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FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric fourth-quarter 2017 earnings conference call. (Operator Instructions) 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 welcome to today's webcast. I'm here with our Chairman and CEO John Flannery; CFO Jamie Miller; and GE Power CEO Russell Stokes. Before we start, I would like to remind you that the press release, presentation, and supplemental have been available since earlier today on our investor website at www.ge.com/investor.

Please note some of the statements we are making today 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 our website, those elements can change as the world changes.

And now I will turn the call over to John.

John Flannery ***General Electric Company - Chairman and CEO***

Thanks, Matt. Before I start in on the quarter, I'd like to take a moment to step back and review where we stand and the progress we've made in just a short time. You've heard a lot from us since I became CEO in August.

I recognize that the news we've shared in that time, specifically around Power and Insurance, has been tough. We are moving very quickly to tackle these issues and we are doing so in the context of running our businesses for the long term.

Our responsibility is to reshape this Company and ensure that GE matters as much in the next century as it has in the past one. And as I take stock today, I feel good about the progress we are making and especially good about the strength of our team. We have a long way to go, but the mission is clear and we are moving forward together as one team with a single purpose.

The backbone of our recovery is stronger execution. Back in November, we laid out a new vision for the future, the foundation of which was improved execution, an obsession with cash generation and capital allocation, a more focused digital and additive strategy, and a rapid reshaping of the portfolio to become a simpler, more nimble organization.

Today, I'm proud to report that this organization is responding and we are beginning to show progress against each of our key initiatives. The

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teams have stepped up and embraced the challenges. And in this quarter, we are beginning to see the signs of what they can accomplish when called upon to pursue common goals and drive improvement.

We have a lot to work on, but we also have a lot to work with. The team and I are as convinced as ever that the strength of our core businesses remains intact. We have valuable franchises with leadership positions in key global markets. And we have a path ahead that will create the best outcomes for our customers, great opportunities for our team, and will create value for our shareholders through stronger execution and more disciplined operational performance.

As I said, the results this quarter demonstrate some of the early progress we are seeing across our key initiatives. In Healthcare, we introduced 26 new products in 2017, and we're especially proud of the new Senographe Pristina mammography system. It's the industry's first patient-assisted mammography device and it's indicative of the kind of innovation and investments we are making to improve Healthcare and save lives. It is also resulted in significant market share gain and profit margin gain.

In Aviation, I am excited by the progress we are making in Additive. In the quarter, we announced the world's largest laser powder additive manufacturing machine. It will print in a build envelope of one meter cubed, which is suitable for jet engine structural components.

Our additive capabilities are truly game changing and we expect to increase the pace of additive utilization to drive higher margins and innovation across our businesses in 2018. We shipped 119 units in the quarter and 294 in the year, while our backlog in the fourth quarter was up 44% from last year. Additive is positioned to break even in 2018 and we believe there is a tremendous potential here.

While the Power market remains challenging, we have made progress in rightsizing the organization, taking out $800 million of costs and rationalizing our manufacturing footprint. We continue to see cost opportunities here and are laser-focused on achieving them in 2018. The team is up for the challenge and is focusing above all else on delivering for our customers.

At Baker Hughes, the team is demonstrating disciplined execution in successfully capturing synergies through the integration. And the business has a clear path for profit growth in 2018.

I am also pleased with Digital's performance in the fourth quarter as we refocused our strategy on our core markets. Predix-powered orders were up 41% and we did $1.4 billion for the year, up 150%. The team is driving customer outcomes with APM, OPM, and serviceMax. We have only penetrated 8% of the installed base today, so there is a lot of opportunity here and we are aggressively going after it.

With respect to our key operating priorities, let's start with cash. Cash in the fourth quarter was significantly better than we planned, about $2.5 billion higher. About half of this was due to the timing of progress payments and the other half was a result of better execution.

As you recall from our discussion in November, cash has been our number one focus and also in the minds of our investors, given the weak performance we had through the first three quarters. The results this quarter reflect more discipline and execution. We are focused on improving our visibility, execution, and tenacity on cash.

It's a similar story on costs. We came into the year with a structural cost-out target of $1 billion. We raised that in the third quarter to $1.5 billion and we delivered a little higher than that, at $1.7 billion for the year. We have strong execution and discipline on costs.

We are targeting an additional $2 billion out in 2018. In addition to that, we are particularly focused on product costs, attacking cost of quality, reducing manufacturing overhead, and accelerating the implementation of additive design and manufacturing. We are confident that we will deliver on that goal.

The team is also highly active in working towards simplifying the portfolio. We currently have over 20 dispositions in active discussions and you will begin to see tangible results in the coming quarters.

We ended the year with $11 billion of GE Industrial cash. There is no change to the capital allocation plan previously communicated on

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November 13th. We plan to increase our cash balance in 2018 and exit the year with $15-billion-plus of cash.

We will make a voluntary $6 billion debt-funded contribution to our principal pension plan. And we will maintain a disciplined financial policy targeting 2.5 times net debt to EBITDA and A1/P1 short-term ratings. We are on track to shrink the Board from 18 to 12, including 3 new directors. We expect to be in position to announce the new Board prior to the proxy statement.

So at the overall Company level, we are intensely focused on operational rigor, cash and capital allocation, and deep cost reduction. Our first priority is running the Company well. As I mentioned last week, at the same time, we are reviewing the best structure of the Company to maximize the long-term potential of our businesses and deliver the best value for our customers and employees.

We have a team dedicated to considering all the details and looking at the options that will deliver the best value for our shareholders and the most attractive jobs for our employees. The truly enduring strength of GE lies in our people. There will be a GE in the future, but it will look different than it does today. We will update you when the team has made further progress.

I am very pleased that we are beginning to show these tangible signs of progress, but I'm also cognizant this is only the beginning. 2018 is a critical year for us and we intend to continue demonstrating in the coming quarters that our new approach is working and the organization is changing.

With that, let me turn to the quarter. Clearly, 2017 was a challenging year for us and fourth quarter had a lot of moving pieces. We had significant charges in the quarter for insurance, tax reform, and planned portfolio moves. These charges totaled $1.49 of EPS. Excluding those charges, adjusted EPS was $1.05, at the low end of the EPS guide we gave you for the year.

Issues in the quarter were mostly localized to Power. The power market continues to be challenging. Power earnings were down 88% in the quarter, driven by the market, certain execution misses, and other charges.

This is an important franchise going through a difficult period. The team is working with amazing dedication and resilience and they have the support of the entire GE Company behind them. I've asked Russell to give you an update on the quarter and take you through our action plan on the business in a few minutes.

Strong results in Aviation and Healthcare continued in the fourth quarter and for the full year. In the fourth quarter, Aviation grew margins 40 basis points while shipping 202 LEAP engines. Healthcare grew revenue 6% and earnings 13%. These two businesses continue to be premier leadership franchises in their industries.

Cash in the quarter was $7.8 billion. We had strong performances in Aviation and Healthcare. And we reduced structural costs an additional $500 million in the fourth quarter, with good performance in Power and Corporate. 2017 is behind us and the team is focused on delivering in 2018.

With respect to orders, fourth-quarter orders totaled $35 billion, up 3% reported, but down 5% organically. Equipment and service orders were both down 5% organically. Jamie will walk you through the drivers by business. Overall, the decline in equipment orders was driven by Power and Renewables, partially offset by strength in Healthcare and Transportation.

Service orders were strong in Renewables, Aviation, and Healthcare, but were offset by softness in Power and Transportation. Backlog finished the year at $341 billion, up $13 billion versus last quarter.

And now I will walk you through some market highlights on the right. Power remains challenging. We expect the overall market for new gas orders in 2017 to be less than 35 gigawatts and we are planning for it to be down again next year. Long term, gas is going to remain an important component of power generation. We have a valuable asset and generate one-third of the world's electricity.

The aviation industry continues to experience strong growth. Global revenue passenger kilometers grew 7.7 year to date, with strong growth

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both domestically and internationally. Air freight volumes have been very strong as well, growing almost 10% October year to date. Load factors globally remain above 80%, demonstrating strength in the sector.

In Healthcare, the US markets and European markets are stable, seeing mid-single-digit growth in 2017. Emerging markets remain strong, with double-digit growth. Renewables onshore continues to see strong growth, but there is significant price pressure across the industry.

In the US we saw a slowdown in market activity pending the resolution of the tax bill, which was signed in December. The US market continues to be very healthy, but we expect to see pricing pressures as the impact of tax reform is digested in the wind tax equity markets.

Next, let me walk through revenue, margins, and costs. For the quarter, segment revenues were $32 billion, up 3% reported and down 6% organic. The difference was driven mainly by the impact of the Baker Hughes acquisition.

Power, Oil & Gas, and Transportation all had negative organic revenues on lower volumes. Renewables organic was up on continued repower strength, and Healthcare saw broad strength as well. For the year, revenues were $116 billion, up 3% and flat organic.

Industrial margins were 11.2% in the quarter, down 560 basis points. You really have two camps here. Power and Oil & Gas margins were down sharply. Industrial margins were up 200 basis points collectively in the rest of the Company. Healthcare margins were up 130 basis points in the quarter and 70 basis points in the year.

In March of 2016, we presented a plan to grow margins 150 basis points to 18% over 3 years. The Healthcare team delivered on that a year early, hitting 18% in 2017 and will continue to grow margins in 2018. Aviation had an outstanding year on margins, increasing margins 100 basis points while delivering 459 LEAP engines.

As I mentioned earlier, we've made good progress on structural cost, taking out $500 million in the fourth quarter and $1.7 billion for the year. And we have good momentum going into 2018.

And now I will turn it over to Jamie.

Jamie Miller ***General Electric Company - SVP and CFO***

Thanks, John. Before I start with consolidated results, I want to remind you of some of the changes to our reporting metrics in 2018 that we discussed in November. First, on EPS, this is the last quarter that we report Industrial plus Verticals EPS.

In addition to GAAP earnings, we will report an adjusted EPS number, which is total continuing operations excluding Industrial gains, restructuring, and nonoperating pension expense. On cash, we will move to reporting free cash flow as opposed to CFOA.

And lastly, two changes related to the adoption of the new revenue recognition accounting standard. As of January 1, 2018, our contract asset balances will be adjusted to reflect the new standard, resulting in a lower asset balance and lower earnings going forward.

This doesn't change anything related to our cash balances or cash flows. We will provide restated 2016 and 2017 quarterly information on a basis consistent with the new accounting. We are still in the process of finalizing the newly restated financials and we will provide them to you shortly after we file the 10-K.

Related to the accounting standard change is also a move to reporting remaining performance obligations, or RPO. RPO is a new GAAP measure and we will report RPO in the first quarter once it is implemented.

Additionally, you may have noticed that our earnings press release has a new format. We believe it's more substantive and more easily digestible. We will continue to relook at all of our communications formats and data that we provide to investors with the goal to continue to increase standardization and transparency. So you will likely see more changes as we move throughout 2018.

Next, on consolidated results, fourth-quarter revenues were $31.4 billion, down 5%. For the quarter, Industrial plus Verticals EPS was

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negative $1.23, down from $0.46 in fourth quarter 2016.

Included in the negative $1.23 was $1.49 of charges driven by the Insurance-related adjustments we discussed last week, the impacts of tax reform, and portfolio-related actions we are taking in Industrial. Excluding these items, Industrial plus Vertical EPS was $0.27 in the quarter, still down significantly year over year, driven principally by the Power segment.

Operating EPS was negative $1.11. This incorporates other continuing GE Capital activity, which I will cover more on the GE Capital page. Continuing EPS of negative $1.15 includes the impact of nonoperating pension, and net EPS of negative $1.13 includes the results of discontinued operations.

Next on taxes, the GE Industrial tax rate was negative 576% in the quarter, reflecting a tax charge on a pre-tax loss. This includes charges in the quarter related to US tax reform. And excluding tax reform and Industrial gains, restructuring, and fourth-quarter other charges, our tax rate was negative 7% for the quarter and positive 15% for the year.

On the right side are the segment results. Industrial op profit was down 33%. The decline year over year was driven principally by Power and Oil & Gas and partially offset by Aviation, Healthcare, and Corporate, better year over year. As John mentioned, we took another $500 million of structural cost-out in the quarter and I will cover the individual segment dynamics separately.

On the next page, our reported cash from operating activities was $7 billion in the quarter. That represents GE cash flow including 100% of Baker Hughes CFOA. We did not receive a dividend from GE Capital in the quarter and this is in line with our prior communications. And we don't expect to receive a dividend from GE Capital for the foreseeable future.

Our Industrial CFOA was $7.4 billion in the quarter, adjusted for $400 million of US principal pension plan funding and deal taxes. And this is down $800 million from the prior year. With Baker Hughes GE on a dividend basis and excluding the Baker Hughes GE CFOA, our Industrial CFOA was $7.8 billion.

For the year, our total Industrial CFOA adjusted for Baker Hughes GE was $9.7 billion. This came in above our full-year guidance of $7 billion, driven primarily by better-than-expected progress collections and contract asset performance. The Aviation and Healthcare businesses turned in strong performances, and the cash performance of Power was in line with expectations.

On the right-hand side, I have some color on the components of cash activity in fourth quarter. First, working capital generated a total positive flow of $3.9 billion, principally driven by better inventory flows from higher shipments and higher-than-expected progress flows of about $700 million. This was partially offset by an increase in receivables, consistent with our sequentially higher sales in fourth quarter.

Contract assets were flat during the quarter on favorable cash inflows from lower CSA contract asset growth, offset by cash usage from growth in deferred inventory in Power and Renewables. All other operating cash flow, including deferred taxes, was a $6 billion inflow, driven primarily by non-cash expenses such as held-for-sale charges, the impact of tax reform, and amortization of intangible assets. For the year, we generated $5.6 billion of free cash flow with an 81% conversion rate.

There is no change to our 2018 guidance of $6 billion to $7 billion of free cash flow. However, in 2018, we do expect the challenging power markets to continue and potentially be worse than we expected. Additionally, the accelerated progress collections in the fourth quarter will present some headwinds to our free cash flow, particularly in the first quarter, which is always our lowest cash quarter.

We are planning for a negative free cash flow quarter in first quarter. We remain focused on our operating rigor and execution on cash, with compensation heavily tied to cash performance. And we are evaluating incremental restructuring at Power. We will update you on this as decisions are made.

Next is the cash balance walk for 2017. I am not going to go through all of this, but you can see the detail on the left-hand side of the page. Excluding Baker Hughes GE, we started the year with $8.4 billion of cash and ended at $11.2 billion. We are focused on improving the

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strength of our balance sheet with a disciplined capital allocation framework.

During the quarter, we executed $13 billion of new operating credit lines, which provide greater security and flexibility as we execute our transition throughout 2018. We expect to end 2018 with more than $15 billion of cash.

Before I cover the segments, I will go through the other items for the quarter. First, on Industrial restructuring and other items, we incurred $0.08 of charges. $0.05 of that was related to GE, excluding Oil & Gas, and was primarily driven by the cost-reduction actions we are taking at Corporate, Power, and Renewables. We incurred an additional $0.03 related to our Oil & Gas segment, which represents our portion of Baker Hughes GE's restructuring, most of which was synergy-related.

Second, as we covered at our November 13th investor meeting, we are taking actions to focus the portfolio. We announced our intent to exit several businesses and some of these decisions have resulted in charges as we move the assets to held for sale.

We incurred a $0.10 charge related to Lighting and $0.06 related to 2 platform exits in Aviation. In addition to the held-for-sale impact, we recorded a $0.02 charge for an incremental goodwill impairment in power conversion. As we began our portfolio actions, it became clear that the value of power conversion could not support the remaining goodwill, which has now been fully written off.

As we disclosed last week, we incurred $0.91 of charges related to GE Capital's insurance business and related actions we are taking to shrink certain GE Capital businesses. We also recorded a $0.40 charge related to US tax reform. I will cover these items on the next two pages.

On the bottom right of the page, just given all the moving pieces, I will walk you through a reconciliation of EPS. You will remember that in October we provided full-year guidance of $1.05 to $1.10, which excluded Insurance and GE Capital-related actions. It excluded portfolio-related charges and also tax reform.

So starting at the top, we earned $0.77 of EPS through the third quarter. In the fourth quarter, we reported Industrial plus Verticals EPS of negative $1.23. Adjusting for the items that were excluded from our guide -- $0.91 related to Insurance and GE Capital actions, $0.18 related to portfolio, and $0.40 related to tax reform -- our fourth-quarter adjusted EPS was $0.27. This results in a total-year adjusted EPS number of $1.05, at the low end of the range we provided.

As we mentioned last week, we recorded a pre-tax charge of $9.5 billion and an after-tax charge of $6.2 billion related to Insurance. The related statutory capital contributions will be approximately $15 billion, which will be funded over the next seven years. We estimate that our 2018 funding requirement will be approximately $3 billion.

At this point, we estimate the annual contributions from 2019 to 2024 to be approximately $2 billion. There was no impact to our ratings and we don't expect this to impact our 2018 capital allocation plan.

We are taking actions to make GE Capital more focused, including exiting most of Energy Financial Services and reducing the size of Industrial Finance. As a result, we recorded non-cash charges of $1.8 billion for impairments at EFS in the quarter.

We expect GE Capital continuing earnings in 2018 and 2019 to be about breakeven. That could be higher or lower depending on the timing of asset sales. And post the actions in 2020, we expect GE Capital earnings to be about $500 million as excess debt runs off. We also do not expect dividends for the foreseeable future from GE Capital.

GE Capital ended the year with $31 billion of cash and liquidity. We also expect to generate incremental cash of approximately $15 billion from planned asset reduction actions over the next two years. And consequently don't expect to issue debt until 2020, which is a year later than previously communicated. These actions will provide sufficient liquidity to continue to fund the Insurance contributions.

I also want to note that we have been notified by the SEC that they are investigating the process leading to the insurance reserve increase and

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the fourth-quarter charge as well as GE's revenue recognition and controls for long-term service agreements. We are cooperating fully with the investigation, which is in very early stages.

Next, on US tax reform, since the Insurance call last week, the impact from US tax reform increased slightly to $3.5 billion from $3.4 billion as we finalized our review. The Industrial impact was $3.7 billion, partly offset by a benefit in GE Capital of $200 million.

Of the $3.5 billion charge, $1.2 billion relates to the transition tax on overseas earnings and $2.2 billion is driven by the revaluation of our deferred tax positions and the write-off of existing credits that will no longer be available for use under the new tax law. We expect the cash impact related to the transition to be modest over the next several years, as existing tax attributes, both credits and losses, will largely offset the payments required.

Longer term, we expect our Industrial tax rate to be in the low to mid 20%s, excluding disposition taxes. This is higher than the rate we have experienced over the last few years due to the lower benefits from tax credit loss transactions compared to recent history. We expect our tax rate over the next couple of years to be in the mid to high teens. Overall, we think tax reform is a real positive for US companies.

On Power, I'll give you a quick overview of the quarter and then Russell will walk you through more detail in a few pages. Orders of $10.2 billion were down 25%, with equipment down 24% and services down 26%. Revenues of $9.4 billion were down 15%.

Op profit for the quarter was $260 million, which was significantly below prior year and below our expectations. We incurred charges for several items and had year-over-year headwinds that negatively impacted the segment versus fourth quarter of 2016 by about $850 million.

Adjusting for these items, the business was still well below expectations. Russell will take you through the market and volume dynamics as well as the operational and execution issues we experienced.

Next on Renewables, orders of $3.3 billion were down 2%. Onshore orders were $2.8 billion, down 10%, driven by equipment being down 19%. Offset partially by services, up 38%, reflecting the strong US repowering market. US equipment orders were up 6%, offset by lower international orders.

In total, we booked orders for 1,165 turbines, which was down 2%. But with megawatts, it was up 2% at 2.8 gigawatts. This dynamic reflects significant price pressure in the quarter. We've seen price pressure increase during the year due to a competitive US market and as the international markets have been gradually moving to using an auction bid process.

Revenues were $2.9 billion, up 15% reported and up 9% on an organic basis. Onshore wind was up 5%, with equipment down 26%, offset by strong repowering service, which was up 3x. Operating profit was up 25% reported and 11% organically. This was driven by repowering volume and cost-out, offset partially by continuing unfavorable price.

The Renewables markets remain very competitive, particularly in onshore wind. The onshore wind market continues to see strong megawatt growth, but pricing is a significant headwind. Pricing for the total year was down about 10%, mostly driven by onshore turbines.

The business is focused on cost-out across all product lines. For first quarter 2018, we expect op profit down significantly year over year, mainly driven by lower turbine shipments in the US and continuous price pressure in the market.

On Aviation, orders in the quarter totaled $8 billion, up 11%. Equipment orders grew 2%. Commercial engine orders were down 1% at $1.8 billion, and services orders grew 17% on higher commercial spares rate of $27.4 million a day, up 36%.

Revenues in the quarter were flat at $7.2 billion. Equipment revenues were down 6% on fewer legacy engine shipments, partially offset by higher LEAP engine shipments. Aviation shipped 202 LEAP engines this quarter, up 158 units versus last year. Services revenue grew 6% on higher commercial spares and military.

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Operating profit of $1.8 billion was up 2%, driven by favorable service and military volume and mix, cost productivity, and value gap, partly offset by higher LEAP shipments. Operating margins expanded 40 basis points despite delivering a record number of LEAP engines in the quarter.

Aviation had another strong year, delivering 459 LEAP engines with improving cost positions and margin expansion of 100 basis points. The LEAP engine continues to perform to specifications for both reliability and performance.

In 2018, we expect continued solid RPK growth despite rising fuel costs and high-single-digit growth in GE CFM shop visits. We are on track to meet our delivery commitment of 1,200 LEAP engines in 2018 with a production volume of more than 2,000 engines by 2020.

Military is on track for mid-single-digit growth. The team is executing well on cost-out and is committed to holding margins flat despite the steep LEAP ramp.

Healthcare orders of $5.9 billion were up 9% versus last year. Geographically, organic orders were up 7% in the US, 7% in Europe, and emerging markets grew 11%, driven by China up by 9%, and the Middle East up by 35%.

On a product basis, Healthcare systems orders grew 9% on an organic basis, driven by ultrasound higher by 6% and imaging up 15%, with good performance in CT and mammography. Life Sciences grew 4% organically, driven by bioprocess up 2% and core imaging up 4%. For the year, Life Sciences orders grew 9% organically, with bioprocess up 12% and core imaging up 7%.

Revenues in the quarter of $5.4 billion grew 4% organically, with HCS higher by 4% and Life Sciences up 5%. Operating profit was up 13%, including a small gain on a disposition of a nonstrategic operation in Healthcare Digital. Excluding the gain, op profit grew 10% organically, driven by volume and productivity, partly offset by price and program investments. Margins expanded by 130 basis points reported.

The Healthcare business had a strong year in 2017. Underlying market dynamics are expected to be relatively similar in 2018. And the Healthcare team is invested in the right programs while improving operational rigor, which we expect to continue to drive strong results as we move throughout the year.

Next, on Oil & Gas, Baker Hughes GE released its financial results this morning at 6:45 a.m. And Lorenzo and his team will hold their earnings call with investors today at 9:30. Orders were $5.8 billion, up 73% reported and down 9% organically. On a combined pro forma basis, orders were down 2%.

Revenues were $5.8 billion, up 69% reported and down 13% organically. And on a pro forma basis, revenues were down 3%. Operating profit was $307 million, down 25% reported and down about 75% in our legacy Oil & Gas business. This was primarily driven by the longer-cycle oilfield equipment and turbomachinery businesses. The business realized $81 million of synergies in the quarter and $119 million since the deal closed in mid-2017.

During the quarter, cash distributions from Baker Hughes GE totaled $433 million, including the share repurchases and the quarterly dividend of $129 million. Lorenzo and Brian will provide more details on their call today.

At Transportation, orders of $2.1 billion were up 56% on low comparisons. Equipment orders were $1.1 billion, which included orders for 358 total locomotives versus 0 in fourth quarter 2016. Mining orders were up 3x from last year. Services orders of $1 billion were down 23%, primarily driven by the non-repeat of a large Class I mods order in the fourth quarter of 2016.

Revenues of $1 billion were down 20%, with equipment down 37% with locomotive volume down from 171 units to 79, partially offset by mining wheels up 3x. Services revenue was down 3% or $16 million, driven by lower transactional volume. Op profit was down 40%, driven by locomotive volume, partially offset by mining volume and continued cost controls and restructuring.

In 2018, we expect locomotive shipments to be about 250 units, mostly driven by international deliveries. The team is continuing to operate

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the business with rigor and is actively engaged as we position for possible disposition.

On Current and Lighting, revenues for Current and Lighting were down 7%, with Current up 9% and the legacy Lighting business down 21%. Op profit was $50 million, up from $3 million last year.

Finally, I will cover GE Capital. On the page I provided both reported net income and adjusted net income. The adjusted net income column excludes the effects of the Insurance charges, the related EFS impairments, and tax reform. Since we covered those topics earlier, I will talk you through the adjusted column, which reflects the core operations of GE Capital.

The Verticals core earnings were $122 million in the quarter, down 74% from prior year, driven primarily by higher impairments in EFS and lower tax benefits and base earnings, partially offset by higher gains. Other continuing operations generated $1 billion in earnings in the quarter, driven by $1.6 billion of tax benefits, partially offset by $297 million of excess interest expense, $123 million of HQ operating expenses and restructuring costs, and $184 million of preferred equity costs.

Discontinued operations generated earnings of $182 million, primarily driven by gains associated with the GE Capital exit plan. GE Capital ended the quarter with $157 billion of assets, including $31 billion of cash and short-term investments, largely in line with the third quarter.

Now I will hand it over to Russell to cover Power.

Russell Stokes ***General Electric Company - President and CEO, GE Power***

Thank you, Jamie. On November 13, I shared with you that we had a significant opportunity to improve the way we run the Power business. I spoke of fixing operating misses, the prioritization of cash performance, in line with a focus on income. And I outlined our return to driving a more holistic services capture of dollars per installed base versus pursuing upgrades and productivity in our contractual portfolio.

I am confident in what I said in November. And I will talk in more detail about what we are doing to move the business forward. But let me first walk you through the results for the fourth quarter and the impact on total year.

Starting with a view on orders, our orders in the quarter were down 25%. Equipment orders of $5.3 billion were down 24%, driven by GPS being down 63%, primarily on lower combined cycle turnkey scope.

In the quarter, gas turbine orders were up 1 unit at 24 versus 23 units in prior year, with the increase driven by nine H units versus eight in the prior year. Total-year gas turbine orders were 75 units, which is down 9 versus prior year. Aero units were also lower, with 3 units ordered in the quarter versus 24 last year, with total-year units at 46, down 33 versus prior year.

In December, we noted that the market was softer than expected, with McCoy comments indicating that the industry could be heading for the lowest gigawatt year since 2002. We announced a 12,000-person reduction and a commitment to rightsize our global manufacturing footprint.

We believe that total gigawatts awarded will be even softer than we thought in December, coming in below 35 gigawatts in 2017. And still anticipate, though, roughly a 50% share of the market in 2017. We are working to accelerate additional restructuring efforts in 2018 to support a market that could be as low as 30 gigawatts.

Service orders were $4.9 billion, down 26% on lower AGP orders, which were down 59% at 24 units versus 58. This was partially offset by higher grid solution services, which was up 54%.

In the quarter, Power revenues were down 15%. Equipment revenues of $4.5 billion were down 15% on lower Aero units. Aero unit shipments were 3 versus 31 last year, accounting for all of the decline. Total-year Aero shipments were 40 versus 95 last year.

Aero units, particularly our fast-power TM units, are typically convertible within the quarter. These units serve customers in difficult geographies and usually require some form of financing arrangements. We have transactions in the pipeline we expect to close in the first

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half of the year, but we believe that the 2018 Aero shipments will be in the 30- to 40-unit range.

We shipped 39 gas turbines in the quarter, 4 more than prior year, including eight H shipments versus nine last year. This would put total-year gas turbine shipments at 102, in line with our estimate of 100- to 105-unit range. In 2018, we expect shipments to be 60 to 70 units, with 15 H units in that count.

Services revenues were $4.9 billion, down 16% on lower CSAs and upgrades down 17%. And outages down 10%. AGPs in the quarter totaled 25 versus 62 last year. This puts our AGP shipments at 80 versus total year, at the lower end of the 80 to 85 range we provided in November. For 2018, we expect about 40 AGPs.

Op profit of $260 million was down 88% or $1.9 billion and significantly below our expectations. Let me walk the $1.9 billion decrease. As Jamie mentioned, there were about $850 million of charges, slow-moving and obsolete inventory in Power Services, Gas Power Systems, and Power Conversion accounted for a little bit less than half of the amount.

The remainder was primarily comprised of the non-repeat of favorable FX from fourth quarter of 2016, the absence of Water income, which was sold in 3Q 2017, a litigation settlement, and the bankruptcy of one of our distributors. Market and volume contributed about $550 million of the year-over-year decline, primarily driven by Aero unit shipments and the Power Services upgrade volume, as I just discussed.

The remaining $500 million of decline was related to execution and operations. There was about $450 million of cost overruns in our project business, primarily in GPS, Grid, and Power Conversion. The issues included liquidated damages, logistic cost, and unfavorable cost on turnkey products that were underwritten several years ago.

The remaining decline was driven by lower pricing, higher field costs, and an unfavorable mix in our transactional service business. But this was partially offset by better execution on base cost by roughly $230 million.

Our services transactional business, including Alstom, saw significant declines in margin in fourth quarter of 2017 versus prior year. These margin declines are consistent with what we've been experiencing throughout the year related to pricing and cost execution. And highlights the opportunity we have in improving our holistic focus on dollar per installed base entitlement.

Scott Strazik has been put in the role of Power Services' CEO. And he and the team are intensely focused on improving our outage penetration margin rate performance. I will provide more details on that on the next page.

As I mentioned earlier, for the year, the markets were softer than expected. Deals are taking longer to close and are very competitive. We are expecting the markets to be less than the 35 gigawatts in 2017 and we are preparing our restructuring plans for a market that could be as low as 30 gigawatts in 2018.

We are proud of the HA gas turbine technology. It is operating in line with performance guarantees. While we've had some issues related to commissioning at certain sites, we've readily addressed them. And have commenced working on supply chain and project organizations to address volume ramp issues and things considered normal learning curve process. We have 23 units installed and over 70,000 hours of experience, with all of the units performing to specifications and guarantees.

Next, I'd like to give you some visibility into the progress we are making in rewiring the Power business. Since taking the role, I'm encouraged by the continued support of our customers, who look to us to deliver outcomes that allow them to deliver for their customers.

I am absolutely committed to the operational excellence and disciplines required to deliver for them as well as our investors and want to reiterate how we are moving forward. Our first priority is reducing our structure and footprint.

In 2017, we took out $800 million in structural costs, with $230 million of cost-out in fourth quarter, achieved with a strict focus on our controllable cost pools. In addition, we reduced our manufacturing and repair footprint by 15 sites, in line with our stated goal of a 30%

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reduction by 2020. We are well on track for the $1 billion of cost-out we previously committed for 2018 and are assessing further opportunities to align our cost structure for a softer market reality.

The need to interrogate all areas of our operations and drive meaningful results is very clear to me. This is why we created our operational excellence team with a group of cross-functional dedicated SPRINT teams working in war rooms and building digital scorecards as a single source of truth with critical Xs aligned to critical business-wide outcomes.

To accomplish this, we must continue to invest in our IT infrastructure. We started 2017 with 74 ERPs, reducing them by 10 during the year with a successful major implementation in our Greenville factory. Still, this leaves us with 64 ERP systems and far too much system complexity, which is why we are focused on reducing the number of total ERPs by 80% by 2020, giving our employees more timely and accurate information to track and deliver critical business and customer outcomes.

In the quarter, these teams demonstrated progress in our cash generation disciplines, contributing to the favorable cash performance for the Company in the quarter. The leadership and focus on material management and collections performance, including past dues and project billings, allowed us to deliver on our working capital commitments despite lower-than-expected new orders.

We have established clear performance goals for the Power business and are executing clear plays to achieve them. For example, we believe that we can improve inventory turns by 2x by 2020 from the current 4 turns we see in 2018, even in a lower volume world through a great focus on our material management processes, a commitment to lean, and the liquidation of existing finished goods. This requires a $1 billion reduction in our inventory balances in 2018 and the teams are already driving detailed plans by site to get there.

To improve margins, we launched SPRINT teams, focused on project execution with a laser-focus on attacking schedule and cost overruns. In 2017, our Grid business moved all schedules and cost into a centralized digital application. We linked all execution and billing milestones to the ERP and ensured cross-functional teams were aligned with clarity of accountability and with the visibility to monitor progress or performance deviations. I am confident that we can inject these same capabilities into GPS in 2018.

We've launched dedicated team efforts on transactional services to increase our performance around holistic dollar per installed base penetration. In the fourth quarter, we conducted an outage blitz by region to identify and account for all outages on our technology that we were not yet tracking.

As a result, we improved our visibility into the outages in our transactional fleet, up from 28% in October to 70% today. We believe this highlights an entitlement opportunity that is $1 billion to $2 billion higher than our 2017 run rate. We have organized our commercial teams and compensation incentives to deliver on both the contractual and transactional portfolio.

We have identified additional leadership changes that we felt were necessary and have executed on those accordingly. The services leadership team is new with a more focused alignment. Our supply chain leader is new, reporting directly to me. And we are in the process of transitioning our leader in Gas Power Systems.

As I've said before, 2018 will be another challenging year. Renewables penetration will continue to increase and challenge the gas markets. But I fundamentally believe gas power will remain an important contributor to the energy mix going forward. We are privileged to have the world's largest installed base and our CSA utilization is performing as expected.

While we saw a sharp reduction in upgrades this year, driven by the IPP capacity markets, extended service intervals, and market overcapacity, we are improving our commercial intensity and execution in a transactional outage market, which we have underwhelmed in the past.

As a power business, we are focused on the things we can control: reducing structure and manufacturing footprint; improving cash conversion; expanding product, project, and service margins; maximizing services dollars per installed base; and strengthening our leadership and culture. We have a challenging road ahead, but the challenges we face are fixable.

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John Flannery ***General Electric Company - Chairman and CEO***

Thanks, Russell. I am going to wrap up with the 2018 framework. There's no change to our industrial EPS or free cash flow guidance. Capital earnings will be lower due to the portfolio actions we are taking. Aviation and Healthcare are well positioned to deliver in 2018. Power markets continue to be tough, but we will manage this tightly.

We are targeting free cash flow of $6 billion to $7 billion. Jamie mentioned we had some progress payments move into 2017. At the same time, we are focused on improving working capital and reducing CapEx.

We are making progress on cost and cash. We are strengthening our balance sheet and ended the year with $11 billion of GE Industrial cash. Russell and the team are focused on fixing Power and they have the support of the Company behind them. Aviation and Healthcare had excellent performance in 2017 and are well positioned for 2018. We are running the businesses better and simplifying the portfolio.

So with that, Matt, I will turn it back over to you.

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

Thanks, John. With that, let's open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Steve Tusa, JPMorgan.

Steve Tusa ***JPMorgan - Analyst***

Good morning. So I have two questions. First one, with the lower base and profit, there is a lot moving around here. I think the prior segment guide was in kind of the $13 billion to $14 billion range on segment profits. And I guess Power specifically was going to be down 25%. What are you looking for next year with regards to those two metrics?

And then as a follow-up, the contract asset guidance of negative $3 billion next year in free cash flow. Has that changed at all relative to what we've seen here in the fourth quarter and your approach to project selectivity?

Jamie Miller ***General Electric Company - SVP and CFO***

So Steve, when you look at the 2018 segment outlook, we had laid that out for everyone back on November 13th. Really, there is no change to how we are thinking about Industrial. So however you had thought about it before, the only thing to adjust really is how 2017 ended.

The second piece of that to think about is last week on the Insurance call, we talked about with the GE Capital actions GE Capital would be about breakeven next year. And that's the other thing to think about as you work through that.

Now on the contract assets piece, no change to how we thought about 2018. We still expect that to consume working capital of about $3 billion. Contract assets were roughly flat in the fourth quarter, but that is something that while we are pleased to see that and we have implemented a number of different controls on that, we are not starting to see that really take hold yet. So we don't expect to see that goodness or that shift really start to flow in 2018 yet.

Steve Tusa ***JPMorgan - Analyst***

So then how are you guys maintaining guidance if GE Capital is a little lighter and your base performance in 4Q was obviously on a segment profit basis below where I think most of us were expecting it because of Power?

John Flannery ***General Electric Company - Chairman and CEO***

So Steve, on that one, just a couple of thoughts here. One: we did in the fall really leading up to November a very detailed review of the businesses, deep dive into the businesses, as I shared with you. And really came up with a number of different scenarios for each business.

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And on the back of that work, that is how we indicated the range of $1 to $1.07. We thought that reflected the reality of the business franchises as well, but also allowed for some room for contingency in that context. So GE Capital and Power definitely put pressure on that model, but I'd say we also see strength in Aviation, strength in Healthcare, opportunity for more cost-out.

And then the last thing I would just say is you can count on us for transparency, obviously. But we have a team that's dedicated to working through the issues and solving our issues and not mailing all of them right back immediately to investors. So we feel comfortable we can deliver this range in 2018.

Operator

Andrew Kaplowitz, Citi.

Andrew Kaplowitz ***Citigroup - Analyst***

John or Jamie, can you give us more color about the cash dynamics you saw in the fourth quarter? What ultimately do you think your teams did differently to deliver the better execution on the cash in the quarter?

And can you talk about why progress collections were stronger than expected? Was it just timing? And does the fourth quarter's cash performance give you more confidence that you can deliver on your cash generation expectations in 2018 despite a weaker dollar business?

Jamie Miller ***General Electric Company - SVP and CFO***

Sure, I will walk you through the pieces of the fourth-quarter cash flow and can comment on your questions as I go through it. So first, working capital helped us by about $3.9 billion in the quarter. A good chunk of that was inventory, about $2.2 billion of inventory. We really saw strength across the board across the businesses as just fourth-quarter shipments were liquidated and things moved through.

On progress, a lot of that is billing and milestone payments. But we did see, as we mentioned earlier, some accelerated progress into the fourth quarter. Some timing that we didn't expect. That was about $1 billion.

When you look operationally in terms of receivables, we did see past dues drop by about 4 points. And the team has done very good work there. We saw some of that movement throughout the year, but a nice drop in fourth quarter. We expect that work to continue as we go into 2018.

And then on contract assets, I mentioned before that really the deferred was flat. Some of the controls that we're implementing are things like just really making sure that we are much tighter on our underwriting, not only how we think about the strike zone around returns, but importantly how the cash profile really looks on these contracts going out several years.

Look, when you look at why it was flat in the quarter, a lot of that had to do with lower shop costs coming through at Aviation, which really pulled through just less revenue and a little bit on timing of revenue and billing. So while we are not seeing the effect of these controls yet, we do expect to see this over the next couple of years.

Look, I'm happy with what we've done on inventory. I think the finished goods burn-down was really favorable. Good work on AR. But we have a lot more work to do and I think also a lot more opportunity here. Turns were flat for the year on inventory. And then on contract assets, I'm pleased with it. But again, more work to do here and expect to see more.

John Flannery ***General Electric Company - Chairman and CEO***

Andy, the other thing I would say here is just working the cash flow is 1,000 different variables. It requires a lot of visibility and a lot of execution, and that's really where we are investing our time and effort.

So it really involves everyone in the Company, from the front end, the terms, how we are interacting with customers, how we are performing on project execution, how we manage the inventory, how we do billing. So we are just -- I had quite a good team in Healthcare running this process and it's just a highly mechanical deep dive into seeing the moving pieces, many, many moving pieces.

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The other thing I would say, just for perspective. As I mentioned in the opening remarks that this is our number one focus. As we go into 2018 for our pay structure for the teams, our incentive structures for the team, as we said before, we had numerous incentives before. We have two in 2018. One of those is free cash flow. So the Company is focused and incentivized around cash flow.

Operator

Jeff Sprague, Vertical Research.

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

Hi, thanks. Just two things. First, just back to the 2018 guide. So if I'm just understanding what I heard correctly, relative to the November outlook, where on an adjusted basis you are expecting Industrial profit to be up 2% to 7%, it does seem like it's tough to get to your guidance on that, right?

So we take where we've exited 2017, mark it down $2 billion dollars or so for rev rec, and then grow that 2% to 7%. Doesn't seem like it gets you there. It seems like there's something below the line. I don't know what I am missing. Maybe you could give us a little color on what you actually think Industrial segment profit is going to be in 2018.

Jamie Miller ***General Electric Company - SVP and CFO***

Yes, Jeff, the thing I would probably point you to is that Power in the fourth quarter had a very tough quarter. And when you look at where we thought 2017 would land versus where it did, it was substantially lower there.

Now, when you really deconstruct the fourth quarter for Power, there were really two or three main themes there. One of which is just sort of one-time adjustments and some non-repeat items. Another was the impact of market, as we saw Aero units and AGPs lower than we expected.

Another was really around operations and execution. And as Russell and the team have come in, first, the one-time items piece of it, which is about $850 million, about half of that was a charge for slow-moving and obsolete inventory that we took. We obviously don't expect that to repeat as we get into next year. The other piece of that $850 million was non-repeats from 2016.

The market piece of it, we saw a tough market in the third and fourth quarter across both the Aero business and AGPs. Now, we do expect that to levelize a bit more as we get into 2018 back up. We saw a second half here down.

And then on the operations and execution, and Russell can give more color on both of these. Project cost overruns in Power Gen, Grid, and a little bit in Power Conversion. And then the transactional services piece of it, just with higher field costs and an unfavorable mix.

Now second half of the year in 2017 was tougher on services. On all of these areas, I mean, Russell is putting some very important stabilization activity in place. And we expect to see that Power stabilize a bit more and be above 2017 as we get into the year.

But Russell, maybe you want to give some color on that.

Russell Stokes ***General Electric Company - President and CEO, GE Power***

That's right, Jamie. I mean, the market dynamic within the quarter was $550 million. Lower Aero units at 3 and 17 versus 31 in fourth quarter of 2016. We had lower services upgrades, so that came in at 25 versus 62, down 37. And then there was softness in the market related to Power Conversion that we have been navigating throughout the year.

Jamie is right. On execution, we continue to just do everything we need to to run the business better. We dove deeply into projects and we are working through cost overruns and adjustments that we needed to take in those projects, as we were nearing the conclusion of a number of legacy contracts. Truing up costs with partners on deals that were underwritten back in the 2013, 2014, 2015 timeframe.

Had critical milestones that we were able to hit. They gave us better confidence around what those real estimates are going to be. And feel that we can navigate through that better as we go forward with some of the disciplines and controls we are putting in place.

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Jamie talked about the transactional services element that was in there. So it continued to be softer than what we would like. But I mentioned that Scott and the team have done a really nice job of going out, looking at the field, finding all of our installed assets, and working to understand the outages associated with those assets in the field.

Back in October, we had visibility to only 28% of those outages. We actually can see 70% of those now, which is why we think that versus the 2017 run rate, there is a $1 billion, $2 billion opportunity for us to be able to go chase. And even with those pressures, we did have good cost performance at $230 million of favorable cost in the quarter.

Jamie Miller ***General Electric Company - SVP and CFO***

You know, Jeff, one other thing I would just clarify. Just to be clear, what you had modeled for 2018 is probably roughly similar to what you ought to be modeling now. The thing that changed was 2017, not the 2018 element of the November 13th.

John Flannery ***General Electric Company - Chairman and CEO***

And Jeff, one other thing I would add. Again, we ran obviously a number of scenarios for each business. I would just point out, again -- I will talk about Power in a second. But very strong outlooks in Healthcare and Aviation. Those businesses are really performing well.

And I would say when you look at Power, it's obviously the focus point of this whole discussion. This is a very important franchise. It's going through a very difficult period, but we still have a strong franchise here.

We have 50% share in the high-end technology. We have got a large installed base; a third of the world's electricity. So there is plenty to work with. It's clearly the new unit market is soft.

But as we look -- all the analyses we do show a 0 to 2% ongoing growth in the coming decades for electricity from gas power. So there's opportunity in this business in the franchise itself.

And as Russell laid out, there's basically four things to do to get that on track in terms of rightsizing the manufacturing footprint, working the cash and the inventory and the project execution, maximize the value of that installed base, as he walked through. That is still a very valuable asset.

And then lastly, improving really the management capability and bandwidth and processes. And Russell is all over that. We have made obviously a lot of changes in the management structure of that business.

So it is a lot of work. We said 2017 issues would carry into 2018 in Power. But it is still a good franchise and an important business and we are going to make the most of that.

Operator

Steven Winoker, UBS.

Steven Winoker ***UBS - Analyst***

Thanks. Good morning, all. John and Jamie, could you maybe frame -- help us frame the downside a little bit here? On the liability side and reserving, maybe just what do you do on WMC in the quarter?

How do you see changes there or in some of the other disclosed liabilities that we've seen quarter by quarter? And just give us a sense for that level of reserving that you are operating and kind of the window of sensitivities around it.

Jamie Miller ***General Electric Company - SVP and CFO***

So Steve, I will talk you through GE Capital and just WMC and other things we monitor there. We've got WMC and we have got some other trailing obligations around GE Capital, some of which are litigation-related, some of which are just indemnities from the assets we sold.

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Ex-WMC, we hold reserves on that of about $700 million. That will play out over the next year or two. I think that those reserves are in the right place. When you look at WMC itself, there is a couple of components here. One is the reps and warranties lawsuits that we've disclosed in the past. We think we are fully reserved there at $400 million.

The FIRREA investigation that's being conducted by the DOJ, that was also -- I think we got pretty good disclosure out there on that as well. We have not yet had substantive discussions with the Justice Department. We are early in the process there, so I really don't want to speculate on that one.

Steven Winoker ***UBS - Analyst***

And you didn't raise that out all in the quarter? The reserves?

Jamie Miller ***General Electric Company - SVP and CFO***

No, we didn't.

Operator

Andrew Obin, Bank of America Merrill Lynch.

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

Yes, good morning. Just a question in terms of the impact of oil price on your business. And I think the question is twofold. I would've expected sort of better Water dynamic at Baker Hughes. But then also looking at your exposure to energy-rich regions, what does that do for your ability to collect better in 2018?

Jamie Miller ***General Electric Company - SVP and CFO***

So first on Baker Hughes, they have a call at 9:30 where Lorenzo and Brian will take you through that. When you look at the oil-rich regions, I'd say a couple of things from a finance perspective.

One is we did see some order uptick across some of our businesses in those regions in the fourth quarter. In terms of the ability to collect and really work through some of the other more operational issues, I think this can be a favorable thing for us in 2018.

In Oil & Gas in particular, it's really a longer-cycle business here. So when you think about the recovery, while we are starting to see some activity in oilfield services, turbomachinery solutions, things like that over time should benefit.

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

Just a follow-up if I can. What about divestitures? How does that figure in your EPS outlook?

Jamie Miller ***General Electric Company - SVP and CFO***

When you look at the divestitures -- so we moved some of those to held for sale this quarter. We have got about -- well, we've got a handful of business and product sales, smaller ones, that are in the process right now. The value and proceeds estimate on that right now is in the $4 billion to $5 billion range based on today.

There should be no impact to 2018 for free cash flow and EPS, just based on timing of when we see that come through. You know about Baker Hughes and Transport and IS. Everything else that we are working through, it's probably about $500 million of free cash flow. But that's really more of a 2019 thing.

John Flannery ***General Electric Company - Chairman and CEO***

Andrew, I would just add just in terms of the activity level around those smaller dispositions that good level of interest, very active. Pricing looks good. So we like what we've seen so far on that.

Operator

Scott Davis, Melius Research.

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Scott Davis ***Melius Research LLC - Analyst***

If I was to look at one part of our model that we're probably a little bit insecure of, I should say, it's just around price in Power. And you're taking costs out, but are you comfortable at least that deflation in Power -- and I don't just mean on the OE side. I think we've seen that for 15 years.

But on the service side, are you comfortable that that has stopped as the rate of change? Or maybe just Russell could fill us in on where we stand there. Thanks.

Russell Stokes ***General Electric Company - President and CEO, GE Power***

Yes, so we continue to work through the assessments on what's happening in the transactional side of the business. So we've been paying attention, I would say, to it holistically around total margin performance.

There is an element of price that we have acknowledged that we felt up to now, just given that we did not have the level of attention that we should have had on that portion of the business. We also acknowledged in the past cost overruns around some of the execution that had taken place as well.

I feel with the exercise that Scott and the team that is working through that we ought to be able to see things stabilize. And actually look at how we provide a better set of product offerings to be able to support the transactional fleet as we go forward. But that is still a work in progress.

Scott Davis ***Melius Research LLC - Analyst***

So Russell, I mean, one of the things that -- your competitors have always said that GE is a little bit tough on price. And maybe you guys had made some decisions in the past that weren't economic.

Is that something that has materially changed under your watch? You are going into projects and contracts with more discipline?

Russell Stokes ***General Electric Company - President and CEO, GE Power***

So across the board, we are implementing much more disciplined underwriting practices. There is a new strike zone governance process that we are managing with myself and our CFO as well on the different levels of deals that we are willing to go do from a price, terms, and cash performance.

The process is definitely tighter than I would say than it was in the past. And we believe that that is going to be good for us in the long term.

Operator

Gautam Khanna, Cowen and Company.

Gautam Khanna ***Cowen and Company - Analyst***

Yes, I was wondering if you could just expand on the nature and the scope of the SEC investigation into contract assets. And whether -- how far along you are in that internal review of the fidelity of that balance right now?

Jamie Miller ***General Electric Company - SVP and CFO***

Sure. I can comment on that one. So this is a space, CSAs, that I've spent a ton of time on over the years. This is something that at the Company level we have really exhaustively reviewed it. We've got a deep finance team, a deep controllership team.

And as the SEC has started to take a look at this, I would tell you it's very early days. As I have come into the role, I mean, just like John, I am going through a very deep review on pretty much everything in finance.

Look, there is nothing here that I am overly concerned about. But look, if I see something, we will deal with it. But I don't see anything at this point.

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Gautam Khanna *Cowen and Company - Analyst*

And to your point, it's early days. Just to follow up --

Jamie Miller *General Electric Company - SVP and CFO*

Early days in the process with the SEC, yes.

Gautam Khanna *Cowen and Company - Analyst*

Okay. And to follow up on an earlier question on GE Capital and potential liabilities not reserved for. I'm just curious -- to the extent that there is any exposure, maybe it's on some of the residual WMC or what have you, where is it? Where would we possibly have some exposure that maybe isn't fully reserved for now.

Just because the charge that you talked about last week that was going to hit us in Q4 and did was bigger than we expected. I'm just curious -- you've kind of gone through everything or have you? I mean, are we still in the discovery mode of some of the liabilities from years back that could actually bite us?

Jamie Miller *General Electric Company - SVP and CFO*

I think we've got a good inventory of what we see. And as we've gone through this, I think our reserves are appropriately set. I think what will play out over the next year or two is really the work with FIRREA and the Department of Justice.

And look, as that plays out, we will see where that goes. If we need to take additional actions in GE Capital, we will take them. But it's really too early to speculate at this point on how that could land.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie *Goldman Sachs - Analyst*

Jamie, I wanted to ask you a question. Earlier, you made reference to the better cash flow in 4Q partly being related to some timing. It sounded like some receivables timing in 4Q.

So I'm just curious. As it relates to the 1Q cash flow number -- last year, I think you guys were down about $2 billion to $2.5 billion of free cash flow. Is the expectation then for 1Q that it should be then worse than it was last year partly because of this timing?

Jamie Miller *General Electric Company - SVP and CFO*

I don't expect it to be worse than last year. I actually expect it to be better than last year. I think what you are going to see, though, is a bit of a push around progress timing. If you remember, we were really hit by progress coming into 2017 in the Renewables business. And that should be a non-repeat going into 2018. So that should be helpful to us.

Having said that, with the timing of progress between fourth quarter 2017, first quarter of 2018 that we saw with Power and Aviation, that's going to swing back around. So I do expect it to be negative, but not nearly as bad as last year.

Joe Ritchie *Goldman Sachs - Analyst*

Got it. That's helpful. Thank you.

John Flannery *General Electric Company - Chairman and CEO*

Just beyond that, that whole cash thing. Obviously, with orders and deposits and things, those things move around in a discrete manner. What we're really focused on is driving the machine behind our inventories and our supply chains and our commercial terms.

So these will move around a little bit based on discrete orders. But what we are really tracking is how are we doing on managing the overall machine, if you will.

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

Got it. And John, on that point, there's been no change then to the $2 billion or so in working capital improvements that you are expecting in 2018?

Jamie Miller ***General Electric Company - SVP and CFO***

That's correct. In fact, I expect it should be slightly better than that.

Operator

Robert McCarthy, Stifel.

Robert McCarthy ***Stifel Nicolaus - Analyst***

Good morning, everyone. The first question is just on the raise in the effective tax rate for modeling purposes in the outyears for Industrial. How does that affect how you are thinking just conceptually about cash, CFOA, and Industrial free cash? How much of a potential headwind could that be in the outyears?

Jamie Miller ***General Electric Company - SVP and CFO***

I think over the next several years, the impact of the transition tax should be quite small. We are modeling mid- to high-teens tax rate over the next couple of years, really as we've got credits and other losses and deductions that will continue to carry us through.

As we get out into the 2020s, that rate will moderate into the low 20%s. In terms of the cash modeling, for the near term, we don't expect a significant shift in that profile.

Robert McCarthy ***Stifel Nicolaus - Analyst***

But over the longer term, obviously, that's a structural headwind.

Jamie Miller ***General Electric Company - SVP and CFO***

Over the longer term, I think we have to see what our tax positioning is. Look, I think it's hard to speculate at this point three to four years out on that one.

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

Thank you, John. Before we wrap up, I would just like to thank everyone for joining today. Reminding that a replay of today's call will be available this afternoon on our investor website. John? To you.

John Flannery ***General Electric Company - Chairman and CEO***

Great, Matt, thanks. I'd just wrap up by saying there is really three thoughts as I look at the quarter and then move ahead into 2018. One is, as we said, we are deeply focused on running every asset that we own in a more effective manner.

So back to basics on costs, cash, capital allocation, people, project execution. And I think you saw signs of that in Q4. I'd call the green shoots on that in Q4, and that's really the core focus of the business into 2018.

We did talk in November about focusing on Power, Aviation, and Healthcare. We really like the franchises we have in all three of those. I will do whatever it takes really to make sure that those businesses are positioned to flourish in the future, have the right resources, have the right investment flexibility. And we are looking at any option we need to think about in that context.

And we are really thinking about not just how they flourish in 2018, but 5 years from now, 10 years from now, 20 years from now. What is the best outlook for those businesses that we can create for our customers, for our teams. And when we have that right, obviously, it will work for the shareholders.

And then the last thing I really just want to say is to the best part -- I've got almost six months under my belt as CEO. The best part has been just watching our GE team up close. It's an incredibly passionate team about our businesses, about serving the customers, about each other.

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And I would say most importantly, in the context of 2017 into 2018, it's a deeply competitive team. And it has a will and a deep desire to be a winner.

And so when I look at the overall picture for GE, I always come back to that. I always come back to the strength of the 300,000 employees. I would just say as we head into 2018 and go into battle in 2018 with that team and with the strength of the businesses, I'd just close saying I'm confident we can do this.

So thanks for your time and we will see you in the future. Thanks.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. Good day.

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