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EDITED TRANSCRIPT

GE - Q2 2016 General Electric Co Earnings Call

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Non-GAAP Financial MEASURES:
In this document, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the U.S. Securities and Exchange Commission rules. These non-GAAP financial measures supplement our GAAP disclosures and should not be considered an alternative to the GAAP measure. The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are posted to the investor relations section of our website at www.ge.com. We use non-GAAP financial measures including the following.

- Operating earnings and EPS, which is earnings from continuing operations excluding non-service-related pension costs of our principal pension plans.
- GE Industrial operating & Verticals earnings and EPS, which is operating earnings of our industrial businesses and the GE Capital businesses that we expect to retain.
- GE Industrial & Verticals revenues, which is revenue of our industrial businesses and the GE Capital businesses that we expect to retain.
- Industrial segment organic revenue, which is the sum of revenue from all of our industrial segments less the effects of acquisitions/dispositions and currency exchange.
- Industrial segment organic operating profit, which is the sum of segment profit from all of our industrial segments less the effects of acquisitions/dispositions and currency exchange.
- Industrial cash flows from operating activities (Industrial CFOA), which is GE's cash flow from operating activities excluding dividends received from GE Capital.
- Capital ending net investment (ENI), excluding liquidity, which is a measure we use to measure the size of our Capital segment.
- GE Capital Tier 1 Common ratio estimate is a ratio of equity to total risk-weighted assets .

General Electric Capital Corporation (GECC) has been merged into GE and our financial services business is now operated by GE Capital Global Holdings LLC (GECGH). In this document, we refer to GECC and GECGH as "GE Capital". We refer to the industrial businesses of the Company including GE Capital on an equity basis as "GE". "GE (ex-GE Capital)" and /or "Industrial" refer to GE excluding GE Capital. Our financial services segment previously referred to as GE Capital is now referred to as Capital.
GE's Investor Relations website at www.ge.com/investor and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the General Electric second-quarter 2016 earnings conference call. At this time all participants are in a listen-only mode. My name is Ellen 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, Matt Cribbins, Vice President of Investor Communications. Please proceed.

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

Good morning and thanks for joining our second-quarter earnings call. Today I am joined by our Chairman and CEO, Jeff Immelt; our CFO, Jeff Bornstein; and GE Aviation President and CEO, David Joyce. Earlier today we posted a press release, presentation, supplemental on our website at www.GE.com/investor.

As a reminder, 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. As described in our SEC filings and on their website, those elements can change as the world changes.

Now with that, I will turn it over to Jeff Immelt.

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

Thanks, Matt. GE had a good quarter in a slow growth and volatile environment. I would describe our markets in two segments really. The resource sector remains tough putting pressure on our Oil & Gas and Transportation businesses. Meanwhile the rest of our markets have plenty of growth available. The strength of GE is our diversity and we remain on track for our 2016 framework and our bridge to 2018.

In the second quarter, our portfolio execution was a real highlight. This includes GE Capital de-designation, the Appliances sale with a substantial gain and the sale of GE Asset Management.

From an operations standpoint, we had EPS of $0.51 and that is growth of 65%. Industrial EPS was up 35% excluding gains and restructuring. Margins were flat ex-Alstom and up 10 basis points year-to-date and we are on track for our margin goals for the year. Alstom was a penny of share in the second quarter and we are on track to hit our plan in 2016.

CFOA was $10.7 billion and we are on track for our CFOA goals for the year. Industrial operating profit and organic revenue growth were down slightly in the first half consistent with our expectations. However, we are positioned for strong organic growth in the second half and were able to hit our earnings goals despite a $0.03 headwind and foreign exchange year to date.

Looking forward we have no change to our framework for the year. We still expect organic revenue growth of 2% to 4% with strong organic growth in the second half. We expect margins to expand and Alstom to deliver $0.05 a share. We still expect free cash flow plus dispositions to be $29 billion to $32 billion for the year including a capital dividend of $18 billion. Year-to-date we returned $18 billion to investors and we are on track for $26 billion in the year.

So despite the macro volatility, we are delivering.

Orders were $27 billion, down 2%, down 16% organically. Alstom orders were $4.5 billion in the quarter and $7.5 billion for the first half. Backlog grew by $4 billion from first quarter 2016 and sit at $320 billion, a record. Core service backlog grew by 11%. Orders pricing was down slightly versus a year ago. Power and Aviation pricing was positive but Oil & Gas continues to be pressured.

Equipment orders were down 11% which was 30% organically. We saw sustained pressure in Oil & Gas and Transportation while Power and Aviation had tough comps versus a year ago.

There were a few highlights. Aviation had another excellent air show with more than $25 billion in commitments and we have 34 H turbines in backlog. Total service orders were up 9% with solid growth in Aviation Renewables. Globally, the wind markets are strong and we expect solid growth for the year. Our pipeline of activity in the Oil & Gas is improving and we are working on several large global loco deals to offset sluggishness in the US.

Our global orders are $31 billion year-to-date, about flat versus a year ago including Alstom. We have increased Alstom backlog by about $2 billion since the acquisition.

Digital orders ex AGP were up 15% in the second quarter with revenue up 17%. AGP revenue was up 2% and orders were down. We expect 50% growth in AGPs in the second half. We now have 54 partners and 12,000 developers which is ahead of plan. Recently we announced a partnership with Microsoft to put Predix and Azure and with Huawei to expand in China. In addition, we launched major customer collaborations with Schindler, PSE&G and the city of Tianjin. We are on track to hit $7 billion in digital orders this year.

In the second half we expect orders to be about flat. Service orders will be up and equipment will be down slightly and on balance orders are coming in about where we expected.

I wanted to give you a little bit more context for revenue since our plan is backend loaded. In the first half, organic revenue is down 1%. We expect the second half will strengthen to be up about 5%. We see organic growth at 2% to 4% for 2016 likely trending closer to the bottom end of the range.

There are three main dynamics. Oil & Gas faces major cyclical headwinds but by the second half, they have easier comps. We have line of sight to several big projects in the second half which will help build backlog for 2017.

Power is shipping 65% of its gas turbine volume in the second half including 50% more AGPs than last year and most of these units are in backlog. The rest of the Company is sustaining organic growth in the 5% range comparable to the run rate and this should continue in the second half.

We have several businesses that are sustaining strong organic growth rates in the first half. Healthcare is improving with Life Sciences up 12%. China is up 19% and Ultrasound is up 9%. Renewables grew by 27% and Services grew by 5% with momentum in Power and Aviation.

Including Alstom, global revenue grew by 12% in the quarter including significant growth in Europe, India, Africa and ASEAN. Bottom line, we are seeing organic growth accelerating in the second half.

Margins are trending consistent with our expectations. Excluding foreign exchange, core margins were up 40 basis points in total and with segment gross margins also at 40 basis points. We are making great progress on value gap and cost productivity. We expect this to improve in the second half. Service margins are 90 basis points year-to-date excluding Alstom.

Next, an update on our Alstom execution. As I mentioned earlier, we remain on track for $0.05 a share in 2016 and we are on track for $1.1 billion in synergies for the year. We are seeing significant benefits including coordinated technical and cost performance on gas turbines. The system performance is exceeding our expectations and Alstom equipment backlog and Power is up 22%. This improved market acceptance for GE in the grid and steam turbine business, our customers see these as good fits for GE and we are winning incremental business.

As expected, we are seeing strong cost execution and sourcing and plant restructuring. Services integration in Power is ahead of plan. We see significant opportunities for upgrades in coal to improve energy efficiency.

So we really expect to see favorability in Alstom revenue synergies that we didn't count on when we did the deal. We see Alstom favorably so far and expect this momentum to continue. So we have a lot going on with the integration of Alstom but the team is doing well.

Our cash performance was good overall but our industrial cash performance was impacted by a range of issues and trailed our expectations. Capital dividends are now $15 billion, on track for their $18 billion goal including another $4 billion this week. We faced several CFOA headwinds in the first half that should unwind during the year. We have a large inventory build behind new NPI with LEAP, H and wind products. These are all shipping in the second half.

Alstom exacerbates our profile as their earnings, synergies and tax benefits are also back-half loaded. We still expect Alston to be neutral on cash for the year. We expect earnings to accelerate in the second half with substantial improvement in working capital. And finally, we had about $1 billion of comp and tax payments in the first half that won't repeat.

We have returned $18 billion to investors in the first half through buyback and dividends and are on track for $26 billion for the year. Free cash flow is a big metric on the Company comp plans and the team is incented to hit these goals.

Now I want to introduce David Joyce, who will give you an update on our great Aviation business and our wins at Farnborough.

David Joyce *- General Electric Company - President and CEO, GE Aviation*

Thanks, Jeff. Let me start with a quick perspective on our performance over the last three years.

Aviation has been a strong segment for GE with good leverage, annual growth rate and operating profit of 13% on 6% growth in revenue. Over that same period, we have been investing in the next generation of products and technologies growing our installed base of engines in service, positioning our supply chain and business for the transition in new products, building out our digital services for both GE and our customers while strengthening our operating profit of the business by 250 basis points. Performance has been very consistent with our strategic imperatives.

As we look at 2016, we see another strong year led by the commercial environment which is depicted on the next page. Traffic growth estimated at just over 6% after growth of almost 7.5% in 2015. Freight traffic estimated to grow again in 2016. Over two million departures added in the last year with very healthy airplane load factors across the networks at 80% for the second year in a row. And jet fuel costs which is the largest variable cost for our airline customers estimated to be deflationary again in 2016.

If you look at the trend in jet fuel over the last three years, it is down almost 50% and all these factors fuel profits in the industry estimated to grow again in 2016.

Now switching over to the defense environment, US defense spending is anticipated to be flat in 2017. However, we see an increase in science and technology spending as well as operations and maintenance. Additionally, international defense spending is growing, anticipated to be up 4% across the globe excluding the US.

At Aviation, we are experiencing growth in our military spare sales, 9% in 2015 and 6% through the first half of this year and we forecast our installed base growth to be 14.5% by 2020.

2016 has been a busy year in the military segment with some terrific wins. Just last month we were awarded the $1 billion contract to develop the next-generation fighter engine with our adaptive cycle technology combining high efficiency with high performance situationally. This technology promises 25% improvement in fuel efficiency, 30% in range and up to 20% more thrust relative to today's most advanced engines.

We were also chosen to power the Korean Indigenous Fighter and re-engine the UK Apaches. We are growing our services contracts with all three military branches including the F110 overhaul service work for the Air Force that was awarded to us earlier this year. And we are delivering on some very important milestones in support of the new Saab Gripen powered by our 414 and the CH53 King Stallion powered by our new heavy lift helicopter engine, the T408.

So the impact of both the commercial and military environments on our Aviation business has resulted in an unprecedented backlog totaling $156 billion, up $46 billion in the last three years. Focusing on the critical pieces of that backlog story, equipment up 11% CAGR over the last three years thanks to the successful launch of our new products. Services up 13% CAGR over the same time period enabling us to fund the product transition.

Last week was a terrific Farnborough Airshow for GE Aviation. $25.9 billion of business in total at list price, over 800 new engine commitments and we surpassed 30,000 CFM engines produced at the same time we surpassed 11,000 LEAP engines committed.

So let's talk LEAP. Terrific product positioning, sole-source on the 737 Max, on the Comac C919 and over 50% win rate on the A320 Neos. We delivered our first LEAP powered A320 Neo to Pegasus on Tuesday entering service this weekend. We are forecasting to deliver 110 engines this year building to 1900 by 2019. This year we also reached record levels of delivery on our current CFM engines exceeding 1700 engines. My point is that the rates for LEAP are not unchartered territory for CFM and we are very confident in our plan to deliver on time.

Now switching to margins; of course this transition investment is dilutive as we march down our learning curve and deliver on launch orders. But we have some big tailwinds that allow us to maintain margin rates through the transition.

First is our services growth; 44,000 installed commercial engines by 2020; over 61% of our entire installed fleet has seen one shop visit or less.

Second, lower Company funded research and development. We have completed certification on our passport engine, our GE Honda engine and the LEAP engines for both Airbus and Boeing and we will complete the C919 LEAP engine cert in fourth quarter of this year.

And finally, our digital productivity, in both services as we improve time on wing and cost per shop visit on a $122 billion backlog and in operations accelerating our variable cost productivity and LEAP learning curve.

Only GE has the strength of its installed base to support this magnitude of product transformation creating both the next generation of our installed base and service while delivering for our shareholders today.

So let me finish with a look at GE Aviation as a digital industrial business. First, the impact for our customers. Transitioning to predictive maintenance on 35,000 engines. So far we have experienced a 25% improvement in unscheduled disruptions for those customers engaged in our digital programs.

As an example, Emirates, a big, big GE Aviation customer has realized for the first six months of 2016 a 43% reduction in disruptions and a reduction in planned maintenance resulting in 12 additional days of utilization across their fleet of 777s for the first half of this year.

For our business, it is all about productivity. In engineering, we have the most sophisticated turbine blade designs on test in two weeks versus nine months. We have launched 13 brilliant factories where operations data connected to our data lake is available to critical experts across the business in engineering, supply chain and services resulting in 0.5 point improvement in variable cost productivity year to date.

At the enterprise level, our new advanced turboprop has eliminated 845 parts using digital design tools coupled with additive manufacturing, eliminating engineering hours, drawings, purchasing activities, quality plans, shipping, assembly hours and ultimately reducing cost while improving speed and quality. We are just beginning to understand the value of a digital industrial GE Aviation and the impact on the customers and our operational productivity.

And with that, I would like to turn it over to Jeff Bornstein.

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

Thanks, David. I will start with the second quarter summary.

Revenues were $33.5 billion, up 15% in the quarter. Industrial revenues were up 16% to $30.7 billion. You can see on the right side that the industrial segments were up 7% reported and down 1% organic.

Alstom revenue in the quarter was $3.2 billion. Industrial operating plus vertical EPS was $0.51, up 65%. The operating EPS number of $0.39 includes other continuing GE Capital activity including headquarter runoff and other exit related items that I will cover on the GE Capital page.

Continuing EPS of $0.36 includes the impact of nonoperating pension, the net EPS of $0.30 includes discontinued operations. The total discontinued operations impact was a charge of $544 million in the quarter driven by GE Capital exit costs.

As Jeff said, we generated $10.7 billion of CFOA in the half, up from $3.9 billion last year driven by the increased dividend from GE Capital. Industrial CFOA was $400 million for the half, down 89%. This was driven by a number of known items including our three-year long-term incentive program payout, non-repeat of last year's NBC settlement, negative Alstom CFOA in the quarter and timing on our service billings.

While we planned to be down in the first half, we underperformed our own expectations by roughly $1 billion driven by lower collections, accelerated inventory build and earlier closing of appliances transaction in the quarter than we originally planned.

Fortunately, most of this is timing between the first half and the second half. In the second half, we are planning for income plus depreciation and amortization of around $8 billion, working capital improvement of $3 billion to $4 billion driven by second half shipments and improvement in AR performance particularly delinquency and other timing items such as tax of $1 billion to $2 billion. That walks you to the total framework of $12 billion to $14 billion of industrial CFOA, no change to our framework for the year.

In addition, in the second quarter, GE borrowed $5 billion from GE Capital which will mature in the fourth quarter of this year. This makes a ton of sense for the Company as we already own the excess debt and the borrowing cost is lower than our dividend yield. The proceeds were used for an accelerated share repurchase program launched in June. This helps accelerate our buyback within the year.

The GE tax rate was 15% and the GE Capital tax rate was 27% which for the GE Capital tax rate reflects a benefit on a pretext continuing loss. For the year we expect the GE rate to be in the mid-teens.

On the right side of the segment results as I mentioned, Industrial segment revenues were up 7% reported and down 1% organically. Foreign exchange translation of $148 million was a 1 point headwind and lost revenue from disposition was a 4 point impact. Each of those impacts were more than offset by a 12 point revenue increase from Alstom.

Industrial segment op profit was down 5% reported and 6% organically. The organic number excludes the impact of $13 million of FX translation headwind. We also had an additional $120 million of FX transactional impacts which is not adjusted for in the organic calculation. This is related to remeasurement at mark to market on open hedges principally in the Oil & Gas, Renewables and Power segments.

Including corporate operating costs, Industrial op profit was down 2% reported and down 4% organically. As you see at the bottom of the page as I mentioned earlier, Industrial operating plus vertical EPS was $0.51, up 65%. That includes $0.11 of gains net of restructuring this year versus zero a year ago. In the box we provide the V percent adjusted for industrial gains in restructuring. Excluding those impacts in both years, Industrial operating EPS was up 35% and total Industrial operating plus vertical EPS was up 29%.

Next I will talk about one-time items. We had $0.09 of charges related to Industrial restructuring and other items that were taken at corporate. Charges were $1.2 billion on a pretax basis with about $400 million related to Oil & Gas and $300 million related to Alstom synergy investments and accounting items. The $0.09 was a little bit lower than what we were estimating driven by timing of restructuring projects.

As you know, the Appliance deal closed in the quarter contributing about $0.20 of gain.

At the bottom of the page you can see the profile for the year. We continue to expect gains and restructuring to offset for the year. In the third quarter, we have the asset management disposition and some smaller transactions in the fourth quarter that will contribute an additional $0.05 bringing total year gains to approximately $0.25.

Next I will cover each of the segments starting with the Power business. Orders in the quarter totaled $7.7 billion, up 41%. Excluding Alstom orders of $2.9 billion, core orders were down 11% with equipment down 26% and services lower by 4%. Core equipment orders were lower primarily due to units mixing to smaller aero and steam units partially offset by four additional H orders year-over-year.

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Total gas turbine orders were 16 units versus 18 a year ago. Through the half, core equipment orders are up 1% with heavy duty frames up 25%. Core equipment backlog excluding Alstom grew 37% year-over-year to $8.3 billion driven by H technology strength. Our H backlog stands at 34 units inclusive of five new orders offset by six unit shipments.

Service orders excluding Alstom were down 4% on lower AGPs of 24 versus 39 last year and lower aero services. Through the first half, AGP orders totaled 49 versus 55 last year. For the total year, we remain on plan for 135 to 150 AGPs versus 119 a year ago.

Through the half, total upgrades grew 18% to 153 versus 130 units a year ago driven by dry low NOx, compressor upgrades and flange to flange upgrades. Year-to-date total service orders grew 2% led by Power services up 5%. Service backlog excluding Alstom ended the quarter at $54.3 billion which is up 5% versus prior year.

Alstom orders in the quarter were $2.9 billion including $1.7 billion of equipment orders. In the second quarter we took an order for the Hassyan supercritical steam coal plant in Dubai as well as orders for five more HRSGs.

The Alstom equipment backlog is up 22% since we closed the acquisition in the Power Systems business.

Alstom Service orders of $1.1 billion included eight steam upgrades. Alstom service backlog ended the quarter at $9.8 billion.

Power revenue in the second quarter totaled $6.6 million, up 31%. Excluding Alstom, core revenues of $5.2 billion grew 2% with equipment revenue down 5% on lower BOP associated with last year's large Egypt equipment deal partially offset by higher H shipments. We shipped 26 gas turbines versus 24 last year including six H units. Service revenues excluding Alstom grew 7% driven by Power Services up 12%. We shipped 28 AGPs versus 26 a year ago.

Alstom revenue of $1.5 billion included $600 million of equipment and $900 million of services.

Operating profit was higher by 9% in the quarter excluding Alstom core op profit of $1.1 billion was up slightly on positive value gap and cost out partially offset by H mix. Margins on the six H shipments were roughly breakeven and we expect shipments to be margin positive beginning in the third quarter. Margin rates excluding Alstom contracted 40 basis points. Alstom earned $89 million of op profit in the quarter and was higher than planned on better synergy execution.

We continue to see strong demand for the H technology. Our cost position continues to improve on the H and we expect to have positive margins in the third quarter on the platform. We are also pulling through Alston technology including steam units, generators and HRSGs. We are on track to ship about 115 gas turbines for the year with a heavy fourth quarter.

The Alstom integration is also on track and the business will deliver about $800 million of synergies or better for the year.

Next on Renewables, orders in the quarter of $2 billion were down 6%. Orders through the first half grew 29%. The business took orders for 637 wind turbines in the quarter versus 888 wind turbines in the second quarter of last year. For the first half, core orders excluding Alstom for wind were higher by 15%. Two-thirds of the turbines ordered were for our new 2 megawatt and 3 megawatt machines.

In addition, we booked orders for 218 wind turbine upgrades. Alstom orders in the quarter were $206 million.

Backlog finished the quarter at $12.6 billion including $5.1 billion associated with Alstom. GE core backlog grew 26% versus the second quarter of 2015.

Revenues in the quarter grew 28% to $2.1 billion with core GE revenue up 14%. We shipped 856 wind turbines versus 806 last year. Alstom contributed $221 million of revenue.

Operating profit of $128 million was down 11% year-over-year. GE core earnings of $127 million were down 12% driven by launch costs for the new NPIs. Margins in the quarter contracted 200 basis points in the core.

Through the half, the business is on track notwithstanding the foreign exchange challenges. Alstom synergies of $38 million through the second quarter has the business on track to deliver $100 million plus of synergies for the year. The market reception of the new wind products has been solid and we are progressing down the cost curve. We think the outlook for the onshore wind business is very encouraging.

Next is Aviation. The business delivered another strong quarter and David gave you an update on where the market stands. Orders in the quarter of $6.4 billion were down 15% with equipment orders down 37% driven by no repeat of two large 9X orders in 2015 from Qatar and A&A. This quarter we booked $1.4 billion of commercial engine orders including a ViaJet order for 200 LEAP-1B engines.

In addition we took orders for 348 CFM engines, 21 CDF6 engines and 29 GEnx engines. Not included in the second-quarter results as David mentioned, we won more than $25 billion of orders and commitments at the Farnborough Airshow.

Military equipment orders were up 49% driven by large orders from the Korean military for F414 engines and T700 helicopter engines and the Indian Navy for 14 LM2500 engines. Total equipment backlog of $34 billion was down 3% versus last year.

Service orders grew 8% in the second quarter with commercial services up 9% driven by spares up 5% and CSA orders higher by 17%. Military services grew 11%. Total service backlog was higher by 14% in the quarter to $122 billion. Revenues of $6.5 billion were up 4%. Equipment revenues were down 7% with commercial equipment down 2%. We shipped 78 GEnx engines versus 86 a year ago. We also shipped 11 LEAP 1A engines. Military equipment was down 31% as we expected on lower engine shipments. Service revenues grew 16% in the quarter with the commercial spares rate up 3% and CSAs up 20%.

Operating profit was higher by 6% driven by services volume, positive value gap and cost productivity. Margins in the quarter expanded 40 basis points. For the half, op profit grew 11% and margins expanded by 80 basis points.

The Aviation team continues to execute well and as mentioned, we shipped our first 11 LEAP engines or on schedule to ship about 110 for the year.

Next, Oil and Gas; the environment remains very, very tough. US rig and well counts continue to contract over the second quarter. Rig counts are down 55% year-over-year and down 79% from year-end 2014. Well counts are down 58% in the US versus the second quarter of last year and down 76% from the third quarter of 2014, their peak.

Based on the latest industry expectations, CapEx spending in 2016 is expected to be down about 14% for IOCs, 9% for NOCs and about 40% for North American independents. We continue to focus on re-making the cost structure of the business and improving our competitiveness. Orders in the quarter were down 34%. Equipment orders were down 58% versus 2015 with all segments lower. Service orders contracted 10% versus last year.

Backlog ended the quarter at $22.7 billion, up 1% from the first quarter and down 7% from the second quarter of last year. Year-over-year equipment backlog was down 31% but the services backlog is actually up 15%.

Revenues in the quarter of $3.2 billion were down 22% with Equipment revenues down 31% and Services revenue down 13%. All segments were lower year-over-year on Equipment and Service revenue except the turbo machinery business where their service business grew revenues 4% in the quarter.

Operating profit of $320 million was down 48% versus 2015 driven by lower volume and negative fixed cost leverage partially offset by $140 million of structural costs out.

The team remains focused on their plan for about $800 million of cost actions in the year. Through the half, approximately $280 million of benefits have been realized with stronger paybacks expected in the second half of 2016.

Oil & Gas is down 40% organically on op profit through the half and continues to execute against a framework of down 30% organic op profit for the year.

Next is healthcare; the healthcare team is executing well and delivered a strong second quarter and first half. Orders grew 3% and 4% organically. Geographically, organic orders were higher by 2% in the US, 9% in China, 11% in Europe and 17% in ASEAN. Growth in those markets was partially offset by Latin America which was down 9% organically on weakness in Brazil.

In terms of business lines, Healthcare System orders grew 2% reported and 3% organic driven by ultrasound up 8% on strength in the USA and Europe. Imaging orders were higher by 2% organically with both CT and M/I up double digits partially offset by x-ray and mammogram weakness.

Life Sciences continues to grow smartly with orders up 12% organically. Bioprocess grew 26% and core imaging grew 6%. In the second quarter our Life Sciences business delivered its first and China's largest bio park with a KUBio product. We believe these modulized bioprocess facilities will be the future of all biologics.

Revenues in the quarter of $4.5 billion were up 4% and up 6% organically. Healthcare systems revenues were higher by 4% organically driven by imaging and ultrasound up 8% and 7% respectively. Life Sciences continued strong revenue growth up 8% reported and up 11% organic.

Operating profit in the quarter was up 11% to $782 million. Strong volume and cost productivity more than offset negative price and investments for digital NPI and supply chain costs. Margin rates expanded 110 basis points in the quarter and they are up 80 basis points for the half.

The healthcare team is driving technology competitiveness, transforming their portfolio digitally and reducing their product and service costs. The team has delivered roughly half the cost out target of $350 million for the year. The team is on track to deliver or beat the 50 basis points of margin improvement that we set out as a goal for the year.

Our Transportation business continues to deal with a very difficult cycle. In the second quarter, North American commodity carloads were down 11% driven by coal down 27% and petroleum down 20%. Intermodal volume was down 5%. Parked locomotives have more than doubled over the last year.

Orders of $678 million were down 51% in the quarter. Equipment orders of $117 million were down 77% on orders for 21 locos this year versus 120 units a year ago. Service orders of $561 million were lower by 36% driven by lower loco parts partly due to the parking and no repeat of a movement plan order we took last year.

Backlog ended at $20.7 billion which is down 2% with equipment backlog down 4% and services down 1%.

Revenues were lower by 13% and down 6% organically reflecting the signaling disposition. Organically, equipment revenues were up 3% on higher loco shipments, 222 units versus 191 last year offset by lower services revenue which was down 14%.

Op profit of $273 million was down 18% and down 14% organically driven by lower volume and unfavorable mix offset partially by favorable value gap and cost out.

No doubt the US environment is challenging. The transportation team is focused on growing our international business, driving cost out and executing on our digital strategy.

In our Energy Connections business as we have discussed in the last two calls, organic performance reflects power conversion industrial solutions only. GE's Digital Energy business is treated as a disposition to the grid JV. Also as we have discussed, we consolidate 100% of the grid JV's revenue but only 50% of their operating profit.

Orders for the business totaled $3 billion in the second quarter, up 45%. Orders for power Conversion and industrial solutions totaled $1.6 billion, down 2% organic and grid orders totaled $1.4 billion.

Core orders were driven by power conversion down 17% organically on weakness in Oil & Gas and no repeat of a large wind order for converters last year offset by 1% organic growth in Industrial Solutions.

Backlog finished the quarter at $11.9 billion with grid solutions at $8.2 billion. Revenues in the quarter of $2.7 billion were higher by 55%. Grid Solutions revenues totaled $1.4 billion. Core revenues were down 4% organically.

The business is beginning to make progress. Operating profit improved from a loss of $85 million in the first quarter to a profit of $35 million in the second quarter. The core business recorded a loss of $9 million on lower Oil & Gas volume, higher digital spend in dispositions and the grid solutions business earned $45 million in the quarter.

Alstom synergies remain on track to deliver $200 million plus of benefits for the year and we expect the business will continue to improve earnings sequentially in the second half.

Next on Appliance and Lighting, we closed the Appliance transaction on June 6, and as I mentioned on the one-time items page, we had a pretax gain of $3.1 billion which translated to $0.20 of EPS. In the quarter, revenue was down 25% driven by Appliances down 31% due to the sale.

Lighting revenues were down 11% with the legacy lighting business down 23% and the LED product line up 4%. Segment profit of $96 million was down 42% driven by the sale of Appliances and our investment in Kern.

Going forward, we will be reporting Energy Connections and Lighting as a single segment.

Last, I will cover GE Capital. As mentioned earlier on June 28, GE Capital was de-designated as a systemically important financial institution marking a major step in our GE Capital exit plan. Our vertical businesses earned $452 million this quarter down 15% from prior year including higher base earnings offset by lower gains and higher insurance reserve provisions resulting from updates to our models on our runoff long-term care book. Portfolio quality remains stable.

In the second quarter, the verticals wrote $2.1 billion of on-book volume, 75% of which supported our Industrial businesses. In addition, GE Capital arranged third-party financing which supported an additional $1.1 billion of Industrial orders.

Other continuing operations generated a $1.1 billion loss in the quarter principally driven by excess interest expense, preferred dividend payments, headquarter operating costs, restructuring and asset liability management actions.

Discontinued operations incurred a loss of $0.5 billion largely driven by marks on held for sale assets. Overall, GE Capital reported a $1.1 billion loss.

GE Capital ended the quarter with a $116 billion of E&I excluding liquidity with continuing E&I of $79 billion. Liquidity at the end of the second quarter was $56 billion which was down $50 billion from the first quarter driven by debt maturities and lower deposits as a result of the sale of GE Capital Money Bank in the US and the IPO of our Check platform.

Asset sales remained ahead of plan. During the quarter, we closed $12 billion of transactions bringing the total closed transactions through the end of the quarter to $158 billion. In July, we have added $10 billion of closings driven by the sale of our French and German CLL businesses bringing the total to date of closes to $168 billion.

In addition to closings, we signed agreements to sell $16 billion of ENI in the second quarter taking our total signings to $181 billion during the first half of the year. Our price of tangible book on deal signed to date is 1.2 times and we are on track to deliver the 1.1 times price to book we have submitted when we announced the restructuring.

Of the remaining $25 billion assets to go, we anticipate that we will run off about $10 billion of assets where it makes more economic sense to do so. The remaining assets are comprised of our Italian bank, our French mortgage book and other smaller portfolios and investments. That will be largely signed we believe by the end of the third quarter of this year.

GE Capital paid $3.5 billion of dividends during the quarter for a total of $11 billion during the first half of the year. In July, GE Capital has paid an additional $4 billion bringing our year-to-date total to $15 billion, well ahead of our original plan. We remain on track to meet our $18 billion target of dividends for the year.

Overall Keith and the GE Capital team have continued to execute well ahead of schedule on all aspects of the plan. We expect to be largely completed by the end of 2016.

And with that I will turn it back to Jeff.

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

Thanks, Jeff. We really have no change for the operating framework in the year. There are always a few puts and takes but we remain on track. We will hit our $1.45 to $1.55 EPS goal despite FX headwinds of $0.02 to $0.04 in the year and we expect to deliver $29 billion to $32 billion of free cash flow plus dispositions in line with our plans.

I thought we would give you some context for the Company beyond 2016 particularly given the volatility of our markets.

First, Alstom is on track and I expect us to hit all of our goals. Transportation and Oil & Gas are in tough cycles. They represent 15% of our earnings and it is hard to see them improving in 2017. But at the same time, parent Aviation remains strong. They are 60% of our earnings and we see consistent performance year-over-year. They have very strong service franchises, productivity programs and our market positions are growing.

Healthcare, Energy Connections and Renewables had generally favorable markets and real opportunities for growth and margin expansion. In particular, Healthcare feels sustainable with diverse growth and market momentum. These businesses represent 25% of our earnings and we will continue to execute on GE Capital and Corporate.

So really 85% of our Company is in great shape winning in markets with high visibility and so we remain on track for the 2018 bridge to $2.00 a share of EPS. The strength of our diversified model is key in a volatile environment.

Matt, now over to you for questions.

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

Thanks, Jeff. I will ask that the operator opens the lines for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Scott Davis, Barclays.

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

Good morning, guys. When I looked at your topline forecast for the back half of the year, considering I don't think the world is getting better and I think that is going to be part of my question for you. But how do we get to that 2% core growth number? Is it just comps in Oil & Gas get easier and that is just -- that provides a tailwind or is there some other something else you are seeing in macro that should make us feel a little bit better about the world?

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

Scott, I will start and then maybe toss it over to Jeff. But again. I think just like we said on the first-quarter call, we think Power really explains the first half, second half split. As you can look in the presentation, the year-over-year comps are better, the backlog is strong, you are going to ship most of the gas turbine units in the second half plus a 50% growth in the AGPs.

Oil & Gas has got easier comps but we are not really counting on that much out of Oil & Gas and then the rest of the Company, the underlying companies mid-single digits, 5% organic growth. So I think it is really a Power story when you think about it and that is really in backlog and that really explains how we think about the first half, second half. I think the world itself, Scott, is no better, no worse so we just kind of see the general trend on markets.

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

I don't have much to add other than when you think about Power, about 65% of our gas turbines are in the second half. AGPs will grow 60% year-over-year in the second half. That is a big source of it. Oil & Gas, the comps do get better or less difficult in the second half of the year and we've got about 70+% of the revenue for Oil & Gas based on our forecast of revenues in second half in backlog.

So and as you mentioned, the balance of the portfolio we expect roughly mid-digit, single-digit growth.

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

This is really the profile we expected I think.

Operator

Julian Mitchell, Credit Suisse.

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

Thanks a lot. My question was just around the margin bridge on slide five. Just in light of sort of input costs and your own pricing outlook, how do you see the value gap item trending?

And then the quick follow-up would just be on the base inflation number there, that was up 110 basis points headwind in Q2, just explain that please.

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

So a couple of thoughts. On value gap for the year, I don't think we have changed our outlook. We have said we expect value gap for the year to be roughly flat or neutrals for the year with strong roughly $1 billion kind of direct material benefits offset by price and a little bit of inflation on our other variable costs. So no change on outlook on value gap. Value gap in the second quarter discreetly was a positive, not huge but it was a positive in the second quarter.

As you work down that margin walk, the 110 basis points and other, 40 basis points of that is foreign exchange. It is the marks generally on our hedges are moving through that line. Then you've got about 40 basis points of inflation on other base costs including compensation, etc. and then a small impact associated with minority interest in JVs which is about a 20 basis point negative in the quarter.

Operator

Shannon O'Callaghan, UBS.

Shannon O'Callaghan - ***UBS - Analyst***

Good morning, guys. Just two things on digital. One, on the partners, you are targeting 50+ forth the year. A month ago you were at 31, now you are at 54. Maybe just comment on that rapid pace of additions, what are you seeing, maybe some of the recent partnerships?

And then for David, on the 35,000 engines monitored, I am curious how that has ramped so far and are you seeing that pick up and where do you see that going over the next couple of years?

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

Shannon, I will hit the first one. Again, I think the momentum from Predix is growing. There is no doubt that partnerships like the one with Microsoft, the notion of putting Predix as early the really analytical platform inside of Asia I think is a big signal to the industry. Huawei in China is another great relationship that will help us extend on a global basis. Big wins like the one with Schindler I think gets us in a completely new industry space for Predix. So I just think what you are seeing is momentum taking off and we are pleased with the partnership numbers and I think that will continue to accelerate through the year.

David Joyce - ***General Electric Company - President and CEO, GE Aviation***

This is David Joyce. On the 35,000 engines installed, we have a number of different ways in which we take data off the engines. The newer the airplanes of course the more accessible the data is on a real-time basis and then the older the airplane, then we have to go and actually get the data after it lands. But I would say we are making great progress, we are actually starting to connect data acquisition as part of our services contracts as we take on the risk which is part of the service contract. We are requesting that we have the ability to go get the data so we can do the evaluations and get the productivity for both our customer and ourselves. So good progress.

Operator

Andrew Kaplowitz, Citi.

Andrew Kaplowitz - ***Citigroup - Analyst***

Can you talk about organic services orders in the quarter, negative 1%. The core services backlog is up 11% so you still seem in good shape for services growth in the back half but with these services order number in line with your expectation given it was down a bit from 1Q's 4%, is it really just Oil & Gas Services weighing and the timing of AGPs weighing on the business and the confidence level that services orders gets better in the second half of the year?

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

Again, I think sometimes in particular with AGPs, there is some timing involved. I think in the second half of the year in services, we expect orders to be mid-single digits positive. So again, our business model there, 5% organic growth in the first half, backlog growth and our visibility in the second half I think is all quite positive around services.

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

I would just add, I talked about AGPs being up 60% year-over-year in the second half and the total year outlook of 135 to 150 versus 119 last year. That is a big driver. I mean we see double-digit services order growth in the second half of the year here and very solid mid single-digit growth in our Aviation Service business and those are the two big drivers on the service side.

Operator

Jeff Sprague, Vertical Research Partners.

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

Thank you. Good morning, gentlemen. I was just wondering if we could also just address kind of the back loading to some degree through the profit lines. At EPG, you talked about 5% underlying growth in the Industrial businesses ex Alston. Obviously we are starting off kind of in the hole here in the first half. Should we expect some op profit growth in the third quarter or does that profit ramp really have to all manifest itself in the fourth quarter?

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

Listen, We are going to have a very large fourth-quarter because we've got an enormous Renewables and Power fourth-quarter. There is no question about it. We expect to grow sequentially in the third quarter, I'm not giving you third-quarter op profit guidance but I think the variables that we have talked about, Power volume in the second half of the year, Oil & Gas on a year-over-year basis less negative than they were in the first half of the year, we expect Energy Connections to accelerate and we expect the Alstom synergies as well as our own restructuring synergies to really kick in in the second half of the year. We are looking for a real acceleration there.

So that is where we see the op profit in the second half of the year, one. Two, that is why we are so confident that we can deliver 50 basis points of margin expansion for the total year having been flat in the first half.

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

I would only add to what Jeff said again, I think a lot of this is a Power story and with their shipment backlog in the second half, their operating profit growth is quite robust in the second half of the year. And I think Jeff, the way you think about the walk I think is still more or less intact from the standpoint of how we think about the Company for 2016.

Operator

Andrew Obin, Bank of America.

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

Good Morning, guys. Just a question on de-SIFI and the impact on your appetite for accelerated buyback or more M&A. I think at EPG you sort of said that you were busy with Alston but it just seems de-SIFI came a lot faster than expected and it gives you an opportunity to use your balance sheet. So both if you could address appetite for more buyback and appetite for more M&A in the near-term. Thank you.

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

So I would maybe talk about the capital allocation piece. Jeff, maybe you talk about the leverage piece. So capital allocation hasn't really changed that much since EPG. I think we are just looking for the highest return. I think we have a lot of good ideas inside the Company but we will be disciplined about those ideas and it is really for us just making the smart investments for investors vis-a-vis buyback versus acquisitions. But we always have good ideas inside the Company.

And Jeff, on the (multiple speakers) side.

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

I would just say, just remember that the $18 billion target we have for GE Capital dividends assume that we would be de-designate. So there is no change in that framework. It happened sooner rather than later which is really outstanding and that has allowed us to accelerate the buy back. I talked about the $5 billion loan we did in the year between us and GE Capital where they have excess debt, excess cash, we took that and we did a $5 billion ASR here in June. And so our buyback through the first half of the year is about $13.7 billion. So we are running ahead of the plan here. Our average buyback is below $30 a share so I think we feel pretty good about that.

On the leverage, the leverage is going to be paced by the opportunities to put that capital to work if we in fact do it and the returns that we can generate for shareholders. And I would say everything else being equal, I think we have consistently said we are more focused on M&A and where those opportunities are than we are on anything else. That will be paced on the ideas that we have.

Operator

Joe Ritchie, Goldman Sachs.

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

Thanks, good morning, guys. So I guess my one question is a beyond Oil & Gas, your EBITDA is down about 40% to start the year in the first half of the year. You are trying to hold the 30% for the entire year yet pricing continues to get worse. I guess maybe just talk a little bit about your confidence and trying to make up some of the gap on the Oil & Gas EBIT in the second half of the year?

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

Listen, I think this is all about what we talked to you about in terms of restructuring the cost in the business. And through the first half of the year, we realized about $300 million, a little less than $300 million of benefits through the entirety of the income statement around all those efforts, headcount, cost, deflation, restructuring agreements with suppliers, etc. We are still pushing hard for the 800 in the second half of the year. So you've got a real acceleration between what we started and executed in 2015, what we have executed in the first half of 2016 that everything else being equal we expect to deliver an additional $500 million of cost out in the second half of the year.

So if volume stays intact and our outlook on revenue in the second half is roughly close, we ought to be in reasonably good shape. There is some risk obviously that if volume is a little bit lighter that some of the benefits even though the actions have been taken because you lose the volume leverage may not materialize. But I think we feel and Lorenzo and the team feel really good about the execution they are doing around the restructuring in the projects inside the business.

Operator

Steven Winoker, Bernstein.

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

Thanks, good morning, guys. Just if I could get a little clarity on Alstom, you walked through the numbers in the supplemental around the $100 million operating loss, $300 million-ish benefit on synergies and the offset on some of the one-time investments to get those. Maybe just talk about where are you seeing the growth recovery here? What is driving that, what do you think is sustainable and how should we expect a little more color there going forward?

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

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I will take a crack and Jeff, you can add to it. But again, I think if you look at kind of the gas turbine balance of plant activity, Steve, we are already seeing tremendous pull through vis-a-vis the balance of plant. Services, I think the customer reception in services is quite positive and so we are seeing good activity around energy efficiency upgrades, bringing AGPs to the steam side as well as the gas side, things like that.

I think similarly grid - revenue growth which is something that we hadn't put a lot of benefits towards, I think we see grid as being a potential upside as time goes on as well. So I would say balance of plant, more steam activity than we had anticipated, better grid acceptance than we had forecasted and services which was really the way we underwrote the deal in the first place is quite positive for Alstom.

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

I would just add, listen, the team is executing. Through the half, we've got in excess of $400 million of synergies executed so far against a goal of $1.1 billion for the year. That feels good. As Jeff said, the Power I mentioned earlier when I went through the results, the backlog we acquired in the Power business is up 22% as of the first half so those synergies on the growth side are absolutely materializing and we feel great about that. So I think the execution is pretty good.

We did have a cash use for the first half of the year. We expected a cash use for the first half of the year, we hope to be neutral for the year, that is part of the cash recovery in the second half of the year. I would say on par, I think we feel really good about both the cost and the growth synergies we are realizing so far.

Operator

Steve Tusa, JPMorgan.

Steve Tusa *- JPMorgan - Analyst*

Just to follow up on an earlier question, when you say growth in the third quarter, is that seasonal from an operating profit perspective? Then with your second half cash flow guidance that kind of $8 billion that you highlighted there, I am backing into something that is around $18 billion. Is that kind of the right profit number that underlies that for the year that underlies that $8 billion and kind of net income plus D&A contribution?

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

There is multiple questions in there. Let me start with this, let me start with CFOA. So through the half industrial CFOA was about $400 million so when we looked to the second half we have guided $12 billion to $14 billion for the year. We have not changed anything about that guidance so how do you go from $400 million of Industrial CFOA in the first half to $12 billion to $14 billion for the year. We look at earnings, cash earnings so adding back depreciation and amortization as you look forward to the second half, we see that as about $8 billion.

We think we are going to reduce working capital $3 billion to $4 billion. A big part of that is the inventory reductions that we have talked about partly driven by Power but also to Renewable and our other businesses and we need to be better on receivables.

Our delinquency rates in the first half were higher than we estimated. We think we can get that back on par. So if we just get back to the inventory performance we went out of 2015 with, if we get back to the delinquency and receivable performance that we ended 2015 with, that in total generates about $3 billion to $4 billion of working capital cash flow.

And then I just talked about Alstom, so we used a little more than $800 million of cash in the first half of the year on Alstom, we still expect to be roughly neutral in the second half of the year so that is an $800 million turnaround.

And then I think earlier when I went through the results, I talked about we had some unfavorable timing on tax. That is not an issue for the year, that is just a first half, second half issue. So that is how we have to work our way back to $12 billion to $14 billion of CFOA for the year which supports what Jeff talked about of $29 billion to $32 billion of free cash flow plus dispositions for the total Company.

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

I would say beyond that for 2016, we kind of reprofiled that at the end of the first-quarter call. We really have no change in how we see the year.

Operator

Deane Dray, RBC Capital Markets.

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

Thank you. Good morning, everyone. I know we have covered a lot of ground here but I just want to circle back to your opening comments about still in a slow growth macro environment. Maybe you could provide some of those geographic data points, US, Europe, Asia, developed versus developing.

And then on the Europe side, I know it is still early, too early to tell but does Brexit pose any unique risk for GE as you see it today?

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

What I would do is I would say versus just talking geographically, I would talk industry wide and go back to say kind of Oil & Gas and Transportation which are both really around the resource sector, oil on the Oil & Gas side and coal on the Transportation side, those are tough cycles and those are tough cycles mainly in North America.

The Power and Aviation businesses, we don't see, we see continued Aviation strength. The Power market is okay but there is plenty of growth out there for us to go after and go get. Healthcare is better, not just in the US but globally. Energy Connections, the Oil & Gas stuff is tough but the rest of the stuff is quite strong and we think Renewables is in a very good cycle right now both in the US and globally so that is kind of the mix of the world.

Now if you bore in on someplace like China, the Healthcare business was awesome in China. Our Energy orders grew by more than 30% in the second quarter in China, Aviation was negative but that really wasn't because of revenue passenger miles, that is because we had big orders last year. So we see I would say around the edges China getting better, Europe is stable. And then puts and takes in the rest of the world. So there is plenty of growth out there for us to go get in the second half and into 2017.

In terms of Brexit, I just think Brexit is just another point of volatility. It wasn't the outcome we hoped for but we were plenty ready for that as just another point of volatility.

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

Great, Jeff. A couple of quick announcements and I will pass it back to you to wrap up. The replay of today's call will be available this afternoon on our investor website and we will be doing our third-quarter earnings call on Friday, October 21.

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

Great, Matt. Thanks. I would just say first half more or less what we expected, position for a strong second half of 2016 with what we have in backlog. I think looking forward, we are again confirming the bridge to $2.00 a share by 2018 and it is really driven by real strength in Power and Aviation, strong turnarounds in Energy Conversion, Healthcare, Renewables, good Alstom execution. And the strength of the GE portfolio I think offsets weakness in the Oil & Gas and Transportation business and that really is the strength of the Company is the diversified portfolio and the ability to meet our commitments even with this volatility.

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

Great, thank you.

Operator

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

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