarter. We lost \$538 million versus earning \$244 million last year, so this explains the biggest decline in our earnings. We had \$559 million of pretax credit costs and another \$285 million of pretax marks and impairments. The majority of the credit costs are for reserve strengthening versus losses and reserves were up \$458 million from Q2. I will cover more on Real Estate, as I said, in a few pages.

Our commercial lending and leasing business earned \$135 million, which was down 65%, again, as a result of higher credit costs and lower core income as the assets here are down \$34 billion versus last year. GECAS had another strong quarter. They earned \$191 million and that included the impact of the third-quarter impairments of \$74 million and we ended third quarter with one aircraft on the ground. So the portfolio remains in good shape. Energy Financial Services earned \$41 million, down 87% from last year driven by lower gains.

Two final points on GE Capital in total before I flip the page. First, we have had a lot of discussions about GE Capital during the last four months because of the proposed regulatory changes. As you know, there have been a lot of positive developments in this area and we are highly confident that GE's ownership of GE Capital will be grandfathered. However, those discussions led to questions around whether GE had a strong enough commitment to GE Capital. You know the explicit commitment that GE has with GE Capital is the fixed charge covenant agreement. During the last year, we received questions about whether GE or GE Capital could terminate that agreement at any time, whether the three years was long enough.

Based on our analysis of the agreement and review of other companies' agreements, we are modifying the fixed charge covenant agreement. We are going to extend the term to five years from three and we are putting in a clause that over 50% of the long-term debtholders would have to approve any future negative modifications to that. We think these changes appropriately address any concerns regarding our strong commitment to GE Capital. So we will put out some information about that to give you the words of how we are modifying the agreement.

The last point is that, in our continued commitment to transparency, we have scheduled another GE Capital update. Right now, we have got it on for December 8 and Trevor will get the details out to everyone.

So a little bit about the portfolio quality and non-earnings. On the left side is the commercial equipment finance data. 30 plus day delinquencies for the equipment businesses are up 23 basis points in Q3 versus Q2. We saw increases of 37 basis points in the Americas in core midmarket accounts. That is partially offset by lower delinquencies on 30 plus in both Europe and Asia.

If you look, the commercial non-earnings were up 41 basis points. Again, that is driven by the midmarket accounts where we have collateral coverage and I will cover more on non-earnings in two pages.

On the right side is the consumer data. This continues to develop into the two different stories based on the type of exposure, the mortgage and the non-mortgage. We broke out these two types because the loss dynamics are so different. We are secured on the mortgage side. For 30 plus delinquencies, you can see the delinquencies have leveled off for both mortgage and non-mortgage, which is good news. Non-mortgage delinquency is driven by North America, which was up 31 basis points in the third quarter. That is about half the normal seasonal increase we usually see from 2Q to 3Q.

In the UK, 30 plus delinquency actually declined 9 basis points to 24.7% on the mortgage book. So that is still a high level, but at least the trajectory has changed and we continue to see improvement in home prices in the UK. We are realizing gains versus our marks on the properties we repossess and sell.

For consumer non-earnings, the actual dollars are down about \$100 million versus Q2 at \$6.5 billion. However, the percent is up slightly as the consumer assets are down slightly.

Next is an update on reserve coverage. We had another good quarter for reserve strengthening. Our provision for loss was \$2.9 billion in Q3 and with the write-offs flat in Q2, we increased our reserves by \$757 million in the quarter. You can see that both commercial and consumer increased their reserves. The reserve increase in commercial was \$593 million. About \$415 million of that was for commercial real estate and overall, the coverage increased by 30 basis points versus the second quarter.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

For consumer, the reserves were up \$164 million and coverage went up 20 basis points and for mortgages in the consumer book, the coverage is also up and we are realizing 115% proceeds versus our foreclosure marks on the real estate that we own in the mortgage book. So continued strengthening of reserve levels, another good quarter, coverage up over 2%.

Next is an update on non-earning assets and reserve coverage. These are the same charts that Jeff Bornstein, our CFO from GE Capital, covered in March and July at the update meetings. Since we've viewed these several times this year, I am not going to go through all the bars on the charts, but I thought I would just cover a few of the points on the update.

On the left side for commercial, our reserves at the end of Q3 are up to 189% coverage on our estimated loss exposure. Again, that is up from 173% in Q2. We continue to track and analyze the actual results versus our estimates for recovery and our assumptions continue to hold as we update the actuals each quarter.

On the right side, we continue to have almost two times coverage on our non-mortgage loss exposure. So principally the private-label credit card and other unsecured consumer loans. And our mortgage reserves are up to 206% of the loss exposure versus 173% in Q2. And Jeff will cover more of this -- Jeff Bornstein will cover more of this again in detail at the December 8 update.

And finally an update on commercial real estate. I already covered their earnings in the quarter, but here is more information on the business. On the left side is information about the debt book, 30 plus delinquencies on the debt book are up slightly to 4.19%. This is right in line with other bank real estate portfolios if you exclude the impact of development and construction, which we don't have. Non-earnings of \$1.3 billion in real estate debt were flat from Q2 to Q3 and in the third quarter, we performed a valuation review of our entire debt portfolio using relevant third-party data. The result of that review was an increase in specific reserves of \$562 million.

If the loan to value is more than 100% and there is a refinancing event in the next 24 months, we basically put up reserves at a 100% loan-to-value level even if the property is current and cash-paying. So for 77% of the loans, which we reserved in 3Q, the properties are paying current. If you look at the total debt service coverage for the total portfolio, it is about 2.5 times and with the reserve increases this quarter, our coverage went up to 2.3%.

On the right side, some of the metrics for the equity book. Third-quarter net operating income is in line with our original outlook, close to \$1.2 billion 3Q year-to-date. We have had some gains in the year, but they are below plan. In the third quarter, we sold 72 properties for an after-tax gain of \$51 million, but that is clearly less than last year. Impairments are running above plan. As I said, we had several hundred million dollars of impairments in the Real Estate book in the quarter.

Occupancy is in line with our estimates and the team has done a good job of releasing space. In the third quarter, we had 7.3 million square feet expire and we have re-leased 7 million of that in the quarter. So overall, if you look at the Real Estate business, our total credit losses and impairments are \$1.5 billion through three quarters. And if you look at the segment, it is tracking closer to the Fed adverse case, but again well within the boundaries of what we laid out for the risk in Real Estate and the potential losses in the March stress case. So we feel like the team is operating pretty well in a pretty tough environment. The risks are understood and manageable.

I will shift out of Capital now and just cover the other businesses. First is NBC. For the quarter, revenues of \$4.1 billion were down 20%. We are comparing to last year, which had over \$1 billion of revenues for the Beijing Olympics. So if you adjust for the Olympics, revenues were basically flat year-over-year. Segment profit of \$732 million was up 13%. In the first and second quarter, we showed you the reported variances were not as bad as they looked. For Q3, I'll adjust for the gain and that goes the other way.

On the box on the top right, you can see are reported V of 13%. If you adjust for the net benefit of the A&E/Lifetime transaction gain and impairments, which I covered on the third-quarter items page, the operations variance would be down 9% in the third quarter.

In terms of going around the business performance, I will start with cable. Cable just continues to perform extremely well. The revenues of \$1.2 billion were up 8%, profit of \$552 million was up 11%. USA led the way as the number one cable channel for the 13th consecutive quarter. They had strong revenues and profit growth. Syfy, CNBC, Bravo were also all up.

If you go to broadcast, revenues of \$1.4 billion were flat ex the Olympics last year and op profit was up about 4% ex the Olympics. Four weeks in, the Jay Leno show is exceeding our ratings estimates as are Conan and Fallon. So we are happy with the 10 o'clock and the late-night performance. And we're three weeks into the new season and our prime ratings are on our estimates and as Jeff said, fourth-quarter scatter is up double-digit in prime and up over 20% on cable. So that does show some signs of life as he mentioned.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

On the right side, the film business had a very tough third quarter. Revenues of \$1 billion were down 20% and op profit was off by over \$120 million. We had tough comparisons to last year, plus less-than-expected box office performance this year and the parks were down 14% in op profit as expected in this environment.

And finally on digital, hulu continues to perform. It was the number two video site in the quarter and I covered the impact of the gain in the impairments that we had in the business. So if you look third-quarter year-to-date, NBCU reported op profit of \$1.7 billion, down 27% in line with the industry.

Next is Technology Infrastructure. John Rice and the team delivered revenues of \$10.2 billion, down 11% and segment profit of \$1.7 billion was down 8%. You can see the business results on the bottom left. The quarter was driven by another strong result in Aviation, offset by continued pressure in Healthcare and Transportation.

Aviation, I'll go through some details. Third-quarter orders of \$4.5 billion were slightly ahead of 2Q. They were down 19% year-over-year. Major equipment orders of \$1.9 billion were down 37%. We had a \$1 billion of commercial engine orders and \$900 million of military orders and the strong backlog here continues to bode well for the future. The major equipment backlog ended the quarter at \$20.7 billion. It is only down 1% versus last year and down 3% from Q2.

Service orders in total were up 1%. Commercial spares of \$18.6 million a day were down about 8% and this was offset by a parts distribution order we had with Aviall to get the total orders up and commercial overhauls were down 4% in the quarter. Revenue was down 6%. We shipped 456 commercial engines, which were down 16%, partially offset by 253 military engines, which were up 38%. A similar profile to what we have had all year and service revenue was down 2% reflecting the impact of the lower spare shipments.

On that, revenue op profit was up 16%. We had 4 points of margin growth here driven by pricing, which was up 4% and services productivity, which was partially offset by the lower volume that I mentioned. So as we look forward with the slowing service rates, orders rates and the lower engine delivers, we wouldn't expect to continue to outperform at these levels, but they have had a great year so far.

Healthcare reported orders of \$3.9 billion, were down 9%, down 7% organically. You can read about this every day, about the pressures in the healthcare market. Equipment orders were down 13%. In the US, the orders on equipment were down 21%. In non-U.S., the orders were down 8% or 4% FX-adjusted, some impact from the dollar in the quarter.

The pressure was pretty much across all the productlines. CT, MR, x-ray, Healthcare IT, Clinical Systems were down double digits. Life sciences was flat and services was up 5% if you exclude the HCIT impact. China DI orders were a bright spot, up 20%. With those orders, revenue was down 9%. Equipment was down 11% and services were down 6%, but flat organically. So op profit of \$508 million was down 20% driven by the lower volume, some price pressure and negative productivity. And when you look at the environment here, between the economy and the legislation uncertainty, this just continues to be a really tough healthcare environment.

We are going to have an analyst meeting. We are pulling up the RSNA meeting and it will be held in New York City next Tuesday and Trevor and JoAnna can get you the details on that. So we will give a nice review of the healthcare business next week.

For Transportation, third-quarter orders of \$637 million were down 38%. Equipment orders remain very challenging and the North American railroads have significant overcapacity. There are still about 5,000 locomotives parked. That does impact service orders, which were down 43%. And in the quarter, revenues were down 23% driven by both equipment revenue being down and service revenue being down. So op profit was down 31% driven by those volume declines.

The entire Tech Infrastructure segment is really executing a strong cost-out program in a tough environment and one other bright spot about this, if you break out the services businesses here, service op profit was up 10% for the segment and the quarter.

And finally, energy. John Krenicki and the Energy Infrastructure team had another very strong quarter. Revenues of \$8.9 billion were down 9%. Segment profit of \$1.6 billion was up 11%. You can see the business results on the bottom left for both energy and oil and gas delivery, double-digit growth. Energy had \$6.5 billion of orders. They were down 25% versus last year, but flat with Q2 and equipment orders, if you look quarter-over-quarter, from Q2 to Q3, they were up 15%. So it reflects the dynamic that Jeff talked about on orders.

Thermal orders of \$1.1 billion were down 46%. We received orders for 23 gas turbines versus 33 last year in the third quarter. That included 15 units for the Iraq order, about \$600 million. We still have 25 more units to book for the Iraq order, which is probably going to be in 2010. Thermal backlog at 7.1 billion is down 1% from Q2. Wind, we had \$1.3 billion of orders. That is now 43%, but again up 2.5 times from Q2. The

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

wind backlog stands at \$3.8 billion and the good news in the third quarter, the stimulus investment tax credit guidelines were finalized and that will help with new wind orders as we look forward.

Service orders were up 9% driven by energy services up 16%, partially offset by water and nuclear service orders, which were down 5%. So revenue for the business was down 11% driven by that lower thermal volume. We shipped 16 gas turbines in the quarter versus 50 last year, but pricing was up 4%. We shipped 935 wind turbines versus a little over 1,000 last year with pricing up 5% and service revenues were up 9% driven by the growth in contractual services and transactional sales. So op profit was very strong, up 11% driven by that strong pricing and services growth partially offset by the lower equipment volume.

Oil and gas also had another solid quarter. Oil and gas is seeing some good pickup in orders. Orders of \$2.1 billion were up 1%, up 7% when you adjust for the impact of the exchange. Equipment orders of \$1.3 billion were up 6% and up 13% FX, driven by \$500 million of LNG orders for the Gorgon project in Australia. We are seeing a lot more discussion about large orders in the LNG segments, so that is good news going forward. The equipment backlog of \$6.9 billion was up over \$400 million versus the quarter, second quarter and service orders were down 5%, but flat ex FX.

Revenues in the quarter were up 3% driven by strong volume. We had good petrochemical and refinery equipment deliveries and service revenues were down 2%. In total, the op profit was up 11% driven by that volume growth and the price. So overall, another great quarter for the Energy Infrastructure team and with that, let me turn it back to Jeff.

Jeff Immelt - General Electric - Chairman & CEO

Great, Keith, thanks. Now returning to the 2009 framework, just recapping where we are year-to-date. If you look down the list, Infrastructure, which is both Energy and Technology put together, year-to-date, are up about 3%, in line with really our expectations and we continue to have good backlog and service strength in that segment.

NBCU has been performing in line with their industry, but below our original expectations. We said that GE Capital would be profitable for the year and third quarter year-to-date, we have earned \$2 billion. C&I is actually better than expectations. We expect strong positive growth in both 3Q and 4Q.

So if you look at third quarter, we have earned \$0.75 while substantially restructuring and investing and lowering the cost of the Company and we plan to do more restructuring in the fourth quarter. So we are executing well against our framework and we want to keep improving our position for 2010 and beyond.

So to summarize on the last page, the global environment has definitely improved. It has definitely gotten better. We are expecting a gradual recovery, but we see more interest and even long cycle orders today and things like that. So the feel is definitely better. Overall, we have got very solid operating execution versus our outlook for this year. We have dramatically strengthened funding and balance sheet and the balance sheet at GE Capital. The GE parent is really accumulating cash and the work we have done on industrial cash has been significant. So we really feel great about achieving our safe and secure objective that we had really set out earlier in the year.

We have got a highly valuable \$174 billion industrial backlog. I think the service model is really standing the test of time through this downcycle and equipment margin expansion has really been proven throughout this year. So we have got capital available to play offense and we will continue to invest for long-term growth. And I think we are well-positioned for the environment that we expect for 2010 and beyond. So with that, Trevor, let me turn it back to you and let's take some questions.

Trevor Schauenberg - General Electric - VP, Investor Communications

Great, thanks, Jeff and Keith. Noelia, we are ready to take questions from our audience now.

QUESTION AND ANSWER

Operator

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

(OPERATOR INSTRUCTIONS). Steve Tusa, JPMorgan.

Steve Tusa - JPMorgan - Analyst

Hi, good morning. Just first a question on some of the details on GE Capital. Do you guys have the interest income number handy from the income statement? I know we don't get the breakdown of revenues until the 10-Q, but just wondering if you have that number.

Keith Sherin - General Electric - Vice Chairman & CFO

I will give you that in the 10-Q.

Steve Tusa - JPMorgan - Analyst

Okay. You talk about the \$700 million of improved margin going forward. How quickly should we expect that to work its way through the income statement? I guess I am just wondering what are the net interest dynamics that we should expect as this freshly priced book rolls on over the next, I guess, year and a half.

Keith Sherin - General Electric - Vice Chairman & CFO

I think the -- the \$700 million you are referring to in the charts, Steve?

Steve Tusa - JPMorgan - Analyst

Yes.

Keith Sherin - General Electric - Vice Chairman & CFO

Yes, that is the -- that is actually the cost to carry the extra cash we're carrying.

Steve Tusa - JPMorgan - Analyst

Oh, sorry.

Keith Sherin - General Electric - Vice Chairman & CFO

That is a drag on our positive. So that is the quantification of the cost of having this extra cash in advance.

Steve Tusa - JPMorgan - Analyst

Okay, you mentioned along the lines a 3.5% or 3.3% ROI. I mean how quickly do we start to see that because clearly revenues were weaker this quarter? That may have been impairments or losses, but I am just wondering how we should think about the net interest margin going forward.

Keith Sherin - General Electric - Vice Chairman & CFO

Yes, I think you're going to continue to see that on a -- quarter-over-quarter, we will continue to be under pressure. When we are underwriting \$7 billion of new commercial volume at 3.3 ROI against a commercial book of \$300 billion of assets, it is going to take awhile for that to blend in and have a positive. We do expect to continue to see pressure on net interest margin for the foreseeable future here. I don't know when it is going

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

to turn, but it is a positive in terms of new pricing we are putting in. But if you think about the magnitude of it, it is going to take a while for it to have an impact, Steve.

Steve Tusa - JPMorgan - Analyst

Okay. And then just in moving parts on Real Estate, from the loss you had last quarter to the loss you had this quarter, is that all impairments or is there something else that was pressuring that number?

Keith Sherin - General Electric - Vice Chairman & CFO

Sure. It think if you look at the Real Estate page that I went through, there were two components. First, we did have a couple hundred million dollars of impairments. And the second is we had about \$515 million of increased reserves. And as I said, we went through a complete review of the debt portfolio in the quarter. That happens twice a year in the first and the third quarter. So I think we are through that for the fourth quarter for the debt portfolio. We will have to see, as we look at the total value of the equity portfolio in the fourth quarter, what that does for impairments. But I think the reserves that we have posted in the third quarter would have been extraordinary or above what the normal run rate is just based on the fact that it is 100% review property by property using new third-party assumptions. And obviously updating from the first to the third quarter, the environment didn't get better in that period, Steve.

Steve Tusa - JPMorgan - Analyst

Right. And then one last question. You guys didn't mention the guidance for new equipment revenues next year down 10 to 15. Are we still sticking by that or has anything changed on that front?

Jeff Immelt - General Electric - Chairman & CEO

Steve, I still think that is a good number for next year. I think the activity in the third quarter just bolsters that if anything. The fact that the orders have come back and so I think that is still a good assumption for next year.

Steve Tusa - JPMorgan - Analyst

Okay, thanks a lot.

Operator

Scott Davis, Morgan Stanley.

Scott Davis - Morgan Stanley - Analyst

Hi, good morning. The 2.8% coverage number is definitely a sequential improvement, but where does that number need to go? I mean do you have a target? Is it just something you talk about with the auditors once a quarter? It's tough to put context around it just because, if you look at the banks, they use much, much higher numbers.

Keith Sherin - General Electric - Vice Chairman & CFO

I think you've got to take a look at the details of the information that Jeff Bornstein presented. When we compare ourselves to the banks, we have a dramatically different book in terms of our consumer versus commercial mix in terms of our global mix and certainly in terms of the types of assets we have in the Real Estate business. Those would be the three major reasons for a difference between their total provision percent and ours.

We do not have a specific number. We put the reserves out that we need to based on the embedded losses in the book every quarter per the accounting. And we had originally set out this year and said that we thought that the reserve coverage would go over 2% as part of the total year

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

and we have achieved that through the third quarter. So there is not a specific number. We review our reserves every quarter with our auditors and we don't have a specific number. It is based on how is the portfolio performing, what are delinquencies doing, what are non-earnings doing and what reserves do we need based on the book performance.

Scott Davis - Morgan Stanley - Analyst

Sure. I mean just to kind of follow up on that a little bit, I mean you are building book value, which is good, but some would argue that you have an opportunity as you are building book value to really take provisioning up and be extra conservative. You can always obviously reverse down the road if it proved the other way. I guess what I kind of don't understand --.

Keith Sherin - General Electric - Vice Chairman & CFO

I live in a world with accounting guidelines and rules and we follow them to the T, I can tell you that.

Scott Davis - Morgan Stanley - Analyst

Yes, no, I totally understand that.

Keith Sherin - General Electric - Vice Chairman & CFO

It is not an exercise and we will just book some extra reserves. There is a very thorough process and a very thorough review that goes into this every quarter.

Scott Davis - Morgan Stanley - Analyst

No, I get it except the banks seem to be able to find a way to add a couple billion dollars here and there to reserves. So just are they working on different accounting rules or is it just that you find yourselves to be more conservative?

Keith Sherin - General Electric - Vice Chairman & CFO

I am not going to comment on what the banks do versus what we do. I just know that what we do is we follow a very rigorous process every quarter and we have got a lot of oversight on it and we are trying to make sure that we are getting it right every quarter. The teams have every incentive to make sure they get it right.

Jeff Immelt - General Electric - Chairman & CEO

I'll just add to that, Scott. I think the transparency around GE Capital, we believe in that. Another meeting in December after July and March, so we want -- we want our investors to see what we are doing and what the assumptions are and stuff like that.

Scott Davis - Morgan Stanley - Analyst

Yes, no, no. I get it. I am just trying to reconcile the difference. Last quick question here on -- backlog is up \$4 billion. It looks like -- do you guys calculate kind of a book-to-bill number? It looks like it would still be fairly negative even though backlog is up. Is there some sort of number that you tend to use? And another way to ask the question is kind of when would you expect book-to-bill to be approaching 1?

Keith Sherin - General Electric - Vice Chairman & CFO

Well, if you look at the orders chart that we showed you in here today, you can see what the -- if you separate equipment from services, Scott, you can just look at the services or the equipment revenues versus equipment orders. The backlog on equipment went down \$1 billion. So you are

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

in the 85% book-to-bill on an equipment basis, something like that. I think we have got to see what the fourth quarter looks like, as Jeff showed you. We think sequentially the fourth quarter is going to have higher equipment orders. Originally, earlier in the year, we thought we could end the year with somewhere around a \$45 billion backlog. It could be better.

Scott Davis - Morgan Stanley - Analyst

Okay, great. Thanks, guys.

Operator

Jeff Sprague, Citi.

Jeff Sprague - Citigroup - Analyst

Thank you very much. Good morning, everyone. I wonder if we could just talk about the portfolio a little bit. Obviously I am sure your hands are tied somewhat around what you can say around NBCU. But Jeff, just looking at the big landscape here, today, you have kind of shown a recommitment to GE Capital or reaffirmed the commitment. We have got the very credible sounding speculation on NBC. There is talk of the Areva T&D assets, there is talk of securities. So it is a complicated company; there is always a lot of balls in the air, but it looks like there is a lot more balls in the air than normal right now. And I just wonder if you could give us some view of how we should think about the portfolio say three or four years from now? Really what the Company might look like and the path to get there?

Jeff Immelt - General Electric - Chairman & CEO

Jeff, again, let me just try to put it in context because I want to kind of stay focused on what is known. I would say if you think about GE, we have got a strong, long-lasting commitment to infrastructure. You see talk about Areva and other investments we have made there and that is very important for the Company going forward.

I think with GE Capital, the vision we have expressed is that GE Capital is going to be smaller, more focused, high return, connected to the core, things like that and we continue to execute along those lines. A lot of the speculation has been on NBCU and in some ways, (inaudible) has been speculation on NBCU for a long time.

The way I would say is the Company has got a lot of cash, so we are in great shape overall. NBCU is a great franchise. It has consistently delivered income growth and cash pre-recession. So it has been a solid performer. I think we have always evaluated our portfolio and I think, in the context of what I have talked about, that we expect this to be a reset world and it is a good time to be thoughtful about the portfolio. I really do mean that.

In the case of NBCU, Vivendi has been a great partner. They have got a window every year to really review their options for NBC and this year, we just wanted to be ready for several scenarios. One might be an IPO or another strategic partnership like the one we have had actually with Vivendi.

So I don't have a specific pronouncement or a specific need for cash and look, in many ways, we plan to operate NBCU over the long term or partner if that accelerates the growth of the franchise. So I just think -- I wouldn't look at this as that much more than what we have done in the past. I think GE Capital we've talked about, infrastructure we've talked about and NBC is the one of that is receiving the most attention right now. And to a certain extent, that is logical just given the process that Vivendi goes through each year.

Jeff Sprague - Citigroup - Analyst

As we think about the potential to perhaps do more M&A over time, I think you would probably agree that kind of the M&A track record on the buy side of things has been kind of mixed over the last five to seven years or so. I just wonder as you think about moving forward from here is there a change in focus, a change in how you measure these sorts of things, planning for synergies, planning for growth. Just anything we can kind of get our arms around when we think about kind of the next wave of capital allocation?

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Jeff Immelt - General Electric - Chairman & CEO

Look, I would say, Jeff, that we want to be disciplined around the capital that we have. I think if you look at the franchises we have in Aviation, in Healthcare and the big infrastructure businesses that we have, we have got good strong core teams that can execute on these plans. Again, I think if we look at some of the ones that we have been mentioned around, like the Areva transmission and distribution business, we have got a great strong core team that can execute on a transaction like that.

So, look, we just want to be disciplined around all the investing that we do and there is nothing different about that.

I would say net-net, though, you know, we are going to generate a lot of cash industrially. We have got a lot of cash on the balance sheet that we have put in place to protect GE Capital. I don't think we need to do deals to grow the Company in the future.

We have got a great organic growth process, and we are only going to do them if they generate attractive returns for our investors. In some way shape or form, Jeff, that has been the philosophy we have always had.

Jeff Sprague - Citigroup - Analyst

Great. And I guess just one last thing, if I could, just a point of detail for Keith. Can you give us what the A&E gain is on a pretax basis?

Keith Sherin - General Electric - Vice Chairman & CFO

Sure. I will have to dig it out. I think it is -- yes, for a total 100%, \$550 million.

Jeff Sprague - Citigroup - Analyst

Great. Thank you very much.

Operator

John Inch, Merrill Lynch.

John Inch - Bank of America-Merrill Lynch - Analyst

Thank you. Good morning, everyone. Keith, I want to start with the provisioning. Is it your sense, just based on market dynamics, that this sort of 2.8% number appears to be something of a cresting trend? Because I know if we go back to some of these meetings, you had thought provisions based on the commercial book were likely to rise through 2010.

I'm just wondering based on the loss experience, stability, and economy kind of where that basically sits now, particularly given the strength in coverage.

Keith Sherin - General Electric - Vice Chairman & CFO

Well, it is a great question. We are also thinking through -- you look, they are up a little bit, the provisions in the third quarter versus the second quarter. It does include quite a bit of provisioning for the Real Estate business and if you look at the GE Money business, the provisions are actually down a little bit based on the book shrinking and where delinquencies are globally.

So I don't know. We will have to see how unemployment goes. I think the Real Estate losses on the debt book, the provisioning seemed high versus a normal quarter to me. The fact that delinquencies are up a little bit in the core commercial book would say that you are probably going to have to look at additional provisions there still going forward. And it depends on unemployment on the consumer book. But I think I feel like we are at a pretty good rate here. We are within a band anyway of what the provisions are going to be and it is going to depend on unemployment and it is going to depend on what happens in the commercial cycle here.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

I think Real Estate is one that is going to be over a long period of time, whether we are dealing with the debt book here. We had a big increase in reserves in the third quarter. I am not sure those are going to turn into losses. I think a lot of people are basically going to protect their equity in those properties eventually.

And another factor that I think about are things like the timing of when you realize losses. If you look at the beginning of the year and our investment securities portfolio in the insurance business, we had huge unrealized losses. That has gotten better by \$3 billion in nine months.

So I think we are at a decent provisioning run rate. I think there is going to be some higher unemployment we would anticipate. We'll see how that affects the consumer book. Probably continued pressure in the midmarket book. I think the Real Estate would come down on a normal run rate. For the provisions, we will have to see where impairments go on the equity side. If you look, our 2010 framework, John, that we laid out on the base case and the adverse stress case for 2010, essentially the losses are pretty similar. Losses in impairments in aggregate are pretty similar to the 2009 book. So we may be peaking, but we are not going -- we are not planning on losses going down dramatically in the next year or so.

John Inch - Bank of America-Merrill Lynch - Analyst

No, that's fair. So as we think of capital in the framework going forward -- so let's just presume there is some stability in lots of different areas with a few question marks. Your tax credits are \$0.27, \$0.28, I mean year-to-date versus the \$0.74 the Company has put up. Is the way to think -- I am trying to wrap my mind around -- the way to think about this, that the starting point once capital is normalized and begins to return to profitability, do you have to make up that sort of \$0.30 year to date, \$0.27 to \$0.28 year-to-date deficit to then begin to grow the Company's earnings from there? Or do the credits sort of gradually bleed off or how does that work?

Keith Sherin - General Electric - Vice Chairman & CFO

I think the best way to think about it is, under the current legislative tax regime, in the Financial Services earnings, there is probably about around \$500 million a quarter of credits related to our ability to invest in low-tax investments or in countries with lower tax or benefits from our structural financing.

So we have said all along there is probably about \$2 billion a year of a structural tax benefit between GE and GE Capital globally and so the question is will legislation change. I think the fact that the credits in 2009 are higher than that reflect the higher pretax losses. I don't know whatever those are going to be based on the loss in impairments we have in GE Capital, we can absorb those with the GE earnings, that is not a problem. But hopefully what our goal is that those losses go down as you go forward here.

So I think you have got a structural amount that is a benefit that will stay in place based on the current legislative regime. And then you have extraordinary credits based on the losses that we are going through in this credit cycle and hopefully those won't be needed.

John Inch - Bank of America-Merrill Lynch - Analyst

Okay, that's fair. And then just, Keith, you talked about the fixed charge covenant. Can you remind us, if you look at where things are today, right, and your expected trend of whether we talk provisions or whatever, what amount of money does the parent have to inject or may have to inject into capital just all else equal based on what you see today next year?

Keith Sherin - General Electric - Vice Chairman & CFO

Sure. As you know, it is a 10% cushion against the fixed charges in GE Capital. So roughly if GE Capital had \$20 billion of interest costs, you would have to earn \$2 billion pretax. In 2009, we have injected \$9.5 billion of equity already. We don't anticipate any scenario where in 2010 you would put any more capital in based on the fixed charge covenant agreement.

In 2010, if GE Capital performs in a similar manner to 2009 and we laid that out at the July meeting, we would anticipate somewhere between, at the base case, somewhere close to \$2 billion, up to \$7 billion of capital that might be required in 2011. So I don't think there is any capital required in '10 and again, it is going to depend upon how GE Capital's performance unfolds in 2010.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

John Inch - Bank of America-Merrill Lynch - Analyst

Right, which is consistent with your comments you guys don't need the money or don't need money from deals or whatever. Okay, thanks very much. I appreciate it.

Jeff Immelt - General Electric - Chairman & CEO

And I think if you look at the Industrial CFOA with reduced dividend, we are generating 3 -- well, in the last quarter, we generated \$3 billion and that just shows the strength of the industrial company.

John Inch - Bank of America-Merrill Lynch - Analyst

Right. Thank you.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - Oppenheimer & Co. - Analyst

Thanks, good morning. A couple more questions on Capital. So the guidance remains for Capital Finance to be profitable in the fourth quarter, but you have \$2 billion earnings year-to-date. So in theory, you could lose up to \$2 billion. Can you just kind of narrow a little bit the framework thinking about the fourth quarter?

Keith Sherin - General Electric - Vice Chairman & CFO

No.

Christopher Glynn - Oppenheimer & Co. - Analyst

Okay.

Keith Sherin - General Electric - Vice Chairman & CFO

I mean we have said GE Capital is going to be profitable for the year. We are not forecasting any quarterly guidance, Chris. I don't know why I would --.

Jeff Immelt - General Electric - Chairman & CEO

And we like the way the team is executing. We really don't see any change in the way the team is executing and they continue to do a good job in the environment.

Christopher Glynn - Oppenheimer & Co. - Analyst

Okay. And then cancellations in equipment and services orders were called in significantly. Are you seeing anything by way of push-outs that could actually be a tailwind in 2010?

Keith Sherin - General Electric - Vice Chairman & CFO

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

I don't know about a tailwind in 2010. As we said, we had around \$200 million of cancellations in the quarter, about half in Aviation and half in Healthcare. I think on the Energy side, on the Oil and Gas side, I don't see it. I know the fact that the production tax credit has now been finalized and that you are getting a Department of Energy tax rebate for the wind project, that is going to be a real help to the industry, I would say. We are going to get some finalization around healthcare legislation here I think. Once that is finalized and people understand the rules, I think that is going to be a help to the whole industry and help to our business.

You are seeing some pretty good activity in oil and gas globally. I think that is a positive. I think in the aviation space, we would anticipate that the air framers are going to push out some of the production runs that they have and you would have to anticipate lower equipment deliveries in 2010. So I don't know if that is a new headwind. I think that is something that we anticipate we would be planning on, Chris.

Christopher Glynn - Oppenheimer & Co. - Analyst

Okay, but services push-outs, you haven't really seen much of that?

Keith Sherin - General Electric - Vice Chairman & CFO

Well, I think you're seeing it in the aviation spares rate. You see the aviation spare rate go from about 10% up in the first half down to 8% in the third quarter. I think people are definitely trying to conserve their cash and push their maintenance event to the latest possible point for them. But locomotives again, with all of the parked locomotives, you can see that in the business, in the locomotive business and energy is going the other way. I mean I think people are really utilizing their equipment, overutilizing their equipment. And with gas prices where they are, that has been the go-to place for incremental power generation and that is a positive for that business.

Christopher Glynn - Oppenheimer & Co. - Analyst

Okay, and last one, can you estimate how long you kind of have this built-in services backlog growth from the prior equipment cycle emanating from that?

Keith Sherin - General Electric - Vice Chairman & CFO

I don't know. I think there is one indicator I would say. We have grown our aircraft engine installed base so dramatically over the last 15 years that 40% of the engines in the fleet haven't even hit their first maintenance event. It is just a massive installed base that as there are flight hours, there will be service revenues. And again, you're not going to predict a quarter, but if you look forward, that is an incredible installed base that is going to generate a lot of cash flow for us.

The second thing I think about is the F turbine technology from the bubble from the 2000 period. They are all coming into their second maintenance cycle, which is a heavier maintenance cycle than the first one. So we have built a massive installed base of F technology and they are using those units very aggressively, so that is a positive as well. Those will be the two biggest indicators I think about. For the medium term and long term, those are very positive for us.

Jeff Immelt - General Electric - Chairman & CEO

And I would say that gas, natural gas pricing being low really favors our energy installed base in a massive way.

Christopher Glynn - Oppenheimer & Co. - Analyst

That's helpful. Thanks a lot.

Operator

Steven Winoker, Sanford Bernstein.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Steven Winoker - Sanford Bernstein - Analyst

Good morning, guys. I just want to have another couple of questions on GE Capital. First, am I correct in interpreting the prior answers then that your expectations for peak charge-offs are in 2010? Middle half? Or second, third or how are you thinking about that again?

Keith Sherin - General Electric - Vice Chairman & CFO

I hope that's right. I mean in the environment we see today, I would think that you are running at a rate that is pretty high. You are going to have a little pressure from unemployment. I don't know how -- how will that change the consumer loss provisions? Right now, they actually went down a little bit in the quarter. Net charge-offs were down a little bit in dollars because the portfolio -- the consumer is definitely retrenching a little bit, delevering.

I think on the commercial side, continued pressure in the midmarket for us for a period of time. You saw non-earnings go up about \$700 million. Is it dramatically different? I don't think so. And then I think the one question is how long and over what period of time will this real estate cycle play out. So I hope that happens the way you outlined it. In all our long-term modeling, we know that -- is it 2010?

Jeff Immelt - General Electric - Chairman & CEO

Delinquencies are leveling. You just look at the charts. And I would say even in Real Estate, there has been, I don't know, \$50 billion or \$60 billion raised by REITs and other funds. We see some of that starting to bleed through into the market. So there is liquidity. I think delinquencies seem to be leveling, but it is hard to call exactly, Steven, when that is going to take place.

Keith Sherin - General Electric - Vice Chairman & CFO

Okay, you know that when we look at this portfolio, just with the passage of time, somewhere between 2011 and 2012, these loss provisions are not going to be at these levels. A normal loss provision at a \$650 billion balance sheet here was around \$3.5 billion. So we have got to work our way through it, but this is going to turn and it is going to be positive for us.

Steven Winoker - Sanford Bernstein - Analyst

And with markets stabilizing, losses trending better than the Fed base case, why not deploy more cash into the market where you're getting great pricing? And how are you thinking about that in terms of the right level of conservatism as opposed to letting capital have a little more leeway in parts of the business that you like?

Keith Sherin - General Electric - Vice Chairman & CFO

Mike and the team have a green light on their core commercial finance activity, on the middle-market activity, on the things that are connected to GE. There is no question that we have got a green light on that and on things that are not core and things that we are going to have as a smaller percentage of the portfolio going forward, we are being very disciplined on it, even if there is an opportunity. So I think it is around what did we define as the core of GE Capital and what is important to us where we have a competitive advantage going forward. They have a green light.

Right now, there is not an abundance of demand for CapEx. I think people are cautious in the midmarket. We do have the capital, we are putting it to work there. But again, you have got to have really more demand to say, oh, gee, let's triple down on some of these areas. So I think it is going to take a little bit of the economy swinging to be able to really put more capital to work in some of the core parts. In other parts, we are being very supportive and aggressive.

Steven Winoker - Sanford Bernstein - Analyst

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

And on the industrial side, the organic growth rate I think was down 8% versus down 5% last quarter. I think I am correct in that. Is that getting - as you think about that getting worse, how does that turn looking forward and how much of it is pricing, offset by pricing actions that you've taken this quarter, particularly in places like aviation?

Keith Sherin - General Electric - Vice Chairman & CFO

Pricing, as we said, was pretty positive. I think Jeff mentioned it. If you look at the dynamics of orders versus shipments and the backlog position that we think we will end the year with and if you could have industrial revenue down 10% to 15%, you are going to have organic revenue declines in 2010. So I don't have a quarterly profile up for that, but as an overall view for the year, that would be a framework that -- we are just about to go into our budget sessions. We are going to go in and do detailed operating reviews of all the teams and we will have a better update of that for you in December. But right now, that comment that we had about revenue being down 10% to 15% on the industrial side is the way we think about it.

Jeff Immelt - General Electric - Chairman & CEO

The other thing I would say, Steven, a lot of what drives that is long cycle businesses. We were outperforming let's say early in the downturn. I think the thing that has been pretty consistent has been services and that, again, I think provides, always provides the really underpinning for our industrial profitability. And that I think has performed pretty well through this entire cycle.

Keith Sherin - General Electric - Vice Chairman & CFO

It is a great point, when you look at the equipment services mix, if you think about the last three years, we have been talking about building the installed base and we've had negative productivity, negative op profit because equipment growth was growing three times faster than the services revenue. That has really turned in 2009. We will probably continue in 2010. The revenue and equipment third-quarter year-to-date is down 11% and the revenue and services is basically flat and the op profit is positive in services. So I think it shows the strength of this installed base and the services model.

Jeff Immelt - General Electric - Chairman & CEO

We took a lot of beatings from you guys the last few years while we were growing this installed base, but I have to say it does show the robustness of the business model.

Steven Winoker - Sanford Bernstein - Analyst

Okay, thank you.

Operator

Terry Darling, Goldman Sachs.

Terry Darling - Goldman Sachs - Analyst

Keith, I was wondering if you could help calibrate some math here, Keith, on the prior commentary of industrial operating profit ex C&I, ex restructuring kind of flat '09 versus '08. I guess I am not hearing anything to change that framework. Is that correct?

Keith Sherin - General Electric - Vice Chairman & CFO

I think for the total year, it is pretty close. Remember the one thing you got to add in there is the industrial taxes because the Industrial segment profit is on a pretax basis. So that is a little complicated, but overall, third-quarter year-to-date, it is down 7, but in the fourth quarter last year, we

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

had quite a bit of restructuring and on a total year basis, we are going to be probably closer, depending on how much restructuring we do in the fourth quarter.

Terry Darling - Goldman Sachs - Analyst

I guess just thinking on a pre-restructuring basis, which I think is the way the framework was calibrated previously, I think that it implies a -- if you look at the year-to-date on that and back that out, sort of what the fourth-quarter sequential improvement implies. You are typically up very sharply in Industrial profit 4Q versus 3Q, but it looks like \$1.5 billion sequential improvement. I just wonder if I got my math right there.

Keith Sherin - General Electric - Vice Chairman & CFO

You are talking about the Energy Infrastructure plus Tech plus the NBC category, not the restructuring category?

Terry Darling - Goldman Sachs - Analyst

Yes. I mean I thought the framework of flat ex restructuring, ex C&I --.

Keith Sherin - General Electric - Vice Chairman & CFO

Yes, up top. We showed you that. I mean if you look at 3Q year-to-date, it is up 3% for the Infrastructure businesses and then media has performed less favorably than what we thought this year. It is clear and overall, right now, 3Q year-to-date, we are down 3%. So I think we are not giving guidance on a quarterly basis or an annual basis, so we'll see how the thing plays out. You can see the framework 3Q year-to-date where we are and we will have to see how it plays out in the fourth quarter.

Terry Darling - Goldman Sachs - Analyst

And then I guess sort of a similar question, talking about GE Capital pre-provision pretax, if we go back to the slide in the July presentation, and one that Jeff rolled out at the Electrical Products Group conference, under the Fed base case, pre-provision, pretax \$11.1 billion on the adverse case, \$9.2 billion. If you think about what you have done year-to-date on that and maybe I am not clear as to where impairments fall on that discussion, but it suggests, under the adverse case, pre-provision moves to kind of \$3 billion in 4Q and under the base case, it would be \$5 billion. Can you just clarify how we should be thinking about that?

Keith Sherin - General Electric - Vice Chairman & CFO

Not exactly sure which basis you are going off of. Basically, for the Fed base case for the total year, we had about a \$400 million pretax, pre-provision loss at GE Capital finance. I think --.

Terry Darling - Goldman Sachs - Analyst

I am thinking before credit costs, I guess, Keith. So it is \$11.1 billion.

Keith Sherin - General Electric - Vice Chairman & CFO

Pretax pre-provision, we had a \$400 million loss for the year in the Fed base case. And if you look, that doesn't include the costs associated with the capital corporate, which is probably about \$700 million and then the fact that we are a lot smaller than we were expected to be is probably about another \$500 million on that on a 3Q year-to-date. And that will probably continue as you go through the fourth quarter.

Terry Darling - Goldman Sachs - Analyst

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Okay, that's helpful. Thanks very much.

Jeff Immelt - General Electric - Chairman & CEO

So I want to reiterate one thing Keith said is that we are shrinking GE Capital faster than we had planned. We think that is on strategy and as we do that, the GE Capital revenues decline accordingly. And so I think these are things we are doing proactively that are on strategy where we view this as being a positive execution point.

Operator

Jason Feldman, UBS.

Jason Feldman - UBS - Analyst

Good morning. Just following up on that point, I mean I certainly understand the long-term strategic reasons for shrinking GE Capital, but earlier on this call, we were hearing about credit costs are likely to remain relatively high, at least for next year and beyond that, a separate issue. I mean any concern that there is less ability to handle those losses with a kind of smaller pretax pre-provisioned earnings base going forward? And it could be partially counterproductive to do that and shrink the portfolio this quickly.

Keith Sherin - General Electric - Vice Chairman & CFO

We think we can manage through both pieces. Jeff Bornstein laid out the 2010 cases and we know the size of GE Capital that we are talking about in there and we are planning on doing that. I think you have seen some of the positives for us in terms of the lower costs. That has certainly been better than what we laid out. We started with \$2 billion and we're getting close to \$3.5 billion to \$4 billion of improvement in SG&A. We do have some benefits from some of the acquisitions we have done like the BAC transaction. That is a positive in terms of the total earnings for the Company. And we are going to have to work our way through the losses and impairments. We think we can do that based on the size of GE Capital and manage this thing in a very safe and secure way. We will give you more details of that in the December meeting. Like I said, we are just going to go into the operating plan for next year with all the teams and Jeff and Mike Neal and Bill Cary and that team are going to do that as well.

Jason Feldman - UBS - Analyst

And shifting over to the energy business, not surprisingly, a lot of the order activity recently seems to be coming from the Middle East. How do you see things playing out in the United States for both gas turbines and wind kind of given the regulatory uncertainty? It seems like there is going to be some stimulus boost next year, particularly on the wind side, the PTC extension. But is a real rebound in a sustained way there really dependent on what happens with the economy or is it federal energy policy that is really the big question going forward?

Jeff Immelt - General Electric - Chairman & CEO

I hate to say this, but I think it is both to a certain extent. I mean Energy is just one of those businesses that needs or that looks a little bit at the economy and also public policy at the same time. I think wind is certainly going to be helped in the next 18 months by the stimulus and the production tax credit and things like that. I think the great news for us is that, in almost every scenario, gas is going to be a winner. I think the finds of shale gas and the basic cost makes it, I think, the fuel of choice environmentally by our customers. And so we are seeing some good activity around gas.

Keith Sherin - General Electric - Vice Chairman & CFO

I think wind also -- I think when the production tax credit -- as we said, there is definitely a demand for it. We need the economy to pick up a little bit in terms of energy demand in total, but I think you're going to see some pickup there.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Jeff Immelt - General Electric - Chairman & CEO

But you will see -- you will see from us in the fourth quarter a couple sizable commitments on wind.

Jason Feldman - UBS - Analyst

Okay. And kind of a somewhat similar question on the medical side. I am sure we will hear more about this Tuesday and we have heard quite a bit about the emerging markets opportunities. But in the United States, again, you have got economic and regulatory uncertainty. But with healthcare reform being considered in Congress, I mean how concerned are you that some of the headwinds, at least on the imaging side, are going to wind up more permanent as opposed to -- energy seems very temporary and it will get better, we just need some certainty. With healthcare though, do you see a different kind of set of risks there?

Jeff Immelt - General Electric - Chairman & CEO

Again, you guys are going to hear a lot on this next week. I think in Healthcare, we are at some of the most difficult times right now, I would say, just because it is all unknown, it's up in the air. You have the combination to your point of capital markets, plus a tough economy, plus regulatory uncertainty.

What I would say is, and you'll hear this from John next week, in theory, if there is some kind of reform, the volume in theory should pick up. There will be a negative, whether it is reimbursements or some negatives in there and then wherever the stimulus goes in areas like Healthcare IT and how those all wash through I think remains to be seen. But the installed base age of just basic imaging equipment is at the highest point today than at any time in our history and over some period of time, that washes through.

Jason Feldman - UBS - Analyst

Okay. Thank you very much.

Operator

Bob Cornell, Barclays Capital.

Bob Cornell - Barclays Capital - Analyst

Hey, guys. Let's get back to some blocking and tackling here. You guys talked about pricing being a benefit in a couple of areas and I was wondering if you are really talking about pricing has been embedded in backlog that was put in place in the market a year or so ago and what the outlook for pricing would be going forward?

Keith Sherin - General Electric - Vice Chairman & CFO

Well, the price numbers that I gave associated with revenue were for actual sales. If you look across the businesses, energy, new orders that I mentioned, the price index was up 4%. If you look at Aviation, the price is up 2%. I think the one place where we are seeing continued price pressure, it was healthcare, was down about 3%. So I think if you look at Energy, Oil and Gas, Aviation, we are still seeing good pricing and it requires good technology. I mean it requires us to continue to invest in technology and have the product that people need and that is what is going on globally.

Bob Cornell - Barclays Capital - Analyst

Thanks. On the cash flow number, you gave us the year-to-date walk, but not specifically the third-quarter walk, at least I didn't see it. How do we get to the free cash flow number of 4.4? Are we looking at the progress payments turnaround for you, was it inventory tightness? What drove the free cash flow number up there?

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Keith Sherin - General Electric - Vice Chairman & CFO

If you look in the quarter, we had net income plus depreciation, plus some timing of tax payments, plus working capital. You put the four elements together, it is \$4.4 billion. And we only had \$1.1 billion of dividend payments. So this is the first quarter, as you know, where we had to cut the dividend. We did it; it is going to be helpful to the Company in total. But now we are going to start accumulating that cash and I think the teams -- we have an operating counsel, Bob, where we are meeting every month. We are looking at every element of working capital for every business. We have commitments and targets, we have plans and programs and we have a lot of oversight and review on it. The teams are doing a hell of a job on it. For the year, we have had a \$3 billion year-over-year impact on progress and we have offset that with our working capital benefit.

Bob Cornell - Barclays Capital - Analyst

\$3 billion negative, right?

Keith Sherin - General Electric - Vice Chairman & CFO

Negative, year-over-year, year-over-year in terms of cash flow. The progress balances themselves have stayed relatively flat. So the teams have offset that with receivables and inventory and payables work. I think it has really helped.

Bob Cornell - Barclays Capital - Analyst

Another thing, final thing I guess from me is on the gains. You mentioned the gains in the A&E. Were there other gains of meaningful amount in places like Aviation for example or even in Capital?

Keith Sherin - General Electric - Vice Chairman & CFO

I think the only -- I said we have about \$50 million of gains in Real Estate. That's the only thing that I have across the portfolio, Bob. I have the A&E gain.

Bob Cornell - Barclays Capital - Analyst

And the \$50 million of the Real Estate gains?

Keith Sherin - General Electric - Vice Chairman & CFO

Right. But that is embedded in there in their total loss of \$500 million.

Bob Cornell - Barclays Capital - Analyst

Absolutely. That is not a big deal.

Keith Sherin - General Electric - Vice Chairman & CFO

Significantly less than last year.

Bob Cornell - Barclays Capital - Analyst

Okay, thanks.

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Operator

Nigel Coe, Deutsche Bank.

Nigel Coe - Deutsche Bank - Analyst

Thanks, good morning. A couple of quick follow-ons. Just want to dig into the energy services growth, [auto] growth this quarter, 16% out. You talked about some utilization on the gas turbines and the installed fleet, kind of the second overhaul, but do you think that is sustainable? I mean do you think double-digit growth is sustainable given some of the trends you highlighted?

Keith Sherin - General Electric - Vice Chairman & CFO

Well, third quarter for the total energy business was up 9% and as I said, services were up 16%. They have built an incredible installed base. We are coming into a better cycle on the F turbine technology in terms of continued maintenance. They have got a good CSA backlog, the customized service agreement backlog and strong global contracts. I think if you have high single-digit revenue on a period of time here, that would be great.

Nigel Coe - Deutsche Bank - Analyst

Okay, that's helpful. And then on the consumer delinquencies, again, the trend was very encouraging. Given that the outlook for 2010, given the sort of base case economic forecast for unemployment, do you view this as a speed bump in a trend or do you view this as something more sustainable?

Keith Sherin - General Electric - Vice Chairman & CFO

As I sit with the teams, as I sit with the teams who are working on the consumer business and I separate it between the mortgages and the rest of the unsecured portfolio, I think the team in the US here has done a hell of a job. We acted early, we cut the credit lines that were open to buy. We have increased our standards in terms of who gets credit. We have got a very disciplined approval process. We have improved our collection process and the US consumer is retrenching.

I think our entry into delinquency continues to show very favorably. Once you get into delinquency, if someone has an individual financial problem, employment or healthcare, they can end up going right through to write-off, but the entry rates are good. I think we do expect unemployment to go higher. That will have its related impact with us, but I feel very good about the progress we have made here and to me, it depends here on macroeconomics and what is going to happen on unemployment in the US. The business is running well.

The mortgage business, I think we've made a lot of progress. I think we have seen the delinquencies stabilize in the UK. That is the biggest portfolio obviously. And I think the house price information in the UK is very positive. We are doing a good job of collections and managing the accounts. If we have to go into foreclosure, we do it. We mark those things at 364 days. We mark it to the market value and we are realizing a 15% gain above those market values on houses that get to that point. So I think the loss framework is well understood and again, the delinquencies rolling over on that mortgage book are very positive for us. It is at a high level; we are going to have pressure. We are going to have to work through it, but I feel pretty good about that.

Nigel Coe - Deutsche Bank - Analyst

Okay. And then just finally, your interest in Areva is interesting. I mean how do you view this? Do we view this as somewhat opportunistic, a great asset on the market. It would be remiss to express interest or have you come to the conclusion that T&D or a bigger presence in T&D is critical for GE going forward?

Jeff Immelt - General Electric - Chairman & CEO

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Again, I think we like the energy space. The whole notion around Smart Grid and emerging markets changed the dynamics around that industry and this is an opportunity that is out there that we should really review very seriously.

Nigel Coe - Deutsche Bank - Analyst

Okay. And just finally, Keith, let's assume hypothetically that GE Capital pretax losses and the profile of the losses are the same year-on-year in 2010, would you expect a similar tax credit versus this year?

Keith Sherin - General Electric - Vice Chairman & CFO

Well, I mentioned earlier, I think there is an amount that is relatively structural that is close to \$500 million a quarter that we would expect to continue. I think if you have pretax losses that can be absorbed by GE, those will be absorbed and that is not a problem.

This year, you remember in the first quarter, we had a one-time decision to permanently reinvest some of our overseas earnings. I don't know whether that would occur again. That was a one-time item; that was \$700 million. And if you look in the Q, we are negotiating and working on settling our open years with the IRS and those could have a positive impact. I don't know when those would hit. They could settle in 2010, maybe being a partial offset to the one-time item that we had this year. But that is a lot of uncertainty. I don't know how to predict it. But those are the categories of things that I think about.

Nigel Coe - Deutsche Bank - Analyst

Okay, that's helpful. Thanks.

Trevor Schauenberg - General Electric - VP, Investor Communications

Noelia, I think we have time for about one more question.

Operator

Daniel Holland, Morningstar.

Daniel Holland - Morningstar - Analyst

Good morning. Can you guys walk through the margin improvement that you are seeing in the Infrastructure segments and kind of quantify the benefits that you might be seeing from some of the previous restructuring activity?

Keith Sherin - General Electric - Vice Chairman & CFO

Well, I think if you -- two places I would look at are the charts early in the pitch. The number one place where you see the benefits of the restructuring that we have done was on page 8. Base costs are going to be down 10% this year. It went from \$44 billion to \$40 billion and that is a -- that is a lot of work that the teams have done across the Company to reduce our headcount, to consolidate operations, to get common back offices, to reduce our cost footprint. So I think that clearly the restructuring that we have done in prior periods and that we have invested in this year, which is outlined on the chart, is paying off.

In terms of the margin improvement on op profit, the base costs have certainly been a part of that, but in addition, it is the equipment services mix and on a year-over-year basis through three quarters, about 60 basis points of that improvement in margin comes from the fact that the equipment services mix has turned as I went through a little earlier.

Daniel Holland - Morningstar - Analyst

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

Got you. Thank you. One last question. Did you guys do any real estate transactions in the quarter?

Keith Sherin - General Electric - Vice Chairman & CFO

As I said, we actually sold some properties. We sold about 72 properties for an after-tax gain of \$51 million, if that is what you mean. I am not sure of what other transactions we did.

Daniel Holland - Morningstar - Analyst

Any purchases?

Keith Sherin - General Electric - Vice Chairman & CFO

There is no purchasing going on in the real estate space right now. The team is totally focused on managing this portfolio. We do have some obligations in some of the partnerships where we may have to provide capital on a schedule and we have some of that. But real estate was basically flat quarter two to quarter three.

Daniel Holland - Morningstar - Analyst

Got you. Thank you.

Trevor Schauenberg - General Electric - VP, Investor Communications

Great. Thank you, everyone, for today. I would like to close by announcing three upcoming events for everyone's calendar. As a reminder, we will host our GE Healthcare Analyst meeting on October 20 next week. Please visit our investor website for information regarding this event.

We will also host our third GE Capital event of the year. There will be a webcast held on December 8. We will send out details a little closer to that event. And then finally, the Annual Outlook Investor Meeting with our Chairman and CEO in New York City will be held on December 15. Again, more information will be sent out closer to that event date and finally, the replay of today's webcast will be available this afternoon. As always, JoAnna and I are available today to take your questions. Thank you very much.

Operator

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

Oct 16, 2009 / 12:30PM GMT, GE - Q3 2009 General Electric Earnings Conference Call

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