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EDITED TRANSCRIPT

GE - Q4 2013 General Electric Co. Earnings Conference Call

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OVERVIEW:

GE reported 4Q13 continuing operations revenue of $40.4b, operating earnings of $5.4b, net EPS of $0.41 and operating EPS of $0.53.

Caution Concerning 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," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. 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 volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; potential market disruptions or other impacts arising in the United States or Europe from developments in sovereign debt situations; the impact of conditions in the financial and credit markets on the availability and cost of General Electric Capital Corporation's (GECC) funding and on 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; changes in Japanese consumer behavior that may affect our estimates of liability for excess interest refund claims (GE Money Japan); 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 flow and earnings and other conditions which may affect our ability to pay our quarterly dividend at the planned level or to repurchase shares at the planned level; GECC's ability to pay dividends to GE at the planned level; our ability to convert pre-order commitments/wins into orders; the price we realize on orders since commitments/wins are stated at list prices; the level of demand and financial performance of the major industries we serve, including, without limitation, air and rail transportation, energy generation, real estate and healthcare; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation; our capital allocation plans, as such plans may change and affect planned share repurchases and strategic actions, including acquisitions, joint ventures and dispositions; our success in completing announced transactions and integrating acquired businesses; our ability to complete the staged exit from our North American Retail Finance business as planned; the impact of potential information technology or data security breaches; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. 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 may also contain 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."
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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric fourth-quarter 2013 earnings conference call. (Operator Instructions) My name is Frances and I will be your conference coordinator today.

(Operator Instructions) As a reminder, this conference is being recorded.

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

Trevor Schauenberg - ***General Electric Company - VP Corporate Investor Communications***

Thank you, Frances. Good morning and welcome, everyone. We are pleased to host today's fourth-quarter and total-year 2013 earnings webcast.

Regarding the materials for this webcast, we issued the press release and the presentation earlier this morning. Slides are available on our website, 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, and our new IR leader, Matt Cribbins.

Now I would like to turn it over to our Chairman and CEO, Jeff Immelt.

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

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Thanks, Trevor, and good morning, everybody. Hey, look; the Company had a good fourth quarter in a generally improving environment. Orders grew by 8% and our backlog is an all-time high at $244 billion.

Growth market orders grew by 13% and the US expanded by 8%, and Europe grew by 3%. So pretty broad-based growth, and Industrial organic growth was up 5% for the quarter.

We earned $0.53 per share in the quarter, up 20%. Our Industrial earnings growth was up 12%, with six of seven segments growing. Capital earned $2.5 billion, including some tax efficient gains as we exited global platforms.

We were able to pull forward $0.05 of Industrial restructuring, partially offset by $0.03 of gains. So this is more than we expected and will give us some more cost-out in 2014.

We continue to run the Company well. Margins grew by 100 basis points in the quarter and 60 basis points for the year. This actually reflects 66 basis points before the impact of acquisitions.

Our value gap was exceptionally strong, and we reduced structural cost by $1.6 billion for the year. We generated $17.4 billion of CFOA and end the year with $89 billion of consolidated cash.

We allocated the cash in a value-creating way. We returned $18.2 billion through dividends and buyback. We completed $9 billion of M&A, primarily in Oil & Gas and Aviation, and these businesses are delivering for investors.

So overall, this was a good quarter for GE and positions us to deliver in 2014 and beyond.

Our orders for the quarter were about $31 billion, a record. We also ended the year with a record high backlog of $244 billion.

We had growth in both equipment and services. There was real strength in Power & Water. We ended the year with 125 orders for heavy-duty gas turbines. Power Gen Services grew by 9%, which was actually 16% excluding Europe.

Regionally, our gains were broad-based. The US continued to rebound, growing 8%. For the total year, orders grew by 8% and backlog grew by $34 billion.

Aviation orders reflect our record backlog for equipment. But at the same time, Aviation services continues to be very strong.

Orders for Oil & Gas equipment are always lumpy, but orders year-to-date are up 8%. And we are encouraged by the orders price performance in Oil & Gas.

We built a big backlog in Energy Management which should help in 2014. And Transportation is being impacted by a weak mining market.

Orders pricing was in line with our expectations. We saw pricing pressure in heavy-duty gas turbines, mainly based on regional mix. But on balance we expect to continue to drive a positive value gap in 2014.

Our growth initiatives continue to deliver results. Growth market revenue was up 10% in the quarter.

Growth was pretty broad-based. Six of nine regions were up by double digits, and we continue to build out our growth market presence.

For service, 6% revenue growth was the best quarterly result in 2013. Highlights include 54 Advanced Gas Paths; Aviation spares grew by 17%; Oil & Gas services grew by 17%. We launched another 14 Predictivity offerings in the fourth quarter, and our dollars per installed base grew by 5% in the quarter.

We continue to win in the market. The Dubai Airshow resulted in $40 billion of wins. The Revolution CT is rapidly becoming the industry standard. We are the only locomotive competitor with both a Tier 4 diesel and an LNG offering in test, and we continue to build out service technology around Oil & Gas installed base.

At our Outlook Meeting we set a target of 4% to 7% organic growth for 2014. And with a huge backlog and strong growth initiatives, that looks achievable.

For margins, we have a pretty good story on margins, growing 100 basis points in the quarter. We finished the year up 66 basis points on an organic basis. We had an internal plan that was well above 70 basis points, but were impacted by supply chain quality issues in Wind and some Energy Management project delays.

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By business, we had positive operating leverage year-over-year and margin expansion in six of seven businesses. Big drivers of our margin expansion were simplification and value gap. In 2013, we achieved $1.6 billion of simplification benefits, and our value gap was about $900 million.

In addition, we were able to do more fourth-quarter restructuring, which will fortify our margin goals in 2014.

One other note. We had no gains in the fourth quarter of 2013 versus some gains in the fourth quarter of 2012. So this really was solid performance.

We are getting fairly consistent margin performance across the Company. And with margins expanding 110 basis points in the second half, we really feel like we have good momentum going into 2014.

So on to 2014. We plan to grow margins in 2014, in line with our goal to exceed 17% by 2016. We pulled forward more restructuring in 2013 than we originally planned.

In the fourth quarter of 2013, we executed $0.05 per share of projects that have an 18-month payback. This was partially offset by $0.03 of gains.

We finished 2013 with $1.6 billion of structural cost-out. Because of our fourth-quarter restructuring we are increasing our cost-out goals for 2014.

At the Outlook Meeting we said we would achieve about $1 billion of cost-out. We are now targeting to get more than $1 billion.

We expect our SG&A as a percentage of revenue to be about 14% in 2014. Key margin drivers will again be value gap and simplification.

We expect R&D to be better, and mix will be negative as our product sales are growing faster than service. But our margin plans have been fortified, and this should be a tailwind for GE going into 2014.

Look, we ended the quarter with significant balance sheet strength. Our total CFOA was about $17.5 billion for the year, consistent with expectations. We had a good quarter in capital efficiency and working capital.

On the GE Capital side, we have substantial liquidity. Our commercial paper fell below $30 billion for the first time in many, many years.

We ended the year with $89 billion of consolidated cash and about $14 billion at the Parent. We are implementing our plans of value creation and opportunistic and balanced capital allocation.

In 2013 we returned $18.2 billion to investors through dividends and buyback. And we announced a 16% increase in our dividend at year-end; and like I said earlier, we completed $9 billion of acquisitions.

As I said at the Outlook Meeting, we plan to work capital efficiency hard in 2014, and our capital allocation will create value for our investors. So with that, let me turn it over to Jeff to talk about really the operations and performance of the businesses. Jeff?

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

Great. Thank you. I will start with consolidated results.

We had continuing operations revenue of $40.4 billion, reported up 3% in the quarter. Industrial sales of $28.8 billion were up 6%, and GE Capital revenues were $11.1 billion, down 5%.

Operating earnings of $5.4 billion were up 16%. Operating earnings per share of $0.53 were up 20%.

Continuing EPS of $0.49, which includes the impact of nonoperating pension. The net earnings per share of $0.41 includes the impact of discontinued operations, which I will cover on the next page.

As Jeff said, total year CFOA was $14.3 billion. When you add back the $3.2 billion of NBC tax impact, you get to $17.5 billion. We had solid Industrial performance here, with the variance of 2012 driven by the NBCU-related taxes, as I mentioned.

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We received $2 billion of dividends from GE Capital in the quarter. The GE tax rate for the quarter was 19%, which is in line with the framework we provided earlier in the year; and the total year rate was also 19%.

The GE Capital tax rate was significantly negative in the fourth quarter, primarily driven by the tax-efficient sale of our Swiss platform, which resulted in about $1 billion of tax benefits in the quarter. This drove a negative 77% tax rate in the quarter; and for the year, GE Capital's tax rate was a negative 14%.

On the right side you can see the segment results, with total Industrial segment profit up 12%, and six of seven businesses contributing to earnings growth. GE Capital earnings also grew in the quarter, up 38%.

I will take you through the dynamics of each of the segments on the following pages. But overall, a reasonably strong quarter.

On the Other Items page, first we had $0.03 of gains related to Industrial transactions. We disposed of Air Filtration within our Power & Water business, the Vital Signs business within HealthCare, and the advanced sensors business within Oil & Gas. All three of these gains were booked in Corporate.

We had $0.05 of charges in the quarter related to restructuring and other items. This was about $0.02 higher than we had planned, as we continue invest in restructuring to right-size the Industrial cost structure to position the Company for 2014 and beyond.

In discontinued operations we had $787 million after-tax impact in the quarter, really driven by four items. First, we booked $442 million of additional reserves on Grey Zone. While we saw claims decline in the third quarter, claims in the fourth quarter were above our model expectations; so we revised our assumption to reflect a further slowing in overall claims reduction rate. We ended the quarter with $859 million in reserves.

At WMC, pending claims declined from $6.3 billion in the third quarter, $5.6 billion at the end of the year, as the team settled about $1 billion of pending claims. That was partially offset by new pending claims of $281 million.

We recorded a $116 million charge, resulting in the total reserve balance at the end of the year of $800 million. That is flat with where we ended the third quarter.

Also in the quarter, we signed an agreement to sell our consumer bank in Russia, resulting in a $170 million loss in discontinued ops, principally FX-related. We expect to complete the transaction the first quarter, and this will lower our ENI by almost $1 billion.

Lastly, we had a disc op tax adjustment related to plastics of $65 million on a disallowment of interest deductions from years previous.

So on an operating basis, we had $0.02 higher Industrial restructuring versus gains, which was about $300 million on a pretax basis. It is the main driver of our higher Corporate expense in the quarter.

Now I will go through each of the segments, starting with Power & Water. Orders of $10.3 billion were up 44%, our largest orders quarter in the last five years. Excluding Europe, orders were actually up 56%.

Equipment orders of $6.4 billion were up 81%, driven by Thermal and Wind. Thermal orders were up 3 times, driven by the Algerian deal and strength in Saudi and Latin America. Excluding Algeria, Thermal orders were still up over 100%.

We had orders for 65 gas turbines in the fourth quarter versus 26 last year, and that brought the total year to 124 units on order. Backlog for Thermal was up 70% for the year.

Wind orders were up 63%. We had orders for 779 Wind turbines versus 412 in the fourth quarter of 2012, principally driven by US demand. The Wind backlog was up 43% for the year.

Service orders of $3.9 billion were up 8%, primarily driven by PGS, up 9%, and up 16% ex-Europe. And we were very strong on AGPs; we did 25 AGPs in the quarter versus 6 in the previous year.

Total orders price was lower as Jeff said, at 3%, with Thermal down 4% and Wind down 5%. Revenue in the quarter was $7.7 billion; that was flat with last year.

Thermal revenue was down 11% as we shipped 28 gas turbines versus 32 in the fourth quarter of 2012. That was partly offset by Wind, up 6%, with shipment of 875 turbines versus 722 a year ago.

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We recognized revenue on 200 fewer Wind turbines than we planned, primarily due to a supply chain quality issue and project delays and customer delays. The impact on the quarter was approximately $500 million of revenue and, including the reserves for the quality issues, about $100 million of margin.

As we worked through the quarter here we had some blade issues in November. The team was all over it. We spent an enormous amount of time within the supply chain understanding the blade issue.

We spent most of December understanding what the fleet impact would be and what the manufacturing anomaly associated with -- and it was really not until around Christmas time that we realized that we probably weren't going to rev-rec a lot of these turbines that potentially could have an issue with the blade.

Service revenues of $3.8 billion were up 3%, up 8% ex-Europe.

On segment profit, $1.9 billion; was up 9%, driven primarily by value gap. The Power & Water team has also done an exceptional job on costs, with SG&A in the quarter down 18% and down 13% for the year. Margins improved 190 basis points year-over-year in the fourth quarter.

Overall, based on 2013 orders, we are seeing a gradual improvement in heavy-duty gas turbine. And Wind will also have a stronger year in 2014.

With these higher deliveries coupled with simplification benefits, we expect Power & Water to grow earnings in 2014. Based on our backlog we do expect deliveries to ramp through the year, similar to 2013.

Additionally, we are continuing to work through the blade supply issues in Wind, and it could have a minor impact on the fourth quarter. But it in no way changes our outlook for 2014 for the business or the Wind business.

Next is Oil & Gas. Orders of $5.5 billion were down 2%, with equipment orders down 8%. Subsea orders were down 10%, and Drilling and Surface was down 20% on tough comparisons to last year. That was partly offset by M&C, up 8%.

For the year, equipment orders were up 12% and backlog grew 27%. Service orders were up 6%, led by global service up 8%, partially offset by M&C down 3%.

Service backlog grew 27% in services as well. Orders pricing was strong in the quarter, up 1.8%.

Operations in the business had a solid quarter. Revenue of $5.3 billion was up 17%; that is up 9%, ex-acquisitions.

Equipment revenues of $2.8 billion were higher by 16%, driven by strong execution in Subsea, up 70%; Drilling and Surface up 20%; partly offset by M&C down 18% on continued market softness. Service revenues of $2.5 billion were up 17%, with strength in Global Services, up 9%; Drilling and Surface up 20%; Subsea up 45%.

Segment profit grew 24% to $800 million, up 18% ex-acquisitions, driven by strong value gap and higher volume. Margins were up 80 basis points year-over-year; and they were up 120 basis points year-over-year excluding acquisitions.

Next I will walk through Aviation and Healthcare. Aviation orders of $7 billion were down 5%, driven by equipment orders down 15%. Commercial engine orders were $3.2 billion, down 12%, primarily driven by the huge ramp of CFM LEAP orders starting in the fourth quarter of 2012. CFM orders were down 23% in the quarter to $1.5 billion.

GEnx orders of $1 billion were up 21%, and GE90 orders were up 43% in the quarter.

Commercial engines backlog grew 28% to $21.6 billion, despite not yet booking the vast majority of the $23-billion-plus of engine commitments from the Dubai Airshow. Military engine orders were down 43%, as we expected; so as we look ahead into 2014 for the military business, we are expecting profits to be down mid single digits year-over-year.

Service orders of $3 billion were up 11%, driven by Commercial spares up 16% to $26 million a day. Military service orders were down 3%, driven by sequestration and lower flying hours, which are down 15% to 20% over the last 12 months.

Service backlog ended the year at $97 billion, 22% higher than year-end 2012. Orders pricing was strong, with positive 1.8%.

Revenue in the quarter of $6.2 billion was up 13%; up 7% ex-Avio. The Commercial equipment revenue was 17% higher, with 627 unit deliveries versus 589 in 4Q 2012 and a greater mix of higher-value GEnx and GE90 engines. We shipped 80 GEnx engines in the quarter.

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Military revenues were up 16% on lower units, 239 versus 258. But the value was higher, driven by favorable mix of tankers and fighter engines.

Service revenues were up 10%, driven by strong spares revenue, up 17% to $26.4 million a day. Military service was down 17%, driven in part by sequestration and the lower flying hours, in addition to wind-down of some upgrade programs.

Operating profit of $1.25 billion was up 20%, up 13% ex-Avio, on strong volume and value gap. Margin rates improved 130 basis points, 100 basis points ex-Avio.

Strong cost productivity more than offset GEnx mix and higher R&D spend. Also, if you exclude the Duarte disposition from the fourth-quarter 2012, margins would have been up 310 basis points in the quarter. So overall a very strong quarter and a strong year for the Aviation team.

Healthcare orders of $5.4 billion were up 1%, driven by emerging markets up 4%, with Latin America up 15% and China up 8%, partially offset by Russia down 19%. From a developed markets perspective, the US was flat and Europe was up 2%. Japan was down 10%; but actually up 11% excluding the impact of FX.

Equipment orders of $3.4 billion were down 1%. CT was down 16%; MR was up 1%; ultrasound was down 2%; and molecular imaging was up 6%.

Service orders of $2.1 billion were up 3%, driven by Healthcare IT, up 6%. Healthcare IT growth has picked up as new product launches are gaining traction. As Jeff said at the December Outlook Meeting, we expect Healthcare IT to be up 10% organically in 2014.

Revenue of $5.1 billion was down 1%. That is flat, excluding the effects of FX. And fourth-quarter profit of $1.1 billion was up 4%, as benefits of simplification more than offset the impact of lower pricing and foreign exchange.

SG&A was down 13% in the quarter and down 6% for the year. Margin rates were up 110 basis points. Excluding the impact of the Thomas Medical disposition in the fourth-quarter 2012, op profit would've been up 13%, with margins expanding 230 basis points.

Next I will cover Transportation. Orders of $1.2 billion were down 9%. Equipment orders were down 2%, and we had orders for 149 locos versus 88 in the fourth quarter of 2012. But mining orders continue to be soft, down 60%.

Service orders were down 15%, driven by flat service contracts, but offset by fewer modifications and weak demand for mining parts.

Revenues of $1.5 billion were up 7% year-over-year. Strong equipment growth of 22% was offset by service revenue, down 8%, again driven by soft mining parts. Locomotive shipments were higher, with fourth-quarter deliveries of 171 units compared with 117 a year ago.

Operating profit of $280 million was up 11%, with margins better by 70 basis points. The improvement was principally driven by positive value gap.

In 2013, Transportation executed well in a difficult environment, expanding margins 140 basis points. Looking into 2014, we expect a continuing soft mining industry with OHV shipments down 50% for the year; and the first quarter will be weaker than that, probably down closer to 80%. We expect a slow recovery for North American coal, offset somewhat by a strong international pipeline for locos.

Energy Management. Performance in our Energy Management business has been disappointing this year. Although results were modestly better sequentially, they were still well below the business's potential.

Orders continue to be a good story: up 6% in the quarter to $2.3 billion, a record for the business. This was driven by Power Conversion, up 18% on strong renewables industry volume, offset partially by Industrial Solutions, down 6%. 2013 backlog was up 20%, with every single platform in the business being higher.

Revenues were up 4%, principally driven by Industrial Solutions and Intelligent Platforms. Operating profit of $46 million was down 28%, driven by Power Conversion. This business has continued to deal with backlog conversion challenges and higher startup costs as they began production of our new marine platform.

Over the last two years the marine business has more than doubled its backlog, and total Power Conversion has grown backlog by 35%. We expect to see steady progress in Power Conversion throughout 2014 as their volume ramps and they focus on converting this backlog.

Despite the poor performance in Energy Management this quarter, we do think we are making progress in our restructuring efforts and our execution issues. For instance, our Industrial Solutions business that we started restructuring two years ago was up 71% in op profit in the quarter; it was up 38% for the year on op profit, on almost flat volume. So more work to do here, but also some good execution within our Industrial Solutions business.

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Appliances & Lighting had a good quarter, primarily driven by Appliances. Overall Appliance domestic industry was up 10% on units with strength in both retail, up 10%, and contract, up 12%.

Housing starts continue to be positive. They were up 16%, with single-family better by 13% and multifamily up 22%.

Revenues of $2.2 billion were higher by 6%, led by a 9% increase in Appliances. Lighting revenues were up 1%, with strong global LED sales, which were up 50%, offset by continued decline in our incandescent product lines.

Segment profit of $142 million was up 23%. Appliances op profit was up 51%, driven by positive value gap and productivity; and Lighting op profit was higher by 5%. Margins improved 90 basis points in the quarter for the segment.

Next I am going to go through GE Capital. Before I go through the standard operating page, I thought I would take you through a layout of some of the major items in the quarter, similar to the way Keith did it in the November meeting.

So if you start on the left here, GE Capital earned $2.5 billion, up 38% from a year ago. On the right side you can see we had $1.6 billion of tax benefits and gains from the Switzerland and the BAY transactions, as we discussed.

We sold 68.5% share in the Swiss consumer bank via an IPO, resulting in $1.2 billion of tax benefits and gains. In addition, we completed the sale of our remaining stake in BAY Bank, resulting in a $400 million gain.

As the team continues to reposition the portfolio, we did have $1 billion of charges related to dispositions and restructuring of non-core Consumer and Real Estate assets as well as impairments in CLL and GECAS. I will cover some of the principal drivers here.

In the Consumer segment we exited $700 million of mortgage assets in the Netherlands at a loss of $75 million. We recorded an impairment charge of $90 million on an investment in a Taiwanese bank that positions us to exit that non-core asset in 2014.

In Real Estate we had a $75 million charge related to sell-down of the equity book in our Swedish portfolio. In CLL we recorded after-tax impairments of $290 million related to two specific investments as well as a small write-down in our Corporate asset book.

At GECAS we recorded impairments of $270 million, primarily related to certain older aircraft types that are more susceptible to changes in technology and operating preferences, which reduces our exposure to these less desirable assets and creates additional portfolio flexibility. I will cover more of these items as I go through each of the segments on the following page.

Finally, we had adjustments to reserving models, primarily in North American Retail Finance and Consumer international, resulting in $200 million higher after-tax credit costs in the quarter. In Retail we increased our loss reserve coverage from 12 months to 12.5 months of forecasted charge-offs.

After adjusting for all these items, GE Capital's net income in the quarter was $2.1 billion.

Now to cover operations in segments, revenue of $11.1 billion was down 5%, with assets down 4% or $22 billion year-over-year. Net income of $2.5 billion was up 38% from prior year as the tax benefits and gains, as I mentioned, from Swiss and BAY transactions more than offset portfolio actions, higher losses and impairments, and lower assets.

We ended the quarter with $380 billion of ENI. That is down $36 billion or 9% from last year, and down $3 billion sequentially. Non-core ENI was down 22% to $53 billion.

Net interest margins in the quarter increased 16 basis points to 5%, and flat with the third quarter. Volume was up 5% in the quarter, with new business ROIs over 2% as we continue to stay disciplined on pricing and risk hurdles.

Tier 1 common on a Basel 1 basis improved by 10 basis points sequentially and 120 basis points year-over-year to 11.4%, driven by the reduction in assets and after paying $2 billion of dividends in the quarter. For total-year 2013, GE Capital paid $6 billion in dividends to the Parent and will pay an additional $130 million in the first quarter to reflect the higher fourth-quarter earnings.

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On the right side of the page, asset quality trends continue to be strong, with the delinquency rates improving across the portfolio. We ended the quarter with $29 billion of commercial paper, ahead of our plans. And liquidity was very strong, ending the quarter at $75 billion.

Now I will walk through each of the segments. Commercial Lending and Leasing business ended the fourth quarter with $174 billion of assets; that is down 4% from last year, including a reduction in non-core assets of $3 billion. On-book core value was $13 billion, down 8%, due to the elevated level of customer activity we saw last year from the US fiscal cliff concerns. But we did see strong volume growth in the US direct midmarket businesses, which were up 32% in the quarter versus 2012.

Overall, new business returns remain attractive at about 2% ROIs, despite continued excess liquidity. These are positive growth indicators as we think about our core CLL business going into next year.

Earnings of $263 million were down 52%, driven by lower assets and impairments. After adjusting for impairments that I covered on the prior page, earnings would have been up 1% with assets down 4%.

Asset quality was stable in the portfolio. In 2013, the CLL business earned $2 billion; and going into 2014, we expect it to be up double digits.

The Consumer segment ended the quarter with $132 billion of assets. That is down 4% from last year. The Swiss and BAY deals we exited reduced assets by $5 billion.

Net income of $2.1 billion was up almost 3 times; again driven by these two transactions, partially offset by higher credit cost and charges related to the portfolio actions that I talked about on the prior page.

North American Retail Finance earned $466 million in the fourth quarter. That is down 2% as higher core net income was offset by reserve adjustments and continued marketing investments.

Asset growth in the business was strong at 10%, driven by volume up 11%. Overall, Consumer asset quality remained stable.

Real Estate had another decent quarter. Assets ended the quarter at $39 billion; that is down 16%, down $1 billion sequentially. The equity book is down 32% from a year ago to $14 billion.

Net income of $128 million was down 59% versus 2012 but in line with where we expected them to be. That was driven by nonrepeat of last year's gain from the sale of our business properties portfolio of about $82 million and our Sweden equity sell-down of about $75 million. In the quarter we sold 341 properties with a book value of about $2.4 billion for $145 million in gains.

The debt business earned over $100 million in the quarter and originated $4.7 billion of volume at attractive returns, including the purchase of a $1.8 billion UK portfolio from Deutsche Postbank. Asset quality continues to improve, with 30-day delinquencies at 124 basis points; and that is the lowest level we have seen since the crisis.

The Real Estate team earned $1.7 billion in 2013 and continues to execute well as they shrink the equity book and invest in a profitable debt business. In 2014, we expect the business to have lower earnings, as we have shared with you, with the debt business performing well, offset by lower gains in tax benefits.

Within the verticals, GECAS earned $71 million; that is down 79%, driven by impairments of $270 million, which were up roughly $230 million from prior year. As I mentioned on the prior page we revised our expectations for certain older aircraft types in our portfolio.

We lowered our estimate of future cash flows on these aircraft to reflect a shorter useful life and lower residual values. As a result, we had impairments related to older narrowbodies of about $130 million; cargo aircraft of $50 million; and $32 million on 50-seat regional jets. The average age of the aircraft we impaired in the quarter was 15 years, compared to our fleet average of about 7 years.

GECAS did end the quarter with zero delinquencies and no aircraft on the ground. For the total year 2013, GECAS earned $900 million; and in 2014 we expect them to be up double digits.

EFS earnings were up 9% in the quarter to $117 million, driven largely by lower margin impairments year-over-year. We had several large items in the quarter as we continue to reposition the portfolio. The Capital team continues to execute well and deliver strong operating results.

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In 2013, the business earned $8.3 billion, up 12% on $36 billion lower ENI. Capital liquidity and funding are all very strong, and we continue to be disciplined around the volume that we are originating. In 2014, we expect GE Capital to earn roughly $7 billion on core growth, offset by lower gains, tax benefits, and the impact of our anticipated Retail Finance IPO.

So with that I will turn it back to Jeff.

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

Great, Jeff. Thanks. Again, just to recap on 2013, we had a good year in 2013. Industrially our segment profits grew by 12% in the second half, and then we had five of seven segments that had strong growth for the year.

We grew margins by 66 basis points organically, close to our 70 basis point goal. Organic growth was flat, but up 5% ex-Power & Water.

Capital had a solid year, with earnings up 12% while shrinking ENI by 9%, and they paid a dividend of $6 billion to the Parent. Per our plan, we returned $18.2 billion of cash to investors through dividends and buyback.

So we hit really most of our goals for 2013. Then looking forward on the 2014 framework, we have no change for the 2014 operating framework.

We expect double-digit Industrial earnings growth similar to the second half of 2013. We expect 4% to 7% organic growth with expanding margins.

GE Capital will have about $7 billion of earnings, reflecting an improving origination environment, the North American Retail transaction, and lower Real Estate gains. Corporate should be slightly more positive as we pulled forward restructuring into 2013. And there is no change in our outlook for cash or revenue.

So we end the year with momentum. I think we presented this framework to you in December, and I would say based on the way we closed the year we are quite confident in this operating framework for 2014. So we feel good about the momentum of the Company.

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

Trevor Schauenberg - ***General Electric Company - VP Corporate Investor Communications***

Great. Thanks, Jeff and Jeff. Frances, let's open up the phone lines for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Scott Davis, Barclays.

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

Early in the call, Jeff, you mentioned having greater confidence in the structural cost-out. Can you talk about your confidence in value gap?

Price looked a little light, particularly in Power & Water. Do you have a greater confidence in value gap in 2014, or the same, or lower?

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

What I would say, Scott, is the value gap was about $900 million in 2013. Our expectation -- that it is not that strong; it is probably more in the couple hundred million dollar range.

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When we look at the backlog and where we have done -- gone from a sourcing standpoint, we feel confident in the value gap still being tailwind in 2014. If you just take -- go a layer lower, and you look at gas turbine equipment margin, operating profit, it is going to be positive in 2014 versus 2013.

So that is the one that has probably had the most intense pricing pressure. But we have had a very active plan to get about 10% of the cost out of our heavy-duty gas turbine product, and that is going to bleed through.

So we see earnings -- just to pick the one where we've had the most intense competition, Scott, we see positive earnings growth year-over-year 2014 versus 2013 on heavy-duty gas turbine equipment margin -- operating profit dollars.

Scott Davis *- Barclays Capital - Analyst*

Okay. That's helpful. Then Energy Management continues to be a bit of a tough spot. Where can that business go? Can it ever be a double-digit margin business?

Is this something that -- is there an endgame of some substance? Trying to figure out what we can expect out of these guys.

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

Scott, I think it is a very fair question. I think what Jeff said earlier is we're going to do a lot of restructuring this year. Every time we sit and review the business we compare it directly with their Industrial peers, all of whom have double-digit operating profit rates. That is our expectation for this business.

And investors -- and me -- should expect substantial improvement in 2014 versus 2013.

Scott Davis *- Barclays Capital - Analyst*

Okay. Good luck. Thank you.

Operator

Steve Tusa, JPMorgan.

Steve Tusa *- JPMorgan - Analyst*

Hey, good morning. You guys on the last several quarters have given the year-over-year change in services margins. I didn't see it in the slides. Can you maybe just give us a little extra color on that, year-over-year?

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

Yes. Service margins year-over-year were up 190 basis points fourth quarter to fourth quarter. Total year we were up about 90 basis points, total year 2013 versus 2012.

Steve Tusa *- JPMorgan - Analyst*

Wow, okay. Okay, and then just a couple of follow-ups. On the Oil & Gas side, what is your visibility on the orders there? There's just been a lot of moving parts and mix dynamics at your peers, and there's -- the orders have obviously run very hot. Everybody is kind of full from a capacity perspective.

How do you see the orders in drilling and surface and subsea playing out over the next year?

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

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Scott, there was one big order for these guys that pushed probably into the first quarter that is big enough to be a meaningful swinger year-over-year, that should lead -- should lead to a positive first quarter from an orders standpoint. But to your point, particularly in subsea we have got a strong backlog, pretty high visibility.

And as you know these things are lumpy. So our expectation is that these guys continue to have good solid orders growth next year; but a push of one big project is meaningful from an orders standpoint.

Steve Tusa *- JPMorgan - Analyst*

Okay. It's Steve, by the way.

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

I'm sorry, Steve.

Steve Tusa *- JPMorgan - Analyst*

That's okay. Then just on the Distributed Power, the aeroderiv shipments, I think you had a target this year for 200-something. What do you expect for next year and where did you finish this year on the aeroderivs?

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

Yes, so on aeroderivatives next year, we're going to be more or less in the range of this year. We expect to see potentially a little bit of growth, but it is not going to be enormous growth.

We had a big year this year on aeroderivatives, particularly trailer mounted. So we are hoping for slow -- a small amount of growth. But it is not going to be enormous.

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

We had a boomer this year, Steve, and I think next year we are kind of in the flattish range.

Steve Tusa *- JPMorgan - Analyst*

Okay, thanks. And I don't want to get all choked up, but I am -- say thanks to Trevor for all the years of help and best of luck in his -- I'm choking back the tears here -- best of luck in his new role.

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

Steve, that is huge of you.

Trevor Schauenberg *- General Electric Company - VP Corporate Investor Communications*

I will miss you too, Steve.

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

Maybe there's an upgrade here for Trevor.

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

Not sure about that, but we'll talk after. Thanks.

Operator

Andrew Obin, Bank of America Merrill Lynch.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

As we look at the composition of the margins on slide 6, various puts and takes. What is the big drag in 2014 versus 66 basis points that we did in 2013? Just thinking about it.

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

Andrew, why don't I start it off and then I will turn it over to Jeff? I think the way we have tried to build 2014 is to drive the things we can really control in the environment. So we are going to have another year that is going to be very aggressive on the structural cost-out.

You guys saw us do well this year. We're going to have another year of real focus there.

We are going to have a positive value gap. Not as strong as we had this year, but still positive, and I think that is realistic.

So I think simplification is in our control. Value gap is -- we've got pretty good visibility; that is going to be positive.

I think R&D, we were able to do a little bit more R&D this year. I think that creates a little bit more headroom for us to make sure that R&D is a positive next year for us.

And then the toughest thing always to call here, Andrew, is mix in terms of where the -- so what we've tried to do is create a buffer with the things we can control, to be able to better balance the mix impact as we go through the year. So we are not taking our focus off anything. If anything, our structural cost is going to be aggressive; our restructuring is going to be aggressive. And what we have tried to do is create a little bit of buffer vis-a-vis how mix shakes out in the year.

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

Andrew, I would just add on mix, we think equipment is going to be ahead of service next year. We've got a real ramp in GEnx, we've got a real ramp in Wind, and that is most of what that mix is driving.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

That's helpful. And just maybe I missed it, but could you just comment on the order patterns in December? Any big positive or negative surprises versus your expectations, other than what happened in Wind, obviously?

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

I don't know, Jeff, if you -- I think Power & Water was a little bit stronger than -- I am talking an orders now standpoint, Andrew.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

Yes, that's fine.

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

Yes, I think Power & Water was -- we expected a strong fourth quarter, but it was probably even a little bit stronger than what we thought. I think Oil & Gas, like I said, tends to be a little bit lumpy.

Aviation, we have got such a big backlog in Aviation. I would say the spares number and the service orders are what we watch closely in Aviation; I think those were positive.

Healthcare, really no difference in terms of what we thought we were going to see. And I would say in Transportation, we just saw weakness around mining and we expect that to play over into next year.

Then the Wind thing was really very late-breaking. And I don't know, Jeff (multiple speakers) --

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

Yes, I would just -- I think, Andrew, the only -- we had one big Oil & Gas project in Southeast Asia, almost $700 million, that we were reasonably confident was going to land in the quarter that actually pushed into the first half of next year. Other than that, not a lot of major surprises.

As Jeff said, parts in Aviation were strong; we expected them to be strong. We knew Aviation year-over-year, based on the CFM launch in the fourth quarter last year, was going to show a little weaker. So I think most everything else was more or less as expected.

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

And Wind was really not an orders issue. It was more of a rev-rec.

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

No, and we had good Wind orders.

Andrew Obin *- BofA Merrill Lynch - Analyst*

Thank you very much, Trevor, and thank you for all the help.

Operator

Steve Winoker, Sanford Bernstein.

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

Thanks, good morning. Trevor, I will just say it at the beginning: thanks for all your hard effort to this point and good luck.

I would like to push that Oil & Gas question a little further. The majors and Petrobras have all stopped expanding CapEx. They have got numerous projects that are being deferred, given cost blowouts. And that is likely leading to a decline in subsea equipment, at least as we see it, as customers digest their prior orders here.

Then we have got nominally high crude prices. But despite that, cost inflation seems to be eroding some of these returns offshore for these guys.

So how -- just maybe help us understand this in a little more depth, how you're going to buck some of that trend. Or do you just disagree with my assertions there?

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

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Well, Steve, again, I would say that if you look at most of the big industry contextual comments, even with some of the I would say concern about CapEx cost and things like that, they're still -- the forecast is for CapEx to be positive growth in 2014. Maybe not as great as it was in years gone by, but still pretty great.

If you look at the national oil companies versus the integrated oil companies, our view is that the NOCs really haven't backed off at all. And that is where we see a ton of activity.

I would say the place that we still think is reasonably weak is maybe around North America, some of the drilling and surface stuff. We're watching that. And the Measurement and Control stuff, we are watching that.

But the last thing I would say -- Steve, when I get up in the morning around Oil & Gas, if you ask me what I worry about first, it is shipping our late backlog. In other words, we have such a traffic jam around the volume we've got in our factories, I would say we have got extremely good visibility, certainly in the short term.

So again it is something we all watch, but it is not -- I think there's always going to be big puts and takes in this business. But I would leave you the thought of NOCs versus IOCs, the backlog we have today and getting it executed, and a long-term notion that says if you pick up any of the big reports that your banks tend to write, they basically say that the long-term health of the industry is still pretty strong.

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

Okay, all right. We are not a bank, but I get it; and that is helpful.

Now on the -- since you mentioned what does -- you think about first thing in the morning, the blade issue for Wind. Can you identify a little bit more why we shouldn't have to worry about this happening again from just an operational standpoint?

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

Yes, maybe I will start and then toss it over to Jeff. I think this is stuff that comes out of a supply chain; we look at it; we've been looking at it for a period of time. I think our teams really feel like we have got it isolated and reflected.

We've got teams that are good at this stuff, Steve. And I think we know kind of exactly where we are.

It may impact a little bit timing, but our read is it's not going to impact the year at all from a standpoint of either Power & Water or the Power & Water segment growth that we have got planned for the year, or the Wind business revenue growth for the year.

So we are good at this stuff. We use an abundance of caution when it relates to our customers and things like that. And I think that is what we have exercised here.

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

Okay. I think that -- yes, go ahead. Sorry, Jeff.

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

I was just going to add, Steve, that the population we think we're talking about, it's one manufacturing batch of blades that we think we've isolated it to and we're doing inspections on, non-destructive testing, etc. So the percentage of the fleet we are talking about is very, very small.

So we are just trying to isolate this down, and we wanted to be very careful at year end about how we dealt with it. We think we've got our arms around the issue and, as Jeff said, it will play out here in the first quarter or second quarter of next, 2014.

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

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Okay. The $1.6 billion provision number in GE Cap was bigger than I expected, trending from what, $821 million or something last quarter, and then bigger than last year. And it looks like, as you said, the 30-day delinquencies are getting better.

So is this all credit model changes? Do you expect it to stay elevated? Or how should we think about modeling this or anticipate it?

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

It might help if I explain how it moved year-over-year, Steve. Last year we were about $1.1 billion.

About a $230 million increase in Consumer. Now almost half that increase is associated with selling that Dutch mortgage business in the quarter. Part of the economics and loss in that actually ran through the provision and then directly to write-off. So that year-over-year skews half of it.

Then I mentioned booking up coverage in the North American Retail business from 12 to 12.5 months. And then we had a book-up on some restructured Consumer accounts in Asia year-over-year. That is the bulk of it.

On the Commercial side, we're up $175 [million] year-over-year in provisions. About half of that in Real Estate and half of that in CLL. Some of that were specific reserves around a couple of accounts, but some of it was just hitting reserve floors.

We have said we're not going to go below certain levels of reserve coverage. The portfolio quality in both Real Estate and CLL would naturally push us below those floors because things have improved so quickly, and we are kind of booking back to those floors, which is not going to go through there.

And that results in reprovisioning up, with not necessarily a direct correlation to what is happening from a portfolio quality perspective. And that is most of the change year-over-year.

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

Okay, got it. And before I hand it off, I just might have missed this. Did you guys say what the equivalent to that 66 basis point number would be in your rough expectations for this year, when you put it all together?

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

No, we didn't say.

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

Nice try, Steve.

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

We talked about by the end of 2016 being at 17-plus-% operating margins, and that is how we are defining success, and that is what we are targeting.

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

Okay. (multiple speakers) Thanks, bye.

Operator

Deane Dray, Citi Research.

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Deane Dray *- Citigroup - Analyst*

Thank you. Good morning, everyone. Just to follow up on Steve's question on that, the 66 margin year-over-year, could you help bridge where you came short on the 70 basis point target? I know that the blade issue you sized at $100 million on the margin line. But you also included Energy Management as one of the margin pressures.

So if you could just bridge for us those two items.

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

Yes. The Wind issue in Power would have been diluted to the rate that they printed in the quarter; but it would've been accretive to the overall Industrial segment. So that is a couple basis points on the total-year rate. And combined with Energy Management, if they had delivered the framework that we expected them to deliver on, we'd have been above 71 or 72 basis points for the year.

So we are counting basis points here. The difference between 66 and 70 at this level is $40 million of op profit for the year. Okay? So we are really counting small increments here.

But ex- those two items we'd have been above 70 basis points.

Deane Dray *- Citigroup - Analyst*

Good. That is exactly what I was looking for.

Then just a couple of other items. The Commercial spares being up 16%, that's well above global flying hours. How do you -- what do you attribute the upside to?

Is there a restocking going on? Is it easier comp? But that looks above expectations.

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

A couple things. Flying hours are improving pretty dramatically. We have been up globally 5%, north of 5%; and that has a dramatic impact.

You also have a little bit of restocking going on. The orders rate is improving partly because airlines have cut back on the level of inventories they were carrying on spare parts in 2012.

And then the fleet has continued to grow, and the fleet is aging, and we are seeing more instances of overhauls. So the overhaul rate, if you will, in the installed base is going up, and that is driving demand for spare parts.

So I think most of it -- I think it all fits together.

Deane Dray *- Citigroup - Analyst*

Good. Just last question for me. I know you have had uncovered restructuring in the quarter here. What's the expectations for uncovered restructuring?

You said $0.10 for 2014. And then specifically, do you have a line of sight on uncovered restructuring in the first quarter?

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

Yes. I think what we said was we expected to invest $1 billion to $1.5 billion in 2014. As Jeff mentioned, we did end up accelerating a little bit of that investment into the fourth quarter, largely because the projects were ready to go and we didn't want to wait to start on execution on those items.

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Overall, that is money that would have been spent in 2014 that won't now. But I still think our range is $1 billion to $1.5 billion.

I think there will be other ideas. We talked about doing some restructuring in 2015, so I am not sure that range is really changing much.

I would expect the benefits, as Jeff said, would be slightly better in 2014 than they otherwise would have been, because we got a little bit of a head start.

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

I think that is the way I'd think about it, Deane, is we've really fortified the benefits in 2014, and those should be greater.

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

Now, in terms of the timing on the restructuring, earlier is better than later, and I would expect the bulk of this to happen in the first quarter and certainly the first half of the year.

Deane Dray *- Citigroup - Analyst*

Great, thank you.

Operator

Jeff Sprague, Vertical Research.

Jeff Sprague *- Vertical Research Partners - Analyst*

Thank you, hey, good morning, Jeff. A couple questions. Just on GECAS, did you change the useful life on 737s at all? And if not, why not?

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

Here is what we did, Jeff. We go through this annual review -- you're very familiar with it -- in the third quarter. We use third-party data on useful life, residual values, lease rates, etc.

We always have some cleanup in the fourth quarter. It usually doesn't amount to much.

This year coming out of the third quarter, the team took a deeper dive on some of our older aircraft, principally narrowbody. We are in a situation now where you've got an enormous amount of technology being introduced over the next 5 to 10 years. When you get this level of oil and jet-A price, the differences in efficiency economically are enormous versus what they might have been historically.

And we just decided on both older narrowbody Boeing and older narrowbody Airbus that our views of useful lives and residual values were less than what third parties had given us as appraisals in the third quarter. It gives us flexibility to deal with these aircraft, and we think we're on the right side.

We'll be in the market with some of these aircraft in 2014, and we will have an idea of just where we are vis-a-vis the portfolio. So.

Jeff Sprague *- Vertical Research Partners - Analyst*

Yes, I just understand, like you would obviously mark down the older ones first. But if a 37 used to have a useful life of 40 years and now you are using 35 -- I am just making up numbers -- that actually impacts the whole fleet, regardless of how old the aircraft are in the book. Right? They all come down.

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

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Yes, this is very specific to 50-seat regional jets, older -- the average age was 15 years; to Airbus A318s; very old 737s. Some of the 737s were in cargo format, etc. etc. So it is very much narrowbody and deep into their lives aircraft. So I don't think there is a broader implication across the fleet.

I think we like the fleet we have. It has got an average age of 7 years. It is priced well.

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

Okay. Just on tax then in GE Capital, do you need to start off the year accruing higher because the Subpart F has not yet been fixed? Or how do we actually think about that into the new year?

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

Given our year-end, our fiscal year-ends within GE Capital, etc., the impact for us is really not until the very end of the year. We are good through the end of November.

So the rate we accrue at through the year will reflect the fact that we are in good shape relative to AFE through November; and then we'll assume that in December AFE may not be there, and that is the rate we will accrue to.

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

So for a placeholder then for 2014, what kind of rate should we be using for Capital?

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

We expect Capital to be single-digit tax rate.

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

Right. Then just one other one for me. Just back to the margin question, and less the bridge from 66 to 70, but more the bridge from -- at the beginning of the year I think you saw a line of sight at something like 120 or 130, which was giving you confidence in the 70. Obviously, revenues came in a little lighter; there's a couple things that are identifiable in what you put in front of us.

But is there anything else that we should be thinking about there that was a problem in 2013 that doesn't repeat in 2014? And along those lines, can you give us an idea of what kind of hedge is in that implicit 40 or so that we are looking for, for 2014?

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

I would say, Jeff, the one thing I would say is that R&D -- with the way this funding ran for Aviation and I would say Oil & Gas, R&D was a little heavier in 2013 than I had expected. And I am -- again, this is in our control. We're reasonably confident that R&D is going to be tailwind in 2014 versus 2013.

So other than that, Jeff, I think it is all the puts and takes around mix. But I think that's -- I think we are pretty confident on that.

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

Is there a way to frame an internal hedge on 2014?

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

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Probably -- again, I think we've got some momentum now, right? So we've got a pretty good framework, a pretty good flow; and I think that is going to carry us over into 2014.

Jeff Sprague *- Vertical Research Partners - Analyst*

Okay. All right, great. Thank you.

Operator

John Inch, Deutsche Bank.

John Inch *- Deutsche Bank - Analyst*

Thanks. Good morning, everyone. Hey, Jeff Bornstein, just want to go back to your comments around the fact that you think the bulk of the range of restructuring, the naked restructuring, is sort of first half. Should we just by inference then be expecting -- because GE obviously traditionally has -- you have your first three quarters and then you have typically a pretty big fourth quarter.

Should we be expecting then a down EPS first and second quarter, or first half, versus 2013?

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

Yes, John, we don't give guidance at that level. I think you are correct in assuming that the bulk of what we will invest in simplification next year will be in the first quarter, first half. But we don't give quarterly earnings guidance.

John Inch *- Deutsche Bank - Analyst*

No, but I'm not -- I understand that, so I'm not looking for specifics. I'm just more -- I'm not off base in my thinking, am I? Or is there something else that we should think about, the first half?

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

I wouldn't read into so much, John. Again, I don't think there is a specific profile, and we expect a number of our businesses to be able to come out of the year and perform well in the first quarter.

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

Listen, I will give you this much. I think we certainly expect Industrial segment earnings to grow in the first half. That's about as much as I can give you. We're not giving quarterly guidance.

John Inch *- Deutsche Bank - Analyst*

No, no, I understand. That's helpful. I want to ask you about the simplification.

So we sold the three Industrial businesses in the quarter. Jeff Bornstein, as you've gotten into this with your team, how would you frame the outlook for further cleanup within the Industrial segment? So I'm not talking about maybe larger-scale portfolio simplification down the road.

More just -- what have you been uncovering, and how this maybe dovetails into some of the restructuring that you guys have been taking, and your outlook there?

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

Well, John, I think we'll continue to prune the portfolio where it makes sense, and there will be more transactions in 2014. I don't know that they'll be -- certainly excluding NBCU -- the same order of magnitude economically as there was in 2013.

But this is an ongoing process and the businesses are going to continue to go through their portfolio, and we will continue to clean up where it doesn't make sense or where we're not willing to invest or we don't see the growth there. So that process will continue as we move through 2014.

John Inch *- Deutsche Bank - Analyst*

Maybe one last one for me. Just back to Oil & Gas on the surface, the drilling side, the land-based side. There is a fairly widely held view that WTI prices or certainly US oil prices could be actually heading lower. How does GE -- one, I am wondering: have you seen any of this, say, reflected in Lufkin's backlog, your recent acquisition? Just because the prices of the oilfield service companies, the share prices, they're down.

And how do you guys maybe think about that? Because obviously you're building a long-term business. Does this present opportunities actually for M&A? If in fact some of the public companies' share prices were well off, you could continue to consolidate some of these properties.

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

What I would say, John, is when I look globally in the various segments in the Oil & Gas business, the drilling piece in North America probably has been the weakest as time goes on. And if we see opportunities to do more work there, we are certainly going to do it, because we think over the long term that is still a good place for us.

John Inch *- Deutsche Bank - Analyst*

Yes, perfect. Okay, thanks, guys.

Operator

(Operator Instructions) Joe Ritchie, Goldman Sachs.

Joe Ritchie *- Goldman Sachs - Analyst*

Hi, good morning, everyone. Quick question on organic growth. You are exiting the year with a good clip at 5%. Orders were up 8% year-to-date.

But you take a look at your guidance for 2013; it looks like organic growth ended negative. Your guidance was closer to 2%.

So my question is really around, as you look into 2014, what kind of confidence do you have in that 4% to 7% number, based on what you already have in backlog? And what are the puts and takes to those numbers, to the high end versus low end of the range?

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

Again, I think when -- I don't know, Jeff, you went through the unit shipments year-over-year that we basically have in backlog. You know, Joe, if you just look at that, a big Wind backlog, shipping more heavy-duty gas turbines, the jet engine backlog, etc., etc., it takes you to the 4% to 7% range. I don't know, Jeff; you want to go through them again?

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

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Yes, sure. The one thing I did thematically here -- so we have a couple of unique things to GE, or at least in the same Company, which is the GEnx story and the Wind story are within -- fairly unique to GE. And that's a big part of pushing the range from 4% to 7%. Ex- that we're somewhere around 3% to 5%, which I don't think is off-color.

I will give you a sense of where we expect units for 2014. Wind we think is going to be about 3,000 units versus 2,100 units in 2013. Gas turbine somewhere between 85 and 90 versus 81 in 2013.

Locos -- Locomotives will be between 550 and 600; that will be down slightly. Jet engines will be up -- as I just said, around GEnx -- will be up to 2,500 units versus about 2,378 in 2013; and as I mentioned, GEnx will be somewhere between 250 and 300, most of that growth, versus 180.

Military is going to be a mix as it relates to Aviation. So that gives you a sense of what we are thinking in units.

I did mention earlier in the script that we do have a few areas of softness, Mining being one of them and our Locomotive business. Mining is going to be, we expect, very soft on OHV in 2014.

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

I would say, Joe, on the services side, we end the year with the best velocity we had during the year. So that's the other piece of the equation.

Joe Ritchie *- Goldman Sachs - Analyst*

Okay, great. That is really good color. I think one question on the gas turbine pricing pressure. It looks like Power & Water pricing has been down now for two quarters in a row. Can you just provide some color where you are seeing that recently? So where are you seeing most of the pricing pressure today?

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

The region mix is always a relatively big swing in the gas turbine side. So there was a couple big deals in Saudi that have been price competitive. And it's going to be a competitive market, Joe, I think.

But we are doing a good job on the cost side. And like I said, I think when we look out over 2014 and into the future, we still see heavy-duty gas turbine equipment operating profit dollar growth in this time period.

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

Joe, I would just add to that. If you look at quoting activity in the space around gas turbines, the fourth quarter was -- definitely the level of activity has picked up. We are up like 96% versus fourth-quarter 2012, and 26 more projects quoting real-time in the fourth quarter than a year ago.

The bulk of that strength has really been in the US, surprisingly, and China. So there's a lot of activity here. I don't know that it's going to -- we're necessarily calling a significant turn on gas turbine. But there's definitely the activity, and you saw the order performance was 65 units in the quarter, 124 for the year. And this quoting activity -- we're hopeful.

Joe Ritchie *- Goldman Sachs - Analyst*

Okay, great. Then just one last question. You quantified the impact from the blade issue at $100 million for this quarter. Have you quantified the potential impact on the margins for 2014?

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

I think what we said was we are not anticipating this being an issue for our framework for the entirety of 2014.

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Joe Ritchie - ***Goldman Sachs - Analyst***

Okay, great. Thank you very much for taking my questions.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - ***Oppenheimer & Co. - Analyst***

Thanks. Good morning. First, a clarification; then a question. In response to John Inch's question, or the answer to it, where you expect Industrial earnings to grow in the first half: was that at the segment level or post the eliminations line, that comment?

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

No, I was talking about segment earnings.

Christopher Glynn - ***Oppenheimer & Co. - Analyst***

Okay, great. Then just looking back at how 2013 transpired, operating profit at the Industrial segment level was up a little over $700 million; but we had the $900 million value gap and the significant cost-out. So just wondering what pieces plug that difference.

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

Well, if you go back to the value walk -- the margin walk that Jeff did for the total year, we spent a bit more in R&D, which partially offset that; and then base inflation, foreign exchange, and other items.

We had volume down somewhat, and we didn't repeat the two big deals I talked about in the fourth quarter year-over-year: the Duarte deal in Aviation and the Thomas deal in Medical, which on a year-over-year walk are material differences.

But we feel great about what the team is delivering around simplification and SG&A cost-out. Value gap was real positive. We expect it to be positive again, not at the same levels, but we expect it to contribute to margins in 2014.

Christopher Glynn - ***Oppenheimer & Co. - Analyst***

Okay, thanks. That helps.

Operator

Shannon O'Callaghan, Nomura.

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

Morning, guys. So Real Estate, the non-earnings jumped up like 6X this quarter. Can you talk about what is going on there? And where are we in terms of unrealized loss and what it means for the equity book in 2014?

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

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Yes. We had a -- we're executing a re-class in the quarter between our nonearnings calculation and the traditional industry calculation of nonaccrual. So it is really just that.

When you go through -- if you go through the supplemental, there is a really detailed note that walks exactly on what the trade-off is between cash basis and cost recovery of assets deemed nonaccrual, and within nonaccrual nonearning. So you have a bump up in nonearning; you have a big bump down in nonaccrual, roughly $3 billion. And it walks you through the pieces of it.

There is no change whatsoever in terms of portfolio quality. It's just how we are characterizing between nonearning and nonaccrual; and that is just to get us closer to an industry basis.

Second is on the Real Estate. I think we ended the year at roughly about a $2.1 billion embedded loss, which is basically flat year-over-year. The biggest change year-over-year is -- we were I think $1.1 billion roughly at the end of 2013 -- is the 30 Rock transaction we did in the first quarter of 2013, which was more than $1 billion pretax, bumped that up a little bit.

Now having said that, we've sold things throughout the year, as both the gains and losses, etc., and we kind of find ourselves back at $2 billion. But I think we feel great about where we are in that $14 billion portfolio, and we will continue to liquidate it down. And so far, anyway, we have outperformed the embedded loss numbers we have been sharing with you for the last five years.

Shannon O'Callaghan *- Nomura - Analyst*

Okay, thanks. That helps. Then on pension, where are you going to end up for 2014 in terms of operating and nonoperating pension and funded status?

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

Yes. We ended 2013 at about 91% on the funded status. The deficit in the principal pension plan was down just under $9 [million] year-over-year, driven by portfolio performance; we were up 14.3% in terms of the earnings on the pension assets. And the discount rate was up to 485 -- 485 basis points. So that took the deficit down fairly substantially.

In terms of pension next year we expect pension in total, as I've shared with you guys, to be down roughly $900 million next year. Most of that will be or a significant percentage of that will be in nonop pension. The operating pension benefit will be something south of $400 million, but about in that range.

We need to finalize exactly where all these year-end ending points are going to -- how they're going to play out in the pension expense. But -- so we expect to be down about $900 million in total and with a little less than 50% of that being -- or 40% of that being associated with operating pension.

Shannon O'Callaghan *- Nomura - Analyst*

Okay. Thanks a lot. It's helpful.

Trevor Schauenberg *- General Electric Company - VP Corporate Investor Communications*

I think we have one more, Frances?

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell *- Credit Suisse - Analyst*

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Good morning. Yes, I had one question in Oil & Gas again. Measurement and Control I think was the one piece of that that you had high hopes for a year ago. It fell short of those.

And it sounded like you thought it would come back in 2014, and now it sounds like you're a bit more circumspect. So maybe if you could talk a little bit about Measurement and Control, what are your current expectations there for this year?

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

Julian, I think it's -- we are expecting flattish, maybe up marginally, but nothing really -- nothing substantial. But I think we showed you guys at the Outlook Meeting that we still expect strong top-line and bottom-line growth in Oil & Gas; and that is reflective of Measurement and Control in the flattish range.

So that is kind of where we are. I think it's pretty consistent with what other people in the industry say as well.

Julian Mitchell - ***Credit Suisse - Analyst***

Okay, got it. But you don't anticipate a large wave of downstream projects in the US to push up orders there any time soon?

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

Look, we are hopeful, but that is not the base plan. The base plan is, I would say, like that it's bottomed and we'll see flattish growth in 2014. We're taking cost out and stuff like that.

Julian Mitchell - ***Credit Suisse - Analyst***

Got it. Then just within Healthcare, most industrial markets in emerging markets have slowed over the last two years. Healthcare has been an exception. I guess your Q4 emerging markets growth numbers were not great, or certainly were lower than what you'd seen in the last 12 months.

Is that anything, you think, to be concerned about? In terms of, is that maybe reflecting a lag versus broader economic slowdowns? Or you think it is blip, and Healthcare in emerging markets should remain (multiple speakers)?

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

Julian, there is one -- there is just -- we had a real strong fourth quarter in Russia last year, and it was down substantially this year. Net of that, Healthcare growth markets were still pretty good. China was a little bit slower, but not concerning. And the other growth markets were pretty good.

Julian Mitchell - ***Credit Suisse - Analyst***

Okay, thanks.

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

Great. Everybody, I just want to say thanks to Trevor. Did a great job, fantastic, and I know -- I appreciate everybody's acknowledgment for Trevor. Fantastic for all of us. Thanks for a great job, and welcome to Matt.

And Trevor is sprinting to the door, guys. So thanks for your great support of Trevor as well.

Trevor Schauenberg - ***General Electric Company - VP Corporate Investor Communications***

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Great. Thank you very much, Jeff, and I thank everyone else for all the fun we've had together the last 5.5 years.

And best of luck, Matt. I know you'll love the job and do great.

The replay of today's webcast will be available this afternoon on our website. We will be distributing our quarterly supplemental data schedule for GE Capital later today. Our first-quarter 2014 earnings webcast is on Thursday, April 17. And as always, we will be around to take your questions. Thanks a lot.

Operator

Ladies and gentlemen, this concludes your presentation. Thank you for your participation and you may now disconnect.

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