

GENERAL ELECTRIC CO
Form 10-Q
July 27, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file number 001-00035
GENERAL ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

New York 14-0689340
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

41 Farnsworth Street, Boston, MA 02210
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code) (617) 443-3000

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ☒

There were 8,691,081,000 shares of common stock with a par value of \$0.06 per share outstanding at June 30, 2018.

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FORWARD LOOKING STATEMENTS

FORWARD LOOKING STATEMENTS

Our public communications and SEC filings may contain "forward-looking statements" - that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," "estimate," "forecast," "target," "preliminary," or "range."

Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about plans to maintain the GE dividend; statements about potential business or asset dispositions, including plans to separate GE Healthcare into a standalone company, the timing and structure for that separation, the characteristics of the business to be separated and the expected benefits to GE; plans to exit our equity ownership position in Baker Hughes, a GE company (BHGE) and the expected benefits to GE; debt repayment plans; the benefits of the new GE operating system; divestiture proceeds expectations; GE and GE Capital liquidity; future corporate performance; leverage targets; future charges and capital contributions that may be required in connection with GE Capital's run-off insurance operations and related GE Capital portfolio actions; revenues; organic growth; cash flows and cash conversion, including the impact of working capital, contract assets and pension funding contributions; earnings per share, including the impact of the new revenue recognition accounting standard and U.S. tax reform; growth and productivity associated with our Digital and Additive businesses; profit margins; cost structure and plans to reduce costs; restructuring, goodwill impairment or other financial charges; tax rates; transaction-related synergies, proceeds and gains; returns on capital and investment; capital allocation, including organic investment, dividends and other priorities; or capital structure and access to funding, including credit ratings and outlooks and debt-to-earnings ratios. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- our success in executing and completing, including obtaining regulatory approvals and satisfying other closing conditions for, GE Industrial and GE Capital business or asset dispositions or other announced transactions, including our planned separation of GE Healthcare and dispositions of GE Transportation and BHGE, the pricing, timing, and anticipated proceeds from those or other transactions and potential trailing liabilities;
- GE's liquidity and the amount and timing of our GE Industrial cash flows and earnings, which may be impacted by customer, competitive, contractual and other dynamics and conditions;
 - our capital allocation plans, as such plans may change including with respect to the timing and amount of GE dividends, organic investments, including research and development, investments in Digital and capital expenditures, the repayment or allocation of our outstanding debt obligations, pension funding contributions, acquisitions, joint ventures and other strategic actions;
- our ability to maintain our current short- and long-term credit ratings and the impact on our funding costs and competitive position if we do not do so;
- customer actions or market developments such as reduced demand for equipment and services and other challenges in our Power business, other shifts in the competitive landscape for our products and services, changes in economic conditions, including oil prices, early aircraft retirements and other factors that may affect the level of demand and financial performance of the major industries and customers we serve;
- changes in law, economic and financial conditions, including the effect of enactment of U.S. tax reform or other tax law changes, trade policy and tariffs, interest and exchange rate volatility, commodity and equity prices and the value of financial assets;
- GE Capital's capital and liquidity needs, including in connection with GE Capital's run-off insurance operations and related strategic actions that we may pursue, the impact of conditions in the financial and credit markets on GE Capital's ability to sell financial assets, GE Capital's leverage and credit ratings, the availability and cost of GE Capital funding and GE Capital's exposure to counterparties;
- pending and future mortgage loan repurchase claims, other litigation claims and the U.S. Department of Justice's investigation under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and other investigations in connection with WMC, which may affect our estimates of liability, including possible loss estimates;

• our ability to launch new products in a cost-effective manner;

• our ability to increase margins through implementation of the new GE operating system, restructuring and other cost reduction measures;

• our ability to convert pre-order commitments/wins into orders/bookings; and the price we realize on orders/bookings since commitments/wins are stated at list prices;

• the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of WMC, Alstom, SEC and other investigative and legal proceedings;

• our success in integrating acquired businesses and operating joint ventures, and our ability to realize revenue and cost synergies from announced transactions, acquired businesses and joint ventures, including Alstom and BHGE;

• the impact of potential product safety failures and related reputational effects;

- the impact of potential information technology, cybersecurity or data security breaches;

• the other factors that are described in "Forward-Looking Statements" in BHGE's most recent earnings release or SEC filings; and

• the other factors that are described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements. This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

PRESENTATION

The consolidated financial statements of General Electric Company (the Company) combine the industrial manufacturing and services businesses of General Electric Company (GE) with the financial services businesses of GE Capital Global Holdings, LLC (GE Capital or Financial Services).

We believe that investors will gain a better understanding of our company if they understand how we measure and talk about our results. Because of the diversity in our businesses, we present our financial statements in a three-column format, which allows investors to see our industrial operations separately from our Financial Services operations. We believe that this provides useful information to investors. When used in this report, unless otherwise indicated by the context, we use the terms to mean the following:

General Electric or the Company – the parent company, General Electric Company.

GE – the adding together of all affiliates except GE Capital, whose continuing operations are presented on a one-line basis, giving effect to the elimination of transactions among such affiliates. As GE presents the continuing operations of GE Capital on a one-line basis, certain intercompany profits resulting from transactions between GE and GE Capital have been eliminated at the GE level. We present the results of GE in the center column of our consolidated statements of earnings (loss), financial position and cash flows. An example of a GE metric is GE Industrial free cash flows (Non-GAAP).

General Electric Capital Corporation or GECC – predecessor to GE Capital Global Holdings, LLC.

GE Capital Global Holdings, LLC or GECGH – the adding together of all affiliates of GECGH, giving effect to the elimination of transactions among such affiliates.

GE Capital or Financial Services – refers to GECGH and is the adding together of all affiliates of GE Capital giving effect to the elimination of transactions among such affiliates. We present the results of GE Capital in the right-side column of our consolidated statements of earnings (loss), financial position and cash flows.

GE consolidated – the adding together of GE and GE Capital, giving effect to the elimination of transactions between the two. We present the results of GE consolidated in the left-side column of our consolidated statements of earnings (loss), financial position and cash flows.

GE Industrial – GE excluding the continuing operations of GE Capital. We believe that this provides investors with a view as to the results of our industrial businesses and corporate items. An example of a GE Industrial metric is GE Industrial free cash flows (Non-GAAP), as defined in Other Terms Used by GE below.

Industrial segment – the sum of our seven industrial reporting segments, without giving effect to the elimination of transactions among such segments and between these segments and our financial services segment. This provides investors with a view as to the results of our industrial segments, without inter-segment eliminations and corporate items. An example of an industrial segment metric is industrial segment revenue growth.

Baker Hughes, a GE company or BHGE – following the combination of our Oil & Gas business with Baker Hughes Incorporated, our Oil & Gas segment is comprised of our ownership interest of approximately 62.5% in the new company formed in the transaction, Baker Hughes, a GE Company (BHGE). We consolidate 100% of BHGE's revenues and cash flows, while our Oil & Gas segment profit and net income are derived net of minority interest of approximately 37.5% attributable to BHGE's Class A shareholders. References to "Baker Hughes" represent legacy Baker Hughes Incorporated operating activities which, in certain cases, have been excluded from our results for comparative purposes.

Total segment – the sum of our seven industrial segments and one financial services segment, without giving effect to the elimination of transactions between such segments. This provides investors with a view as to the results of all of

our segments, without inter-segment eliminations and corporate items.

We integrate acquisitions as quickly as possible. Revenues and earnings from the date we complete the acquisition through the end of the fourth quarter following the acquisition are considered the acquisition effect of such businesses.

Amounts reported in billions in graphs within this report are computed based on the amounts in millions. As a result, the sum of the components reported in billions may not equal the total amount reported in billions due to rounding. Certain columns and rows within the tables may not add due to the use of rounded numbers. Percentages presented are calculated from the underlying numbers in millions.

Discussions throughout this MD&A are based on continuing operations unless otherwise noted.

The MD&A should be read in conjunction with the Financial Statements and Notes to the consolidated financial statements.

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MD&A

OTHER TERMS USED BY GE

Backlog and remaining performance obligation (RPO) – backlog is unfilled customer orders for products and product services (expected life of contract sales for product services). RPO, a defined term under GAAP, is backlog excluding any purchase order that provides the customer with the ability to cancel or terminate without incurring a substantive penalty, even if the likelihood of cancellation is remote based on historical experience. We plan to continue reporting backlog as we believe that it is a useful metric for investors, given its relevance to total orders.

- Continuing earnings – we refer to the caption “earnings from continuing operations attributable to GE common shareowners” as continuing earnings.

Continuing earnings per share (EPS) – when we refer to continuing earnings per share, it is the diluted per-share amount of “earnings from continuing operations attributable to GE common shareowners.”

Digital revenues – revenues related to internally developed software (including PrediXTM) and associated hardware, and software solutions that improve our customers’ asset performance. These revenues are largely generated from our operating businesses and are included in their segment results. Revenues of “Non-GE Verticals” refer to GE Digital revenues from customers operating in industries where GE does not have a presence.

Equipment leased to others (ELTO) – rental equipment we own that is available to rent and is stated at cost less accumulated depreciation.

GE Capital Exit Plan - our plan, announced on April 10, 2015, to reduce the size of our financial services businesses through the sale of most of the assets of GE Capital, and to focus on continued investment and growth in our industrial businesses.

GE Industrial free cash flows (Non-GAAP) – GE CFOA adjusted for gross GE additions to property, plant and equipment and internal-use software, which are included in cash flows from investing activities, and excluding dividends from GE Capital, GE Pension Plan funding, and taxes related to business sales.

Adjusted GE Industrial free cash flows (Non-GAAP) – GE Industrial free cash flows adjusted for Oil & Gas CFOA, gross Oil & Gas additions to property, plant and equipment and internal-use software, and including the BHGE Class B shareholder dividend.

GE Industrial profit margin (GAAP) – GE total revenues plus other income minus GE total costs and expenses less GE interest and other financial charges and non-operating benefit costs divided by GE total revenues plus other income.

Adjusted GE Industrial profit margin (Non-GAAP) – GE Industrial profit margin excluding gains (losses) and restructuring and other charges plus noncontrolling interests.

GE Industrial structural costs (Non-GAAP) – Industrial structural cost include segment structural costs excluding the impact of restructuring and other charges, business acquisitions and dispositions, foreign exchange, plus total Corporate operating profit excluding restructuring and other charges and gains. The Baker Hughes acquisition is represented on a pro-forma basis, which means we calculated our structural costs by including legacy Baker Hughes results for the three and six months ended June 30, 2017.

Net earnings (loss) – we refer to the caption “net earnings (loss) attributable to GE common shareowners” as net earnings.

Net earnings (loss) per share (EPS) – when we refer to net earnings (loss) per share, it is the diluted per-share amount of “net earnings attributable to GE common shareowners.”

Adjusted continuing earnings (Non-GAAP) – continuing earnings excluding the impact of non-operating benefit costs, after tax.

Adjusted continuing earnings per share (Non-GAAP) – when we refer to GE earnings per share, it is the diluted per-share amount of “adjusted continuing earnings.”

- Adjusted earnings (Non-GAAP) – continuing earnings excluding the impact of non-operating benefit costs, gains (losses) and restructuring and other items, after tax, and the impact of U.S. tax reform.

Adjusted earnings per share (Non-GAAP) – when we refer to adjusted earnings per share, it is the diluted per-share amount of “adjusted earnings.”

• Organic revenues (Non-GAAP) – revenues excluding the effects of acquisitions, dispositions and translational foreign currency exchange.

• Product services agreements – contractual commitments, with multiple-year terms, to provide specified services for products in our Power, Renewable Energy, Oil & Gas, Aviation and Transportation installed base – for example, monitoring, maintenance, service and spare parts for a gas turbine/generator set installed in a customer’s power plant.

• Revenues – revenues comprise sales of goods, sales of services for our industrial businesses and GE Capital revenues from services for our financial services businesses.

• Segment profit – refers to the profit of the industrial segments and the net earnings of the financial services segment, both of which include other income. See the Segment Operations section within the MD&A for a description of the basis for segment profits.

• Services – for purposes of the financial statement display of sales and costs of sales in our Statement of Earnings (Loss), “goods” is required by SEC regulations to include all sales of tangible products, and “services” must include all other sales, including other services activities. In our MD&A section of this report, we refer to sales under product services agreements and sales of both goods (such as spare parts and equipment upgrades) and related services (such as monitoring, maintenance and repairs) as sales of “services,” which is an important part of our operations.

MD&A

NON-GAAP FINANCIAL MEASURES

In the accompanying analysis of financial information, 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 (SEC) rules. Specifically, we have referred, in various sections of this report, to:

- GE Industrial segment organic revenues
- GE Industrial structural costs
- GE pre-tax earnings from continuing operations, excluding GE Capital earnings (loss) from continuing operations and the corresponding effective tax rates
- Adjusted earnings (loss)
- Adjusted earnings (loss) per share (EPS)
- Adjusted GE Industrial profit and profit margin (excluding certain items)
- Adjusted Oil & Gas segment profit
- GE Industrial Free Cash Flow (FCF) and Adjusted GE Industrial FCF
- GE Industrial net debt

The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are included in the Supplemental Information section within the MD&A. Non-GAAP financial measures referred to in this report are either labeled as “non-GAAP” or designated as such with an asterisk (*).

OUR OPERATING SEGMENTS

We are a global digital industrial company, transforming industry with software-defined machines and solutions that are connected, responsive and predictive, with products and services ranging from aircraft engines, locomotives, power generation and oil and gas production equipment to medical imaging, financing and industrial products. Operational and financial overviews for our operating segments are provided in the “Segment Operations” section within this MD&A.

OUR INDUSTRIAL OPERATING SEGMENTS

Power ^(a)	Aviation	Lighting ^(a)
Renewable Energy	Healthcare	
Oil & Gas ^(b)	Transportation	

OUR FINANCIAL SERVICES OPERATING SEGMENT

Capital

Beginning in the third quarter of 2017, the Energy Connections business within the former Energy Connections & Lighting segment was combined with the Power segment and presented as one reporting segment called Power. As a result of this combination, our GE Lighting and Current, powered by GE (Current) businesses are now reported as a separate segment called Lighting.

Beginning in the third quarter of 2017, our Oil & Gas segment is comprised of our ownership interest of approximately 62.5% in BHGE. We consolidate 100% of BHGE's revenues and cash flows, while our Oil & Gas segment profit and net income are derived net of minority interest of approximately 37.5% attributable to BHGE's Class A shareholders.

CORPORATE INFORMATION

GE's Internet address at www.ge.com, Investor Relations website at www.ge.com/investor-relations and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts and other social media, including @GE_Reports, 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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MD&A KEY PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS

2018 REVENUES PERFORMANCE

	Three months ended June 30	Six months ended June 30
Industrial Segment	4 %	6 %
Industrial Segment Organic (Non-GAAP)	(6)%	(5)%
Financial Services	(1)%	(10)%

GE INDUSTRIAL ORDERS

	Three months ended June 30	Six months ended June 30
(Dollars in billions)	2018 2017	2018 2017

Orders

Equipment	\$15.4	\$14.0	\$28.4	\$26.2
Services	15.7	14.0	30.1	26.9
Total(a)	\$31.1	\$28.0	\$58.5	\$53.1

(a) Included \$6.0 billion and \$11.3 billion related to Baker Hughes in the three and six months ended June 30, 2018, respectively.

GE INDUSTRIAL BACKLOG

	June 30, 2018	June 30, 2017
(Dollars in billions)	2018	2017

Backlog

Equipment	\$87.1	\$83.6
Services	289.5	267.4
Total	\$376.7	\$351.0

GE INDUSTRIAL COSTS (GAAP) AND GE INDUSTRIAL STRUCTURAL COSTS (NON-GAAP)

	Three months ended June 30	Six months ended June 30
(Dollars in billions)	2018 2017	2018 2017
GE Industrial costs excluding interest and financial charges and non-operating benefit costs (GAAP)	\$26.2 \$25.0	\$51.2 \$48.6
GE Industrial structural costs (Non-GAAP)	6.0 6.4	11.8 12.9

GE INDUSTRIAL PROFIT MARGINS (GAAP) AND ADJUSTED GE INDUSTRIAL PROFIT MARGINS (NON-GAAP)

	Three months ended June 30	Six months ended June 30
(Dollars in billions)	2018 2017	2018 2017

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GE Industrial profit margins (GAAP) 9.7 % 9.3 % 8.7 % 7.3 %
 Adjusted GE Industrial profit margins (Non-GAAP) 10.4 % 12.0 % 10.3 % 10.9 %
 EARNINGS

	Three months ended June 30		Six months ended June 30	
(Dollars in billions; per-share amounts in dollars)	2018	2017	2018	2017
Continuing earnings (loss) (GAAP)	\$0.7	\$1.0	\$1.1	\$1.1
Net earnings (loss) (GAAP)	0.6	0.9	(0.6)	0.8
Adjusted continuing earnings (loss) (Non-GAAP)	1.3	1.4	2.2	1.9
Adjusted earnings (loss) (Non-GAAP)	1.6	1.9	3.0	3.1
Continuing earnings (loss) per share (GAAP)	\$0.08	\$0.12	\$0.13	\$0.13
Net earnings (loss) per share (GAAP)	0.07	0.10	(0.07)	0.09
Adjusted continuing earnings (loss) per share (Non-GAAP)	0.15	0.16	0.25	0.22
Adjusted earnings (loss) per share (Non-GAAP)	0.19	0.21	0.35	0.35
GE CFOA (GAAP) AND GE INDUSTRIAL AND ADJUSTED GE INDUSTRIAL FREE CASH FLOWS (NON-GAAP)				

	Six months ended June 30	
(Dollars in billions)	2018	2017
GE CFOA (GAAP)	\$(0.8)	\$3.6
GE Industrial free cash flows (Non-GAAP)	(1.7)	(2.4)
Adjusted GE Industrial free cash flows (Non-GAAP)	(1.4)	(2.4)

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MD&A CONSOLIDATED RESULTS

CONSOLIDATED RESULTS

2018 SIGNIFICANT DEVELOPMENTS

In the fourth quarter of 2017, we announced our plan to significantly reduce the size of our Board of Directors at the 2018 annual shareholders meeting. On April 25, 2018, 12 directors were elected to the Board of Directors, with increased focus on relevant industry expertise, capital allocation and accounting and financial reporting.

During the first quarter of 2018, we recorded a reserve of \$1.5 billion in discontinued operations in connection with the U.S. Department of Justice's (DOJ) ongoing investigation regarding potential violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) by WMC and GE Capital. See Legal Proceedings and Note 19 to the consolidated financial statements for further information.

On June 26, 2018, Larry Culp, former CEO of Danaher, was elected as lead director effective that same date, succeeding Jack Brennan, who is completing his last term on the Board. Mr. Culp will also chair the Board's Management Development and Compensation Committee.

On July 26, 2018, we announced that Jan Hauser, GE's Vice President, Controller and Chief Accounting Officer, had communicated her intention to retire from GE. GE plans to appoint Thomas Timko, currently the chief accounting officer of General Motors Company, as her successor, effective on or about September 10, 2018.

ANNOUNCED TRANSACTIONS

In September 2017, we announced an agreement to sell our Industrial Solutions business within our Power segment for approximately \$2.6 billion to ASEA Brown Boveri (ABB), a Swiss-based engineering company. On June 29, 2018, we completed the sale and recognized a pre-tax gain of \$0.3 billion in the second quarter of 2018.

In February 2018, we entered into an agreement to sell our GE Lighting business in Europe, the Middle East, Africa and Turkey and our Global Automotive Lighting business to a company controlled by a former GE executive in the region. We closed substantially all of this transaction in the second quarter of 2018.

In April 2018, we announced an agreement to sell our Enterprise Financial Management, Ambulatory Care Management and Workforce Management assets, comprising our Healthcare segment's Value-Based Care Division, to Veritas Capital, a private equity investment firm, for approximately \$1.1 billion in cash. This transaction closed on July 10, 2018.

In May 2018, we announced an agreement to merge our Transportation segment with Wabtec Corp, a U.S. rail equipment manufacturer. Under the agreement, which has been approved by the Boards of Directors of Wabtec and GE, GE will receive \$2.9 billion in cash at closing, and GE and its shareholders will receive a 50.1% ownership interest in the combined company, with GE holding 9.9% and GE shareholders holding the remaining 40.2%. Wabtec shareholders will retain 49.9% of the combined company. The deal is expected to close in early 2019, subject to customary closing conditions and regulatory approval.

In June 2018, we announced an agreement to sell our Distributed Power business within our Power segment to Advent International, a global private equity investor, for \$3.3 billion. The deal is expected to close by the fourth quarter 2018, subject to customary closing conditions and regulatory approvals.

In June 2018, we announced the results of our strategic review and our intention to focus on our Power, Renewable Energy and Aviation businesses. We plan to separate GE Healthcare into a standalone company over the next 12 to 18 months, pursue an orderly separation from BHGE over the next two to three years and substantially reduce GE Industrial net debt* by approximately \$25 billion by the end of 2020. In addition, we announced our plan for a smaller corporate headquarters focused primarily on strategy, capital allocation, talent and governance, a move which is expected to generate at least \$500 million in corporate savings by the end of 2020. While we announced the strategic portfolio actions for Transportation, GE Healthcare and BHGE, these businesses have not met the accounting criteria for held for sale classification. That classification will depend on the nature and timing of the transaction.

*Non-GAAP Financial Measure

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MD&A CONSOLIDATED RESULTS

SECOND QUARTER 2018 RESULTS

Consolidated revenues were \$30.1 billion, up \$1.0 billion, or 3%, for the quarter. After adjusting for incremental Baker Hughes revenues of \$2.8 billion, adjusted consolidated revenues* were \$27.3 billion, down \$1.8 billion or 6%. The decline in revenues was a result of lower industrial segment revenues of \$1.7 billion, or 6%, organically* driven principally by our Power, Renewable Energy and Oil & Gas segments, partially offset by our Aviation and Healthcare segments.

Continuing earnings per share was \$0.08 due to a \$0.8 billion decrease in Corporate costs, partially offset by a \$0.5 billion, or 14%, decrease in industrial segment profit. Excluding net gains on business dispositions of \$0.02 per share, unrealized gains on investments of \$0.02 per share, restructuring and other charges of \$0.08 per share and non-operating benefit costs of \$0.06 per share, Adjusted earnings per share* was \$0.19.

For the three months ended June 30, 2018, restructuring and other charges were \$0.08 per share, including \$0.01 per share related to BHGE integration and deal related costs. In total, restructuring and other items were \$0.7 billion before tax, with restructuring charges totaling about \$0.5 billion and businesses development charges totaling \$0.2 billion. Subsequent to the Baker Hughes transaction and for the second quarter of 2018, \$0.1 billion of restructuring charges related to BHGE are reported within our Oil & Gas segment.

For the three months ended June 30, 2018, GE Industrial profit was \$2.7 billion and GE Industrial margins were 9.7%, up \$0.2 billion, or 40 basis points, largely driven by the benefits associated with a reduction in Corporate costs of \$0.8 billion primarily due to net gains on business dispositions of \$0.3 billion, unrealized gains on investments of \$0.3 billion and decreased restructuring and other costs of \$0.2 billion. Industrial segment profit decreased \$0.5 billion, or 14%, primarily due to lower results within our Power and Oil & Gas segments, partially offset by the performance of our Aviation and Healthcare segments. In the second quarter of 2018, we delivered \$0.3 billion of structural cost* reduction, excluding the effects of acquisition and disposition activity and with Baker Hughes on a pro forma basis.

GE CFOA was \$(0.8) billion and \$3.6 billion for the six months ended June 30, 2018 and 2017, respectively. The decline in GE CFOA is primarily due to a \$4.0 billion decrease in common dividends from GE Capital. GE CFOA was also impacted by lower earnings from Power and Oil & Gas, as well as higher cash used for working capital compared to 2017, partially offset by Aviation, Healthcare and Corporate cost reduction. Additionally, GE CFOA was negatively impacted by GE Pension Plan contributions of \$0.9 billion in 2018, compared to \$0.2 billion in 2017. GE did not receive a common dividend distribution from GE Capital in the second quarter of 2018, and it does not expect to receive such dividend distributions from GE Capital for the foreseeable future. Refer to the GE Cash Flows section within this MD&A for further information.

*Non-GAAP Financial Measure

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MD&A CONSOLIDATED RESULTS

CONSOLIDATED RESULTS

REVENUES

	Three months ended June 30		Six months ended June 30	
(Dollars in billions)	2018	2017	2018	2017
Consolidated revenues	\$30.1	\$29.1	\$58.8	\$56.0
Industrial segment revenues(a)	28.7	27.6	56.1	52.8
Corporate items and Industrial eliminations	(0.6)	(0.5)	(1.1)	(0.9)
GE Industrial revenues(a)	\$28.1	\$27.1	\$55.0	\$51.9
Financial services revenues	\$2.4	\$2.4	\$4.6	\$5.1

GE Industrial refers to GE excluding the continuing operations of GE Capital. Industrial segment refers to the sum (a) of our seven industrial reporting segments, without giving effect to corporate items or the elimination of transactions among such segments and between these segments and our financial services segment.

COMMENTARY: THREE MONTHS ENDED JUNE 30

Consolidated revenues increased \$1.0 billion, or 3%, primarily driven by increased industrial segment revenues of \$1.1 billion, partially offset by a slight decrease in Financial Services revenues. The overall impact of foreign currency movements on consolidated revenues was an increase of \$0.6 billion. Below are descriptions of the components:

GE Industrial revenues increased \$1.0 billion, or 4%, due to an increase in industrial segment revenues of \$1.1 billion offset by a decrease in Corporate revenues and Industrial eliminations of \$0.1 billion.

Industrial segment revenues increased \$1.1 billion, or 4%, as increases at Oil & Gas, Aviation and Healthcare were partially offset by decreases at Power, Renewable Energy, Transportation and Lighting. This increase was driven by the net effects of acquisitions of \$2.8 billion, primarily attributable to Baker Hughes, and the effects of a weaker U.S. dollar of \$0.6 billion, partially offset by the net effects of dispositions of \$0.6 billion, primarily attributable to the absence of Water following its sale in the third quarter of 2017. Excluding the effects of acquisitions, dispositions and foreign currency translation, industrial segment organic revenues* decreased \$1.7 billion.

Financial Services revenues decreased 1% primarily due to lower gains and organic revenue declines.

COMMENTARY: SIX MONTHS ENDED JUNE 30

Consolidated revenues increased \$2.8 billion, or 5%, primarily driven by increased industrial segment revenues of \$3.3 billion, partially offset by decreased Financial Services revenues of \$0.5 billion. The overall impact of foreign currency movements on consolidated revenues was an increase of \$1.4 billion. Below are descriptions of the components:

GE Industrial revenues increased \$3.1 billion, or 6%, due to an increase in industrial segment revenues of \$3.3 billion offset by a decrease in Corporate revenues and Industrial eliminations of \$0.2 billion.

Industrial segment revenues increased \$3.3 billion, or 6%, as increases at Oil & Gas, Aviation and Healthcare were partially offset by decreases at Power, Renewable Energy, Transportation and Lighting. This increase was driven by the net effects of acquisitions of \$5.5 billion, primarily attributable to Baker Hughes, and the effects of a weaker U.S. dollar of \$1.4 billion, partially offset by the net effects of dispositions of \$1.1 billion, primarily attributable to the absence of Water following its sale in the third quarter of 2017. Excluding the effects of acquisitions, dispositions and

foreign currency translation, industrial segment organic revenues* decreased \$2.6 billion.

Financial Services revenues decreased \$0.5 billion, or 10%, primarily due to organic revenue declines and lower gains.

*Non-GAAP Financial Measure

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MD&A CONSOLIDATED RESULTS

EARNINGS (LOSS) AND EARNINGS (LOSS) PER SHARE

	Three months ended June 30		Six months ended June 30	
(Dollars in billions; per-share amounts in dollars; attributable to GE common shareowners)	2018	2017	2018	2017
Continuing earnings(a)	\$0.7	\$1.0	\$1.1	\$1.1
Continuing earnings per share	\$0.08	\$0.12	\$0.13	\$0.13
(a) Also referred to as "Earnings from continuing operations attributable to GE common shareowners"				

In the below discussion, GE Industrial refers to GE excluding the continuing operations of GE Capital. Industrial segment refers to the sum of our seven industrial reporting segments, without giving effect to corporate items or the elimination of transactions among such segments and between these segments and our financial services segment.

COMMENTARY: THREE MONTHS ENDED JUNE 30

Consolidated continuing earnings decreased \$0.3 billion due to increased provision for GE Industrial income taxes of \$0.4 billion driven by a \$0.2 billion tax charge during the second quarter related to the planned separation of our Healthcare segment, increased non-operating benefit costs of \$0.1 billion and increased interest and other financial charges of \$0.1 billion, partially offset by increased GE Industrial continuing earnings of \$0.3 billion.

GE Industrial earnings increased \$0.3 billion, or 12%, driven by an increase in Corporate profit of \$0.8 billion, partially offset by a decrease in industrial segment profit of \$0.5 billion.

Corporate profit increased \$0.8 billion primarily attributable to net gains on business dispositions of \$0.3 billion, unrealized gains on investments of \$0.3 billion and decreased restructuring and other costs of \$0.2 billion.

Industrial segment profit decreased \$0.5 billion, or 14%, with decreases at Power, Renewable Energy, Oil & Gas and Transportation, partially offset by higher profit at Aviation, Healthcare and Lighting. Industrial segment organic profit* decreased \$0.4 billion, primarily driven by negative variable cost productivity, lower volume and pricing pressure at Power.

Foreign exchange adversely affected GE Industrial profit by an insignificant amount in the second quarter of 2018.

Financial Services losses increased 20% primarily due to higher impairments primarily at EFS related to its renewables and oil & gas investments, lower gains primarily at EFS related to non-recurring 2017 gains, and costs associated with calling debt, partially offset by higher base earnings and lower corporate and restructuring costs.

COMMENTARY: SIX MONTHS ENDED JUNE 30

Consolidated continuing earnings decreased 4% due to increased GE Industrial continuing earnings of \$0.9 billion, almost entirely offset by increased Financial Services losses of \$0.2 billion, increased provision for GE Industrial income taxes of \$0.4 billion driven by a \$0.2 billion tax charge during the second quarter related to the planned separation of our Healthcare segment, increased non-operating benefit costs of \$0.2 billion and increased interest and other financial charges of \$0.1 billion.

GE Industrial earnings increased \$0.9 billion, or 23%, driven by an increase in Corporate profit of \$1.6 billion, partially offset by a decrease in industrial segment profit of \$0.6 billion.

Corporate profit increased \$1.6 billion primarily attributable to decreased restructuring and other costs of \$0.9 billion, unrealized gains on investments of \$0.3 billion, net gains on business dispositions of \$0.2 billion and decreased adjusted Corporate operating costs* of \$0.2 billion.

Industrial segment profit decreased \$0.6 billion, or 10%, with decreases at Power, Oil & Gas, Renewable Energy and Lighting, partially offset by higher profit at Aviation, Healthcare and Transportation. This decrease in industrial segment profit was primarily driven by restructuring and business development costs related to Baker Hughes of \$0.5

billion and the net effects of dispositions of \$0.1 billion, primarily associated with the absence of Water following its sale in the third quarter of 2017, partially offset by the net effects of acquisitions \$0.3 billion, largely associated with Baker Hughes. Excluding these items, industrial segment organic profit* decreased \$0.3 billion, primarily driven by negative variable cost productivity, lower volume and pricing pressure at Power.

Foreign exchange adversely affected GE Industrial profit by \$0.1 billion in the first half of 2018.

Financial Services losses increased \$0.2 billion, or 93%, primarily due to lower gains, higher impairments, costs associated with calling debt and lower base earnings including a loss related to updates to the U.S. tax reform impact on energy investments, partially offset by lower corporate and restructuring costs.

MD&A CONSOLIDATED RESULTS

GE DIGITAL

GE Digital's activities are focused on assisting in the market development of our digital product offerings through software design, fulfillment and product management, while also interfacing with our customers. Digital revenues include internally developed software and associated hardware, including Predix and software solutions that improve our customers' asset performance. These revenues and associated costs are largely generated from our operating businesses and are included in their segment results.

Revenues were \$1.0 billion for the three months ended June 30, 2018, flat year over year compared to revenues for the three months ended June 30, 2017. An increase in Oil & Gas was offset by decreases in Power and Renewable Energy.

Revenues were \$2.0 billion for the six months ended June 30, 2018, an increase of \$0.1 billion, or 6%, compared to revenues of \$1.9 billion for the six months ended June 30, 2017. Increases in Oil & Gas, Transportation, Lighting and Aviation were offset by decreases in Power and Renewable Energy.

Orders were \$1.0 billion for three months ended June 30, 2018, a decrease of \$0.3 billion, or 23%, compared to orders of \$1.3 billion for the three months ended June 30, 2017. Decreases in Power and Aviation were offset by increases in Transportation and Healthcare.

Orders were \$2.0 billion for the six months ended June 30, 2018, a decrease of \$0.3 billion, or 13%, compared to orders of \$2.3 billion for the six months ended June 30, 2017. Decreases in Power, Digital Core and Aviation were offset by an increase in Transportation, Healthcare, Oil & Gas and Renewable Energy.

SEGMENT OPERATIONS

REVENUES AND PROFIT

Segment revenues include sales of products and services related to the segment.

Segment profit is determined based on internal performance measures used by the Chief Executive Officer (CEO) to assess the performance of each business in a given period. In connection with that assessment, the CEO may exclude matters, such as charges for restructuring, rationalization and other similar expenses, acquisition costs and other related charges, technology and product development costs, certain gains and losses from acquisitions or dispositions, and litigation settlements or other charges, for which responsibility preceded the current management team.

Subsequent to the Baker Hughes transaction, restructuring and other charges are included in the determination of segment profit for our Oil & Gas segment. See the Corporate Items and Eliminations section within this MD&A for additional information about costs excluded from segment profit.

Segment profit excludes results reported as discontinued operations and material accounting changes other than those applied retrospectively. Segment profit also excludes the portion of earnings or loss attributable to noncontrolling interests of consolidated subsidiaries, and as such only includes the portion of earnings or loss attributable to our share of the consolidated earnings or loss of consolidated subsidiaries.

Segment profit excludes or includes interest and other financial charges, non-operating benefit costs, income taxes, and preferred stock dividends according to how a particular segment's management is measured:

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Interest and other financial charges, income taxes, non-operating benefit costs and GE preferred stock dividends are excluded in determining segment profit for the industrial segments.

Interest and other financial charges, income taxes, non-operating benefit costs and GE Capital preferred stock dividends are included in determining segment profit (which we sometimes refer to as “net earnings”) for the Capital segment.

Other income is included in segment profit for the industrial segments.

Certain corporate costs, such as shared services, employee benefits, and information technology, are allocated to our segments based on usage. A portion of the remaining corporate costs is allocated based on each segment’s relative net cost of operations.

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MD&A SEGMENT OPERATIONS

SUMMARY OF OPERATING SEGMENTS

(In millions)	Three months ended June 30			Six months ended June 30		
	2018	2017	V%	2018	2017	V%
Revenues						
Power(a)	\$7,579	\$9,400	(19) %	\$14,801	\$17,341	(15) %
Renewable Energy	1,653	2,312	(29) %	3,299	4,079	(19) %
Oil & Gas	5,554	2,997	85 %	10,939	6,083	80 %
Aviation	7,519	6,634	13 %	14,631	13,307	10 %
Healthcare	4,978	4,688	6 %	9,680	8,993	8 %
Transportation	942	1,077	(13) %	1,814	2,057	(12) %
Lighting(a)	431	473	(9) %	887	935	(5) %
Total industrial segment revenues	28,657	27,582	4 %	56,052	52,795	6 %
Capital	2,429	2,446	(1) %	4,602	5,127	(10) %
Total segment revenues	31,085	30,028	4 %	60,654	57,923	5 %
Corporate items and eliminations	(982)	(932)	)	(1,890)	(1,945))
Consolidated revenues	\$30,104	\$29,097	3 %	\$58,764	\$55,978	5 %
Segment profit (loss)						
Power(a)	\$421	\$994	(58) %	\$694	\$1,432	(52) %
Renewable Energy	82	158	(48) %	159	228	(30) %
Oil & Gas(b)	73	120	(39) %	(70)	380	U
Aviation	1,475	1,374	7 %	3,078	2,647	16 %
Healthcare	926	826	12 %	1,660	1,487	12 %
Transportation	155	183	(15) %	285	278	3 %
Lighting(a)	24	17	41 %	26	27	(4) %
Total industrial segment profit	3,157	3,673	(14) %	5,832	6,480	(10) %
Capital	(207)	(172)	(20) %	(422)	(219)	(93) %
Total segment profit (loss)	2,950	3,502	(16) %	5,410	6,261	(14) %
Corporate items and eliminations	(309)	(1,120)	)	(962)	(2,522))
GE interest and other financial charges	(690)	(637)	(8) %	(1,333)	(1,200)	(11) %
GE non-operating benefit costs	(690)	(552)	(25) %	(1,374)	(1,201)	(14) %
GE benefit (provision) for income taxes	(525)	(165)	)U	(637)	(188)	)U
Earnings (loss) from continuing operations attributable to GE common shareowners	736	1,028	(28) %	1,105	1,150	(4) %
Earnings (loss) from discontinued operations, net of taxes	(121)	(146)	17 %	(1,673)	(385)	)U
Less net earnings attributable to noncontrolling interests, discontinued operations	—	7	U	—	7	U
Earnings (loss) from discontinued operations, net of tax and noncontrolling interest	(121)	(152)	20 %	(1,673)	(392)	)U
Consolidated net earnings (loss) attributable to the GE common shareowners	\$615	\$875	(30) %	\$(568)	\$758	U

(a) Beginning in the third quarter of 2017, the Energy Connections business within the former Energy Connections & Lighting segment was combined with the Power segment and presented as one reporting segment called Power. As

a result of this combination, our GE Lighting and Current, powered by GE (Current) businesses are now reported as a separate segment called Lighting.

- (b) Oil & Gas segment profit excluding restructuring and other charges* was \$222 million and \$402 million for the three and six months ended June 30, 2018.

*Non-GAAP Financial Measure

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MD&A SEGMENT OPERATIONS

SEGMENT RESULTS

INDUSTRIAL SEGMENT REVENUES	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017

(Dollars in billions)

Revenues

Equipment(a)(c)	\$13.2	\$13.8	\$26.1	\$26.6
Services(b)(c)	15.4	13.8	30.0	26.2
Total(d)	\$28.7	\$27.6	\$56.1	\$52.8

(a) \$12.0 billion and \$23.8 billion, excluding \$1.2 billion and \$2.3 billion related to Baker Hughes* for the three and six months ended June 30, 2018, respectively.

(b) \$13.8 billion and \$26.9 billion, excluding \$1.6 billion and \$3.1 billion related to Baker Hughes* for the three and six months ended June 30, 2018, respectively.

For the purposes of the MD&A, "services" refers to sales under product services agreements and sales of both goods (such as spare parts and equipment upgrades) and related services (such as monitoring, maintenance and (c) repairs). For the purposes of the financial statement display of sales and costs of sales in our Statement of Earnings (Loss), "goods" is required by SEC regulations to include all sales of tangible products, and "services" must include all other sales, including other services activities.

Industrial segment refers to the sum of our seven industrial reporting segments, without giving effect to corporate (d) items or the elimination of transactions among such segments and between these segments and our financial services segment. Therefore, industrial segment revenues will not agree to GE revenues as shown in the Statement of Earnings (Loss).

INDUSTRIAL SEGMENT PROFIT AND PROFIT MARGIN	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017

(Dollars in billions)

Segment profit(a)	\$3.2	\$3.7	\$5.8	\$6.5
Segment profit margin	11.0 %	13.3 %	10.4 %	12.3 %

(a) \$3.2 billion and \$6.1 billion, excluding an insignificant amount and \$(0.2) billion related to Baker Hughes* for the three and six months ended June 30, 2018, respectively.

COMMENTARY: THREE MONTHS ENDED JUNE 30

Industrial segment revenues increased \$1.1 billion, or 4%, driven by increases at Oil & Gas primarily due to the acquisition of Baker Hughes, Aviation and Healthcare, partially offset by decreases at Power, Renewable Energy, Transportation and Lighting.

Industrial segment profit decreased \$0.5 billion, or 14%, driven by lower profit at Oil & Gas primarily due to restructuring costs associated with Baker Hughes, and Power driven by lower volume, unfavorable price and the absence of Water. Further decrease was due to lower profit at Renewable Energy and Transportation, partially offset by higher profit at Aviation and Healthcare.

Industrial segment margin decreased 230 basis points to 11.0% in 2018 from 13.3% in 2017 driven by negative variable cost productivity, price pressure, business mix. The decrease in industrial segment margin reflects decreases at Power, Oil & Gas, Renewable Energy, Aviation and Transportation, offset by increases at Lighting and Healthcare.

COMMENTARY: SIX MONTHS ENDED JUNE 30

Industrial segment revenues increased \$3.3 billion, or 6%, driven by increases at Oil & Gas primarily due to the acquisition of Baker Hughes, Aviation and Healthcare, partially offset by decreases at Power, Renewable Energy, Transportation and Lighting.

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Industrial segment profit decreased \$0.6 billion, or 10%, driven by lower profit at Oil & Gas primarily due to restructuring costs associated with Baker Hughes, Power driven by lower volume, unfavorable price and the absence of Water. Further decrease was due to lower profit at Renewable Energy, partially offset by higher profit at Aviation, Healthcare and Transportation.

Industrial segment margin decreased 190 basis points to 10.4% in 2018 from 12.3% in 2017 driven by negative variable cost productivity, business mix and price pressure. The decrease in industrial segment margin reflects decreases at Oil & Gas, Power and Renewable Energy, offset by increases at Transportation, Aviation, and Healthcare.

RECONCILIATION OF INDUSTRIAL BACKLOG TO REMAINING PERFORMANCE OBLIGATION

	June 30, 2018		
(Dollars in billions)	Equipment	Services	Total
Backlog	\$87.1	\$289.5	\$376.7
Adjustments	(36.2)	(90.9)	(127.1)
Remaining Performance Obligation	\$51.0	\$198.6	\$249.6

Remaining performance obligation is a defined term under GAAP. See Other Terms Used section within MD&A and Note 9 to the consolidated financial statements for further information. Adjustments to reported backlog are largely driven by the Aviation business: (1) backlog includes engine contracts for which we have received purchase orders that are cancelable. We have included these in backlog as our historical experience has shown no net cancellations, as any canceled engines are typically moved by the airframer to other program customers; (2) our services backlog includes contracts that are cancelable without substantial penalty, primarily time and materials contracts; (3) backlog includes engines contracted under long-term service agreements, even if the engines have not yet been put into service. These adjustments to reported backlog are expected to be satisfied beyond one year.

*Non-GAAP Financial Measure

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POWER

OPERATIONAL OVERVIEW

SUB-SEGMENT REVENUES	Three months ended June 30	Six months ended June 30
(Dollars in billions)	2018 2017	2018 2017

Gas Power Systems(a)	\$1.4	\$2.1	\$2.9	\$4.2
Power Services	3.2	3.6	6.0	6.2
Steam Power Systems	0.5	0.6	1.0	0.9
Energy Connections(b)	2.3	2.5	4.5	4.7
Other(c)	0.2	0.7	0.3	1.3
Total segment revenues	\$7.6	\$9.4	\$14.8	\$17.3

(a) Includes Distributed Power

(b) Includes Industrial Solutions, Grid Solutions, Power Conversion and Automation & Controls

(c) Includes Water & Process Technologies and GE Hitachi Nuclear

ORDERS	Three months ended June 30	Six months ended June 30
(Dollars in billions)	2018 2017	2018 2017

Equipment	\$3.4	\$4.8	\$5.8	\$8.7
Services	4.0	5.1	7.2	9.1
Total	\$7.4	\$9.9	\$12.9	\$17.8

BACKLOG

(Dollars in billions)	June 30, 2018	June 30, 2017
-----------------------	------------------	------------------

Equipment	\$24.9	\$26.4
Services	69.4	74.0
Total	\$94.3	\$100.4

UNIT SALES

	2Q 2018	2Q 2017	V	YTD 2018	YTD 2017	V
Gas Turbines	7	21	(14)	19	41	(22)

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SEGMENT
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| POWER

FINANCIAL OVERVIEW

SEGMENT REVENUES	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
(Dollars in billions)				
Revenues				
Equipment	\$3.5	\$4.6	\$7.0	\$8.8
Services	4.1	4.8	7.8	8.5
Total	\$7.6	\$9.4	\$14.8	\$17.3
SEGMENT PROFIT AND PROFIT MARGIN	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
(Dollars in billions)				
Segment profit	\$0.4	\$1.0	\$0.7	\$1.4
Segment profit margin	5.6	% 10.6 %	4.7	% 8.3 %

2018 – 2017 COMMENTARY

The power market continued to be soft during the first half of 2018 due to energy efficiency, renewable energy penetration and delays in expected orders. We believe the overall market for new heavy-duty gas orders in 2018 is trending to less than 30 gigawatts. In addition, excess capacity in developed markets, continued pressure in oil and gas applications and macroeconomic and geopolitical environments have created softening demand for gas turbines. AGP upgrades have also experienced decreased market demand as well as saturation in the North American market given previous penetration; however, we expect upgrade demand to continue in the Middle East, Africa and Southeast Asia markets.

THREE MONTHS ENDED JUNE 30:

Segment revenues down \$1.8 billion (19%);

Segment profit down \$0.6 billion (58%);

Equipment revenues decreased primarily at Gas Power Systems due to lower unit sales, including 12 fewer aeroderivative units as well as 14 fewer gas turbines and six fewer Heat Recovery Steam Generators. Services revenues decreased primarily due to the absence of Water following the sale in September 2017 as well as ten fewer AGP upgrades. Revenues also decreased due to price pressure, offset by the effects of a weaker U.S. dollar versus the euro.

The decrease in profit was due to lower volume including the absence of Water, negative variable cost productivity, lower transactional services revenue and negative mix in our long-term service contracts compared to the prior year. These decreases were partially offset by favorable business mix and cost reduction efforts, excluding the effects of acquisition and disposition activity and foreign exchange.

SIX MONTHS ENDED JUNE 30:

Segment revenues down \$2.5 billion (15%);

Segment profit down \$0.7 billion (52%):

Equipment revenues decreased primarily at Gas Power Systems due to lower unit sales, including 21 fewer aeroderivative units as well as 22 fewer gas turbines and 17 fewer Heat Recovery Steam Generators. Services revenues decreased primarily due to the absence of Water following the sale in September 2017 as well as 25 fewer AGP upgrades. Revenues also decreased due to price pressure, offset by the effects of a weaker U.S. dollar versus the euro.

The decrease in profit was due to lower volume including the absence of Water, negative variable cost productivity, lower transactional services revenue and negative mix in our long-term service contracts compared to the prior year. These decreases were partially offset by favorable business mix and cost reduction efforts, excluding the effects of acquisition and disposition activity and foreign exchange.

*Non-GAAP Financial Measure

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RENEWABLE ENERGY

OPERATIONAL OVERVIEW

SUB-SEGMENT REVENUES	Three months ended		Six months ended	
	June 30		June 30	
(Dollars in billions)	2018	2017	2018	2017
Onshore Wind	\$1.3	\$2.1	\$2.6	\$3.6
Offshore Wind	0.1	0.1	0.3	0.1
Hydro	0.2	0.2	0.4	0.4
Total segment revenues	\$1.7	\$2.3	\$3.3	\$4.1

ORDERS	Three months ended		Six months ended	
	June 30		June 30	
(Dollars in billions)	2018	2017	2018	2017

Equipment	\$1.2	\$1.8	\$3.2	\$3.5
Services	0.6	0.3	0.9	0.7
Total	\$1.7	\$2.1	\$4.2	\$4.2

BACKLOG

(Dollars in billions)	June 30, 2018	June 30, 2017
-----------------------	---------------	---------------

Equipment	\$9.0	\$6.8
Services	7.5	5.7
Total	\$16.5	\$12.5

UNIT SALES

	2Q 2018	2Q 2017	V	YTD 2018	YTD 2017	V
Wind Turbines	351	719	(368)	703	1,258	(555)

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ENERGY

FINANCIAL OVERVIEW

SEGMENT REVENUES	Three months		Six months	
	ended June		ended June	
	30		30	
(Dollars in billions)	2018	2017	2018	2017
Revenues				
Equipment	\$1.1	\$1.9	\$2.3	\$3.4
Services	0.6	0.4	1.0	0.7
Total	\$1.7	\$2.3	\$3.3	\$4.1
SEGMENT PROFIT AND PROFIT MARGIN	Three months		Six months	
	ended June		ended June	
	30		30	
(Dollars in billions)	2018	2017	2018	2017
Segment profit	\$0.1	\$0.2	\$0.2	\$0.2
Segment profit margin	5.0	% 6.8	% 4.8	% 5.6

2018 – 2017 COMMENTARY

The renewable energy market remains competitive, particularly in onshore wind. The onshore wind market continues to see megawatt growth as customer preference has shifted from 1.X models to larger, more efficient units. However, overcapacity in the industry, the move to auctions in international markets and U.S. tax reform contributed to continued pricing pressure in the first half of 2018. In addition, uncertainty at the end of 2017 related to the impact of U.S. tax reform resulted in a temporary pause in project work in the first half of the year. Beginning in the third quarter of 2018, we expect project build and shipments to increase in anticipation of the expiration of Production Tax Credits (PTCs) at 100% value in 2020.

THREE MONTHS ENDED JUNE 30:

Segment revenues down \$0.7 billion (29%);

Segment profit down \$0.1 billion (48%);

Equipment volume decreased due to 368 fewer wind turbine shipments on a unit basis, or 38% fewer megawatts shipped, than in the prior year. Services volume increased due to 47 more repower units at Onshore Wind as well as a larger installed base resulting in increased contractual stream revenues. Revenues also decreased due to pricing pressure, partially offset by the effects of a weaker U.S. dollar versus the euro.

The decrease in profit was primarily due to pricing pressure.

SIX MONTHS ENDED JUNE 30:

Segment revenues down \$0.8 billion (19%);

Segment profit down \$0.1 billion (30%):

Equipment volume decreased due to 555 fewer wind turbine shipments on a unit basis, or 35% fewer megawatts shipped, than in the prior year. Services volume increased due to 159 more repower units at Onshore Wind as well as a larger installed base resulting in increased contractual stream revenues. Revenues also increased due to the acquisition of LM Wind in April 2017, which contributed \$0.1 billion of inorganic revenue growth in the first half of 2018, and the effects of a weaker U.S. dollar versus the euro and the Chinese renminbi, partially offset by pricing pressure.

• The decrease in profit was due to pricing pressure, partially offset by materials deflation.

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OIL & GAS

OPERATIONAL OVERVIEW

	Three months ended June 30	Six months ended June 30
SUB-SEGMENT REVENUES		
(Dollars in billions)	2018	2017 2018