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GE - Q2 2013 General Electric Co. Earnings Conference Call

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(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; GECC's ability to pay dividends to GE at the planned level; our ability to convert pre-order commitments into orders; 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; 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.
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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric second-quarter 2013 earnings conference call. At this time all participants are in a listen-only mode. (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, VP of Investor Communications. Please proceed.

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

Good morning and welcome, everyone. We are pleased to host today's second-quarter webcast. Regarding materials for the webcast, we issued the press release earlier this morning and the presentation slides are available via the webcast. The slides are available for download and printing at our website at www.GE.com/investor.

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

For today's webcast there is a large group here. We have our Chairman and CEO, Jeff Immelt; our Vice Chairman and new CEO of GE Capital, Keith Sherin; and our new CFO for GE, Jeff Bornstein. Now I would like to turn it over to our Chairman and CEO, Jeff Immelt.

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

Thanks, Trevor. Good morning, everybody. On the first page, our environment improved slightly in the second quarter. Emerging markets remained resilient while Europe stabilized. Orders in the US were the strongest we have seen in some time with 20% growth, and overall our orders group by 4% and backlog increased to $223 billion.

Our earnings were solid. Reported EPS was $0.36, but this includes $0.02 of uncovered restructuring. On a sustaining basis it would have been $0.38, up slightly from 2012, and year-to-date EPS is $0.75, up 6%.

Operations were strong in the quarter. Margins grew by 50 basis points and we are on track for 70 basis points for 2013. Our simplification efforts have resulted in $470 million of costs out year-to-date and we had a solid performance in cash.

Our disciplined and balanced capital allocation plan continues. Through the half we have returned about $10 billion to investors, well on our way to our $18 billion goal. As for M&A, we have completed Lufkin and Avio, and Avio remains on track for a third-quarter close. So all-in-all a good quarter for operating and strategic execution.

Our orders growth remains solid at plus 4%, and as I said earlier, backlog grew to $223 billion. Performance was broad-based; we had services growth in five of six businesses. Orders growth accelerated in China, the US, and Europe. Aviation and Oil & Gas remained very strong with their combined backlog growing by $7 billion.

Let me give you a few of our other highlights. Oil & Gas orders grew by 24% with double-digit growth in four of five segments. Aviation and commercial spare orders grew by 19%. Healthcare Solutions equipment orders grew by 9% in the US. Energy Management orders grew by 19%.

North American power generation service orders grew by 24%. We still have a few headwinds, like heavy duty gas turbines, but there are signs of strength. We continue to add price to backlog with orders pricing up 0.9% and we have now had positive orders price for the past six quarters. This will contribute to a positive value gap in the second half of 2013 and beyond.

Organic growth was down 1% for the quarter, but it is really a wind turbine story. Organic growth ex-Power & Water grew by 5%. Growth markets expanded by 5% with four of nine regions up by double digits.

We continue to make progress in key regions like Russia, Africa, and China. Our growth market position is a competitive advantage for GE.

Services grew by 2% with broad-based strength and we are encouraged by services and Aviation, Oil & Gas, and Transportation. Transportation services is a particular highlight with growth of 28%. We continue to be impacted by the sluggish European economy for gas turbine services and US sequestration impacted our military spares business. The service margins grew by 70 basis points and backlog grew to $166 billion.

We made solid progress across the Company with our new product launches. The Paris Air Show was very successful for GE with $26 billion of wins. We are gaining share in Healthcare with robust product launches and are expanding service offerings with new software launches in Aviation, Power, and Healthcare.

In the second half revenue will be positively impacted by Power & Water shipment timing. Specifically, 70% of our gas turbines, wind turbines, and distributed power mix will be shipped in the second half.

We had strong margin expansion with growth of 50 basis points. Every business grew in the quarter except for Home & Business Solutions, and even in that segment appliances expanded while lighting lagged. We are on track for 70 basis points for the year.

Key margin execution drivers are within our control. We will have one of the strongest value gaps in history as we generate both price and material deflation. We will manage R&D to be flat for the year. We will reduce SG&A by at least $1 billion.

We continue to execute multiple restructuring projects with attractive paybacks. And we are in the process of completing our projects for 2013 while developing a pipeline of new ideas.

A key driver for margin improvement in the second half is that Power & Water volume growth will remain on track. Overall, margins were slightly better than we expected in second quarter and that gives us more confidence going forward.

Our cash execution improved in the quarter. Our second-quarter Industrial CFOA was up 60%, excluding the impact of NBC-related taxes. In the quarter we announced that GE Capital will pay up to a $6.5 billion dividend to the parent for the year and we remain on track for our CFOA goals.

We have returned $9.9 billion to investors in the first half through dividends and buyback. This is well on our way to our $18 billion goal. Our announced deals of Lufkin and Avio will close in the second half. Both fit our model of bolt-on deals that are accretive to earnings.

We end the quarter with a consolidated cash position of $89 billion with $19 billion at the parent. This is a symbol of our financial strength and supports balanced capital allocation.

And now over to Keith. As you know, this will be his last call, but you will see him again at GE Capital and welcome to Jeff, my new partner. So, Keith, over to you.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Jeff, thanks. I will start with the second-quarter summary.

We had continuing operations revenues of $35 billion, that was down 4% from last year. Industrial sales of $24.6 billion are down 2% driven by Power & Water, as you can see on the right side. GE Capital revenues of $11 billion were down 3%.

Operating earnings of $3.7 billion were down 8%. Operating earnings per share of $0.36 were down 5%. As Jeff said, that includes actually $0.03 of restructuring, which I will cover on the next page, including the capital restructuring. And we also no longer have the NBCU earnings, which was $0.02 in 2012 in the second quarter.

Continuing EPS includes the impact of non-operating pension and net earnings per share includes the impact of discontinued operations, which we will also cover on the next page.

As Jeff covered, the CFOA was $3.7 billion, including a very strong performance in Q2 from the Industrial CFOA plus $1.9 billion of GE Capital dividends back to the parent. For taxes the GE rate of 17% for the quarter was below the 20% rate we previously communicated for the year.

We had an audit resolution with the IRS in the quarter, and because that is required to be recorded entirely in the quarter rather than spread over the year, it caused the rate to be lower in the quarter. We might have other audit resolution during the year, and depending on the outcome, we currently expect a rate of high teens to 20% for GE for the full year.

The capital rate is down from our forecast because of large benefits, including the tax efficient foreign disposition transactions as well as the recapture of prior untaxed losses of real estate. As we have previously indicated, we do expect the GE Capital rate in the mid-single digits for the year, but there could be some variability at GE Capital as well depending upon IRS audit resolutions and a tax on other possible dispositions.

On the right side you can see the segment results. Total Industrial segment profit was up 2%. Ex-Power & Water our Industrial businesses grew their segment profit by 12%. Power & Water was down in the second quarter; however, the results were a significant improvement over Q1.

GE Capital earnings were down in the second quarter, in line with the lower assets. And we will cover all the segments in more detail over the next several pages.

Before I get to the businesses, I will start with the other items page from Q2. At the top, in total we had $0.03 of restructuring and other charges in the quarter -- $0.02 related to Industrial, that is at the corporate line at the Industrial reporting, and $0.01 was in GE Capital. We continue to reduce our cost structure by lowering our SG&A headcount. We are rationalizing our footprint and this should be a nice tailwind for margins as we go into the second half.

We also had a $0.01 charge in the quarter related to an impairment for an investment that we made in Brazil, and that charge was also included in the corporate line.

We had two one-time benefits in the quarter. First, as I mentioned on the previous page, we had a favorable IRS settlement which resulted in almost 4 points lower GE tax rate in Q2 and in total contributed a $0.01 Industrial benefit.

Second, in GE Capital we exited our fleet platform in Canada, which resulted in a $0.01 benefit in the quarter. The benefit from this transaction was mostly tax related and contributed to a lower GE Capital tax rate.

For discontinued operations at the bottom of the page, we had $122 million after-tax impact in the quarter. On WMC we recorded $128 million of new pending claims, so that is down significantly over the run rates that we have been seeing. And we added $47 million of reserves in the quarter, resulting in a total reserve balance of $787 million covering both pending and future claims.

At Grey Zone we booked $76 million of additional reserves to reflect ongoing claims and we ended the quarter with $557 million in reserves.

On the bottom of the page is a summary of our operating EPS and our Industrial gains and restructuring. In the first quarter we reported $0.39 of operating EPS and that included $0.04 of net benefit as the Q1 NBCU gain was greater than our Industrial restructuring.

In Q2 we reported $0.36 and that included a $0.02 drag from Industrial restructuring. Again, in the corporate line. And we expect to have at least $0.02 more of Industrial restructuring in the second half. So for the total year we don't expect the NBCU gain and restructuring to have any impact on EPS.

So I will move on to the businesses and let me start with Power & Water. Orders of $6 billion were down 1% and Europe remained challenging, down 40%. Ex-Europe orders were up 6%.

Equipment orders of $3 billion were down 5%. Thermal orders remain soft at $690 million, down 50%. We had orders for 24 heavy duty gas turbines versus 30 last year.

We had a strong renewables quarter with orders of $1.4 billion, up 55%. Distributed power orders of $700 million were up 3% and service orders of $3 billion were up 2%. Again, ex-Europe services orders were up 13% driven by the strong US power gen services, both outages and upgrades, with orders up 29%. Overall, for Power & Water, orders pricing was up 1.6%.

Revenue of $5.7 billion was down 17% driven by lower volume. Equipment revenue of $2.6 billion was down 50%. We shipped 19 gas turbines versus 31 last year, and we shipped 351 wind turbines versus 726 last year.

Service revenue of $3.1 billion was down 3%. Power gen services revenue was down 1% in total, but up 14% ex-Europe. Again, driven by the strength in the US, which was up 20%.

Segment profit of $1,087 million was down 17% driven by the lower volume. SG&A costs were down 9%, Q2 value gap was positive, and margins increased by 10 basis points.

So Q2 showed improvement over Q1 for Power & Water. If you look at the second-half dynamics, as Jeff said, we have got a lot of volume and we expect Power & Water volume to be higher in the fourth quarter than the third quarter.

Renewables will continue to improve. Distributed power and services continue to improve. Costs are going to continue to go lower. So our current outlook is to deliver the total year framework that Jeff covered on Power & Water at EPG.

On the right side is Oil & Gas. Results in the second quarter were very strong. Orders of $5 billion were up 24%. Equipment orders of $2.8 billion were up 42% and we saw double-digit growth across all the segments.

Turbomachinery up 74%, driven by US midstream LNG orders. Subsea was up 30% driven by large projects in Indonesia and Angola. Service orders of $2.3 billion were up 8%. We saw a nice growth in global services, up 14%, and we are making significant progress in growing our subsea service business which was up 44%.

This was partially offset by measurements and controls, which was down 1%. While still down, this is up from the first quarter when M&C was down 13%, so some improvement in the market.

Our backlog grew by $1.1 billion in the quarter to $18 billion and orders pricing was up 80 basis points, our ninth quarter of positive order price increases. Revenue of $4 billion was up 9%. Equipment revenue of $2 billion was up 11%, driven by growth in subsea and drilling and surface. Service revenues of $2 billion were up 6% driven by stronger global spare parts sales.

Segment profit of $532 million was up 14% as the benefits of higher volume, positive price, and SG&A reductions more than offset higher program spending and drove 70 basis points of margin expansion.

Next is Aviation. The Aviation team had a strong quarter. Orders of $5.8 billion were up 4%. Equipment orders of $3.2 billion, up 7%. Commercial engine orders of $2.5 billion were up 81%, driven by $1.4 billion of CFM orders including $670 million of Leap orders. Military equipment orders of $300 million were down 72%, driven by no repeat of the Saudi F110 order last year which was $890 million.

Service orders of $2.6 billion were up 1%. Commercial service orders of $2 billion were up 11%. The 2Q average daily spares order rate was $24.6 million, up 19%, as we continue to see a nice rebound from the higher year-to-date GE fleet utilization that is up 2.6% globally and as airline shop visits and parts restocking return to more normal buying behaviors.

Military service orders were down 25% as we are seeing some impact from reduced flight hours and inventory management. Overall for Aviation, order pricing was up 2.5%. Revenue of $5.3 billion was up 9%, driven by equipment up 12%.

We shipped 596 commercial engines in the quarter, which was up 30 units, or 5%. We shipped 33 GEnx units, up from 27 last year, and we shipped 280 military engines, which were up 21 units or 8%.

Service revenues of $2.6 billion were up 6%, driven by commercial services up 12% partially offset by military services, which was down 6% on lower spare parts. Segment profit of $1,067 million was up 16% driven by the strong value gap, pricing up 3.6%, and also by higher volume. And margin rates grew by 1.1 points in the quarter.

On the right side is Healthcare. Orders of $4.8 billion were up 2%. Equipment orders at $2.8 billion were up 4% and that is 7 points better than we saw in the first quarter.

Developed markets were up 3% with the US up 5%. Europe was up 7%. Japan was down 26%, but it is down 8% excluding the impact of foreign exchange.

Developing markets were up 8% driven by China up 16%, Latin America up 4%, India up 1%. If you go by modality, MRI was up 14%, CT was down 6%, ultrasound was up 13%, life sciences was down 1%, and diagnostic guidance systems was down 5%.

Service orders of $2 billion were down 2%. Revenue of $4.5 billion was flat. Again, that is driven by the growth markets up 10% offset by the developed markets down 4%.

Segment profit of $726 million was up 5%, so the benefits of restructuring and higher volume more than offset the impact of lower pricing. And margin rates were up 80 basis points in the quarter.

Next is Transportation. Orders of $1.1 billion were down 23%. Equipment orders of $444 million were down 45% as we continue to see the impact of soft North American locomotive and global mining equipment markets.

Service orders of $633 million were up 7% driven by locomotive services. Orders pricing was up 40 basis points and revenues of $1.6 billion were up 2% as the growth in signaling and parts more than offset lower equipment revenues, which were down 14%.

We shipped 170 locomotives in the quarter versus 243 last year. Segment profit of $313 million was up 11%, driven by the positive value gap and services growth, which also drove margins up 160 basis points.

Energy Management had a strong quarter versus last year. Orders of $2.3 billion were up 19% driven by digital energy up 24% and power conversion up 20%. We saw strong growth in digital meters and in the marine segment in Brazil and China.

Revenues of $2 billion were up 6% driven by power conversion up 7%, partially offset by lower revenues in digital energy. Segment profit of $31 million was up from $4 million last year driven by the improved value gap and segment margins were up 140 basis points.

Home & Business Solutions had another positive quarter. Revenues of $2.1 billion were up 5%, as 8% growth in appliances was partially offset by a 4% decline in lighting sales and segment profit of $83 million was up 5%. Appliances was up 31% driven by positive pricing and lower program spending, partially offset by the results in lighting.

Margins were flat for the quarter and we continue to see strength in housing. Second-quarter housing starts were up 18% boosted by single-family up strong double digits and multi-family starts up over 20%.

With that let me turn it over to Jeff Bornstein to cover GE Capital.

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

Thanks, Keith. GE Capital revenue was just under $11 billion in the quarter, down 3%, driven by lower assets partly offset by higher gains. Assets were down 7%, or $37 billion, year over year.

Net income was $1.9 billion, down 9% from prior year, primarily driven by lower assets. And higher gains were offset by losses, marks, and impairments in the quarter. Tax benefits were essentially flat year over year with the rate down, driven by lower pretax income on lower assets.

We ended the quarter with $391 billion of ending net investment. That is down $40 billion from last year and down $11 billion sequentially.

Our net interest margin was up 18 basis points versus 2012 to 5% and flat with the first quarter. Tier 1 common ratio on a Basel I basis improved to 11.2% in the quarter, driven by the reduction and investment in the balance sheet and after paying $1.9 billion of dividends in the quarter.

On the right side of the page, asset quality trends continue in the right direction with delinquency rates improving across the portfolio. The only exception being the seasonality we expect in our UK mortgage business.

In addition, non-earning assets totaled $6.6 billion. That is down $600 million from the first quarter and down $1.6 billion versus last year.

CP ended the quarter at $36 billion, well on its way to the $35 billion plan for the year. Liquidity was very strong, ending the quarter at $70 billion.

Now to walk through the segment performances. CLL, Commercial Lending and Leasing businesses, ended the second quarter with $174 billion of assets. That is down 6% from last year, driven by a reduction of non-core assets of about $7 billion and $4 billion of lower core assets, primarily driven by asset sales, including the fleet Canada disposition Keith referred to. On-book core volume was 6% higher than the second quarter of 2012 and new business returns remained attractive at above 2% returns on investment.

Earnings were stronger across all the regions and up 31% total driven by the fleet disposition, asset sales, higher tax benefits in Europe, partially offset by asset impairments. Asset quality continued improving with delinquencies down 15 basis points versus last year, and non-earning assets were down 30% versus the second quarter of 2012.

In the Consumer segment, we ended the quarter with $136 billion of assets, up 1%. Net income of $828 million was down 9%, primarily driven by the removal of reserve seasonality in our US retail business under the new modeling approach that we completed in the first quarter. We expect reserve coverage in the US retail business to be about the same in the third quarter.

The US retail business earn $563 million in the second quarter, down $78 million from last year driven by the reserving change I just mentioned and partly offset with core growth. Asset growth in this business was strong at 9% and asset quality continues to set new benchmarks with 30-day delinquency down to 3.85%. Our core Europe business earned $149 million in the quarter, which was essentially flat year over year.

The Real Estate team continues to execute very well. Assets ended the quarter at $42 billion, that is down 28% year over year. Net income of $435 million was up two times versus 2012, and that was driven by higher gains on the equity portfolio and higher tax benefits.

The business sold 180 properties with a book value of $1.9 billion for about $200 million of gains in the quarter. Asset quality continues to improve with 30-day delinquencies on the debt book at 2.1% and that is 6 basis points lower sequentially.

The verticals; GECAS earned $304 million, that is down 1%. Down 1% with assets down 3%, driven by lower gains on aircraft sales and modestly higher impairments on aircraft held-for-sale. Returns remained very attractive on new volume. EFS earnings were down, driven by the impairment of a single asset in our energy book and modestly lower gains across the portfolio.

For our total results, we did have roughly $300 million of tax provisions in the GE Capital corporate that partially offset the tax benefits in the segments to book to a total year expected rate of mid-single digits. This, along with a non-repeat of a $200 million of tax benefits from the BP business properties transaction in the second quarter of 2012, explains the higher corporate charge year over year.

So, overall, GE Capital continues to perform well. Its results were in line with our strategy to reduce the size of the business. And as you look forward to the third quarter, the loss of earnings from shrinking assets and adjusting for one-time items, the normalized run rate for GE Capital was still in the range of about $1.8 billion to $1.85 billion in earnings.

So with that I will turn it back to Jeff.

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

Great, Jeff, thanks. As to the framework, we have really no change to the 2013 operating framework. We are not planning for an improved environment for the balance of 2013, but execution levers are in our control -- a solid backlog, good technology, strong cost control, and disciplined capital allocation.

In addition, we have a very diverse global footprint which is well-positioned for the macro tailwinds that are out there, like in Oil & Gas. So, again, as I said, no change to our 2013 operating framework. We still plan on solid Industrial earnings growth for the year driven by expanding margins. Our second-quarter profile supports this growth.

GE Capital will have solid growth for the year and we have no change on our framework for corporate costs or cash. We still plan on double-digit EPS growth for the year. So everything is consistent with what we said at EPG and we are well-positioned to deliver for investors.

In conclusion, let me recap our status versus investor goals we set for the year. First, our Industrial earnings growth will improve during the year. Power & Water was a drag in the first half, but should have positive earnings growth in the second half. The other segments are executing, so we should see strong growth for total Industrial in the second half.

We plan to achieve 70 basis points of margin improvement for the year. The second quarter exceeded our expectations and the teams did a solid job on execution.

We expect to receive up to a $6.5 billion dividend from GE Capital this year. Organic growth will likely be at the low end of our 2% to 6% range for 2013. Again, the wind turbine cycle is a headwind, but we are well-positioned for the future with a solid backlog. The balance of our Industrial businesses should grow in line with our 5% to 10% organic growth goal.

We are on track to return $18 billion to shareowners through dividends and buyback. So for GE this is a solid quarter and we are on track for a good year. Now I will -- Trevor, back to you and we will take some questions.

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

Great. Thanks, Jeff -- Keith and Jeff. Why don't we open up the line and take some questions?

QUESTION AND ANSWER

Operator

(Operator Instructions) Scott Davis, Barclays.

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

Good morning, guys. Jeff, when you think about last quarter and the disappointing margins you put up, your confidence in the 70 basis points for the year seemed to be somewhat wavering. And maybe it seemed like a reach goal.

I mean putting up the 50 basis points this quarter, does that indicate to you an increased confidence that you are going to see this back half of the year margin ramp, particularly given what you saw in value gap?

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

You know, Scott, it really does. Again, I think the teams have been executing well. I would decompose it a little bit the way we talk about margins.

The value gap is on track to be significantly positive this year. Our SG&A -- our simplification efforts, I think, are just gaining momentum so that looks good. R&D, I think, levelizes for the year, mix levelizes for the year, and Power & Water units are in backlog.

So, Scott, I think as we execute that ramp we feel pretty confident in the 70 basis points for the year. We still have a slight hedge in the numbers and I just think we are building momentum.

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

Makes sense. I know it is hard when you look at backlog and orders to, just given the timing, to figure out exactly when revenues are going to pull through. But when you really look at the order growth and the fact that you are getting -- you were down including wind, but excluding wind up 5% you said.

But you said in the slides not counting on environment improving, but the order book does imply that the back half of the year is going to have some unit volume tailwind. Am I reading that correctly?

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

Oh, yes. It definitely does. Just given the way the wind -- Scott, like you know, just looking at the wind profile, if you look at Power & Water it is going to strengthen in the second half. And the other businesses, I would say, are already demonstrating some nice momentum.

So things like Aviation spares, which were a drag last year, have turned into a tailwind this year. Oil & Gas I would say four or five segments double-digit orders growth, even M&CS I would say a better quarter. So if you just pick through one by one you are going to get some gathering momentum, I think, in the second half of the year.

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

Okay. And just clarification, the loss in Brazil, I assume that is the EBX, Eike Batista, investment.

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

Yes, that is right.

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

Okay, fair enough. Thanks, guys. I will pass it on.

Operator

John Inch, Deutsche Bank.

John Inch - ***Deutsche Bank - Analyst***

Good morning, everyone. So I just want to -- I have a couple of clarifications. One, I just wanted to confirm, were there any gains that you would consider one-time within the Industrial segments that might have helped the 50 basis points of margin this quarter?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

We had a small disposition in Aviation, but it was immaterial, John. In total across the Industrial segments the impact of gains was zero.

John Inch - ***Deutsche Bank - Analyst***

Then the rise, Keith or Jeff, in the year-over-year corporate. I mean you did call out the asset impairment of $0.01.

But was there any kind of an Industrial reclassification in the way you look at the businesses that might have -- again, sorry to be nitpicky -- but may have helped the margins and then in turn that flowed through the corporate line? Why, again, was the corporate up as much as it was?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

There was no reclassification, but I can take you through corporate. If you look at the corporate second-quarter number, it is $1.883 billion. Remember you got to take out the non-operating pension, which on a pretax basis is $661 million, so we are at $1.2 billion in the quarter.

There is really three things. We have $280 million of pretax restructuring in corporate, which is the $0.02, and again that for the year will be against the NBCU gain. We have the impairment of $108 million in the corporate line.

Then the third thing that is not really related to corporate, but it just flows in that line, is the GE Capital preferred dividend for $135 million. So if you take the second quarter and you get to a run rate, you are basically at the run rate we need to be about $3 billion for the year.

John Inch - ***Deutsche Bank - Analyst***

That makes sense. Keith, can I ask you about WMC in Japan? We are still taking charges for it. Just remind us, if I am not mistaken, wasn't there a statute of limitations in New York that prospectively kind of makes the run rate on WMC, hopefully, or you tell me, sort of much lower kind of going forward?

And then maybe this is for Jeff. Is there not an opportunity to payoff these Japan liabilities sometime early next year? I am just wondering what -- I realize it is still early, but, Jeff, what your thoughts are toward perhaps pursuing that kind of attack.

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

Sure. I think I can start with both of those for you, John.

On WMC, yes, the statute of limitations runs six years from the date of the securitization, and we basically have completed -- all the securitizations that came out of WMC have gone through that secure period now. And I think that is why you see a slowing of the additional pending claims.

And so we need to resolve these. We are in negotiation and discussion on the claims, and we are going to work our way through that as you go through the second half of the year. We will continue to update you.

From a Japan perspective, there is a contractual discussion point in the first quarter with Shinsei. We will have a discussion with them, and whether we can reach agreement or not remains to be seen, but there is an opening there in the first quarter that we will be pursuing and negotiating with them.

John Inch - ***Deutsche Bank - Analyst***

Great. Thanks very much.

Operator

Jeff Sprague, Vertical Research Partners.

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

Thank you. Good morning, everyone. First, just back on kind of the question of gains, it sort of kind of netted out year over year in the quarter. But can we just put a finer point on what it actually was -- TransDigm and the other stuff you might have had?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Yes, the Aviation TransDigm benefit was immaterial for the segment. And I didn't say it netted out year over year; I said it was zero in the quarter in the segments.

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

Okay. I thought it was net -- I thought you said net neutral year over year.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

No, no, no. In the quarter thee small benefit we got in TransDigm in Aviation, if you go to the segment profit level, it was zero across the segment profits for the Industrial businesses.

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

Okay, great. Shifting to Power, so Power price looked decent in the quarter. I just wonder if you could give us a little color around service price versus order price and what is driving that.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Sure. Power & Water, if you look the equipment pricing was up 3.5% in the quarter, the service pricing was down 0.3%, and overall up 1.6%. Thermal and PGS was down 2.2%. Renewables was very strong, up 11%. Those would be the biggest drivers.

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

Then just a little more color, if you could, on just what is going on in service. Europe obviously weak; sounds like you have got a little less bad maybe. How do you see that playing over the balance of the year?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Yes, I think the one bright spot in service was certainly in the US. If you looked at the US PGS, the orders were up 29%.

In the first quarter we talked about some advanced gas path upgrades. The team did a pretty good job executing in the quarter. They had about 12 of them in the quarter and that is a good sign for us. In the US service business revenues were up 20.

In Europe, PGS had a really challenging quarter, down 59%, Jeff. The fleet operating hours; we had reduced outages UK, Italy, and Spain. So we are seeing some positive benefits of the fleet in the US and we are more than offsetting the drag that we have from the fleet in Europe right now in the PGS business.

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

Great, thanks a lot.

Operator

Steven Winoker, Sanford Bernstein.

Steven Winoker - ***Sanford Bernstein - Analyst***

Thanks and good morning. Just first a quick clarification again on that corporate versus segment impact restructuring and other charges, those $0.03. Was any of that in corporate or was it all in the segments?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

No. If you go to the corporate line, you adjust for the non-operating pension, out of the $1.2 billion there is $280 million of restructuring on a pretax basis. That is Industrial. There is another penny that is in Capital in corporate. So out of the $0.03, $0.02 is in Industrial and $0.01 is in Capital.

Steven Winoker - ***Sanford Bernstein - Analyst***

But that $281 million is counted is the -- is part of that $1.883 billion, right?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Yes, it is.

Steven Winoker - ***Sanford Bernstein - Analyst***

Okay. So that was in corporate, okay.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Right, and so was the NBCU gain in the first quarter and we said that restructuring would be in corporate through the year.

Steven Winoker - ***Sanford Bernstein - Analyst***

Right.

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

Just to repeat that, because I want to make sure everybody gets that right, that on the NBCU gain --

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Sure. So in the first quarter we had the NBCU gain. We made a set of decisions to lower our cost structure in the Company. From an accounting perspective you have to actually complete all the actions to book the accounting charge to reflect the downsizing that you are doing.

And so not all that could happen in the first quarter. We have additional work to do to identify and complete the project.

So we had $0.04 of restructuring in the first quarter against the NBCU gain and that left a net of positive $0.04 in that first-quarter EPS. In the second quarter we had a naked $0.02 after-tax of Industrial restructuring, and in the third quarter and the fourth quarter we will probably have another $0.01 at least each quarter.

So that for the year, Steve, basically it is a zero -- it's in the corporate line. In the first quarter it was a net positive, in the second quarter it was a net drag, and in the third and fourth quarter it will be a slight net drag. Does that help?

Steven Winoker *- Sanford Bernstein - Analyst*

Okay, great. Yes, it does, a lot. Thanks.

Then on the -- a little more clarification on the GE Capital side, guys, since we have a lot of GE Capital horsepower there now. The CRE (multiple speakers) the Commercial Real Estate gains, the $200 million you talked about, we continue to see an environment where you are getting these every quarter. I mean, as you run down that book, what is your visibility to that going forward? And how long and sustainable it is?

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

So we did have $200 million in the quarter and the team has done a pretty good job as we have reduced that book down to about $17 billion of our investment and doing that as profitably as possible. It is going to get progressively more difficult to generate the same level of gains unless we continue to see improvement in the markets where we are selling these assets.

We have been very focused in the US; that is where the recovery has been the biggest and the fastest. We are seeing some signs of life in Europe, in northern Europe and the UK and France, but there is still a long way to go there. And Japan is a little bit better.

So I think there still will be the opportunity to generate gains. Whether we will be able to generate them as we move down the next $17 billion at the same rate, I think remains to be seen. I think that is going to be a little bit of a challenge.

Steven Winoker *- Sanford Bernstein - Analyst*

Okay. Then, on the provision side, they were at least a little lower than I was expecting. Can you maybe just comment on how you were thinking about the amount of provisions in the quarter?

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

I think provisions came in about where we thought they would be. They were up about $300 million year over year, $200 million of that was associated with our retail business in the US. We went to that reserve model change that we completed in the first quarter.

One of the outcomes of that is we removed the seasonality we historically had had in the second quarter, and so that didn't repeat year over year. Then we added $100 million of reserves in CLL, principally in our US CLL business.

So I think provisions came in just about where we expected them. They were down sequentially because we made that final change in the retail reserves in the first quarter, which was like $600 million. So that is why they sequentially look lower.

Steven Winoker *- Sanford Bernstein - Analyst*

Okay, and maybe sneak one last in for Jeff. Energy Management and intelligent platforms, does that continue to be a targeted growth area, both sort of acquisitively and organically?

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

It is organically, I would say, Steve. Look, there has been commentary about transactions. Even though we don't like to specifically talk about companies, I would say when you guys think about what we have outlined in terms of the priorities for the Company, the one transaction that has been rumored really doesn't fit our screen as to the kinds of places we are going to put capital.

Is that a good way to answer your question, Steve?

Steven Winoker - ***Sanford Bernstein - Analyst***

Couldn't be more direct. Thanks, Jeff. I will pass it on.

Operator

Deane Dray, Citi Research.

Deane Dray - ***Citi - Analyst***

Good morning, everyone. Best wishes to Keith and to Jeff Bornstein in their new responsibilities.

Jeff Bornstein, since you are on the hot seat now, how about just some color -- I know it was a foregone conclusion that GE Capital would be declared a SIFI. But just are there any consequences regarding capital requirements, reporting and so forth?

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

Yes, I don't -- we have been in preparation for this day for the better part of two or three years. We had the Fed with us for the last two years. We have been running in parallel all of the processes that you see in the major banks, running whether that is stress testing, preparing ourselves with a recovery plan, and working early innings on a resolution plan.

So I don't think incrementally it is anything that we won't be able to deal with. I think our capital is in very, very good shape. I think our processes are improving every day, so I don't think at the margin that the designation is going to mean all that much to the business.

Deane Dray - ***Citi - Analyst***

Great. Then for Jeff Immelt, at EPG there was a lot of focus about prospects for a staged exit of the business and how the proceeds would be used for buybacks and changing of GE's earnings mix. Can you give us any update as to where that process stands?

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

Yes, I would say notionally, Deane, we are still on track for what I talked about at EPG. Again, I don't think we are quite ready to talk detailed specifics, but you will be hearing from us in due time. But the notion, the strategy that we outlined at EPG is still on track.

Deane Dray - ***Citi - Analyst***

Great, thank you.

Operator

Nigel Coe, Morgan Stanley.

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

Thanks, good morning. First of all, Jeff and Keith, congratulations on your new roles.

Just wanted to go back to the price cost benefit this quarter, the value gap of $293 million. How does that compare to the plan? Given the pricing and orders are improving, the backlog price is improving, raw material environment remains pretty benign. How does that develop over the balance of the year?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Well, you have seen our pricing on orders quarter after quarter; six quarters of positive OPI across the Company. That is coming through in revenue. This quarter we had 1% positive price in sales.

I think that continues. I think we have put it in the backlog. With the OPI strong on the new orders coming in I think you are going to continue to see pricing.

I think the change that we are seeing year over year has been a big improvement in deflation. Last year at the half we had close to $60 million of inflation and this year we have got significant deflation, so I think we expect that to continue. We do a lot to lock in our purchases on a forward buy basis, so we are feeling pretty good about the value gap.

Jeff has talked about it. I think that is going to be, as we show on the margins chart, a significant contributor to us getting to the 70 basis points this year. As you listen, as we go business by business, we talked about the value gap in just about every one of the segments being a positive contributor.

So the teams have been focused on pricing, they are focused on delivering projects at the margins we quote or better, and the sourcing deflation has been positive for us this year.

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

(multiple speakers) This is going to be better than our plan and I think that is where the source of our hedge is going to come from.

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

Okay. So you think a point or more of margin benefit in the back half of the year from price inflation.

Then, obviously, the Power & Water margins were pretty incredible given the sharp decline in revenues. And you called out the price value gap, obviously, within mix and I am wondering to the extent to which you benefited from some of these upgrades on the gas turbines versus where you might characterize it as regular MRO work on the installed fleet.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

It was a positive for us. If you look at the service business, it was actually up slightly on profit. So the net benefit of everything they did, whether it is the parts sales or the upgrade and the outages in the quarter, gave them a little lift. And so I think it is a positive.

We were up on our profit, even with the revenue being down a little bit. So services versus equipment was a benefit, certainly in the energy segment.

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

Then a quick one on the GE Capital dividend, $1.9 billion in the quarter, $6.5 billion for the full year. How do you expect that to phase for the balance of the year?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

We have got that loaded in evenly over the third and fourth quarter, so $1.5 billion in the third and $1.5 billion in the fourth is the assumption today.

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

Great. Thanks a lot.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

That is for the specials, that 30%.

Operator

Shannon O'Callaghan, Nomura.

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

Morning, guys. So I just want an update on sort of gas turbine order expectations for the year. I think you have been talking about 120, 130. We are only at 32 here in the first half.

Is that still the target? And if it is, what other things -- where do those orders come from?

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

Shannon, my hunch is that the overall market is not going to be quite as strong as we had initially expected. So my hunch is that the orders for the year will be between something like 100 and 115, in that range.

Again, still they come in buckets. I would say there is still a fair amount of activity in the Middle East. China and Asia aren't bad. We expect US to be better this year than last, but at a small level. Europe pretty sluggish; Africa okay. But they tend to come in buckets.

But my hunch is that is where the orders will come in.

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

And you have pretty good visibility into those? Are there some lumpy things in 2H to get there?

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

Yes, we do. I think we have a pretty formal process we go through on booking orders and stuff like that, so we kind of see what I would say is pretty good visibility there.

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

Then just on these -- in the US on the advanced gas path upgrades. I know you had talked about I think they got pushed out of 1Q and you were expecting them in 2Q. Was all of that kind of recognized in 2Q, or is there more of this to come in the second half? How do those work?

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

There is still more to come in the second half. Again, it is always between when we book the order and the revenue. But I think it's -- we have got something like 50, don't we, Keith?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

We have a goal of 50 for the year. We did two in the first quarter, 12 in the second, and we have got eight in the backlog. And we have got a number that are working. So, yes, I think there is a lot in progress.

What we talked about in the second quarter, we had three of them that weren't working and slipped. And two of those actually booked in the second quarter in addition to another 10. So I think the team has made a lot of progress there. They are positioned probably for the first quarter of 2014 outages as you look at where they go, so they will be in the second half, later in the second half of the year we think, Shannon.

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

Okay. All right, great. Thanks, guys.

Operator

Julian Mitchell, Credit Suisse.

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

I just had a question around the simplification on the cost cutting. You had $474 million of cost-cutting savings in Q2. It looks like there wasn't much back in Q1 at all.

Back in the Q1 you talked about the majority of the cost savings coming in the second half, so I'm just trying to square away -- you have $500 million savings already in the first half. You talked before about $1 billion or so. Is that $1 billion number for the year a lot higher now? Because I guess you should -- again, per the Q1, you should be getting most of the cost-saving benefit in the second half.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Yes, we had actually $200 million in the first quarter, Julian, so that is how you get to the $468 million or whatever at the half. We are targeting at least $1 billion.

We have an intense focus in this company around simplification. There is a regular rhythm; everybody is engaged. We are reducing P&Ls, we are putting things in centers of excellence, and we are going to look at more restructuring projects as we go into the second half here. If we have good returning projects, we're going to continue to evaluate those.

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

Good momentum. I would be disappointed if it wasn't above $1 billion. We've got a good backlog of projects.

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

Okay, great. Then within the services overall, the just total company, the orders were much better in Q2 than Q1. You talked about revenues being obviously at the bottom end of the 2% to 6% range.

Is that solely on equipment? How has your view on the services revenue outlook for the year changed, particularly given the big improvement in orders sequentially?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

You know, the goal for services is still around 5% for the year, and that is the focus we have on it. So I think the mix is still mainly equipment driven on the total revenue.

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

Got it, thanks. Lastly, just any color you can provide on Europe. You had mentioned right at the beginning that it felt like a better quarter. Obviously Power is still bad, but just what you are seeing generally from your customers there.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

We had, obviously, a big improvement in Europe in the orders. Remember, the first quarter was down 17%, the second quarter we were up 2%, and it was mix. We talked about Power being tough, but the positives -- Oil & Gas was very strong.

Oil & Gas orders were up 37% in the quarter. A lot of those were up in the Nordic. We have a great position in Oil & Gas in the North Sea.

Aviation was up 26%. It was a mix of both equipment orders as well as service orders. We have seen a rebound of services in the Europe pole. Services were up about 15% for Aviation, and Healthcare had a nice turnaround.

So the Power & Water was down but some encouraging signs in some of the other Industrial businesses here. Overall up 2% versus 17% is a significant improvement, obviously, for us.

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

Just another nuance on Keith's, I would say the most short cycle business we have in Europe is Healthcare and they have first positive orders, I would say, in a couple of years probably. Maybe three years.

So that is decent, but I would echo what Keith said earlier, on the Power gen usage side it is still pretty weak in Europe but it just seems to have net-net, in the GE world anyhow, stabilized in Q2.

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

Great, thanks.

Operator

Andrew Obin, Bank of America.

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

Good morning. Just a question on rising interest rates impact at GECC. How should we think about the second half, given the funding mechanism? And when do you think we will see impact, if any?

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

Andrew, I would say -- first of all, we have issued about $28 billion of debt year-to-date in addition to the $1 billion of preferred we talked about, so $29 billion total against a total year plan of $30 billion to $35 billion. So most of our borrowing in the year is done. Fortunately, we are able to get out a little ahead of what has happened to benchmark rates in the last couple of months.

Long-term generally higher interest rates have historically been good for GE Capital, as well as most banks. Margins tend to expand; spreads tend to expand vis-a-vis benchmark rates. So I would say, generally, I think on a longer-term trend basis higher rates are better for the business.

I think from a liability perspective we are in great shape. We run a match-funded book, so a short-term change in interest rates really shouldn't impact us much because our variable assets are matched with variable debt and our fixed assets with fixed debt. So we should be in pretty good shape.

THOMSON REUTERS

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

And just a question on Healthcare. Just surprised how strong equipment orders were in North America in the quarter. At the same point CMS released 2014 proposed Medicare hospital outpatient payment regulations and those seem pretty bleak.

How should we think about A) the positive surprise in Healthcare this quarter, how sustainable it is? And where do you think the businesses going given where the regulations are going?

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

I would say, Andrew, look, I think our product line is pretty good right now and our positioning is pretty good. We are not counting on the US market in Healthcare to be super robust. And, look, I think on the outpatient side there has been pressure on reimbursements for a long time, so we are pretty cognizant of where it goes there.

But I would say the US market feels like it is growing flat, flattish to maybe up a couple of points and I don't see that changing that much.

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

So this quarter for you it is market share gain, you think?

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

You never know until you see the NEMA data, but it seems like a better run rate for us this quarter and then we will see when we get the market data. It is usually a lag of a couple of weeks. But I think -- then outside the US the growth markets were up 10% and that is a decent profile for the Healthcare guys.

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

Thank you very much.

Operator

Steve Tusa, JPMorgan.

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

The orders price in Power & Water was 1.5% yet the industry seems like it is obviously in relatively tough shape. Can you just walk through what drove that?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Well, I went through some of the pieces if you looked at it. For equipment, thermal was down 5.5%, so that is more in line with what you are seeing in the softness in the thermal market, but the renewables was up 12%. So I think those were the two biggest pieces. Distributed power was about flat.

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

What is driving that renewables dynamic? And I guess just pricing generally, are you -- with obviously volumes down across your business, maybe, Jeff, you can just -- just from a macro perspective. But pricing holding in there.

Is this a -- you are kind of making a conscious choice to walk away from some business? Does it really kind of not matter what the price is? It is more about the level of activity that is out there? And that is just more of a macro question I guess.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

Well, in the wind business we have got tremendous new product introductions and we are delivering value to our customers. I think that is the biggest piece of the thermal or the renewable price index performance for us in 2013.

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

Steve, it is really kind of product by product. I would say our service pricing is still pretty good and that shows up in service margins. Your reference on the power gen market it is a tough market, so you are seeing pressure there. Aviation the pricing has been really pretty good, same way as locomotive behind product performance.

So it is kind of a mix business by business. But I think on the input cost side we are not seeing any inflation really and so we see a favorable trade, let's say, in the short term between our ability to sustain decent pricing in our market versus incoming inflation.

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

Okay. Then just one last question on the Power & Water services stuff. Clearly good news that some of these upgrades in service work is coming through.

Is that just kind of like the delayed reaction to the significant increase in gas utilization last year? And if that is the case, I mean is this something you have a line of sight on into 2014? Or is this kind of a pent-up demand being released this year as they kind of switch back to cold perhaps and then you have got a little bit of a tougher comp next year? How do we think about that?

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

My sense, Steve, is that the power gen service piece ought to be pretty stable between 2013 and 2014. We have got a decent backlog of these advanced gas paths. We do have some turnarounds next year that are going to be helpful, so I view this as the ability to kind of have stable growth in the power gen service side.

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

It is really good economics for the customer. We are developing additional new product upgrades for them that give them better efficiency and operating performance, and we can demonstrate those economics. So it is not really related to just whether they have run a little more from a cost of gas perspective. It is really about over the long-term what is the value of that asset for them.

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

How many did you do last year?

Keith Sherin - ***General Electric Company - Vice Chairman & CEO, GE Capital***

This is a new product introduction, so there have been upgrades through the periods but this is a specific event.

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

More significant.

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

Okay, great, thanks.

Operator

Jason Feldman, UBS.

Jason Feldman *- UBS - Analyst*

Good morning. At Healthcare you called out the translation impact of the yen on the Healthcare business in Japan. More broadly, have you seen any kind of competitive implications of the move in the yen, either in Healthcare, Energy, or any of the other businesses?

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

We really haven't. A lot of the things we do in Aviation and stuff like that are dollar trades anyhow. We haven't seen the Japanese companies becoming more competitive, if that is what you mean.

One of the advantages we have is we also make things in Japan and have a supply chain in Japan, so we are pretty naturally hedged. Mainly from a cost position standpoint.

Jason Feldman *- UBS - Analyst*

Got it. Also at Healthcare, Healthcare seems to be the segment where pricing has been the most stubborn. And I certainly understand, particularly in North America and Europe, it has been a challenging market, but what do you see as needing to change before that improves? Is that something that is possible any time in the near to medium term?

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

You know, this is kind of a historical thing. The Healthcare business is a little bit on the electronics cost curve. Kind of half of it is physics and half of it is electronic so, and you have a fairly rapid new product standpoint.

So Healthcare kind of grows at CM rate even when we show kind of the way we look at price shows some erosion, but that is usually offset by sourcing and by margin on new products that are replacing the old ones. So it is kind of the unique character in our portfolio.

Jason Feldman *- UBS - Analyst*

Okay, got it. Thank you very much.

Operator

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

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

Yes, I will just wrap quickly. Thanks, everyone, for joining the call today. The replay of today's webcast will be available this afternoon on our website. We will be distributing our quarterly supplemental data for GE Capital, as we always do, soon today.

Our third-quarter 2013 earnings webcast will be held on Friday, October 18. As always, we will be available to take your questions today. Thank you, everyone.

Operator

This concludes your conference call. Thank you for your participation today. You may now disconnect and have a great day.