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EDITED TRANSCRIPT

GE - General Electric Co Investor Update

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CORPORATE PARTICIPANTS

David Leon Joyce *GE Aviation - CEO, President and Vice Chairman of GE*

Jamie S. Miller *General Electric Company - CFO & Senior VP*

John L. Flannery *General Electric Company - Chairman & CEO*

Russell T. Stokes *General Electric Company - Senior VP & CEO and President of GE Power*

CONFERENCE CALL PARTICIPANTS

Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder and Managing Partner*

Martin A. Sankey *Neuberger Berman Group LLC - MD*

Scott Reed Davis *Melius Research LLC - Research Analyst*

PRESENTATION

John L. Flannery *- General Electric Company - Chairman & CEO*

Great. Good morning, everyone. Not sure we've achieved the Rock Center air-conditioning in here, but we'll carry on from here. So today is November 13. It's a date that's been in my mind for a long period of time, as you can imagine. It's been just over 100 days since I became CEO of the company. I have to admit, I'd say the first 100 days didn't go maybe exactly the way I was expecting, but in many ways, they've really been a gift for me. So I knew there were certain questions that were going to be confronted: Where can we grow? Where are we right now as a company? What opportunities do we have? I knew there were a few things that I really wanted to get after just straight away in terms of operating the company, building on our culture, really sharpening our sense of accountability and rigor and transparency and pushing the teams and putting everything back on the table, I'd say, culture-wise, for the company; getting to a place where our operating businesses could really perform consistently at entitlement levels; and trying to simplify the metrics that we use to keep track of all those things.

The third thing really was just what defines a classic GE business? Things around strategic positioning, things around financial profile, things around fit and make sure that we could really focus the resources of the company and the efforts of the company and the bandwidth of the company on those key assets and businesses.

And then lastly, work really with our Board of Directors to think through what's the right size of the board, what's the right mix of composition of skills going forward to support the company. So those are 4 things we'll update you on. We've made a lot of progress in 100 days here. There's a lot to do. This is a heavy lift, but we know where we're going. So we'll walk you through that today.

The gift part of the first 100 days is, in reality, I was forced to confront a lot of other sort of deeper questions about the company. What's the essence of this company I love so much? I've been here for 30 years. Why do we exist? How do we impact the world for the next 100 years the same way we have for the last 100 years? So trying to get to the bottom of those questions and think about those really force you to look for the soul of the company again.

And in essence, I'd just say GE is a company that matters to the world. So for 125 years, we just tackled the biggest challenges the world faces. So light, flight, health, these are the absolute underpinnings of the modern world. It's always been this mix of sparks of innovation with just sheer determination to succeed. It's been a company that does things, solves things, lines things out, sweats the details. The harder, the better, bring it on. That's been the essence of the company, affecting the world for over 100 years.

I just want to give you a few examples of what's going on and expresses that maybe right now, as we speak. So as we're here today in Atlanta, we have a -- GE Power has a digital diagnostic center. Right now, they're tracking conditions in over 900 different power plants, 60 countries around the world, 350 million people being served by those power plants. They're ingesting 2 billion pieces of data every single day, coming off of sensors in about 5,000 turbines and generators. So this is digital. When you think digital industrial capabilities, this is it on steroids.

Our Aviation business. Right now, 300,000 people, as we're here, are in the skies, sitting in planes powered by GE jet engines. That's the size of the city of Pittsburgh.

And then lastly, the business I came from, our Healthcare business has 1 million scanners in service around the world today. And so just in the time I've been speaking, those scanners have generated about 50,000 scans. And so when you think of all the families, all the information, all the knowledge that's come out of those scans in just a few minutes, it's really tremendous. I could go on and on, but the world basically sees things. It moves, it heals, on the back of GE technology.

Even with all of these incredibly positive impacts on the world, strong franchises, we'll talk about that today, lots of strengths, we have not performed well for our owners. So I said this on the earnings call, I'll say it again today. That is unacceptable, and the management team is completely devoted to doing what it takes to correct that. We'll walk through that journey with you today. You'll get a very specific sense of that. Going forward, we really just have to focus on how we can create the most value in the portfolio of assets that we have for our owners, and we're going to do that with a very dispassionate eye, very critical, analytical, dispassionate eye.

The GE of the future is going to be a more focused industrial company. It'll leverage a lot of really game-changing capabilities in digital, in additive, in industrial research. Culture of the company, much more open, much more transparent, much more connected. And at the end of the day, we really exist to deliver outcomes for the customers, performance for the owners and have an environment where our employees are motivated by, excited by, rewarded for delivering on those 2 things.

Lastly, I'll just say we're not in the mission alone. So we are deeply grateful, first and foremost, for our customers, for our partners. We're proud of our employees. We're proud of the company. And soon, we're going to be proud of the performance.

So let's walk through the materials for the day here. I'd start just by pointing you to this slide, just as a reflection, the 125-year history of the company. On one level, this is just an incessant stream of technology breakthroughs going back to the first light bulb, the first X-ray, the first jet engine, the first CT, the LEAP, the H turbine. The company's constantly been a technological breakthrough company. But the real message, I think for today, for us and this is really what I have our teams focused on right now is, the real messaging here, the company has constantly leveraged its technology strengths to remake itself over time. It's leveraged those skills. It's brought passion. It's used its grit to move forward and reinvent the company, and that's really where we are again today, and that's what we want to share with you. Time and time again, we've proven we can do that. We're doing it right now. So it's a heavy lift. But I think for our teams, what we're motivated by, this is the opportunity, really, of a lifetime to reinvent an iconic company.

So we're going to share a lot of material with you today. There's really, if I had to synthesize it into 4 messages, it would be the following 4 things: one, strong franchises. We can improve every single one of them in terms of the way we operate, cash flows, costs, people, teams, execution, but there's a lot to work with in the core business.

Second in that category, our Power business is a challenged business right now. We've got a lot of work to do. Russell will take you through that. It's a heavy lift to turn around, but it's a fundamental asset, strong franchise in an essential infrastructure business. We can improve that a lot in the next 1 to 2 years.

The second message, 2018 is a reset year for us. Jamie will walk you through that. We see adjusted earnings per share of $1 to $1.07, free cash flow of $6 billion to $7 billion. But fundamentally for us, this is a base upon which we can grow earnings and cash going forward.

The third is around capital allocation. You saw this morning that we announced the reduction in our dividend. It's in the context really of focusing on managing the company for total shareholder return. I'd just start by saying we understand this is an extremely painful action for our shareholders, our owners. We're reducing the dividend by 50% to $0.48 a share. Not a decision we took lightly. It was after extreme deliberation and consideration what the alternatives were. But we really want to move the company -- and we'll go through more detail of this -- into a balanced total shareholder return of mix of dividends and mix of organic investment and mix of share buyback when that makes sense, a mix of M&A when that makes sense.

And then lastly, I'd say what's most important, ultimately, for everybody is where do we go with the company in the future? This is all really in the context of making us simpler and easier to operate. Complexity hurts us. Complexity has hurt us. So the context of talking portfolio is around a simpler and more focused GE. We're focused on strong end markets and areas where we have competitive advantages, areas where there is opportunity for digital disruption, areas where we can earn premium returns. That's where we want to concentrate our resources going forward. And in that context, there's a lot of optionality and upside in other assets in the portfolio. So we talked in the earnings call about $20 billion of asset value, of divestiture. We're going to give you some more color on that today. We also have a stand-alone entity in Baker Hughes GE. This is a good company. We've just appointed a committee of our board, a new committee of our board, the Finance and Capital Allocation Committee. And the first thing I've tasked them to work on is evaluating our exit options on Baker Hughes. I'll talk more about that later.

I know there's a lot of curiosity about our portfolio moves. I get questions all the time. What about this? What about that? And I would just say it's a deliberate process. It's in a context of creating shareholder value, and we'll do it and move it and do it in a form that makes sense for our owners, and we'll share that with you as we go forward.

So let me just give you a background on the process that we've been through. So I've spent the last 100-plus days doing an exhaustive dive with the teams around our entire business. So we've looked at this really sort of 2 ways: one is vertically. So we've gone through every business in detail, visiting the businesses, meeting the teams, looking at financial profiles, strategic thinking, opportunities to grow, opportunities to improve, very deep, by business. And then we've also looked at the company horizontally, the things that we do in the center of the company that really the whole company leverages. So things like corporate research, things like our global growth organization. Are we spending the right amounts of money there? Which businesses actually leverage those? We've also spent a lot of time outside of Boston, talking with our teams, meeting with customers, meeting with investors, hundreds of investors. And I'd say the net takeaway for all of you, it's been exhaustive. It's been clear. We know where the issues are and where the opportunities are, and we're moving forward with full recognition of them.

The conclusions, I'd say, out of that whole exercise really are going to guide what we talk about with you today. And I'd say, I'd break them really into 2 categories. There's a set of things about the businesses themselves, I call that the hardware part of the thinking. And then there's an important thing about how we run the company and how we're going to run the company going forward, and that's really the software part of the thinking. I think if you look on the hardware side, again, strong franchises as we look across the portfolio. Sharp focus on capital allocation and portfolio focus on cash and returns. Our best businesses do this time and time again. And then I'd say digital, our results vary, where they are the strongest and the most consistent and the most interesting for customers are where we apply that in a narrow set of products into a very focused core installed base market. So those common themes around the businesses ring true. And then I'd say the software aspects of the company, how we run the company, these things are massively important to me. I'm just a big believer that this is really the secret ingredient that magnifies all the technical skills we have, and we'll walk through a lot of change we're making here. There's changes at the board. There's changes in the senior leadership. There's changes in the culture. There's changes in the compensation system. So we've done a lot. We know what we need to do going forward here.

I want to use maybe a road map or a comparison. If you're trying to think of the work we're doing and the way we'll move forward, and this whole process has reminded me a lot of the time that I joined the Healthcare business, which was late 2014. The conclusions that I've seen from this exercise remind me very much of the Healthcare experience. I'm cognizant this is a much bigger scale and larger scale, but the same principles absolutely ring true and apply. And I'd say the first impression I had joining the Healthcare business, this was a business that had not been growing. Many people wanted us to sell it or dispose of it, and I walked in and spent time with the teams and the customers, and okay, this is fundamentally a very good business. Big installed base, big change in the industry, secular growth. This is a good business. And we really just stepped back and said let's focus on 3 things. Let's focus on operating rigor. Let's focus on capital allocation and let's focus on the culture of the business. And so I'd say on the operating rigor side, this was a devil's in the details. Good IT systems, really drilling into information about the company, really managing costs, investing in productivity. So you can see here, we doubled the productivity in 2015. We doubled the productivity in 2016, adding to that total in 2017. So I'd say back to basics around operations.

Second thing is around capital allocation. So we continue to increase -- modest increases in our overall investment in technology spending, in product launches, but there was huge differentiation inside of that portfolio. So we doubled down heavily on things like Life Sciences, the ultrasound business, our emerging market business, and we cut back in a lot of other places. And I'd say the organic growth in the areas that we've invested has been quite good.

And then lastly, I'd say culture. Again, you'll hear that all day long from me. We spent a lot of time on the customer, in the team. We ended up changing about 80% of the team in the first year. We drove relentlessly a culture of candor, accountability, debate. And I think you see in the results of the business over the last several years, the team there has done a fantastic job, and you see rising earnings. You see expanding margins. You see incredible cash flow. And so this, again, is a business that many people had given up on in 2014. It's clearly a much stronger asset today, and we still have all the strategic options that we had back then. So if you're looking for a road map, I think, of thought process and direction. This is a good place to start.

So let me walk through conclusions here, as I said before, from this process. One, strong set of franchises: 85% of the earnings of the company come out of businesses where we had the leadership position in the industry. Baker Hughes has a very strong, what we call, full-stream offering right now. That's getting a lot of traction. So if you look on the right side of the page, this is the bedrock of these franchises. It represents decades of heavy investment, domain expertise, technology know-how, LEAP engines, H turbines, incredible breakthroughs in Healthcare and Life Sciences. This has been earned with investment and decades of effort, able to leverage that over a very broad base. So we've got huge installed bases in most of our franchises, incredible global presence, 180 countries. And then we multiply those 2 things with good management teams, improve them where we need to and teams that are investing for the future in things like additive, things like digital, that can create a new era for customers. So we have a lot to work with here.

I want to walk through just quickly the businesses to give you a sense of things. On Power and Aviation, Russell and David will give you a much more detailed walk here. I'd start first with philosophy or my management philosophy, which is really one of a small central government. I am not trying to run these businesses day in, day out. These are things that have to happen inside the business, have to happen close to customers. That's where the action is. What I expect is really incredible financial discipline, incredible rigor around strategy, around engineering. I expect discipline and rigor, and I expect good information coming to me and our team at the corporate level to evaluate that. As I think of all the businesses, I'm really focused on some of these things in the right-hand side column of the page. So the businesses running day-to-day, I'm kind of, from my exercise of evaluating these businesses, focused on the right. So Power. Good franchise, tough market, and we have exacerbated the market situation with some really poor execution. It's fixable. Russell's been 20 years in the company, knows the energy space from his previous job. He's been in Aviation, has been in Transportation, understands services business. That's what I'm watching going forward. I'd say the Power business, cash, cash, cash; we need quantum cost out; we need rationalization of our factory footprint. Those are the things I'm focused on watching Russell here.

The Aviation business, that's an incredible asset. This is GE at its best. David will walk through that. We don't really have a red check mark on this right now, that probably David is the red check mark by itself. He can't get too comfortable with that. But what I'm really focused on here, the team's amazing. I'm focused on the LEAP launch in particular, and we get the engine cost down. Can we get the working capital to come down and the CapEx to come down as we go through the maturation of this launch process? So I spent a lot of time with David on that. And this is the home of our additive business. He's going to talk about that. There's a lot of potential for applying that. I spent a lot of time on that.

Healthcare. There's good global growth in Healthcare, and there's a lot of opportunity and optionality in our Life Sciences business. I think on the challenging side in Healthcare right now, there's a lot of digital disruption in the business. We're extremely active ourselves in it. No one's really, I'd say, found a good economic model to do that. But I think this digital disruption in the Healthcare business is inevitable and is really here and now. The team is running this business extremely well. The things I really focus on, emerging markets is a big, big part of the business and a big opportunity for the business, and I'm keenly interested in our cell therapy business. This is a relatively small business inside of our Life Sciences arm, but has the potential to be, I'd say, Life Sciences 2.0, lot of activity in that space.

On Renewables, strong growth curve for this business right now, a lot of disruption in the space. Jerome and the team have very strong capabilities in onshore wind. There's a lot of work going on in storage. You know that's a huge part of the industry right now, and Jerome and the team working with our research center, in particular, on a lot of interesting things in storage. And the merger of renewables and storage, obviously, a mega trend in the industry. The challenge in that business and things I'm focused on is really the margin rate. This is an intensely price-competitive industry, and margin rate and getting our product cost down and making sure our LM acquisition performs well is a key thing for us.

And then our last 2 businesses. Baker Hughes GE. This is, right now, a public reporting entity, so there's a lot of information out there for you on that. Merger going well. Lorenzo and the team doing quite well, good meshing of the GE and Baker Hughes teams. Fully committed to getting the synergies that we outlined there. Those are on track and fully committed to getting the value creation of mixing things like GE's digital capabilities with Baker Hughes' service capabilities. So we like the team. We like the business. We expect good growth in this business over the next 2 or 3 years in terms of top line and earnings. The problem and challenge that we have in this business is the cyclicality and the commodity nature of the business. So it tends to overwhelm a lot of the management actions and you've seen that in this business going forward. So a strong business, a lot of commodity and risk exposure.

And then lastly, our Transportation business. This is another extremely strong franchise. We've been in this business for decades. We have really unbelievable customer relationships and intimacy. It's slow in North America. That's what I'm focusing on, is how do we move internationally? How do we maintain margins as we expand the business internationally? And lastly, how do we get the cash flow stronger in that business as we have a slowdown period? We should have working capital liquidation. We should have reduction in capital expenditures. So those are just a quick overview of the businesses and the things that I'm looking at. But again, day-to-day, these are to be run by the leaders of the businesses, and that's a philosophy of mine.

So those -- that's a look at the businesses as businesses. We've also stepped back and looked at them as a portfolio. And we did a lot of detailed work here, not just at the level I walked through, but deep into Tier 2 and Tier 3 subsidiaries inside each one of these 6 businesses. And I'd say we looked really on 2 principal axes here; and one is competitive advantage, one is -- was end markets. Our best businesses have very common traits. Real differentiation based on domain and technology, real customer industry -- intimacy, real understanding of how they work. Areas where there are critical assets that can't fail; areas where brand and scale and reputation and reliability hugely matter. These are the things that we see time and time again. And then on the end markets, I'd say we look for things you'd expect: secular growth; end markets characterized by good margins; end markets that have a reliable risk-adjusted rate of return on capital, not too much volatility for the return. So the businesses that don't fit this screen are not necessarily bad businesses. Many of them are actually quite good businesses. But there may be a value-creation opportunity and a future for those businesses that's better in some other form or construct than inside of GE. So that's really the process and the thinking and the filter and screen that we applied.

The initial output on the right-hand side. We touched on some of this in the earnings call. So first, $20 billion of divestiture over the next 1 to 2 years. That is going to include our Transportation business, Industrial Solutions, Current and Lighting and approximately 10 other smaller transactions. So we'll move forward and execute on those as we go forward. The form and fashion and how we do that, we'll decide case by case as we do that.

Second, when you look at reducing our volatility, reducing our commodity exposure, that leads you obviously to a discussion of our Baker Hughes GE business. As I said earlier, we formed a committee, new committee on our board, the Finance and Capital Allocation Committee. The first thing I have tasked them with reviewing is our optionality in Baker Hughes. So that's what's going on inside the company. Again, the team is strong in Baker Hughes, the merger going well. We expect that to grow significantly, and we'll evaluate what options we have and we're committed to supporting that business going forward. But when you look in many ways at the transaction we did when we merged GE Oil & Gas with Baker Hughes, part of the deliberate thinking of that transaction was to create optionality with that asset, and that's what we're evaluating right now.

And then lastly, just as a general comment about the portfolio and simplifying the portfolio and ongoing thinking about the portfolio. This is the kind of thing that never really stops. I think as businesses change, as markets change, we have to constantly keep looking what are ways, what are creative ways, what are smart ways to build on the assets that we have and continuing to create shareholder value? So this, to my way of thinking, is a perpetual analytical process.

Let me walk through in a couple of slides here, capital allocation, principles and some details around 2018. I'd start by just saying this is a critical, critical aspect of the company. The -- as I said, businesses run the businesses. That's their day-to-day task, we're there to support that, help that, leverage across the business where we can, but businesses run their operations. My job, our job at the center of the company, really is to allocate the financial resources, the financial capital of the company and the human resources, the human capital of the company to the highest and best use. That's fundamentally what's going to characterize good performance for us from a central perspective. And this is an area where the company needs to improve. In the last several years, we've not generated the rates of return that we would like to. As I think about this, I think on 2, I think, basic principles before we get into the rest of this. One is this happens every single day inside every one of our businesses. We have to be cognizant of that. We tend to talk about dividend policy and share buyback and M&A. Those are clearly critically important things. But the reality is, most of the capital of the company, most of the investment decisions in the company, are happening every single day inside of the businesses. What new products do I launch? Should I build a plant? Should I hire salespeople? Should I build inventory? These are capital decisions. Every single dollar that we're spending and investing is a capital allocation decision. So that's one. Allot the capital, and I expect the businesses to be intensely analytical about it, which is point number two. This is a deeply rigorous, quantitative, market-backed exercise. That's what I expect of the teams. I expect rigorous debate. I expect rigorous tracking of how things are going. I expect a lot of pushback. Capital allocation is a contact sport, would be my second point there.

And then lastly, just as a principle we talked earlier, you can see here TSR, a focus on cash generation and orientation to organic investment and then a balanced approach to dividends and buybacks and M&A. So this is a unique vantage point that we have as GE. You see a lot of things inside our company, see a lot of things outside the company and allocate our investment resources and time and effort and bandwidth to the highest and best opportunity. So that's just a background.

For 2018, couple of thoughts here. First headline I'd say is prudent financial policy as we go through the reset. So a strong cash position, again, balanced capital allocation inside the business. We're going to continue to invest in R&D. We think our capital expenditure and investing should be coming down as some of these product launches mature and a payout of $0.48 a share on the dividend.

The most notable second point I'd make here is with respect to funding our pension plan. So we have looked at the environment, looked at our pension plan situation, and we're going to take advantage of the rate environment that we see right now, the economics that are available to us right now and borrow $6 billion and contribute that into our pension plan. And that will essentially prepay or pre-fund, if you will, cash contributions that we are obligated to make in our pension plan for 2018, 2019 and 2020.

And on the right side of the page, just much more analytics, discipline, and frankly, central discussion of capital allocation. I still want the action to be in the businesses, but we need to know what's going on. We need [to compare] capital being deployed in one business against capital being deployed in another business. So a lot more rigor and we'd set up a whole organization at my level to really track this carefully.

With respect to the dividend, again, I just want to reiterate, we understand how important the dividend is to our shareholders, especially the people who use it for current income. We've gone through exhaustive analysis of this, but I want to start, first and foremost, with a full recognition of the gravity of this decision and the effect it has on many people. That said, the reduction of this dividend to $0.48 is a product, really, of where we are as a company right now. So we had a $0.96 dividend established. We had a path where we thought the industrial cash flow generation would grow, that would grow into the dividend, that we'd end up in 2018 with a payout ratio that was quite comparable to what you'd see from our peers. The reality is that hasn't unfolded that way. The cash profile has not unfolded that way, and we've been paying a dividend in excess of our free cash flow for a number of years now. And while we had the financial wherewithal on one level to do that, we just don't think it makes sense for the company going forward. And we think a much more balanced mix of dividend and organic investment and external investment makes sense for our owners over the long haul.

So last point I'll say on this, we are intensely focused, and you'll hear us all day, on the cash generation of the company, discipline in the company, taking cost out of the company, restoring the oxygen of cash and earnings to the company. And that's openly what we'll be able to use to grow and expand the dividend going forward.

Last thought on capital allocation is M&A. Headline here, I'd say, limited amount of M&A over the short term. That's point number one. Track record is mixed. So when I first took the business development job in 2013, I did a 10-year retrospective of all of our transactions. And I'd say it's a pretty similar picture then to what we see here, which is it's okay. It's in the aggregate. It exceeded our weighted average cost of capital. It's been accretive to shareholders in the aggregate, but way too much variation. And so we see common themes where the hit ratio is higher: smaller transactions, closer to home in terms of industries, less integration risk, supply chain deals, bolt-on deals. So that's really where we're going to focus going forward.

And I'd like to just take a minute to talk about Alstom. So Alstom has clearly performed below our expectations, clearly. I don't need to tell you that. We bought Alstom really for 4 principal reasons. One was the installed base and a multi-decade service stream and the ability to replace the sockets as the installed base ages. That's one. Two was a broader product line in areas like steam, in other areas of the power island, that we'd be able to cross-sell those products into GE projects. Three, a tremendous amount of synergy. Operating energies, cost synergies, revenue synergies in certain

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places. And then fourthly, we were impressed and continue to be impressed by the talent and the people in Alstom. We've added a lot of incredible people to the company, and we're quite proud of the Alstom associates. I'd say on one level, those core principles of the acquisition have played out in their own way as we expected.

The negative to those things have been significant, though, the market clearly dramatically lower than what we underwrote in that business. And then I'd say the company itself, Alstom, was hurt by a very extended closing process and a lot of losses that were in some of the project businesses, especially in the renewable and some of the grid pieces. So net-net, this is a business, I'd say, is at a sort of a single-digit return right now, disappointing, below expectations. But this is also an asset that has 20-, 30-, 40-year life to it and Russell and the team, our task is to just work the hell out of this right now. So that's just some thoughts on Alstom. Headline, don't expect a lot of major M&A in the short run here.

Lastly, I want to talk about digital. Digital continues to be very key to the company. Jeff was very early in his seeing this trend, and I'd say we've only had growing validation of what we're seeing and able to achieve with customers. So I'd say the main message from me to you about digital is a much more focused strategy. We're still deeply committed to it, but we want a much more focused strategy.

This chart here on the left, the main thought here is we're going to focus on a handful of applications, so APM, OPM and ServiceMax. These are -- get very good traction. We're going to focus our platform investments on the things that really differentiate in an industrial world, the things like the Edge to Cloud, things like Digital Twin. And then we're going to sell these focused platform and applications into our installed base. That's where we want to focus now. So when we look at that, the productivity and traction that our salespeople get selling those products into our installed base is extremely high. Win rates twice as high; cycle times half as long; deal size, 4x, 5x, 6x larger than the average deal. And we've only penetrated a small percentage of the installed base right now. So we look at this as a focus that's going to allow us to spend less money. In 2018, we'll spend about $400 million less on this. But we see accelerating traction in the area that we're focused on. So we think that Predix product revenues will double in 2018 to approximately $1 billion.

GE board. The process to think of, refreshing, self-assessing, fundamentally healthy one at any aspect of the company. We've been looking through this lens at every aspect of the company and the board is one of them. So I had a notion, I think, as I started, around the idea that a smaller board and that a board with some new members with key skills relative to where the company is going, that those 2 things could make sense for us as we start here. The board itself was in its own self-examination process and self-assessment process that commenced in the summer, in July of 2017. The output of sort of my thinking and collaboration with the board and their process is that for the 2018 slate, we'll be announcing a slate of 12 directors versus the current 18, and 3 of those directors are new. And how we determine the composition of that slate is something we'll go through in the normal GE governance process. We have a governance process on the board to do that. I want to thank the board just now for incredible service and dedication to the company and real support for me in the transition. They've been nothing but encouraging to look at the company freshly and do what I think makes sense for the company.

Just a little bit on leadership team. You've seen there've been significant changes in the leadership of the company at the GE level, significant changes inside the GE Power business. I'm just a believer that there's a lot of power and benefit in melding fresh eyes with people that have institutional memory. And this is something that worked extremely well for me in Healthcare, and we're going to do the same thing again here with the company. And I think this is something that every business unit inside our company should be constantly examining. So this is the go-forward team. About 40% of the team is new since June. I love the team. You'll get a feel for that later today. I especially love the team dynamic. This is a team that's comfortable with debate back and forth. It's a team that's competitive as hell, a team that's fun. And I feel very confident working with this team going forward.

And I'll finish up here with just some thoughts around metrics, compensation systems and culture. These are hugely important, and the interplay of these things are hugely important, I think, in terms of getting the most out of our assets, the most out of our businesses, the most out of our teams. So some people view these things as softer. I view them as really essential.

If you look at metrics, this, again, an important chart. We had a lot of metrics, sensible metrics, that I'd say there was a premium in that universe on top line growth, on operating profit. Nothing wrong, obviously, with either one of those metrics, but we really needed to close the loop more with a focus on cash, cash flow, free cash flow. So if you look on the left, you can see just a growing delta between what our operating earnings were, our operating profit earnings were and our cash earnings. So as we go forward, we're going to focus on much simpler metrics, a handful, things like revenue and operating profit, free cash flow. Free cash flow is a much more penetrating metric. It incorporates, obviously, capital spending, software spending, et cetera. So cash is going to be a huge focus, and simplification of metrics is going to be a huge focus as we go forward.

Compensation, obviously, metrics drive behavior. Compensation rewards behavior or not. And just a couple of big thoughts here. If you look on the left-hand side, this is really the current compensation scheme that we have in the company. It's 3 parts. There's an annual bonus program with its own set of metrics. There's a -- that's paid in cash. There's a 3-year longer-term bonus program with its metrics, that's paid in cash. And there's an equity component of the compensation.

If I had to summarize the left-hand side of the page, I'd summarize it as saying lots of metrics, lots of cash. If you look on the right-hand side, we're going to make significant changes. We're right in the process now of compensation, especially for the senior executives of the company. Much more equity is the biggest point. Today, for its senior executives in the company, equity would be probably about 20% of their compensation. It's going to be 50% of their compensation. My compensation, 100% equity compensation, PSUs, equity granted over 3-year time period, simple set of metrics. So I think if you take this in totality, a movement away from cash, a movement to equity, a movement away from complexity to simple metrics. And I think it's an environment that's just going to be much more aligned and rewarding of our team for and with shareholders.

Last thing I'd say before I turn it over to David is culture. You've heard me say it 100 times. You're probably sick of it. I'm sure maybe inside the business they've heard it a lot, but I've been in the company for 30 years, 30-point-something right now, August of 1987. I love the company and I've always loved the culture. So I want to be clear on that. It's always been a culture of meritocracy. It's been a culture of compliance and integrity. There's a passion and love for the company inside like you can't imagine. So there are things I just have always loved about the culture of the company, and I've always felt good working here and telling people this is where I work. There are things, though, that I think we can sharpen in the culture, with things that are going to change the performance of the businesses, the performance of the team, and that's really what I'm focused on when I'm talking culture. So these things right here. Accountability, outcomes matter. Effort's good, outcomes matter. Transparency, more candor, more debate, more pushback. Rigor, intense analytics, use data, probe, verify, revisit. And then lastly, consistency, making sure that we have compensation schemes, goals and metrics that drive us to perform on a consistent basis over an extended period of time for investors. So I have spent a ton of time on the culture with our officers, with the rest of the company. And I don't think there's any confusion inside the company about what I expect here in terms of behaviors and motivations.

So that's it. That's where I'd say strong franchises; 2018, a reset year; capital allocation, critical; portfolio simplification, critical. We know what we need to do, and it's show-me time. We have to perform and execute, and that's what we owe all of you.

So with that, I'm going to turn it over to David Joyce.

David Leon Joyce - *GE Aviation - CEO, President and Vice Chairman of GE*

Thank you, John. Yes, good setup. So I'm going to take you through the Aviation business for the next 30 minutes. And I'm going to also take you through our progress on our journey with additive.

So let me start with Aviation. Revenues in 2016, a little bit north of $26 billion, which represented about 35% of the earnings of the company. Largest segment, clearly, the commercial equipment and services market and engines; followed by our military position in engines and services, at $3.5 billion; our commercial being quite lion's share, $19.4 billion. And the remainder of the businesses, which represent a little bit over $3.2 billion, are made up of our business and general aviation portfolio of engines and services, our systems business, our avionics business, digital and third-party revenue for Avio. Now in addition to the engines, as you know, we started our journey with GE Additive in 2016. We did it through the purchase of 2 companies: one privately-owned in Germany, Concept Laser; and the other one, we took a majority stake, publicly-owned company in Sweden, Arcam. And I'll give you a little bit of, like I said, status on where we are on both.

But let's start with the real big market segment in the room, which is the commercial aviation market. There's no doubt that we're selling into a very, very healthy market in 2017 and even '18. You're looking at passenger demand growth for the second year in a row at averaging somewhere around 7.4% forecast. Now these numbers come from IATA, the International Air Transport Association. Now freight growth, 7.5% in 2017, over 2x what it was in '16. And if you break down the passenger demand growth on the right-hand side by region, what you see is that everybody is participating, led by the largest absolute market in the world, which is Asia Pacific, including China, growing at 10.2%.

Now in addition to demand, passenger demand growing, as you all know, airplanes are quite full. Load factors are at all-time highs. In fact, IATA believes that in September, we're going to hit an all-time for the month of September record in 2017 relative to load factors. And not only are load factors high, but we're adding a lot of departures. $1.7 million -- 1.7 million incremental departures in 2017. So a very healthy market. And GE Aviation is very well-positioned in this marketplace to maintain a sustainable leadership position in commercial engines and services. Our backlog is $151 billion in equipment and service in the commercial marketplace. We're building our installed base at a rate of 1,500 engines net per year between now and the end of the decade, and we'll be at 39,000 engines by 2020. And this is a young fleet. This is a young fleet with a very long services tail: 45% of our fleet today in service have not seen their first shop visit. And in addition to the 45%, 18% have only seen 1 shop visit. Now not only do we have a growing fleet of young products, we're on the right airplanes. Utilization is important when it comes to a service franchise: 2 out of every 3 departures in the world are powered by GE or our revenue partner, CFM, our JV partner. In fact, I looked at the data last night, I think it's going to be closer to 69% for 2017.

And finally, if you take our utilization rates, coupled with a very, very young fleet that's growing, you get a very healthy forecast of services at 6% CAGR from now till the end of the year. We see annual shop visits growing from 4,500 per year worldwide on our equipment to 5,600 per year worldwide by 2020. So a strong services portfolio, which creates great ability for us to deliver in the short run.

Now we've also been investing. We are going through what I would consider the largest transformation of our commercial engine portfolio in the history of the company, and it's shown here on the right-hand side. It started in 2011 with the GEnx on the 787. We now are at a win rate of 65% on the GEnx, with a best-in-class dispatch reliability of over 99.95% in the field. We're sole sourced in the 747-8 as well as a 65% win rate on the 787.

Now flash-forward from 2011 to 2016. We take all of the technology investments we just made in 2011 and create the next generation of the narrow-body engines, LEAP. In 2016, we went into service with the A320neo. Now we have 16 customers flying it, August of 2016. 2017, we go into service -- I'm sorry, May of 2017, we go into service with the 737 MAX, sole sourced. We have 8,000 orders of MAXs right now in service. And we're sole sourced on the COMAC C919 in addition to that. Now COMACs had 5 flights of their airplane. They've rolled out their second flight test airplane. Last week, they actually flew 800 miles, no squawks on the engines, we're happy to say. So we are right in the middle of the transition from CFM to LEAP, as we speak. And on the next page, that will be the discussion we have in terms of execution challenge that John talked about in his presentation.

Now flash-forward from 2016 to '17 and LEAP all the way to 2020, that's when our GE9X goes into service. Again, take the technologies that started with the GEnx, add the technologies with LEAP, now make them available for the GE9X, and we can create a product that is 5% more efficient in fuel burn than anything in its class at the time it goes into service. Only GE can do this with our leverageable technologies. And I want you to remember this because I'm going to show you how these technologies now are going to leverage themselves into a new growth market in our military product family.

LEAP. Let's do a little deep dive on the next 2 pages. We came into this generation of narrow-body engine investment with what many would say a very good position with CFM. We're going to leave this generation of investments with a better position. We literally have been able to create more value for you in this transition to LEAP than from CFM, and I'll take you through it. We're first in win rate on the A320neo. We're now running at about 52% over the life of the A320neo program. We're best-in-class in utilization. UBS tracks the utilization. The data's available publicly, to just give you a perspective. You can get 15% more utilization on one of these assets. You can almost get a full flight a day more out of your equipment. That could be as much as $30,000 a day per airplane, $900,000 a month, $11 million a year per airplane. That utilization differentiation is driving price, and it's driving share for us compared to our competition. We're first in emissions. We're first in acoustics. And Airfinance Journal in their 2017 engine poll has ranked us first in residual value, first in remarketing potential and first in investor appeal. We feel really good about the entry into service of this product.

Now where are we? The upper right-hand side of this chart tells the real execution challenges that we're working through every day as we speak. We go from a CFM family of, pick a number, 1,885 engines total this year, CFM and LEAP, to a number that's in excess of 2,200 just on narrow-body engines over the next 3 years in the long-range forecast. This is the challenge we've got, to make sure that we handle the P&E, the working capital and handle the transition mix, which is negative on margin, properly, in this portfolio. And I'll talk about where we are on the learning curve in just a minute.

Let's go back to '17. We told you we would be somewhere between 450 and 500 LEAP deliveries in 2017. We're going to land right at 473. So we'll be right in the middle of the range that we projected for you. I told you we're going to ship somewhere around 885 total engines. That's actually 55 higher than we thought we would ship this year. We're actually delivering 55 more CFMs. And in the long-range forecast, since the beginning of the year, we've actually added 800 new CFMs between now and 2020 to the forecasts. Not only is that helping our mix, but it also is an indication of the strength of that portfolio even as we transition to LEAP. And we're getting price. This isn't just discounting last of model and using the discount last of model to drive volume.

I'll spend a minute and talk about cost. At the end of this year, we'll have taken 20% out of the cost of the product in the first year. We'll take another 23% of the cost out of the product in the second year from the first production engine. And our forecast for next year is to take another 23% out. That'll mean the engines that we ship next year will be 50% less expensive than what we started at the beginning of our production run. In fact, next year, we'll actually, for 2 reasons, for this cost reduction on the learning curve, as well as us getting into the second tranche of customers, which means we aren't in those big launch concessions, we'll actually break even on contribution margin next year on a couple of units as we move out of '18.

Now the left-hand side of this chart is just up here to show you that with this big rate change, this big transition, we feel pretty comfortable handling these rates. If you look at all of the engines that have been manufactured over the last 5 years, GE and CFM represents 68% of the total number of engines built. We have a very robust pipeline with our supply base. We've got a great supply strategy, and we've got redundancy where we need it, in the event we have a problem with a supplier. So we can build these rates, do it with our supply base redundantly, take the cost out and put this program where it needs to be to replace the CFM. Again, we'll come out of this cycle of investment stronger than we went into it.

Okay. So I'm going to switch to the military business. Right-hand pie chart, 33.5% of all the installed engines are powered by CFM and GE. We see this market growing at somewhere between 5% now and 2020, transitioning and pivoting to 9% beginning of the next decade. And I'm going to show you the 3 paths to that growth on the next page. The market environment is pretty clear. Strong market for international modernization, as we all know just reading the headlines around the world, but also a very favorable U.S. budget environment for readiness as well as equipment growth. Now we feel really comfortable in this market because of all the investments we've already made in technology in the commercial marketplace. So we transferred 700 engineers that have been working on GEnxs and working on LEAPs, now in to capture the growth of our military markets so far. We'll transfer another 200 next year, another 219 and another 220 for a total of 1,300 engineers working on the growth opportunities we see in the military space.

Here's the 3 channels in which we're going to capture that growth. First, the left-hand side, which is just expanding the core of engines that we already make. So think about the U.S. Air Force trainer, T-38; been in production for 60 years. They're running a competition to replace it. It's a big program. Both Lockheed and Boeing have chosen us as the sole-source engine supplier for their competitive bids on this program. Probably 2018 will be when they decide on the final winner, but we feel very confident that based on the 3 choices they have, 2 of the 3 are powered by us, and we have a good chance with our F404 of powering the next generation of trainers.

In India, we're working on 5 different applications of fighter jets, light, medium-combat fighter jets in India. Four of those, we're sole sourced on the engine supply. One of them, we're competing on. We're sole sourced on the Korean indigenous fighter, the KF-X. We're sole sourced on the Sweden fighter, the Gripen E. And we're working, along with -- in conjunction with our government on options for Turkey, who is looking at building its own indigenous fighter. So building out the core products we already own.

The middle column, we take the technologies that we've been developing on the commercial space and we bring them in to that nice big installed base for upgrades. So think about helicopter engines, our T700 powers the Apache, powers the Black Hawk, powers the Seahawk. Nice, big installed base. We've created a really nice kit of upgrade for both more power, better on-wing time, better fuel burn. As a result, we've won the kit at shop visit and we've already re-engined more than 50% of that fleet, and are on our way to finish that up in the next 2 years. KC-135s, the C-PUPs, which are the tankers. We have a great upgrade of our CFM engine for that, which is on contract. We've already upgraded 1/3 of those and are on our way to finish the next 2/3. The B-1B Lancer, just started this. We've actually done one upgrade on one airplane. We're under contract to finish up the fleet. Again, technologies from our commercial world back into our military world.

And lastly, we have a small contract to start studying a very exciting upgrade on the Super Hornet, which could be a tremendous value, low cost, high value, for our Navy as well as some international customers that have asked us to look at it.

And then the last part of this column is really the whole next gen of propulsion in the military. So think about what we've just been through on the commercial side, from 2011 to 2016 to '17 and moving into 2020. We're entering that phase in the military world as well. So our T700 is now in competition to be replaced. The decision will be made in 2018. We feel very, very good about our technology. We're under contract for about $100 million to work on that this year. We have invested our own money in this product as well, and we think we have a very strong position technically with a performance as we move into that decision in probably third quarter of '18.

Advanced combat. This is a whole new generation of technologies for sixth generation fighter airplanes. Adaptive cycles, more performance, more range and more heatsink for avionics, for advanced electronics, for survivability. We're under contract for $1 billion, with an engine decision sometime in 2020.

And finally, our newest product, our heavy lift helicopter, which we're now in low-rate production, on the Sikorsky CH-53K, the King Stallion, said to be a model program by our Army customers, and we're very excited about the new market associated with that. So 3 really big channels for growth. Think about this market as about 5% through 2020 and then potentially as high as 9%, maybe even a little more afterwards.

Okay. So that's the end of the engine discussion, and I want to just finish with a little discussion about additive and where we've been. As you know, in 2016, we decided that if we really were serious about being a digital industrial, we had to understand and actually get into the additive business. This was really a result of all of the technology that we had been working on, on the commercial side of GE Aviation. If you will, we had what I would consider a real point of understanding the epiphany of disruption associated with additive as we were working through it on LEAP. The more we worked with it, the more we understood just how radical and disruptive this technology could be. And the perspective I can give you is this. For 37 years, I've been in the Aviation business and for 37 years, I've watched designs get very sophisticated and very complicated. And in every case, they've cost us more. Only with additive can you actually add sophistication, more capability and more performance and get cost out at exactly the same time. It is an epiphany when it hits you, and I'm going to show you 3 examples that we're working on inside our businesses today. And we have 2,000 engineers now working on additive across the company. And I'm telling you, every day, somebody -- the light bulb goes off in somebody's brain every day somewhere around our company. Resets our supply chain entitlement and unleashes performance and productivity in the designs that we didn't even think about. And as we get good at it, not only for our own internal proof points, we believe there's a very strong business case, as you know, for GE Additive with third-party customers.

We also think that our own supply chain will be put in a position to where additive becomes part of their portfolio as we demand more deflation out of our supply chain across all of our industrial businesses with time, to improve our own cost position as well as the cost positions of our supply chain.

So where are we? As you can tell by my conversation, we're more bullish than ever on where it's going. We have launched the business. We've doubled the footprint in Germany, in Sweden and in the materials business in Montréal, Canada. We're tomorrow going to introduce the largest powder bed fusion machine in the industry, 1-meter powder bed, which opens up an entirely new market, addressable market. In fact, we're making LEAP parts on a 1-meter powder bed right now for even a further cost reduction in LEAP as we take a look at introducing additive into LEAP in the next -- in this generation. In fact, we'll run the first engine sometime in 2018.

From a business point of view, we think we'll have $1 billion -- believe we can get $1 billion of revenue out of this by 2020. I think we can break even on an operating margin basis next year, which means we can pay for our own research and development. I believe we can break even on a free cash flow basis in 2019, which means we can pay for our research and development as well as our own CapEx. And by 2020, we'll be about 3,000 machines in the field, think about $1 billion of revenue, producing about 1,000 machines a year. So a nice start. Now this isn't going to change my trajectory in GE Aviation dramatically over the next 4 or 5 years, but only GE could take a business idea like this and become its own angel investor. So I can afford to invest in this business, have the proof points within my business that I can take advantage of on cost, and at the same time, create this opportunity as proof points for everybody else at GE. And I think that's a very unique position that only GE can do.

So here's 3 proof points. First one's in Healthcare called a collimator that works with the X-ray machines. These guys have -- this is a very sophisticated part. And John, you probably know more about collimators than I do. All I know is 30% reduction in cost, 10% better image quality and 83% less parts using additive at the piece-part level in all the CT scanners. Now at the system level, I'm using a locomotive, a Transportation advantage example. One of the big reliability issues on these locomotives and something that takes a lot of cab space is the cooling system, the radiators. Big fans, big radiators. We've redesigned the radiator and fan system using additive. We've essentially eliminated the need for 80 inches of cab in the back of the locomotive. So we freed up space, an 80-inch space in the cab to do whatever you want with. The engineers in Transportation are now thinking that they can use those 80 inches for battery storage and enable a hybrid locomotive, which by itself, may be as much as a 23% fuel savings, all enabled because we can give them back that footprint as a result of the efficiency of additive at the system level on a locomotive.

The last one here is at the product level, which is mine, the advanced turboprop: 35% of the parts inside the advanced turboprop are going to be made out of additive. We've taken 855 parts and reduced it to 12. We believe that we can get a 20% cost reduction out of our advanced turboprop engine as a result of the implementation of additive. And also, and this is just as important for me, we've reduced the cycle time in development, which is base cost, by 50%. This engine will go to test either late in December or early in January 2018. So 3 examples of 3 different levels within the company. As we bring third-party companies into GE, we're showing them these examples. We're letting them meet with the engineers that are learning how to use additive. We're letting -- helping them to define their own epiphany of disruption. And the third-party customers are telling us that nobody else is talking to them about additive the way we are because we ourselves are such strong practitioners of it as we move forward at GE.

So here's a summary for Aviation. Our projections for op profit growth this year, about 5% to 6% on revenue of 2% to 4%, with a free cash flow conversion which will be a little north of 90%. In 2018, you should expect us to be at about 7% to 10% growth on op profit on the same growth in organic revenue. As John said, our goal is to hold op profit rate as we move forward with this big LEAP ramp as well as the Passport ramp, which is new engine in the business and general aviation space. We have to continue to focus on structural reduction in cost to do that. Our SG&A will be below 6% of sales in 2018. I took you through the military command. There's terrific opportunities. We have to make sure that we capitalize and win those big programs. And finally, building out both additive and digital. So we're doing all of this and paying for digital and paying for additive for the company with additive.

So with that, I'm going to turn it over to Russell to talk about Power.

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

Thanks, Dave. Good morning. So John gave you a brief introduction of my background. I've been in GE now -- this is actually my 20th year in the company this year. I've had the opportunity to be in 5 GE businesses. I started my career in finance in the Lighting business. Got to Aviation and pretty much spent the majority of my time in Aviation and service businesses. I was the Chief Risk Manager for the service business for Aviation, so did a lot of the long-term service agreement contracts. Became the pyramid leader for Aviation. So I'd say my time hasn't been in services, it was really in operations and in supply chain. And then went to Transportation as the VP for Services before becoming CEO of Transportation. A couple of years ago, I was asked to go lead Energy Connections; and then about 5 months ago, was asked to step into the Power role. So I've spent the last 5 months really kind of understanding the dynamics of what's happening in Power, and I really think that there is a lot to be worked with here. As John talked about, we'll get into some of the disappointments around where we are right now, but I want to make sure that I convey why I really do believe that we have the opportunity to run this business quite a bit better.

This is the new Power business. Back when we put the business together, when I took the role, we wanted to consolidate our Power business and our Energy Connections business. Really, it was a belief that increasingly, we're going to need to understand the electrical value network or the electrical system more holistically. So all the away from points of generation through consumption. So the combination of our generation businesses, along with transformation and distribution capability, we thought was really important, along with the software capabilities in both those businesses and how we can work to create better outcomes for customers. So we put them together.

The page here you can see is really the different business units, so the largest being Gas Power Systems and Power Services. You can see the Grid piece as well and see the other entities. The exciting thing for me is that we generate 1/3 of the power for the world through this business. We have 1,600 gigawatts of installed capacity. So that's a lot of assets that are out there that we can work with customers on in terms of how we create greater value for them, productivity with those assets and work to keep them running and delivering outcomes for them. We equip 90% of the transmission utilities worldwide and 40% of electrical flows touch some element of our grid software. We have an expansive global reach. So we're in 140 countries doing business. We also have a rather large global footprint, which is strategically beneficial as we look to do business around the world. But I would say given the softness that we're seeing in the power market right now is something of a concern, and we're navigating through, given the underutilization of some of those sites and the overcapacity in the broader system.

So after 5 months, this is, I'd say, kind of just a quick summary of what you're going to hear today in terms of how we view the business. I continue to believe, and I think our teams continue to believe, that gas power generation is going to remain important to the overall market. There's a lot of different surveys, a lot of different things you can read around how it's going to contribute. There is not a doubt in terms of the contributions that renewables is making to the overall energy mix; and we do realize that that's here to stay. More than aware of the advancements that are taking place in storage to be able to support renewables and make it more dispatchable. We're actually doing a number of things around storage as well ourselves. But I do believe that gas will continue to be a baseload option, especially as we look at the reductions in coal plants, potential retirements in nuclear and to stabilize the renewable power that's going to be coming onto the grid, given some of the intermittency nature that it still has.

I completely acknowledge that there is a very challenged near-term environment, and we'll show you some of the things we're doing around our short-term forecast. But we believe that we'll continue to see growth in electrical consumption out into the future and that gas is going to play a role in that.

We're proud of our leadership position around our technology. We have a very dynamic portfolio of assets. We have the world's best H product, and I'll go into more detail around that product in a moment.

Back in the third quarter, when we did the operating call or the earnings call, clearly, there were references, and you heard John today talk about the disappointment with the performance in the business. And I'm going to boil it down to a couple of things. Look, there's some operating misses that we clearly need to address, and have addressed inside the business, but there's more to be done. You heard John reference this, I'd say this growth in income orientation versus having a complete appreciation for how important cash performance needs to be, along with that. And that's something that we're focused on. A leadership culture that is something we're working on around ensuring a greater level of candor and debate, greater systemwide transparency into what's going on around the entire enterprise and one that really embraces and expects a much higher level of accountability.

For services, having done this and been around it for a long time, I would say we had some real challenges around the fact that we had been really successful with our upgrade program on the Advanced Gas Path, on the F-class fleets. So we have been working to look at how we upgraded those products. We were giving customers additional efficiency, the additional output that they were able to use. It was moving the F-class assets, and we'll talk about that in a little bit, up the dispatch curve. They're being utilized more. We were seeing gains in our CSA portfolio, so continuing to understand how we generated productivity through those long-term contracts. But I would say we were doing this at the expense of not truly appreciating the value of our more holistic dollar per installed base penetration of our entire installed assets. So I'll show you in a moment kind of the difference between assets that we have under long-term or multiyear agreements contractually versus what we should be doing in transactional.

I'd also say there was a dislocation from where the market was going. There were some underlying things that had been happening, especially in the transactional space around outages and the way that some of the assets were running. Our CSA assets have been running fine. But in the transactional piece, I would say there needed to be a greater appreciation for utilization of assets, the outage forecast in terms of were those really happening, how were fleets being refreshed.

Capacity payments was something that I think the team understood, but we needed to have a better appreciation for. So for something like PJM, you get a rate per megawatt per day type rate to make sure that you have capacity available to be dispatched. The rates back in 2015 were $165. Those rates went to $177 here in 2017. And so the value proposition around some of our upgrades changed significantly for customers, and so the return just wasn't there for them to do the investments at the levels that we had originally anticipated. So I would say there was a degree of optimism that had happened around that, that also drove a buildup of inventory in support of what we thought was going to be more sales in that -- within that product line that we'll navigate through and work to get that back in the box.

So what are we doing? Well, first and foremost, what I'd say is that you heard John say, look, our teams are very competitive. I'm very proud of the people that come to work for the Power business each and every day, and they want nothing more than to really demonstrate what it means to win. They are not happy about what they're hearing being said about them or what's being written about the Power business. And they are as committed as ever to work with me and our teams to get this fixed. We're going to reset our volumes for 2018 to what we believe is where the market is, and I think that's going to be in line with our peers. But we're going to target $1 billion in structural cost out and we realize that we think there'll be additional softness as we walk into 2019. And so we're looking at additional things that we can do there. But at the end of the day, we still believe that this is a valuable franchise. As I said, we generate 1/3 of the world's power. We have a strong installed base upon which we can work to create value for our customers. We, as I've mentioned, we're more than aware of what's happening around renewables and need to be cognizant of that, but we continue to gain share on our product portfolio.

So what happened? The chart here we get into from 2014 to 2016, our gas equipment business margins were declining, partially tied to the launch of the HA product. So pricing at launch, along with the cost curve, you saw David talk about cost curves in Aviation, so the same dynamic that we are navigating through cost curves in that business and then softness in our Oil & Gas -- assets kind of tied to the Oil & Gas market. Inside of the service business, we had been doing well around the upgrades for those AGPs I mentioned a moment ago. CSA productivity have been doing really well. And it was offsetting, though, the fact that we were starting to see lower services transactional volume over the '14 to '16 time frame.

As we roll into 2017, we saw the market continue to soften. We believe that there will be lower convertible orders for our aero products than planned. Some of this just given market conditions, the complexity of doing some of those deals in some of the global markets, financing requirements that are needed. And so we're calling down our aero forecast in '17, and we'll talk about where that goes going forward. I mentioned capacity payments already. And so right now, as we look at where we are in AGPs, we actually had a plan coming into the year that we would sell 160. We think that's going to be closer to 80 to 90 as we navigate the year, and we're going to talk about 2018.

The transactional service business. So as I mentioned, we just hadn't spent enough time really getting into the details of understanding what was happening in the regional market around our transactional business. What we've uncovered as we went through the assessments was pricing pressures, mix dynamics given year-over-year comparables. So field execution dynamics. We have launched something called FieldCore. FieldCore is an organization where we took our aero business, our Alstom entity and our legacy Power team and put it together under something called FieldCore, with the desire and plan to be able to create a consistent, better, more reliable service offering for our customers around the globe. I would say there were some growing pains associated with FieldCore, making sure that we had people properly trained to be able to execute the outages in the field, and we also experienced some overruns on some of the work that we were doing. But I do believe going forward, this is going to be a real benefit to our customers and something that we're going to be proud of. But we did have some growing pains in '17. We took action on structural costs. So we took 10% out of our structural costs, but I would tell you, given where the markets are right now and where we think we're going to be, it just wasn't enough cost out nor was it executed on early enough given what was going on.

So this is the H product. I think most of you are familiar with kind of where we are with the H. Back in 2013, we did not have a product in this space, so yes, we were late to the game here. But in '14, we -- 23% of all awarded orders, we were able to capture. That number on the H is up to 60%. The most recent reports would have us around 50% in total heavy-duty gas turbines. We had 38 shipments to date. There's 17 of those assets in commercial operation, 34 units still in backlog.

You saw on one of John's charts, a reference to the world-class -- the world record, excuse me, efficiency that we achieved with EDF Bouchain at 62%. We still believe, though, that we have line of sight to 65% going out to 2025. And we look at this in terms of net efficiencies, where we still believe that we're the #1 in the industry in that space.

We did have, and I've mentioned the businesses I've been around. So I've been more around more than my fair share of product launches, the GEnx launch in Aviation, the Tier 4 launch in Transportation. So seeing the H as well. Realize that we did have some launch issues with the product. We had some scheduling challenges that was referenced back in second quarter earnings around some of the LDs that we paid associated with schedule.

But the product is delivering the value that we expected to customers and is performing well where it's running. We do expect to see pricing challenges in the marketplace given the overcapacity. I do have a great deal of respect for our competitors, so I always have a healthy sense of paranoia around that. And we are continuing to look at how do we create -- drive more efficiency to be able to navigate through those times.

So let me talk about services in a little bit more detail. So this is kind of the backdrop or the landscape of the service business as we were navigating it. In 2014, $44 billion backlog. That number grew to $63 billion, so this is total multiyear agreements. I know there's been questions around the retention rate of those contracts. We do work with customers and negotiate the contracts from time to time, and the retention rate has been in the 96% to 97-ish, 99% in '17 type range. The products underneath the CSAs are performing as we would expect. So they're right in line with the utilization forecast that we have inside those contracts. What I would say is that some of the outages in the transactional space were flat to down, and we expect to see that as we head into '19. Some of the dynamic we're dealing with is due to the success of the AGP upgrade program. We were able to extend our maintenance intervals to world, I'd say, kind of the best intervals in the marketplace. And that has caused what we believe will be a dip in outages in 2018 and 2019, and we'll navigate through those.

The AGP, I mentioned the success of it. We believe that it has demonstrated 6% capacity factor improvement, so this is a demonstration that those assets were performing better and being dispatched more often. And so we believe that that's value that was passed along to our customers. We do have a 100% penetration rate on multiyear agreements with the HA product, and I'm going to get into kind of a backlog profile in a moment. So we continue to navigate through that.

The challenges. The U.S. market is clearly softer than we anticipated, and I mentioned the capacity payments. Some of the lower demand for upgrades, we're working through those. The global market remains very competitive. There are some tough pricing dynamics out there. There's an overcapacity situation that we're all navigating versus our competitors. Steam utilization, we do believe is lower based on outages. Some of it is due to retirement of coal plants. Some of it is people just trying to kind of pace the way that they manage some of their spend and so we continue to focus on that.

This is, though, where I think that we still have an opportunity to run the service business better and to be able to generate additional value out of the portfolio. You could see on the left side of the page a feel for the total installed assets by different technology type. On the F and H, we say we're about 80% contractual, about 20% of that is transactional. But look at the B, E and aeros and then look at steam. There's still a significant fleet that's out there that is managed on a transactional basis. And honestly, we just did not spend as much time focused on the transactional element of our portfolio.

Contractual assets. We still think we could do a better job of managing through outages and driving greater execution. We need to make sure there's a real focus on quality with our teams in the field in driving productivity on that work. On the transactional side, we really need to focus on those areas on the second and third bars there where I think that we could be working on how to create more customized types of product offerings, more repairs, more service with late-life assets.

I mentioned FieldCore earlier. And so really, this is how we standardize the ability to deliver great field service capability through our field service engineering organization.

I mentioned that we did have some growing pains this year, but I do think that, that's going to be something that's going to be beneficial to us going forward. And we're going to build all of this on the back of the fact that there's a number of software-related assets that we have that touch our service business, that frankly, we need to integrate better than we have and look at how we can unlock value for our employees that are out there working on turbines around the globe everywhere, and for customers as well.

You've heard us talk about asset performance management, so this ability to understand the way that the asset works. Digital Twins, they look at the optimal condition for that asset. Operations performance management. Once you understand the asset, can we do something to optimize the way that the total plant operates, and there's value there.

ServiceMax. The ability to understand what exactly did I do to the asset, keeping records of the condition, how could I more efficiently manage through work scopes and understand the life of our products and customers products around the globe? FieldVision. Mobile tools and devices that allow our field teams to be more productive, to be able to understand as they encounter issues, how to be able to communicate with one another or to be able to pull up work scopes and instructions that allow them to be able to do things in a more efficient ways and better manage hours to our expectation.

SmartShop. We do a lot of repairs. SmartShop is a software capability that we're deploying in our repair facilities to better understand how well we can optimize the way that we manage the inflows of material into those sites, the work scopes that get executed, a better appreciation for cost and service back to customers.

So I feel there is a number of things still in the service franchise that we can absolutely do better. Scott Strazik, we just announced his coming into the role, and he and I and the team are committed to really looking at how we continue to build upon the things that you see here. So services is an example of what we can do better. Just like John gave the example of what he had seen in Healthcare and how you can think about that more broadly for the company. I'd say there are similar examples around as I think about services and then look at the rest of the business. What more is it that we could be doing to just better run the operation? You've heard this reference of back to basics. And for us, that's really where it goes. So down the left side of the chart is really, I'd say, the things that we're focused on. Cost. Making sure that we right-size the business to the market. This gives its structural cost. I have 153 manufacturing, repair and service sites. There is opportunity for us to be able to do something around optimizing that there.

NPI. We're going to take our NPI numbers down by 40%. I have a number of programs that I think are important that we need to go fund. But right now, I need the teams to make sure that we focus and execute and deliver on every dollar that we allow them to spend.

Footprint. I talked about that already.

Capital allocation. We're part of the portfolio assessment. So we're looking at our Tier 2, Tier 3 business entities. Are they running the way that we would expect them to? Are they generating the returns that we would expect them to deliver? And can we run them better than anybody else? So we're doing that same assessment.

CapEX. We're doing a better return base framework around how we spend that money, sweating every dollar. We're going to take CapEX spending down 45% in the business in '18.

Working capital. I mentioned that I've kind of grown up in services and in supply chain. So I feel that it is the heartbeat of the organization, is to understand the way that the supply chain operates, and this is something that I think we can do better broadly. We brought in a brand-new supply chain leader, he was actually my supply chain leader, and Jamie's, in Transportation. And we realigned the supply chain function to be aligned to me directly, because I believe that the accountability needs to stop with me on what's happening inside of our supply chain. We have the opportunity to do things better around Lean. We have approximately 5 Lean resources in the business, we're already committed to adding 50 right now to make sure that we better understand how we move and flow material through our sites.

We're going to reset our supply base. We're planning to look at how we look at our footprint. We believe that we could take that down by 30%.

Underwriting. We're looking at how do we make sure that we have better point-of-sale cash. Robert Green, is our CFO, came in from GE Capital, I think, gives us a real appreciation for how to think about deals differently given the structural nature and the complexity of some of the deals that we get into, and happy to have Robert by my side as we do this.

Pricing. We have gotten to a world where we have delegated authority out into the marketplace, and I'd say there needs to be a little bit more oversight and little tighter capability around what type of deals do we want to do, at what pricing level do we want to do those, but still giving our teams the ability to be able to act with speed in the marketplace.

On culture. John talked about it, I don't really think it's much different, but for Power specifically, it's what I talked about. This idea of growth orientation tied to income, making sure that the teams have as much of an appreciation for how we generate cash. The inventory buildup that we've had right now, given some of our estimates over the market, is going, for me, is just not excusable and we're going to fix it. And so we've just got to make sure that the team understands it. We have staff members that we put on cash, cash crisis teams is what we're calling them. We have war rooms across the organization. We post it multiple times a week. I am not one that likes PowerPoint at all. So we can use it for strategic discussions and things like that. But trying to understand is a business running well, are things operating the way that we need to? My finance background always makes me want to chase something to the ledger to prove to me that what you said is happening is going to happen. So we get into just very simplistic, tell me the critical Xs or the variables that ought to happen and be managed a certain way to deliver an outcome, or Y. This goes back to my growing up with a Six Sigma, back to my Black Belt days. But tell me does that transfer function work in a very objective, very transparent way? And then for each one of those Xs, I want it to be green, yellow, red. And I am encouraging a culture where my team comes forward and we talk about the reds and we do something about the reds. I can't fix problems unless I know what they are, and so we've got to make sure and we are making sure in Power that we have a culture where people can bring forward, "Here is where I need help. Here are the things that I'm starting to see that we need to be working on. Here's areas of opportunity for us to be more efficient and to run better." And that I'm excited about and I'm already seeing our teams really embrace the new way of doing things.

So where does that take us? So this is 2018, a view of where we think we're going to be. So for '17, the operating profit will be down 20%. For '18, we think we'll be down another 25%. We had negative free cash flow conversion this year, partially tied to the inventory buildup that I referenced. Part of it was a onetime tax payment that will go away in '18, which is why I think we'll be closer to 60% free cash flow conversion in 2018.

On the volume assumption. So communicating a couple of things here. We're going to take our heavy-duty gas turbine estimate down to 65 to 75 in '18, that will be down 30 to 40 units from this year. AGPs will be down 40 to 50 sets, so we'll be able to call a number just closer to 40 AGPs in '18. We continue to see transactional pressure in our service business on margins and pricing, but we still think we could be doing some things that create greater value and be able to run that play better as we go forward. But this is where we see things.

We will have lower CSA or contractual asset gains. And I'd say really part of this is focusing the organization on actions that generate a cash return today. There is nothing wrong with CSAs. I've been around them for a long time. But what we do get into is creating value that is going to play out and cash flows that play out over a 10-, 15-plus-year period. We're going to redeploy some of our resources to look and understand at how do we do more things in our service business to be able to ensure that we're generating cash today, but at the same time, taking care of those customers and understanding the performance guarantees and commitments there.

I already referenced the things we're going to be doing around our footprint rationalization. We're committed to the $1 billion of cost out. We will continue to look in '19 on what it is we're going to do. So the cost things are planned. We're working with all appropriate parties around consultation. So we are planning to make these -- take these actions and move forward. And we could just be a lot better in free cash flow performance. We expect working capital releases. We're working with suppliers to reduce the amount of inbound material because we're just not going to need it, as we work to bleed through the inventory that we already have. I mentioned that growth is going to moderate around contract assets and then the tax payment in 2017, which was $1 billion, will be a non-repeat. We do expect that the market will continue to be challenging in 2019, and so working with the teams to continue to understand how to optimize our overall system to be able to continue to create buffers for what we think will be a soft environment in '19 as well.

So with everything I said, what is it that you should take away from this discussion on Power? Look, we understand very clearly that the gas markets are challenged by renewable penetration, but we still believe that gas is going to be an important contributor to the energy mix going forward, even though we believe that we're going to see some significant declines on the need for gas and utilization of gas in the short term.

But what are we committed to you to do then about it? We are going to right-size the business for the realities of the market, as I've said. Manufacturing footprint capacity, we believe we can do something better. Structural cost, we believe we could be better. NPI investments, we're going to make sure we're focused on the right things. We could drive a more holistic view of our service franchise. Looking beyond just the [IB] on our CSA portfolio, but looking more broadly at how we do that. Better performance on outages for our customers, better cost execution out in the field. We can broadly execute better. Improving on working capital, higher say/do ratio, making sure that we're delivering on an objective and very transparent environment, which really gets to the cultural piece. Cash as important as returns, system transparency, so everybody sees what goes on. I've grown up -- it may not look like it now, but I grew up an athlete, and so I'm used to an environment that you play in the open. Great athletes, you see whether they do really well or they don't immediately. And we want to make sure that we have an environment where everything that we do in the organization is open for our ability to be critical or an ability to jump in and help one another be successful.

And I believe at the end of the day, that creates a system of greater accountability to all of you, to all of our customers and to one another as GE Power and GE employees. So thanks for your time. With that, I'd like to hand it over to Jamie Miller.

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Good morning. I'm Jamie Miller. I've been in the role a couple of weeks and really excited about the opportunities we have in front of us to really change the company. I did not grow up at GE, but I know it quite well. I've been here about 9 years. I was the Controller, the CIO and then the CEO of GE Transportation. And I'll walk you through on the next several pages the financial outlook for the company.

So starting with 2017. You can see here the EPS. We expect to end the year at about $1.05 to $1.10, with CFOA at about $7 billion. These are unchanged from what we shared with you a few weeks ago. And just -- you heard David and Russell talk a little bit about Power and about Aviation. Oil & Gas and Transportation in the fourth quarter feel about like what you felt all year, with Healthcare growth and Renewables operational improvements as well as we round out the year. One area, I'll just pause and talk about for a minute, is GE Capital. And as many of you know, we're in the middle of an ongoing reserve review at our insurance businesses there. This process is ongoing. It involves multiple third parties and it's not done at this point. And I don't have a number for you today. We're on track to conclude that in December. And we mentioned to you before that we're not taking a second half GE Capital dividend of about $3 billion. And as we go through this process, at this point, I do expect the charge to be more than that. But we do have capital plans in place and we don't expect to have to put GE parent cash into GE Capital.

Then moving to financial metrics and reporting. We've heard a lot of feedback from all of you. You want this to be easier to understand and really just more aligned with our peers. And we're taking steps beginning in 2018 to start to make some of those changes. And as we go throughout the year, you'll see more detail in what we do. So just walking the left-hand side for a minute here, I'll just walk you through these changes. So first, on earnings per share, we'll be moving off the industrial and verticals EPS and to an adjusted earnings per share measure. And what this is, it starts with continuing operations EPS. You back out gains and restructuring, and then you back out non-operating pension expense. The reason we have non-operating there is because, as John mentioned before, we plan to pre-fund our pension for the next 3 years. And so that in line with keeping this measure best aligned with cash, we continue to take that out here.

On cash reporting, we're moving from CFOA to industrial free cash flow. And industrial free cash flow, just like our peers, will be defined as CFOA, less deal taxes, less gross P&E additions and capitalized software. And again, as you look at the numbers over the next couple of pages, just keep in mind that pension pre-funding, pre-funded that pension cost, so it doesn't show up in there. And we have Baker Hughes on a distribution basis. The industrial tax rate, we will continue to give you the effective tax rate on a reported basis. We will also give you an adjusted tax rate, which just really is the same definition as earnings, but just to give you that so you can sort of see the comparable basis tax rate as well. And then the last thing, just to remember as we start to walk through 2018, is the revenue recognition change. And you've got a supplemental deck that I believe was at your seats, it's also posted online, that has more information by business on the revenue recognition change. So just walking on the right here a little bit. The 2017 EPS, you start with $1.05 to $1.10. You back out or add back the GE Capital other continuing losses, you take out the net gains in restructuring, which was $0.24, and then you could see the revenue recognition change here. Now this number is a little bit higher than I think the numbers you have heard before. And like I mentioned before, the details are in the supplemental there.

So John mentioned that 2018, we really view to be a reset and stabilization year for the company. And we see adjusted EPS of $1 to $1.07, with industrial free cash flow at $6 billion to $7 billion. And the $1, $1.07 really reflects industrial op profit up 2% to 7%, and this is even after absorbing a 25% decline in Power. Capital earnings will be down 70% to 80%. There is a little bit of that that's from the verticals and most of that is a non-repeat of the fourth quarter other continuing tax benefit that you'll see this quarter. And we have higher interest expense due to the pension prefund and a higher tax rate. We expect our tax rate next year to be in the high-teens. It's running about in the mid-teens right now. Our cash flow is $6 billion to $7 billion, higher continuing net income. You've heard Russell talk about the working capital improvements. Contract assets growth does temper a bit when we get into '18 and then lower CapEX spend. So when you look at this, I think you should continue to expect Power to feel tough, as we look at this. We're driving real operational change, especially in '18. But we think we've taken a pretty pragmatic approach to the plan as we move into this.

So segment outlooks. So we've also heard a lot of feedback from you around more specificity on the businesses. And this is some specificity around what we see in '18 on revenue, organic revenue, as well as op profit. And as we work through the year, you'll continue to see more detail on our businesses.

So Power. It's continuing to align to the market realities and the business dynamics. Oil & Gas, the market conditions really continue. Baker Hughes is on a really nice trajectory around their synergy realization. We're very committed to them and helping them achieve that and we see the deal fundamentals as continuing to be quite strong. David talked about the Aviation strength and the LEAP launch, and especially with our shop visit growth on the CFM engine. And then Healthcare and Renewables next year feel a lot like they do this year. Transportation continues in a soft market, 2018 is really the troughing in that business. And then GE Capital, a little bit lower, just on the non-repeat of that tax benefit we talked about. So again, the supplemental deck has more information on this one as well.

So just breaking down the pieces of cash here for a minute. So we have $6 billion to $7 billion of free cash flow in '18, and the real drivers there are higher earnings from '17 to '18; real improvement in inventory management, and I'll talk about that on the next page; lower or more moderated contract asset drag; and then lower CapEX. On the right-hand side, you can see the split of free cash flow conversion by businesses. So at a 100%, Healthcare, Transportation and Lighting next year. In that 80% to 100% category, you have Aviation and Renewables. David talked about the LEAP ramp putting a strain on that cash conversion. The other thing that puts a strain on that is the CFM shop visit movement we see. In Renewables, the core business really runs, onshore runs at about a 100% conversion, but there is a drag with hydro and offshore that we see that really offsets a bit of that. And then Power, Russell talked about, and the dynamics there next year is largely the cash restructuring cost we feel coming through.

Probably the last thing I would just mention on this page is that we're not planning a GE Capital dividend for 2018. So just breaking down the elements of the free cash flow, just covering working capital for a minute. Working capital flows we expect to be a little bit above $2 billion next year. Russell talked about the excess inventory build at Power, and we really felt that, especially this year. And over the next year and into '19, we're really going to feel that excess inventory burn down. In addition, David talked about the ramp in the Aviation LEAP engine, so going from 473 this year to close to 1,200 next year. We've got a lot of inventory building in the supply chain right now to make sure we can hit that launch next year and those ramp rates, and that really starts to turn as we get into 2018.

On the CapEX side, we're running our CapEX at about a 0.9 reinvestment rate as we go into 2018. We've had some major launch investments. You've heard about those, really covering the last couple of years. We've run about a 1.4, 1.5 reinvestment rate over the last couple of years. This year, we've got businesses ranging from 0.4 all the way to a 1.8x, and it really is a reflection of where they are in the cycle and where we see really strong organic investment opportunities based on the return. I can tell you that this space is a space that John and I spend a ton of time on. And he mentioned the Finance and Capital Allocation Committee of the board. These are spaces, all of them, where we're going to have a very heavy returns focus as we really start to drive deeply through the operational rigor in the next couple of years.

So a minute on contract assets, and I know there is a lot of discussion here. And I thought I'd just break this down a little bit and walk you through the balances of what you see. So we have about $30 billion of contract assets, and about half of that relates to our contractual services arrangements. About 40% of it relates to our long-term equipment assets. And just to explain for a minute what a contractual service arrangement really is, these are long-term contracts, typically 10 to 20 years, where our customers have predictable maintenance costs in exchange for performance guarantees on equipment, okay. And for us, it means we are deeply integrated in those customer operations. They are high-margin, high-return contracts. But I am telling you it also means we're on the frontline with our customers, keeping their operations running. So when the trains aren't going, it doesn't matter what the problem is, we jump right in and we help. And so they are deeply, deeply integrated. When you start to look at a 10- to 20-year contract, which typically goes on when we sell new equipment, oftentimes in the first half of those contract lives, we spend a lot of cost, both making sure our technology is stable post-launch, as well as we're really making sure we're hitting those performance guarantees as this thing gets up and running. In the second half of those contracts, it's typically where you see us really getting very focused on shop visit cycle time, materials cost, really cost productivity in terms of how we run these performance arrangements for our customers. So deep, deep partnership, but these are great contracts for investors.

And what I'd say is if you look at units under contract and again, just giving you some comparisons, they've gone up quite dramatically over the last 4 years. And you've seen the contract assets go up, but you've also seen the units under contract go up, too, okay.

So then just a minute on the equipment assets. These are long-term equipment asset builds. So think of a gas turbine, where we might build that over 12 to 24 months; a power plant; a jet engine, and these assets are about $11 billion today. They typically turn over a 1- to 2-year period, right. They went up over the last couple of years by a couple of billion due to Alstom. But they are also offset by progress, billings and other milestone payments. That's the other thing you have to remember, is thinking about the other side of the balance sheet also being in combination with the long-term asset piece of this here.

So look, as we go into '18, you do see the growth temper a bit. We expect about $3 billion. I'd say it's really based on a couple of things. Number one, the revenue recognition standard that's coming in really shifts the profile of how that works a little bit. And I'd say the second thing are, as Russell mentioned, a real shift in how we're working the teams on commercial terms, to make sure that the billing milestones really match as closely as we can to kind of how the cash works in the contract under cost, okay.

The last page I'll just touch on is structural cost out. We will deliver more than $1 billion of cost out this year in 2017, and we've actioned more than $2 billion net going into 2018. Now, you have to remember that some of that is partly offset by the market shifting we're feeling and the headwinds at Power and at Transportation, and some mix headwinds as well, if you think about the LEAP engine. But just some examples as you work through kind of what kinds of costs are these. One example would be the global growth organization, which I know some of you are familiar with. We built that organization over the last 7 years to really grow our non-U.S. revenue footprint of the company.

And the organization has been very successful. I mean, they've done a very nice job building deep local capability for our business teams as they've done it. As we're going into '18, one of the things we're doing is really refocusing that solely on emerging markets and we're really shedding all of the other costs associated with global growth. What that's mean and -- meant in that example is we've been able to take cost from $515 million down to $225 million as we go into 2018.

Corporate headcount will be down 25% as we move into 2018. And Russell gave some of the business examples with when we combined the Power and the Energy Connections teams together, we eliminated one headquarters. So we see it happening all across the company. I can tell you that when I was at Transportation, I mean, we took 30% of our structural cost out over the last 3 years, right. And we did this through a very detailed look at things, weekly pacing, really working the teams through it. And it's a huge focus of John and mine as we're entering the next couple of years in particular. But it's not just structural cost either, it goes all the way up the product stack and how do you work variable cost and services, how do you work variable cost and manufacturing and how do you really think differently about product cost and margins of the company?

So at this point, I'll turn it back to John to just talk a little bit about '19 and '20.

John L. Flannery - *General Electric Company - Chairman & CEO*

Great. Thanks, Jamie. As you can easily see, Jamie is off to a fast start. That's, I don't know, 2 weeks under her belt and amazing. So I'm really excited to have Jamie on the job. Let me just finish a little bit on outlook for -- we don't have specific guidance for '19 and '20, but a way for you to think about it, what we see. Jamie said 2018, a big reset year, we've got a lot of work to do. But as we look forward, this is what we see going forward, with a simpler portfolio, tighter capital allocation, better execution, that we should be in the box on the right-hand side here, move the company forward with 2% to 4% organic growth, continue to expand the margins 50 basis points a year, continue to get cash generation around 90% to 100% a year. So we're going to be driving our teams and pushing to do more than this, but this is the environment that we see, that you should be thinking about going forward. If you look on the left and just pick into a little bit of the thinking behind those metrics and the components of that, I think we see for organic revenue growth, I'd say the main story here is Power, I'll use the word stabilizing. Nothing to get excited about, might be a little up, a little down, but fundamentally stabilizing and the rest of the businesses continuing to perform in line. I think on the margin expansion, we see about $500 million more of cost out, and then we're going to continue to drive product cost out, quality cost, things like that, so we can continue to move the needle on cost. The LEAP engine maturing should help ease some of the pressure here. Volume growth should help us get some variable cost productivity. And then lastly, I'd say on cash conversion, we want to be in these ranges here. To me, purpose of the business at the end of the day is to generate cash for investment and return to investors. We have to be in these kind of cash conversion ratios in the aggregate, and we should have some beneficial attributes here: the restructuring payments, which have been heavy cash drains will slow; our CapEX, which has been high in the LEAP cycle and high in the H launch cycle, should come back to really a 1.0 reinvestment rate; and Jamie mentioned the contract assets slowing. So this is an achievable profile and we'll drive harder as always.

I want to just finish here and then we'll go to Q&A, and really finish the day where we started. So what were the questions that we had at the outset of the day? They were questions around where do we stand? Where can we grow? Where should we focus? Where can we compete? Why do we exist? Why is the company important? How can we matter in the next 100 years the same way we've mattered in the last 100 years? And when I step back, and I hope you do too, and reflect and take stock of all that we've done in the first 100 days. We've done a lot with the company. We've done a lot of things in the company, but there is still a lot of things we have to do. We've got to maximize the value of a number of businesses over the next 1 to 2 years that may not fit the long-term picture of the company. The form and fit, and how we do that, we'll share with you over the next 1 to 2 years, but we've got a big set of assets that we need to maximize the value. But really, the future of GE is on this page. The future of GE is on this page. The world is fundamentally going to run on the back of GE. It's going to move on the back of GE. It's going to heal, babies are going to be born on the back of GE. This is the business we want to focus on. It will be a smaller business, simpler business, delivering amazing solutions to the world, like we always have done. This is what the company has always been. We're going to be able to fuel these businesses with a lot of investment in things like digital, things like additive, with the research, with the culture. And we're going to be able to challenge each other to get better every single day. We will end up inventing a future that no one, frankly, can even imagine right now, like we have always done. And then lastly, I think, with that strength married with execution, we'll produce results that our owners can be proud of, that we can be proud of, like we know we can. So I'd like to just finish really with a message, final message, to the GE team, my colleagues at GE team. This is our time. This is our time to reinvent the company. This is our time to show our passion and our fury, and our resolve and our grit. This is an incredible opportunity for all of us. It's game on. And I just want to say I couldn't be more secure or more confident in fighting this fight with all of you. Let's do it. So I look forward to that. We're now open for Q&A, and Russell and Jamie and David are going to join me. We're going to grab a few chairs. And I think we have achieved Rock Center air-conditioning status at this point. We'll get a big bill from [Ron Pressman] when we leave today.

QUESTIONS AND ANSWERS

John L. Flannery - *General Electric Company - Chairman & CEO*

I'll stand up and then you guys can spring up as needed. (inaudible) There you are. I see you're dressed for the occasion here.

Unidentified Participant

First of all, I didn't get a chance to congratulate you on the call, so congratulations on the first 100 days. So one kind of nitty-gritty question for the CFO. Ex accounting, when you kind of dial it all in, you take out $2 billion for the accounting change and then grow operating profit 2% to 7%. Are we getting to something around $14 billion-ish for segment profit for 2018? Just so everybody is kind of on the same page as to what that bogey is, $14 billion-ish in segment operating profit?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Yes, that's in the range. And this is all detailed for you in the supplemental as well.

Unidentified Participant

The reset of '17 is, okay, great. And then just on the board. I think a lot of people are debating the size of the board, what's going to happen going forward. Are you -- Trian is now on the board, I just wanted to kind of delve into your mindset there a little bit. Are you aware of any lock-ups that they have on these funds that they build, that kind of take on these activist campaigns that would maybe put them in a little bit more of a short-term mindset relative to how you guys may view the next 3 to 5 years? I mean, I'm not an expert on what these guys do, but what was your kind of thought process when it comes to their time horizon and somebody like that being on the board versus your time horizon?

John L. Flannery - *General Electric Company - Chairman & CEO*

So I think Trian can speak for themselves about how their fund structure works and what their horizons are. So I don't have anything to add or comment on that. I'd just say on the board side of things, smaller board, new skills, easier to debate, those are the things we were thinking. The company is moving in a different direction. The board has been highly supportive and encouraging of that. Ed Garden's joined the board. He had his first meeting in the last month. And I welcome the debate. I think if you -- we've spent time with Ed before he joined the board and now that he's on the board, and he's one of our 18 board members today. So we've got a good dialogue there. But I think if you're looking at the board direction and Trian's engagement on the board, I love to debate. I love different ideas. I love people coming in and saying, "Have you looked at it this way or that way?" So I think it's going to be productive, and I get that from a lot of the existing board members as well. So the details of Trian, you have to get from Trian.

Unidentified Participant

And then one last question just on the Power business. Can you talk about...

John L. Flannery - *General Electric Company - Chairman & CEO*

I promise I'm not shorting your microphone out right now. Somehow it's happening.

Unidentified Participant

I'll (inaudible) anyway. Russell, you talked about performance guarantees. You talked about some of the early fixes to the H frame. Isn't this just kind of another way to compete in a very tough market? So when you look out, when you think about the addressable market that you have, will there be an impact on projects selected going forward? And how do you kind of factor that into your revenue base over the next several years? Are you taking on projects that are perhaps not that economically attractive? And what kind of impact will that have on your addressable market longer term?

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

So I'll answer it 2 ways. So first would be that the guarantees that we're underwriting are things that we're able to stress through the tests and the capabilities that we've built out. So I feel good about kind of the performance side of the guarantees that we're underwriting. The project capability, as part of this governance process, is making sure that we understand any risk that we might be entering into and making sure that we're making smart decisions around that. I don't think it's going to substantially change where we're bidding. I actually think it's going to make us better, to be honest.

John L. Flannery - *General Electric Company - Chairman & CEO*

Great. Andy?

Unidentified Participant

John, you talked about focusing on the operational rigor of the company and simplification. But as you know, GE is still a very large company. So how do you prevent what happened over the summer, just kind of a collapse in Power expectations? And how do you sort of -- how do you protect your legacy going forward here in terms of under-promising and over-delivering?

John L. Flannery - *General Electric Company - Chairman & CEO*

So well, I hope, Andy, and everybody, got a feel for today and really going back to the earnings call, it's a drive, and so we'll go forward. It's a drive to challenge each other -- ask questions, tough questions, look at data. Russell made a comment about, hey, let's talk about the reds. Let's not talk only about the greens. Let's dig into the reds. So I don't think this is a huge deal. I've done this in many other businesses in the past, but it has to be good data, good systems. And we've got a lot of work to do to, I'd say, improve our systems. But the mentality has to be, I'm going to challenge you, I'm going to ask questions. And we had a lot of that in the past, but I think we can do more of that. So -- and usually, as you do that, the issues come up and the -- as Russell said, when the issues come up and get on the table, they are easy to fix. When they don't come up and sort of metastasize, they become large. So I'd just go at it that way.

Unidentified Participant

John, how do you look at the balance of the company? If you look at the businesses, they're all kind of long-cycle businesses, you could argue late cycle. You look at the performance of GE versus some of your peers, what you see is big underperformance this year because you don't really have short-cycle industrial exposure. So do you think you should balance out the businesses more? Is that part of the $20 billion of assets? How do you look at capital allocation from that point of view?

John L. Flannery - *General Electric Company - Chairman & CEO*

I'd say on that one, Andy, that's a second order thought right now in terms of that. So I don't wake up in the morning thinking we really need to get a -- if we had a short-cycle business here, we -- life would be solid. So I think that's second, third order. We're really trying to run the assets we have better; focus on the areas we have competitive advantage; focus on strong end markets; do sensible, smart things, creative things with the assets that don't fit in there. And then we'll look after that. So I understand the question, but. Right there, Jeff?

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

A couple things. Just first kind of on restructuring. Both -- I'd like to get a better sense of what you plan to do and actually the cost or the cash out the door associated with the current restructuring plan. But really, stepping back a little bit further than that, there's been a lot of restructuring over the last many years, as you know, and a big disconnect between what the gross number is and what the net number that we can see in your P&L and cash flow. Some of that leakage, I think, is just a function of deflation in OE and other things. But I wonder if you could give us a little sense of really how to get our arms around that and the deflationary pressures you might be dealing with. And how do you translate gross restructuring to net?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Yes, maybe I'll start on that one. I think you will see true run rate costs come out in multiple places of GE. And I talked before about corporate as a great example of that, where you're just going to see that run rate drop. I think in other businesses, you both see it, and in some cases, it gets offset by just end market shifting. And Transportation is a great kind of substantive example of that: we took a lot of cost out, but the market shifted so hard that you just can't fully offset it. And I think you'd see puts and takes along those lines. I think the other thing I'd just maybe talk about is when we look at the total basket of restructuring, some of it is non-cash. And so that mix shifts from year-to-year as you go through it, too.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

Could you just firm up for us what you expect for cash restructuring cost for '18 and '19?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

It's about 2, I think.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

And then just one last one, too, just cleaning up some numbers. The contract asset headwind for 2018, is that cum catch adjustments? Or is that kind of core project-related activity?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Most of that is core project-related activity. I think our cum catch is somewhere in the 700 to 800 number next year, is that right?

John L. Flannery - *General Electric Company - Chairman & CEO*

One last thing I'd say, Jeff, just on your overall question about restructuring results, returns, that to me is right down the wheelhouse of it's a capital allocation decision. We invest in restructuring the same we invest in anything else. And we have to be rigorous about the business case, rigorous about tracking it. So it can get overrun by other factors, but I think rigor and real accountability is key. Scott?

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

John, you mentioned earlier in the presentation just complexity really being one of the challenges of GE's past. And when you made the decision to stick with the 3 main businesses, how much assurance can you give us that, that's still not too complex? And maybe another way to ask the question is when you were running Healthcare, I mean, how much did you care that you were under the same umbrella as a Power business and a aerospace business, et cetera?

John L. Flannery - *General Electric Company - Chairman & CEO*

So let me think about the second part of your question. I think I'd go back to -- let me start with Healthcare and transport it to the broader company. The philosophy, I think -- I hope came up, which is the businesses have to run themselves. You cannot run them from the center. So when I was in Healthcare, I knew a lot about what Kieran was doing in Life Science. I knew a lot -- but I wasn't in there day in, day out, saying tell me what you -- but I had rigorous information system, rigorous metrics, rigorous consequences, frankly. And so you can -- and I look at that and say, that's a $20 billion business, 60,000 employees. We had a dozen underlying sub-P&Ls Tier 2 and [3]. And I knew what was going on, and -- but I count on and rely on and demand that the people run the business day in, day out. And at that level, the complexity is within the scope of the people running it. So I look at that as an extrapolation to the company. And I look really at the -- we've spent a lot of time in the last 100 days with the businesses, to your second part of your question, really going through the corporate stuff. Like, do you guys -- is this helpful for you? Is it not helpful for you? Does this slow you down? And we've got a wide range of things. There are certain things, they'd say, "Hey, this is great." There's other things, if I had to do it myself, it would cost me a lot more. It's a lot of resources that I had to put (inaudible). Other people are like -- other things, I could live without this in 2 seconds. And so we've really made a lot of changes to the corporate cost structure, really with the businesses, the voice of the customer. If you don't care and it's just our sort of looking at you and adding up numbers, then we should not be doing it. So it's an ongoing thing, but I think -- I feel good about the way it worked in Healthcare, and I'm taking the same basic approach at the GE level.

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

And just as a natural follow-on, I mean, I think you went the entire presentation without talking about the GE Store. Predix was certainly deemphasized, materially. I mean, is there -- is it fair to say that the old days of the centralized research arm are kind of on their way out?

John L. Flannery - *General Electric Company - Chairman & CEO*

No, I wouldn't say that at all. So first, the message you should be taking away on Predix and digital is a focused strategy. So we're still making major investments there. We're still rolling this out to our installed base. So that message should not be taken as a deemphasis. It's a focused strategy. As we said at the outset, we're getting higher penetration, higher win rates, bigger deals. So I really -- we'll probably cut our spending there about $400 million. It's a little over a 25% reduction. I think we're going to end up getting more traction and more output out of that. With respect to research, we are -- that's one of the things that comes back quite positively. And David, maybe you can jump in, or Russell, around this. But we have always had an incredible center in Upstate New York. We have a massive center in India. And then we had a lot of other smaller ones. And we looked at that and said, "We don't need 9 research centers to still have incredible corporate research." So we're not deemphasizing that. But the way we do it, differently. You want to add to that?

David Leon Joyce - *GE Aviation - CEO, President and Vice Chairman of GE*

Well, I would tell you that when John and his -- the team came out, we talked about the positives and the negatives. For us, positive was global research because this is where world-class scientists take science, turn it into applied technology, which then we look at to turn into differentiated products. And doing that in a way where you can have scale and then applying it in a way you can have scale, I think is one of the unique benefits of GE. And I tell you, our business is really a result of that process.

John L. Flannery - *General Electric Company - Chairman & CEO*

Last thing, Scott, I'd just say, the things that you think about, research, the global growth organization, a lot of these things that you've thought of as the GE Store, still very much there and I would just say resized for the environment. Jamie gave you the example of the global growth organization. That's still unbelievably important in Africa, in the Middle East and there are places where you have to have that. You don't need it in, pick your -- Canada, Australia, Western Europe, et cetera. So we're keeping a lot of these things, but just in a more targeted, pure form, if you will.

Unidentified Participant

John, you're not going to GAAP, and I'm wondering if that actually you're going to exclude charges. So I'm wondering the thinking behind that. And then the $0.24 -- we've got a tailwind of $0.24, I think, in terms of restructuring charges this year. What's the sense -- I think you gave the answer on cash. What's the sense, amount of restructuring, if you were still going to be including and matching, that you would expect in '18?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

I'd say -- let me address the first part of your question first, which is we will...

Unidentified Participant

And the thinking around GAAP, because...

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Yes, exactly. We will always report a GAAP number, and you see that every quarter. But the thinking around having it be an adjusted EPS was really twofold. One was to better align it to our peers. When you look at the other industrial companies out there, this is a fairly common way to look at, not only GAAP, but really, the adjusted run rate of the underlying businesses and eliminate the noise. And so that was really the thought behind that. As we get into 2018 and you really look at restructuring, we mentioned before in the $2 billion range or territory, that's about what we're looking at there, too.

Unidentified Participant

And then, Jamie, if I understand this correctly, did you say you were spending -- because if you go back to the original plan, you were going to get $1.5 billion in '17, right, and another $2 billion in '18, so for the -- $3.5 billion cumulative. Are you saying you're spending now $3 billion, but because of mix and some other pressures, you're still going to get that back to the $2 billion? So I just wanted to understand, is the $3.5 billion, has that net number actually moved higher? Or is it the same number that we were talking about before?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Yes, I'm not entirely sure I'm following your question. But I think what you're asking is how much really drops through vis-à-vis the cash cost.

Unidentified Participant

Yes, well, you said -- originally, the plan was, I mean, Matt can correct me if I'm wrong, I believe...

John L. Flannery - *General Electric Company - Chairman & CEO*

Yes, [$1 billion and $1 billion] and now $1.5 billion and $2 billion, yes.

Unidentified Participant

Correct. So I'm understanding is that $2 billion in '18, is that higher? I think you said $3 billion, but you were going to -- that becomes $2 billion. So are you spending another $1 billion to get the $2 billion realized? That's sort of what I'm trying to understand.

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

I think the $2 billion is the cash cost that we're talking about. And so as you go into '18, what we really talked about is to get to $2 billion net, you really have to take more cost out than that, because there's other offsetting factors. You think about wage inflation, you think about other things that sort of naturally go up in any given year. You offset that, you get to the $2 billion net. And then of the $2 billion net, some of that gets offset by some of the market headwinds.

Unidentified Participant

John, just the first question. You earlier mentioned your investment in Baker Hughes, and it sounds like more flexibility with the subcommittee of the board able to look at that potentially on an earlier basis than the sort of notional lock-up period that's out there of a couple of years. Can you maybe talk about what might drive that? Or is it just market dynamics that you think would allow that subcommittee to say an earlier exit or monetization for GE, in the interest of Baker Hughes shareholders as well, something that would allow you -- and what would you do with it?

John L. Flannery - *General Electric Company - Chairman & CEO*

Sure. So just maybe to deconstruct that in a few ways, going back to the origin of the deal. So there's a 2-year, basically, window that ends in July of 2019, where the independent directors basically from Baker Hughes have certain consent rights, essentially, to the things that GE does. There's a conflict committee to go through day-to-day life and then there's a board committee for something like this, first thing. The second thing I'd say, when the whole transaction was put together, it really was a great combination of businesses. We had an upstream equipment business. They had a service business. But it was specifically designed to create the optionality that we're talking about right now. So obviously, it's a listed entity. And so this was -- this was not a new thought, I guess, in terms of the context of that. How that goes forward is what the committee is going to work on. And how that works with the Baker Hughes team, we're going to work on. We're still -- we want to maximize, at the end of the day, this is a capital allocation decision. We own 62.5% of this company. We want to maximize the value of that for the shareholders of our company. Part of that's going to be how we deliver synergies. Part of that's going to be how we share technology. And part of that might be, is there a different form or structure for the ownership of that asset. So it goes back, I'd say, to the origins of the deal. It will be determined going forward. There's no decision made formally by us. And obviously, we'd have to interact with Baker Hughes prior to 2019.

Unidentified Participant

Okay. And then on the Power side, a couple of things. You talked about the assumptions going into 2019 being down to flat, and then we'll see what happens there. But as you thought about and did the full strategic review on the business and talked about gas being here to stay, et cetera, as you look ahead and see the cost of storage falling, which you're involved with, you see renewable costs and economics also improving, what is it that sort of the driver for long-term shareholders here to say, "Okay, I can see the point where this is really a cyclical issue and not a structural issue in terms of the longer-term demand for new gas generation equipment"?

John L. Flannery - *General Electric Company - Chairman & CEO*

So I'll let Russell -- I'll go first, but Russell, you jump in. I think a few things on this. One is this is a dynamic space. We have not been running the asset well. And the short-term reaction, if you will, is this is an asset we have to get our arms around and run better, improve the cash, get the cost out. So part of this is -- right now, that's our task, is make this better than it has been. The second thing I'd say is it's a really long-lived asset. It's 30% of power generation around the world. Yes, there's huge disruption. Yes, there's growth in -- rapid growth in renewables and storage. And that's clearly going to change quantumly the industry. But it's not going to do it overnight. So there's some stability. Any forecast you look at is 2%-ish kind of growth in gas power generation -- electricity from gas power. So it's a dynamic, disrupted space, but it's going to have some permanence to it. And then the third thing, I look and say big opportunity for digital here, big opportunity for additive here. We should explore those and understand those completely. And then the last thing I'd say is if you look back and say, in 2003, everybody wanted us to get rid of Aviation. 2014, everyone's like, "I don't really like the Healthcare business so much." So I think we want to -- there is secular growth and demand for this. And we have a really competitive technology position. We have a huge installed base. So it's an asset we have to be really, I think, thoughtful about. I don't know, Russell, if you had any...?

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

I think you said it great.

John L. Flannery - *General Electric Company - Chairman & CEO*

Do you want to just pass back there and we'll -- go ahead. Yes?

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

Can we work at -- I have 3 questions. One is, first, in thinking about the dividend, historically, GE's policy is to pay out 45% of earning, of EPS as dividend. And coincidently, $0.48 a share on dividend divided by the midpoint of your guidance for next year is 45%. Is that how we should think about the dividend going forward?

John L. Flannery - *General Electric Company - Chairman & CEO*

We're not giving a specific payout ratio. But I would say, you would look at our free cash flow numbers and look -- I'd look to our peer group around payout ratios and dividend yields, and you should expect us to be in that general vicinity.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

Okay. My second question is there is a lot of -- you're going to be selling a lot of assets over the next couple of years. And some of them will be substantial, and it will represent a significant dilution to the earnings base, though. First, what should we be thinking about total growth in revenue and earnings, because you'll be diluting the earnings base by removing the cash-generating assets and how do you think about the, what, ameliorating that dilution?

John L. Flannery - *General Electric Company - Chairman & CEO*

So go ahead.

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

No, I was just going to make a couple of comments. So when you think about -- what we laid out for you for '18, first of all, only assumes the Water and Industrial Solutions exits. Any of the layering of the additional dispositions John talked about would be incremental to that. When you start to think about that in relation to how do you think about earnings per share, how does that really work, look, I think some of this depends on the form of those transactions, right, whether it's a spin, whether it's a split or some other form, where either share count shifts or something else. And so I think as you go forward, that's at least one framing you have to keep in mind.

John L. Flannery - *General Electric Company - Chairman & CEO*

And just to amplify on that, which I think is important for everybody, we are monetizing these assets in some form. It does not mean we're selling. It means we may sell, we may do all sorts of other transactions where our shareholders continue to own these in some different form. So if some of these are major, obviously, we're going to have to relook at the overall financial construct of the company, but we have to let this unfold over the next year or 2.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

And my final question is more of a detail question. With respect to Baker Hughes, the company authorized a share buyback last week, and GE will be receiving 2/3 of the proceeds from that share buy -- or proportional ownership. Do -- the company will, one, recognize cash from this, is that in the free cash flow?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

No, we did not include that in our free cash flow assumption for next year, and it actually won't be reported, for us, as free cash flow, either. We would consider that to be a return of capital.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

Okay. And will GE recognize a gain or a loss on the sale of those shares?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Not in earnings, no.

John L. Flannery - *General Electric Company - Chairman & CEO*

One last thing I'd just say, Martin, on that, just again, when we talk capital allocation, maximizing value, the ability -- first of all, Baker Hughes was an underleveraged company, basically no net debt, in a rate environment where the after-tax cost of the interest is roughly the dividend on the company, so they can essentially self-fund this on its own. And the company is going to go through an expansion of EBITDA and revenue and cash in the next 2 years. It made a lot of sense in that asset to do that kind of recapitalization. So we're going to continue to look at all sorts of things through that lens.

Unidentified Participant

Why are you putting Transportation on the block? It seems like you've been in the business 100 years, through the Great Depression. You make big machines, lots of sensors, lots of digital content, customer service agreements. So it just seems like it fits. So why put it on the block?

John L. Flannery - *General Electric Company - Chairman & CEO*

So one of the things we've talked about is focus and the other thing we've talked about was really cycles and which businesses are exposed to cycles. So on the cycle side of things, we foresee a protracted slowdown in the North American market, including some things that are secular, around coal shipments and other things. So it is an excellent asset. We have a very strong franchise. We have incredible customer relations. But we think it's going to be an extended slow period in North America, and the international business can pick up some of that, point one. Point two is it's, again, we're exploring the options that we have with these assets. So that may be a sale, it may be a spin, it may be -- so I think you have to watch again the form in which this happens. And then the last thing I would say is focus means focus. So when we look at areas that I want to invest in and where I want to put the shoulder of the company behind, Transportation is a great asset. It's 3%, 4%, 5% of the company. And so we're concentrating deliberately on the areas where we think we can make the most impact for the owners, and then we'll maximize the value of the other assets.

Unidentified Participant

Question for Russell on some of the challenges in the restructuring of Alstom. Can you comment on the options on 2018 and 2019 in Alstom? And then also, what are the challenges posed because of the deal, employment contracts or employment guarantees in France? And how will you be able to work around that?

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

So we're working through, as part of the overall portfolio assessment, we're working through how we'll deal with the option as it plays out as part of that overall assessment process. So we're working on that. The contractual element, we continue to work with the works councils in France and in all countries around the programs that we want to go execute. There are some additional commitments that we have in France that we understand and are working to navigate. But it's all part of our overall plan. We kind of pay attention to at what point we believe we'll be able to enact some of the things that we have planned and laid out right now. But it's all part of our overall footprint strategy.

John L. Flannery - *General Electric Company - Chairman & CEO*

And you've seen the Siemens and MHI. I mean, everybody is going through some version of this right now.

Unidentified Participant

And then for follow-up on Healthcare, John. So we always look at this business as in 3 parts: the diagnostic imaging, Life Sciences and then there's also the Healthcare IT business, and we saw some speculation that the Healthcare IT business might be considered to be separated. Is that something you'd look at? Is that a separate business within Healthcare as a whole?

John L. Flannery - *General Electric Company - Chairman & CEO*

The only thing I would just sort of maybe nuance there is within the Healthcare IT business is a range -- literally, probably a dozen different businesses. That's part of the area that we're looking at in the Tier 2, Tier 3 area. Other parts of that digital business are deeply critical to the core imaging business: scheduling, workflows, et cetera. So the core imaging, the artificial intelligence, the machine learning, that part of the IT application in imaging is still very central to the company.

Unidentified Participant

Two questions, if I may. The first is a repeat of a question I asked on the earnings call, which is basically, you targeted about $20 billion in asset sales. But presumably, these business are going to have pretty superior free cash flow and growth characteristics. Now the trend line CFOA for you is around $11 billion to $12 billion, horseshoes and hand grenades, right? And you've talked about the noise in association with pension, and you've taken -- you're not taking the GE Capital dividend, so we'll just take you at your word there. But we're talking about probably industrial free cash flow of $1 per share at a cap in '19, and you're not expecting a Power recovery, Oil & Gas is what it is. So I guess what are we playing for, for industrial free cash flow growth and earnings power, given the conundrum of the fact that you have to divest some businesses with very strong free cash flow characteristics?

John L. Flannery - *General Electric Company - Chairman & CEO*

So first, I'd take some issue with your core assumptions. In that $20 billion is a wide range of cash flow performance. And ultimately, there will be a wide range of what the proceeds and things are from those business. So I think it's way too early to look at that and say, "I can calculate proceeds and lost cash flow and impute something else." We give you the algorithm for '19 and '20 in terms of the core businesses. And again, you're going to have to let this play out, and we're going to do this in a way -- we're not under duress to do this. This is about focus. This is about a simpler company making it less complex, and we're going to maximize the value of those assets over a couple of years. So you have to wait and see how it play out.

Unidentified Participant

And that goes to my second question, which is one of duration. What is the duration upon which we should give you? And what metrics we should be looking at to decide whether this current construct is a success versus something more larger, like a larger breakup?

John L. Flannery - *General Electric Company - Chairman & CEO*

Listen, that's for the market to decide. I think we've laid out very clearly where we're going, very clearly where we compete, where we have competitive advantage, where we generate cash. I recognize fully it's show-me time. I can say anything I want today. And until we produce the results, not going to matter. So that -- we're focused on what we can control, where we're allocating the capital, how we're running the company, how we're driving the teams. You guys will decide what you like and don't like. I don't know if there's any one method here, Matt, but a couple in the back and right there, maybe. Yes?

Unidentified Participant

Can you talk a little bit more about your thinking about the dividend and how you came to the decision? Shortly after you were named CEO, it was widely quoted in the Journal and elsewhere that the dividend was safe. Surprised that you would make such a strong statement early on, which is, clearly, in my view and maybe others, has hurt your credibility right out of the gate. And what other options did you consider? When did you make the decision? You draw -- why did you drag that decision out so long, et cetera?

John L. Flannery - *General Electric Company - Chairman & CEO*

So I think there's been major change in our cash flow forecast. So the time we went out with that first statement, we were having a $12 billion to $14 billion CFOA. And the day I started, there was a guide to the low end of that range. That clearly has changed in a quantum way since that happened. So we're now at a $7 billion number. That's the fundamental change imprisonment once you look at the dividend, so that's the delta there. We've looked very carefully at what the options were. We looked very carefully at what we expected the rebound in free cash flow to be. But fundamentally, that dividend was predicated on us growing to a certain level that we just did not see happening in terms of industrial cash flow in the next couple of years and that it was better for the owners of the company that we reduce that dividend, still a dividend in line with our competitors and peers in terms of payout ratio and yield, and that we have ability to grow the company going forward. So the single biggest delta, I think is obvious, which is what happened in the Power business.

Unidentified Participant

Just a quick follow-up is in the earnings call a couple of weeks ago, you made a point of saying roughly, something to the effect your (inaudible) cash flow [zip code] too long. So in response to someone who was asking (inaudible) and given the impression that you could have a higher payout ratio and grow back into it. So it sort of seemed like the decision...

John L. Flannery - *General Electric Company - Chairman & CEO*

No, I'd say we said we're going to focus on improving the cash flow of the company. You see the cash flow, free cash flow in 2018, it's double what it is in 2017. I think the statement that we're not in the same zip code holds true. And that's what we meant by saying we're not going to stay in the same neighborhood and we're not. Jeff, do you want to come around again? This must be a zinger since you didn't think of it the first time.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

No, I'm just going with some specifics of Power, how about that? I wanted to just kind of get into kind of completing -- you're making sure you're complete now in your understanding of what you're dealing with. And one of the things that I've been concerned about and I can't measure is just really what's happened on commercial terms in projects. Certainly, we've heard in the channel that there was slackness on requiring deposits and giveaways on service and all kinds of things to win orders, kind of non-price price for lack of a better term. Have you been able to really kind of work through the backlog and get a sense of comfort and confidence about what's coming through the pipeline in that business?

John L. Flannery - *General Electric Company - Chairman & CEO*

You want to take first...?

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

Yes, so, Jeff, we've looked very hard at what's in those contracts in terms of some of the commitments that have been made. That's really what we were talking about in terms of the new strike zone-type process and what we're doing around pricing governance. We have taken a hard look at the way they've -- service areas. I think there's a view around the service portfolio in terms of are we giving things away, et cetera. The contracts have a degree of productivity in them, at times, working with customers to look at how we restructure to ensure value for them. We may trade value, but then we get long-term economics back as well. There's actually short-term economics at times on things like AGPs and making sure that the assets are continuing to run. So I feel pretty good about where we are, but we're continuing to make sure that we put the right controls in place to make sure that we don't have issues going forward. There's a degree of complexity, obviously, based on by country and financing requirements, et cetera, and we're working through all of that.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

And kind of analogous to your answer there. You put up the high service retention rates, right, but I guess it's easy to retain if you're aggressive on price. Do you feel that there's pressure there just in the way these contracts have been written from an ongoing service standpoint?

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

On the -- if you looked at the contracts where we've worked through restructuring, the margin on the contracts remains the same. So the economic trade is something where we get value and the customer gets value.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder and Managing Partner*

And then one final nuanced one. What percent of your business would you say is exposed to this idea of kind of the capacity payment dynamic and how things are kind of shaking out in the market right now?

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

I would argue that the business in total -- so let me put it this way. There's less of that risk associated with the CSAs. Everything that we're seeing around the -- where we have the long-term contracts, those assets we monitor, we can see that they're running equal to the utilization that we had assumed they have. And that's about 50% of our service book.

Unidentified Participant

Just a follow-up question on dividend, $0.96. Your '18 goal was $2. You did not have major divestitures in the numbers. Working capital was better. You were getting payments from GE Capital. You were expecting that interest rates would go up in terms of pension payments. So as you thought about the dividend cut, I mean, I appreciate the fact that you sort of benchmark yourselves to your peers. But your peers are growing, and you are not. So you're shrinking. So why not give yourself more room in terms of dividend? Why did you decide to go with the 50% cut and not give yourself flexibility? You can always raise a dividend.

John L. Flannery - *General Electric Company - Chairman & CEO*

Listen, we're comfortable with the dividend relative to the cash flow of the company. We've laid that out extremely clearly. The cash flow of the company will grow in the future. It will grow in 2018. Businesses that we focus on will continue to grow cash flow, so I take issue with the issue of shrinking. And it's an important component of the total shareholder return, so we've -- that's -- we've focused on a healthy dividend, investment in organic, share buyback or M&A where it makes sense. So it's part of a balanced picture. We're comfortable with our financial ability to do that.

Unidentified Participant

And just a follow-up question on the -- oh, sorry, Jamie.

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

I was just going to add to that, too. I think the other thing you have to think about is that because we're prefunding the pension, and we won't have those pension payments over the next couple of years. So that should factor into that as well.

Unidentified Participant

And just to follow up on the board composition. Given that you said you're shrinking to 12 people. Between you and Trian and 3 new members, that's 5 people are going to be brand-new out of 12 people -- not brand-new, but relatively new. So it's going to be a very different board. So should we expect this board to take another look in 12 months of the composition of the business in terms of sort of the portfolio review? Or do you think it's sort of set at this point?

John L. Flannery - *General Electric Company - Chairman & CEO*

I think you should look at the board doing what any board would do, which is constantly evaluate the businesses and the management teams and the strategies and play that as it goes forward. So I think you shouldn't expect anything different from that board than you'd expect at any other board. A couple in the back here.

Unidentified Participant

John, so you talked a little bit about the turnaround you made at Healthcare and at one point mentioned that you had to turn over 80% of the leadership team there. I'm just wondering where are you in terms of the leadership changes that need to be made at Power to get that turned around over the next 1 to 2 years?

John L. Flannery - *General Electric Company - Chairman & CEO*

So just a couple of things. The -- in the Healthcare case, first team turnaround, I'll start with that. Secondly, we moved a lot -- out of the change of people, we probably took 1/3 of new people from the outside. We took about 1/3 of the people that changed -- from other parts of GE, so we had a tremendous infusion from the rest of GE. And we moved about 1/3 of the people around inside the business, so it's a mix of that. I don't know, Russell, do you want to talk a little about where you are in the assessment of the Power team?

Russell T. Stokes - *General Electric Company - Senior VP & CEO and President of GE Power*

Yes, so we're working through it. I mean, the thing that we had was the ability to consolidate both the Power and Energy Connections team, so some amount of the staff is being put together is a combination of those 2 teams are people from both sides. We continue to understand and look by person at who we think is going to be with us in the long term. I feel good about the team that we have right now. We -- I mentioned the change that we've made in services. So Paul decided to retire, so we've made that change -- we made a change in supply chain. So there are things that we continue to evaluate, but I feel good about the structure of the team right now playing it forward.

Unidentified Participant

Okay. Maybe staying with you, Russell, for a second on just Power and the free cash flow conversion numbers going from negative to 60% next year. And so back-of-the-envelope math puts that at about $1 billion, I think, for next year, so one, want to check that my math is right. But secondly, what are the kind of key puts and takes? Clearly, I think you guys are probably looking for some net working capital benefits next year, but there's probably going to be some higher restructuring costs or cash restructuring as well. So maybe try to bridge us on that negative from this year to 60% this year?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Russell, maybe I'll start on that. So first of all, you mentioned $1 billion. I'd probably go a little bit north of that in terms of really handicapping it. And I think second, what you saw in Power over the last couple of years was a really serious build of working capital. And over the next couple of years, that excess inventory and receivables really start to turn and burn off, so that's really benefiting and lifting Russell as he moves through really changing the operational rigor of the business itself. In addition to that, they're making a lot of change from the -- with respect to cost. And so this year, they had very healthy cash restructuring. But next year, they'll have more of that as well. And then lastly, this year, they had a onetime tax payment related to some re-domestication of about $1 billion. That doesn't repeat next year. So you have a lot of moving parts, but a lot of tailwind going into next year, too. I don't know, Russell, if you want to comment.

Unidentified Participant

Jamie, that $1 billion-plus number, that's fully burdened, right? That's not segment EBIT, that's fully burdened net income from Power?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

Yes, yes.

Unidentified Participant

You mentioned moving compensation or incentive compensation more from cash to equity. Presumably, that will benefit your free cash flow calculations, but I'm not -- I can run through how that would actually work. But can you quantify the benefit to free cash flow as you calculate it moving from cash to equity?

John L. Flannery - *General Electric Company - Chairman & CEO*

I don't know that number. Do you?

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

I don't know that number off the top of my head. I think the one thing that I'm most excited about benefiting free cash flow is the fact that our incentive comp programs are going to be mostly aligned with free cash flow as a primary metric.

John L. Flannery - *General Electric Company - Chairman & CEO*

As a metric. So the large equity component is for essentially the officers of the company. It's 190 people. So it will trickle down through the rest of the organization, but the most senior people are the 50% that we talked about.

Unidentified Participant

Your first slide speaks about 125 years of innovation. Going forward, what type of breakthroughs are we going to see from GE? Also as CEO, what would you like to see your biggest impact and the biggest change be, I mean, other than getting the stock way up? And also, what type of buyback activity can we expect with the stock being so low?

John L. Flannery - *General Electric Company - Chairman & CEO*

So on the -- there's a handful of questions in there. The -- on the innovation side, there are still incredible things going on inside the company in every single business. So I'm most familiar with the Healthcare business, things that are going on around artificial intelligence and imaging, things that are going on in our Life Sciences business, automation of that process, digitization of that process. The cell therapy business has a chance to be a huge business with incredible clinical support. You could go right down the line. You look at David's businesses, a series of technical, incredible quantum technical innovations. The additive -- we have to eat our own cooking first and prove to everyone it works inside the company. And -- but early days of that are this is going to really radically change the industrial manufacturing process. I mean, this is not a small marginal productivity thing. So I think there's no shortage of strong technologies across the company. In terms of legacy, it would obviously be ridiculous to even comment on that. But I don't think about getting -- so I'll answer your comment about the stock price. I don't stand around thinking about the stock price. I want the team to move forward. I want the team to have confidence. I want the team to be focused. I want to invest where we want to invest, execute with rigor, maximize the value of everything else. And those things will take care of themselves and write their own legacy. I really do not need to be motivated by that. And then on the buyback, I think we're just -- we're not anticipating much in the short run right now is what I would say there, so we'll play that again. TSR, dividend, buyback, M&A, organic investment, we'll see how it goes.

Unidentified Participant

One last question. What direction could we expect to see some M&A activity? What do you envision? Or could you give us some guidance?

John L. Flannery - *General Electric Company - Chairman & CEO*

Small in the near term. Close to home, what we said earlier.

Unidentified Participant

John, a couple of questions. One, to what extent has tax dilution minimization played a role in kind of how you shaped not only what you kept as the core businesses for founding the company going forward, but as you look at these other 10 plus a few others that you're going to divest? Will that influence the structure as opposed to the monetization of those? And then secondly, as you recast the company, what 2 key milestones are you likely to think about once achieved, you know you will have been successful at your repositioning of the company?

John L. Flannery - *General Electric Company - Chairman & CEO*

So on the first part -- and Jamie, you can jump in. But I'd say the screening criteria of the pool of assets, if you will, and businesses, is fundamentally market-backed, competitive-backed, our capabilities, rates of return, capital investment. It's not derived out of, hey, will this tax -- this -- it's not -- it's business metrics, strategy metrics and will obviously move from there in a way that's most tax-advantaged and tax-sensible for our owners of the company. So tax was not a fulcrum of the thinking. It's a factor in how we ultimately execute the thinking. I'd come back to at the end of the day, to your other question on metrics, growth in earnings, growth in cash flow. So growth in cash to me are the ultimate litmus test. So we -- there's a lot of ways to grow your earnings without getting long-term growth, you hit the top line. We can't have that be the equation, so there's got to be some element of fundamental long-term growth. And at the end of the day, the cash is what people consume. The cash is what lets you invest. The cash is what lets you do all the capital allocation things you want to do. So I watch those 2 things ultimately as a long-term beacon of if we're growing and generating a lot of cash, people are going to like what they see. So 1 or 2 more, and then -- somebody who hasn't asked a question yet? Okay.

Unidentified Participant

Can you talk a little bit more about kind of the long-term margin construct? You laid out what's happening in 2018 and 2019 from a restructuring perspective. But just thinking through the long-term kind of model, what gives you the confidence around kind of a continuous improvement on that? And what's going on internally, looking out beyond kind of 2018 and 2019 in terms of getting out that kind of margin expansion?

John L. Flannery - *General Electric Company - Chairman & CEO*

So Jamie, you can jump in after here. The -- a few things embedded in your question. There's an operational part of that question. The 50 basis points a year, the cost-out, the product cost-out, the -- working your supply chain, so there's a constant march on the operating capabilities of the company. There's a second aspect here longer term, which I think is important, which goes all the way back to the beginning about where do we want to play? What industries do we want to be in? What characteristics do they have? And we laid out clearly. We're looking for places we have competitive advantage that translate above and beyond our operational capabilities into higher margin. So I think you're going to see an operational aspect to margin improvement. Steady, grind it out, and you'll see a mix aspect as we go into more concentrated areas where we compete better.

Jamie S. Miller - *General Electric Company - CFO & Senior VP*

And I'd just add to that, when you think about the longer-term algorithm here, you really have to get back to secular growth and revenue growth. And you look at the dynamics in Aviation. You look at dynamics in Healthcare. And after we sort of stabilize Power, Russell's really set on that flow transactional services space and really focused on share. And so you add those together, I think revenue growth, coupled with what John talked about around product cost and going deep in the rigor, the materials management, the construct, even additive is a huge element of that. And then the structural cost piece of it. So it's all in that equation.

John L. Flannery - *General Electric Company - Chairman & CEO*

Last question.

Unidentified Participant

The $20 billion in assets, you've identified Transportation, Industrial Solutions and Current and Lighting. And when will we hear about the other businesses that I think you've already identified, that will be eligible for -- that you've identified already for transactions.

John L. Flannery - *General Electric Company - Chairman & CEO*

I would just say in general, as the transactions unfold. So we're not planning on making major announcements on that. I don't know if the [HFS] or anything as we go, but as they happen. So these are -- once you go beyond the names that we've put out there, you're down to a much smaller set of things.

So listen, thanks very much. Matt, any housekeeping or...? Great. Thanks, everyone, and thanks for coming.
