GENERAL ELECTRIC CO
Form 10-Q
October 30, 2017

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

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

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

For the transition period from ____ to ____

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

New York	14-0689340
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
41 Farnsworth Street, Boston, MA	02210
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
Emerging growth company ¨	

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
There were 8,672,085,000 shares of common stock with a par value of $0.06 per share outstanding at September 30, 2017.

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FORWARD LOOKING STATEMENTS

FORWARD LOOKING STATEMENTS

This document contains "forward-looking statements" - that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," "estimate," "forecast," "target," "preliminary," or "range."
Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about the completion of our announced plan to reduce the size of our financial services businesses, including earnings per share of GE Capital Global Holdings, LLC's (GE Capital) retained businesses (Verticals); expected income and Industrial operating profit; earnings per share, including the impact of the new revenue recognition standard; revenues; organic growth; growth and productivity associated with our Digital and Additive businesses; margins; cost structure and plans to reduce costs; restructuring, impairment or other financial charges; tax rates; transaction-related synergies, proceeds and gains; cash flows, including the impact of working capital, contract assets and pension funding contributions; returns on capital and investment; capital expenditures; capital allocation, including dividends, share repurchases, acquisitions and liquidity; or capital structure, including leverage.

For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- the strategy, capital allocation and portfolio review being undertaken by our new chief executive officer;
- our ability to convert Industrial earnings into cash and the amount and timing of our cash flows and earnings, which may be impacted by long-term services agreement dynamics, the amount and timing of dividends from GE Capital and other conditions, all of which may affect our ability to pay our quarterly dividend at the planned level or to repurchase shares at planned levels;
- our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so;
- changes in law, economic and financial conditions, including interest and exchange rate volatility; commodity and equity prices and the value of financial assets;
- the impact of conditions in the financial and credit markets on the availability and cost of GE Capital funding, and GE Capital's exposure to counterparties;
- pending and future mortgage loan repurchase claims, other litigation claims and the U.S. Department of Justice's investigation under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and other investigations in connection with WMC, which may affect our estimates of liability, including possible loss estimates;
- GE Capital's ability to pay dividends to GE at the planned level, which may be affected by GE Capital's cash flows and earnings, claims and investigations relating to WMC, charges that may be required in connection with GE Capital's run-off insurance operations, credit ratings and other factors;
- our ability to launch new products in a cost-effective manner;
- our ability to increase margins through restructuring and other cost reduction measures;
- our ability to convert pre-order commitments/wins into orders/bookings;
- the price we realize on orders/bookings since commitments/wins are stated at list prices;
- customer actions or market developments such as early aircraft retirements, reduced demand for equipment and services in the energy markets in which we operate or shifts in the competitive landscape for our products and services, changes in economic conditions, including oil prices, and other factors that may affect the level of demand and financial performance of the major industries and customers we serve;
- the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of Alstom investigative and legal proceedings;
- our capital allocation plans, as such plans may change including with respect to the timing and size of dividends, share repurchases, acquisitions, joint ventures, dispositions and other strategic actions;
-

- our success in completing, including obtaining regulatory approvals and satisfying other closing conditions for, announced transactions, such as our announced plan to sell our Industrial Solutions business or other dispositions that we may pursue;
- our success in integrating acquired businesses and operating joint ventures, including Baker Hughes, a GE company;
- our ability to realize revenue and cost synergies from announced transactions, acquired businesses and joint ventures, including Alstom and Baker Hughes;
- the impact of potential information technology or data security breaches;
- the other factors that are described in "Forward-Looking Statements" in Baker Hughes, a GE company's most recent earnings release or Securities and Exchange Commission filing; and
- the other factors that are described in “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

MD&A

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

PRESENTATION

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

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

- General Electric or the Company – the parent company, General Electric Company.
- GE – the adding together of all affiliates except GE Capital, whose continuing operations are presented on a one-line basis, giving effect to the elimination of transactions among such affiliates. As GE presents the continuing operations of GE Capital on a one-line basis, certain intercompany profits resulting from transactions between GE and GE Capital have been eliminated at the GE level. We present the results of GE in the center column of our consolidated statements of earnings, financial position and cash flows. An example of a GE metric is GE cash from operating activities (GE CFOA).
- General Electric Capital Corporation or GECC – predecessor to GE Capital Global Holdings, LLC.
- GE Capital Global Holdings, LLC or GECGH – successor of GECC.
- GE Capital or Financial Services – refers to GECGH, or its predecessor GECC, and is the adding together of all affiliates of GE Capital giving effect to the elimination of transactions among such affiliates. We present the results of GE Capital in the right-side column of our consolidated statements of earnings, financial position and cash flows.
- GE consolidated – the adding together of GE and GE Capital, giving effect to the elimination of transactions between the two. We present the results of GE consolidated in the left-side column of our consolidated statements of earnings, financial position and cash flows.
- Industrial – GE excluding the continuing operations of GE Capital. We believe that this provides investors with a view as to the results of our industrial businesses and corporate items. An example of an Industrial metric is Industrial CFOA (Non-GAAP), which is GE CFOA excluding the effects of dividends from GE Capital.
- Industrial segment – the sum of our seven industrial reporting segments, without giving effect to the elimination of transactions among such segments and between these segments and our Financial Services segment. This provides investors with a view as to the results of our industrial segments, without inter-segment eliminations and corporate items. An example of an industrial segment metric is industrial segment revenue growth.
- Baker Hughes, a GE company or BHGE - following the combination of our Oil & Gas business with Baker Hughes Incorporated, our Oil & Gas segment is comprised of our ownership interest of approximately 62.5% in the new company formed in the transaction, Baker Hughes, a GE Company (BHGE). We consolidate 100% of BHGE's revenues and cash flows, while our Oil & Gas segment operating profit and net income are derived net of minority interest of approximately 37.5% attributable to BHGE's Class A shareholders. References to "Baker Hughes" represent legacy Baker Hughes Incorporated operating activities which, in certain cases, have been excluded from our results for comparative purposes.
- Total segment – the sum of our seven industrial segments and one financial services segment, without giving effect to the elimination of transactions between such segments. This provides investors with a view as to the results of all of our segments, without inter-segment eliminations and corporate items.

- Verticals or GE Capital Verticals – the adding together of GE Capital businesses that we expect to retain, principally its vertical financing businesses—GE Capital Aviation Services (GECAS), Energy Financial Services (EFS) and Industrial Finance (which includes Healthcare Equipment Finance, Working Capital Solutions and Industrial Financing Solutions)—that relate to the Company's core industrial domain and other operations, including our run-off insurance activities, and allocated corporate costs.

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

Discussion of GE Capital's total assets includes deferred income tax liabilities, which are presented within assets for purposes of our consolidated Statement of Financial Position presentations for this filing.

MD&A

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

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

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

OTHER TERMS USED BY GE

- Backlog – unfilled customer orders for products and product services (expected life of contract sales for product services).
- Continuing earnings – unless otherwise indicated, we refer to the caption “earnings from continuing operations attributable to GE common shareowners” as continuing earnings or simply as earnings.
- Continuing earnings per share (EPS) – unless otherwise indicated, when we refer to continuing earnings per share, it is the diluted per-share amount of “earnings from continuing operations attributable to GE common shareowners”.
- Digital revenues – revenues related to internally developed software and associated hardware, including Predix™ and software solutions that improve our customers’ asset performance. In 2016, we reassessed the span of our digital product offerings, which now excludes software-enabled product upgrades. These revenues are largely generated from our operating businesses and are included in their segment results. Revenues of "Non-GE Verticals" refer to GE Digital revenues from customers operating in industries where GE does not have a presence.
- Equipment leased to others (ELTO) – rental equipment we own that is available to rent and is stated at cost less accumulated depreciation.
- GE Capital Exit Plan – our plan, announced on April 10, 2015, to reduce the size of our financial services businesses through the sale of most of the assets of GE Capital, and to focus on continued investment and growth in our industrial businesses.
- Industrial margin – GE revenues and other income excluding GE Capital earnings (loss) from continuing operations (Industrial revenues) minus GE total costs and expenses less GE interest and other financial charges divided by Industrial revenues.
- Industrial operating profit margin (Non-GAAP) – Industrial segment profit plus corporate items and eliminations (excluding gains, restructuring, and non-operating pension cost) divided by industrial segment revenues plus corporate items and eliminations (excluding gains and GE-GE Capital eliminations).
- Industrial segment gross margin - industrial segment sales less industrial segment cost of sales divided by sales.
- Net earnings – unless otherwise indicated, we refer to the caption “net earnings attributable to GE common shareowners” as net earnings.
- Net earnings per share (EPS) – unless otherwise indicated, when we refer to net earnings per share, it is the diluted per-share amount of “net earnings attributable to GE common shareowners”.
- Non-operating pension cost (Non-GAAP) – comprises the expected return on plan assets, interest cost on benefit obligations and net actuarial gain (loss) amortization for our principal pension plans.
- Operating earnings (Non-GAAP) – GE earnings from continuing operations attributable to common shareowners excluding the impact of non-operating pension costs.
- Operating earnings per share (Non-GAAP) – unless otherwise indicated, when we refer to operating earnings per share, it is the diluted per-share amount of “operating earnings”.
- Operating pension cost (Non-GAAP) – comprises the service cost of benefits earned, prior service cost amortization and curtailment gain (loss) for our principal pension plans.

- Organic revenues (Non-GAAP) – revenues excluding the effects of acquisitions, dispositions and translational foreign currency exchange.
- Product services – for purposes of the financial statement display of sales and costs of sales in our Statement of Earnings, "goods" is required by SEC regulations to include all sales of tangible products, and "services" must include all other sales, including other services activities. In our MD&A section of this report, we refer to sales under product services agreements and sales of both goods (such as spare parts and equipment upgrades) and related services (such as monitoring, maintenance and repairs) as sales of "product services," which is an important part of our operations. We refer to "product services" simply as "services" within the MD&A.
- Product services agreements – contractual commitments, with multiple-year terms, to provide specified services for products in our Power, Renewable Energy, Oil & Gas, Aviation and Transportation installed base – for example, monitoring, maintenance, service and spare parts for a gas turbine/generator set installed in a customer's power plant.
- Revenues – unless otherwise indicated, we refer to captions such as "revenues and other income" simply as revenues.
- Segment profit – refers to the operating profit of the industrial segments and the net earnings of the Financial Services segment. See the Segment Operations section within the MD&A for a description of the basis for segment profits.

NON-GAAP FINANCIAL MEASURES

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the U.S. Securities and Exchange Commission (SEC) rules. Specifically, we have referred, in various sections of this report, to:

- Industrial segment organic revenues and Industrial segment organic revenues excluding Power and Oil & Gas
- Operating and non-operating pension cost
- Adjusted corporate costs (operating)
- GE pre-tax earnings from continuing operations, excluding GE Capital earnings (loss) from continuing operations and the corresponding effective tax rates
- Industrial operating earnings and GE Capital earnings (loss) from continuing operations and EPS
- Industrial operating + Verticals earnings and EPS
- Industrial operating profit and operating profit margin (excluding certain items)
- Industrial operating profit excluding Power and Oil & Gas
- Industrial cash flows from operating activities (Industrial CFOA) and Industrial CFOA excluding deal taxes and GE Pension Plan funding

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

MD&A

OUR OPERATING SEGMENTS

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

OUR INDUSTRIAL OPERATING SEGMENTS

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

OUR FINANCIAL SERVICES OPERATING SEGMENT

Capital

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

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

CORPORATE INFORMATION

GE’s Internet address at www.ge.com, Investor Relations website at www.ge.com/investor-relations and our corporate blog at www.gereports.com, as well as GE’s Facebook page and Twitter accounts and other social media, including @GE_Reports, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

MD&A KEY PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS

(Dollars in billions; per-share amounts in dollars)

REVENUES PERFORMANCE

	3Q 2017	YTD 2017
Industrial Segment	10%	3%
Industrial Segment Organic*	(1)%	2%
Capital	(8)%	(9)%

GE CFOA

Industrial CFOA(a)* GE Capital Dividend

(a) 2016 included deal taxes of $(1.1) billion related to the sale of our Appliances business and in 2017 included deal taxes of $(0.1) billion related to the Baker Hughes transaction and GE Pension Plan funding of $(1.4) billion.
(b) Included $(0.2) billion related to Baker Hughes and a $0.5 billion correction to operating cash flows for the settlement of certain derivative instruments during the six months ended June 30, 2017.

INDUSTRIAL ORDERS

Services Equipment

(a) Included $2.5 billion related to Baker Hughes

INDUSTRIAL BACKLOG

Services Equipment

INDUSTRIAL PROFIT & MARGINS

INDUSTRIAL OPERATING PROFIT & MARGINS
(NON-GAAP)[(a)]

(a) Excluded gains on disposals, non-operating pension cost, restructuring and other charges and noncontrolling interests

*Non-GAAP Financial Measure

MD&A KEY PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS
(Dollars in billions; per-share amounts in dollars and diluted; attributable to GE common shareowners)
NET EARNINGS

NET EARNINGS PER SHARE

OPERATING EARNINGS (NON-GAAP)

OPERATING EARNINGS PER SHARE (NON-GAAP)

INDUSTRIAL OPERATING + VERTICALS EARNINGS(NON-GAAP)

INDUSTRIAL OPERATING + VERTICALS EPS
(NON-GAAP)

MD&A CONSOLIDATED RESULTS

CONSOLIDATED RESULTS

2017 SIGNIFICANT DEVELOPMENTS

LEADERSHIP CHANGES

As announced on June 12, 2017, Jeffery R. Immelt retired as Chief Executive Officer (CEO) on July 31, 2017 and John L. Flannery succeeded Mr. Immelt as CEO effective August 1, 2017. Mr. Flannery also joined the Board of Directors on that date. Mr. Immelt remained Chairman of the Board for a transition period through October 2, 2017, at which point Mr. Flannery succeeded Mr. Immelt as Chairman.

On October 6, 2017, we announced that, effective November 1, 2017, Jamie S. Miller, will become Chief Financial Officer, succeeding Jeffrey S. Bornstein. Mr. Bornstein will remain a Vice Chairman through December 31, 2017. Ms. Miller also serves as a director at Baker Hughes, a GE company.

On October 9, 2017, we announced that Robert Lane retired from the Company's Board of Directors (the Board) after 12 years of service, effective that same date. In addition, the Board elected Edward P. Garden as a director to fill the resulting vacancy, effective on that date. Mr. Garden is the Chief Investment Officer and a Founding Partner of Trian Fund Management, L.P. (Trian), an investment management firm.

2017 SIGNIFICANT TRANSACTIONS

- On January 10, 2017, we completed the acquisition of ServiceMax, a leader in cloud-based field service management (FSM) solutions, for $0.9 billion, net of cash acquired.
- On April 20, 2017, we completed the acquisition of LM Wind Power, one of the world's largest wind turbine blade manufacturers for approximately $1.6 billion, net of cash acquired.
- On July 3, 2017, we completed the transaction to create BHGE. Under the terms of the deal, which we announced in October 2016, we combined our Oil & Gas business and Baker Hughes Incorporated (Baker Hughes) to create a new company in which GE holds an ownership interest of approximately 62.5% and former Baker Hughes shareholders hold an ownership interest of approximately 37.5%. Baker Hughes shareholders also received a cash dividend funded by a $7.5 billion cash contribution from GE. The completion of the transaction followed the approval of Baker Hughes shareholders, regulatory approvals and other customary closing conditions. Effective July 3, 2017, the operations of Baker Hughes are reported in our Oil & Gas segment.
- In October 2016, we announced our plan to sell our Water & Process Technologies business. In March 2017, we announced an agreement to sell the business to Suez Environnement S.A. (Suez), a French-based utility company operating primarily in the water treatment and waste management sectors. On September 29, 2017, we completed the sale for consideration of $3.0 billion, net of obligations assumed and cash transferred (including $0.1 billion from sale of receivables originated in our Water business and sold from GE Capital to Suez), and recognized an after-tax gain of approximately $1.9 billion.
- In the first quarter of 2017, we classified our Industrial Solutions business within our Power segment as held for sale. In September 2017, we announced an agreement to sell the business for approximately $2.6 billion to ABB, a Swiss-based engineering company operating primarily in the robotics, power, heavy electrical equipment and automation technology sectors. The deal is expected to close in mid-2018, subject to customary closing conditions and regulatory approval.

THIRD QUARTER 2017 RESULTS

Overall, our consolidated results in the third quarter were below our expectations. Consolidated revenues (after adjusting for the Water gain of $1.9 billion and the impact of incremental Baker Hughes revenues of $2.5 billion*) were $29.0 billion, down $0.2 billion or 1%. The decline in revenues was a result of lower Industrial segment revenues of 1% organically* driven principally by our Power and Oil & Gas segments. For all other Industrial

segments, revenues increased 2% organically* as Aviation and Healthcare experienced revenue growth versus the prior year period. Continuing earnings per share was $0.22, down 4% from the prior year. Industrial operating plus Verticals earnings per share* was $0.29, down 9% versus the prior year, driven substantially by a 10% decrease in Industrial segment operating profit*.

Restructuring and other charges were $0.21 per share, including $0.02 per share related to BHGE integration and synergy investment. In total, restructuring and other items were $2.4 billion before tax, with restructuring charges totaling about $0.8 billion (including $0.2 billion related to BHGE) and $0.3 billion of businesses development charges, primarily related to the Baker Hughes transaction. Restructuring charges were higher than originally planned, driven by the accelerated restructuring actions taken at Corporate. Additionally, within restructuring and other charges, we recognized two significant impairments in the quarter totaling $0.13 per share, which included non-cash pre-tax impairment charges of $0.9 billion related to goodwill in our Power Conversion business and $0.3 billion related to a power plant asset. See Note 8 to the consolidated financial statements for further information on the results of our annual goodwill impairment testing.

MD&A CONSOLIDATED RESULTS

Industrial profit was $2.4 billion and industrial margins were 7.6%, down $0.3 billion, or 240 basis points, versus the third quarter of 2016 primarily driven by a reduction in Industrial segment profit of $0.7 billion, or 16%. After adjusting segment operating profit of $3.6 billion for restructuring charges of $0.3 billion related to Oil & Gas, which, subsequent to the Baker Hughes transaction, are recorded in the segment rather than at Corporate, adjusted Industrial segment operating profit* was down $0.4 billion, or 10%. The decline in adjusted Industrial segment operating profit* was primarily due to lower results within our Power and Oil & Gas segments, partially offset by the performance of our remaining industrial segments, which had increases in organic revenues* of 2% and adjusted Industrial segment operating profit* of 23%, including lower Corporate costs.

Beginning in the third quarter of 2017, the Energy Connections business within the former Energy Connections & Lighting segment was combined with the Power segment and presented as one reporting segment called Power. The Power segment experienced a revenue decline of 4% and an operating profit decline of 51% versus the third quarter of 2016. Power revenues were $8.7 billion, with equipment revenues down 3% and service revenues down 4%.

The decline in Power segment results was primarily driven by three factors:

- A decline in year-over-year results, principally in our service business, lower shipments of our aeroderivative products, and performance of our Power Conversion business. Within services, we sold fewer Advanced Gas Path (AGP) upgrades and experienced lower outages. Services outages were down 18% versus the third quarter of 2016. Aeroderivative units were down 32 versus the third quarter of 2016. Our markets have also been challenged by the increasing penetration of renewables, fleet penetration for AGPs, lower capacity payments, utilization, and outages. We expect these conditions to persist through the fourth quarter and into 2018.
- Second, we experienced project delays and incurred costs associated with certain quality matters. In addition, we recognized a bad debt reserve for a Venezuelan customer receivable. The net effect of these items amounted to approximately $0.1 billion.
- Third, the mix effect of having lower volume in our high-margin aero and service businesses, and higher volume in low-margin grid and balance of plant revenues resulted in a substantial margin headwind.

Refer to the Power segment results section within this MD&A for further information.

Beginning in the third quarter of 2017, our Oil & Gas segment is comprised of our ownership interest of approximately 62.5% in the combined BHGE entity. We consolidate 100% of BHGE's revenues and cash flows while segment operating profit and net income are derived net of minority ownership interest of approximately 37.5% attributable to BHGE's Class A shareholders. Also, the operating profit we report for our Oil & Gas segment is adjusted for GE reporting conventions, such as excluding restructuring and other charges. Therefore, our operating profit of approximately 62.5% will differ from BHGE's operating income as reported in its standalone financial statements.

During the third quarter of 2017, Oil & Gas reported revenues of $5.4 billion, an increase of 81% versus the third quarter of 2016, driven by the effects of the Baker Hughes transaction. Adjusting for the Baker Hughes transaction, segment revenues* were $2.8 billion in the quarter, down 5% due to continued weakness in the oil and gas market. Segment operating profit (loss) was $(36) million, or $231 million after adjusting for restructuring and other charges reported in the segment*. The decline in segment operating profit (after adjusting for restructuring and other charges reported in the segment*) of 35% was primarily driven by longer cycle oilfield equipment business. Refer to the Oil & Gas segment results section within this MD&A for further information.

GE CFOA was $4.1 billion and $18.3 billion for the nine months ended September 30, 2017 and 2016, respectively. The decline in GE CFOA is primarily due to a $12.0 billion decrease in dividends from GE Capital, reflecting a

decrease in proceeds from GE Capital Exit Plan disposals. GE CFOA was also impacted by lower earnings from Power and Oil & Gas, as well as lower than expected working capital improvements. Additionally, GE CFOA was negatively impacted by GE Pension Plan payments of $1.4 billion in 2017, compared to zero in the prior year period. Further, due to our ongoing insurance actuarial review, we have deferred the decision whether GE Capital will pay additional dividends to GE until the review is completed. Refer to the GE Cash Flows and Critical Accounting Estimates sections within this MD&A for further information.

As noted in the second quarter of 2017 earnings release presentation, Mr. Flannery is conducting a comprehensive review of the Company, including a review of the Company's business units, the GE Store and Corporate. Mr. Flannery provided an update on this review as part of the third quarter earnings release presentation, at which time he stated that management had identified $20 billion plus of assets that would be exited in the next one to two years. On November 13, 2017, Mr. Flannery will present to investors outlining, among other items, the results of the business assessment, cost reduction actions, capital allocation and 2018 outlook. We expect additional restructuring charges related to cost reduction actions, and held-for-sale and other associated charges related to the exit or sale of assets or businesses.

*Non-GAAP Financial Measure

MD&A CONSOLIDATED RESULTS

CONSOLIDATED RESULTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30
(Dollars in billions)

REVENUES INDUSTRIAL AND FINANCIAL SERVICES REVENUES
(a) Included $2.5 billion related to Baker Hughes

COMMENTARY: 2017 - 2016

THREE MONTHS
Consolidated revenues increased $4.2 billion, or 14%.

- Consolidated revenues decreased $0.2 billion, or 1%, excluding the $1.9 billion pre-tax gain recorded at Corporate from the sale of our Water business in the third quarter of 2017 and the impact of incremental Baker Hughes revenues of $2.5 billion*.
- Industrial segment revenues increased approximately $0.2 billion, or 1%, excluding the items noted above*, as the net effects of acquisitions of $0.3 billion and the effects of a weaker U.S. dollar of $0.2 billion were partially offset by organic revenue* decreases of $0.4 billion.
- Financial Services revenues decreased $0.2 billion, or 8%, primarily due to higher impairments and organic revenue declines, partially offset by higher gains.

NINE MONTHS
Consolidated revenues increased $0.1 billion.

- Consolidated revenues decreased $1.2 billion, or 1%, excluding the pre-tax gains recorded at Corporate of $3.1 billion from the sale of Appliances in the second quarter of 2016 and $1.9 billion from the sale of our Water business in the third quarter of 2017 as well as the impact of incremental Baker Hughes revenues of $2.5 billion*.
- Industrial segment revenues decreased approximately $0.3 billion, excluding the items noted above*, as the net effects of acquisitions of $0.7 billion and organic revenue* increases of $1.9 billion were partially offset by the net effects of dispositions of $2.8 billion and the effects of a stronger U.S. dollar of $0.1 billion.
- Financial Services revenues decreased $0.7 billion, or 9%, primarily due to higher impairments, organic revenue declines and lower gains.

*Non-GAAP Financial Measure

MD&A CONSOLIDATED RESULTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30
(Dollars in billions; attributable to GE common shareowners)
CONTINUING EARNINGS OPERATING EARNINGS*

COMMENTARY: 2017 - 2016

THREE MONTHS
Consolidated continuing earnings decreased $0.2 billion.
Industrial
- Earnings decreased $2.1 billion, or 98%, excluding the $1.9 billion after-tax gain recorded at Corporate from the sale of our Water business in the third quarter of 2017*.
- Industrial segment profit decreased $0.7 billion, or 16%, due to organic operating decreases* of $0.6 billion and restructuring costs related to Baker Hughes of $0.3 billion, partially offset by the net effects of acquisitions of $0.1 billion.
- In addition, restructuring and other costs recorded at Corporate increased $1.3 billion, including non-cash impairment charges of $0.9 billion related to goodwill and $0.3 billion related to a power plant asset. Gains recorded at Corporate decreased $0.2 billion, excluding the $1.9 billion pre-tax gain on the sale of our Water business.
- Interest and other financial charges increased $0.2 billion while the provision for income taxes decreased $0.3 billion, excluding the tax impact from the sale of our Water business*.
- The net effect of acquisitions on our consolidated operating earnings was a decrease of $0.2 billion while the net effect of dispositions was an increase of $1.4 billion in the third quarter of 2017.
- Foreign exchange favorably affected industrial operating earnings by $0.1 billion as a result of both translational and transactional impacts related to remeasurement and mark-to-market charges on open hedges.

Financial Services
Financial Services earnings decreased 8%, primarily due to lower tax benefits primarily associated with a 2016 IRS tax settlement, higher impairments and lower gains, partially offset by lower treasury and headquarters operation expenses associated with the GE Capital Exit Plan and core increases.

*Non-GAAP Financial Measure

NINE MONTHS
Consolidated continuing earnings decreased $1.5 billion.
Industrial
- Earnings decreased $1.6 billion, or 41%, excluding the after-tax gains recorded at Corporate of $1.8 billion from the sale of Appliances in the second quarter of 2016 and $1.9 billion from the sale of our Water business in the third quarter of 2017*.
- Industrial segment profit decreased $0.6 billion, or 5%, driven by restructuring costs related to Baker Hughes of $0.3 billion, organic operating decreases* of $0.2 billion and the net effects of dispositions of $0.2 billion, partially offset by the net effects of acquisitions of $0.1 billion.
- In addition, restructuring and other costs recorded at Corporate increased $1.2 billion, including non-cash impairment charges of $0.9 billion related to goodwill and $0.3 billion related to a power plant asset. Gains recorded at Corporate decreased $0.3 billion, excluding the $3.1 billion pre-tax gain on the sale of Appliances in 2016 and the $1.9 billion pre-tax gain on the sale of our Water business in 2017.

- Interest and other financial charges increased $0.4 billion while the provision for income taxes increased $0.5 billion, excluding the tax impacts from the sale of Appliances and the sale of our Water business*.
- The net effect of acquisitions on our consolidated operating earnings was a decrease of $0.2 billion while the net effect of dispositions was a decrease of $1.2 billion in 2017.
- Foreign exchange adversely affected industrial operating earnings by an insignificant amount in 2017.

Financial Services

- Financial Services losses decreased $1.3 billion, or 87% primarily due to lower treasury and headquarters operation expenses associated with the GE Capital Exit Plan, lower preferred dividend expenses associated with the January 2016 preferred equity exchange and core increases, partially offset by lower gains, higher impairments and lower tax benefits primarily associated with a 2016 IRS tax settlement.

MD&A SEGMENT OPERATIONS

SEGMENT OPERATIONS
SUMMARY OF OPERATING SEGMENTS

	Three months ended September 30			Nine months ended September 30		
(In millions)	2017	2016	V%	2017	2016	V%
Revenues						
Power(a)	$8,679	$8,995	(4) %	$26,569	$25,664	4 %
Renewable Energy	2,905	2,770	5 %	7,406	6,533	13 %
Oil & Gas	5,365	2,964	81 %	11,475	9,497	21 %
Aviation	6,816	6,300	8 %	20,153	19,074	6 %
Healthcare	4,724	4,482	5 %	13,714	13,190	4 %
Transportation	1,074	1,249	(14) %	3,185	3,471	(8)%
Lighting(a)	483	576	(16) %	1,442	4,239	(66)%
Total industrial segment revenues	30,046	27,335	10 %	83,943	81,667	3 %
Capital	2,397	2,600	(8) %	7,525	8,256	(9)%
Total segment revenues	32,444	29,936	8 %	91,468	89,923	2 %
Corporate items and eliminations	1,028	(670)		(777)	681	
Consolidated revenues	$33,472	$29,266	14 %	$90,691	$90,604	— %
Segment profit (loss)						
Power(a)	$611	$1,259	(51) %	$2,526	$2,924	(14)%
Renewable Energy	257	202	27 %	524	413	27 %
Oil & Gas(b)	(36)	353	U	325	981	(67)%
Aviation	1,680	1,494	12 %	4,856	4,366	11 %
Healthcare	820	717	14 %	2,289	2,130	7 %
Transportation	276	309	(11) %	634	747	(15)%
Lighting(a)	23	(15)	F	43	196	(78)%
Total industrial segment profit	3,630	4,320	(16) %	11,198	11,756	(5)%
Capital	24	26	(8)%	(195)	(1,466)	87 %
Total segment profit (loss)	3,654	4,345	(16)%	11,003	10,290	7 %
Corporate items and eliminations	(1,095)	(1,524)		(4,687)	(2,120)	
GE interest and other financial charges	(718)	(483)		(1,918)	(1,490)	
GE benefit (provision) for income taxes	64	(241)		(297)	(1,034)	
Earnings (loss) from continuing operations attributable to GE common shareowners	1,905	2,097	(9) %	4,101	5,645	(27)%
Earnings (loss) from discontinued operations, net of taxes	(106)	(105)	(1)%	(490)	(954)	49 %
Less net earnings attributable to noncontrolling interests, discontinued operations	(1)	(2)		6	2	
Earnings (loss) from discontinued operations, net of tax and noncontrolling interest	(105)	(103)	(2)%	(497)	(956)	48 %
Consolidated net earnings (loss) attributable to the GE common shareowners	$1,800	$1,994	(10) %	$3,604	$4,689	(23)%

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

as a separate segment called Lighting.

(b) Oil & Gas segment operating profit excluding restructuring and other charges was $231 million and $593 million for the three and nine months ended September 30, 2017, respectively.

MD&A SEGMENT OPERATIONS

REVENUES AND PROFIT

Segment revenues include revenues and other income related to the segment.

Segment profit is determined based on internal performance measures used by the Chief Executive Officer (CEO) to assess the performance of each business in a given period. In connection with that assessment, the CEO may exclude matters, such as charges for restructuring, rationalization and other similar expenses, acquisition costs and other related charges, technology and product development costs, certain gains and losses from acquisitions or dispositions, and litigation settlements or other charges, for which responsibility preceded the current management team. Subsequent to the Baker Hughes transaction, restructuring and other charges are included in the determination of segment operating profit for our Oil & Gas segment. See the Corporate Items and Eliminations section within this MD&A for additional information about costs excluded from segment profit.

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

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

- Interest and other financial charges, income taxes and GE preferred stock dividends are excluded in determining segment profit (which we sometimes refer to as "operating profit") for the industrial segments.
- Interest and other financial charges, income taxes and GE Capital preferred stock dividends are included in determining segment profit (which we sometimes refer to as "net earnings") for the Capital segment.

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

With respect to the segment revenue and profit walks, the overall effect of foreign exchange is included within multiple captions as follows:

- The translational foreign exchange impact is included within Foreign Exchange.
- The transactional impact of foreign exchange hedging is included in operating cost within Productivity and in other income within Other.

SIGNIFICANT SEGMENT DEVELOPMENTS

SALE OF APPLIANCES

On January 15, 2016, we announced the signing of an agreement to sell our Appliances business to Haier. On June 6, 2016, we completed the sale for proceeds of $5.6 billion (including $0.8 billion from the sale of receivables originated in our Appliances business and sold from GE Capital to Haier) and recognized an after-tax gain of $1.8 billion in 2016. For the nine months ended September 30, 2016, Appliances contributed revenues of $2.6 billion and an operating profit of $0.3 billion.

CREATION OF BAKER HUGHES, A GE COMPANY

On July 3, 2017, we completed the transaction to create Baker Hughes, a GE company (BHGE). Under the terms of the deal, which we announced in October 2016, we combined our Oil & Gas business and Baker Hughes Incorporated (Baker Hughes) to create a new company in which GE holds an ownership interest of approximately 62.5% and former Baker Hughes shareholders hold an ownership interest of approximately 37.5%. Baker Hughes shareholders also received a cash dividend funded by a $7.5 billion cash contribution from GE. The completion of the transaction followed the approval of Baker Hughes shareholders, regulatory approvals and other customary closing conditions. Effective July 3, 2017, the operations of Baker Hughes are reported in our Oil & Gas segment.

INCLUSION OF ENERGY CONNECTIONS IN POWER REPORTING SEGMENT

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

MD&A SEGMENT OPERATIONS

SEGMENT RESULTS – THREE AND NINE MONTHS ENDED SEPTEMBER 30

(Dollars in billions)
INDUSTRIAL SEGMENT EQUIPMENT
& SERVICES REVENUES

INDUSTRIAL SEGMENT PROFIT
Services (a) Equipment (b)

(a) $13.6 billion, excluding $1.5 billion related to Baker Hughes*, and $40.1 billion, excluding $1.5 billion related to Baker Hughes*, for the three and nine months ended September 30, 2017, respectively
(b) $13.9 billion, excluding $1.0 billion related to Baker Hughes*, and $41.3 billion, excluding $1.0 billion related to Baker Hughes*, for the three and nine months ended September 30, 2017, respectively

(a) $3.8 billion, excluding $(0.1) billion related to Baker Hughes*
(b) $11.3 billion, excluding $(0.1) billion related to Baker Hughes*

2017 – 2016 COMMENTARY: THREE MONTHS ENDED SEPTEMBER 30

- Industrial segment revenues increased $2.7 billion, or 10%, driven by increases at Oil & Gas primarily due to Baker Hughes, Aviation, Healthcare and Renewable Energy, partially offset by decreases at Power, Transportation and Lighting.
- Industrial segment profit decreased $0.7 billion, or 16%, driven primarily by lower earnings at Power, Oil & Gas primarily due to restructuring costs associated with Baker Hughes, and Transportation, partially offset by higher earnings at Aviation, Healthcare, Renewable Energy and Lighting.
- Industrial segment margin decreased 280 bps to 13.0% in 2017 from 15.8% in 2016 driven by negative cost productivity and business mix. The decrease in Industrial segment margin reflects decreases at Oil & Gas and Power, offset by increases at Renewable Energy, Healthcare, Transportation, Aviation and Lighting.

2017 – 2016 COMMENTARY: NINE MONTHS ENDED SEPTEMBER 30

- Industrial segment revenues increased $2.3 billion, or 3%, driven by increases at Oil & Gas primarily due to Baker Hughes, Aviation, Power, Renewable Energy, and Healthcare, partially offset by decreases at Lighting primarily due to the sale of the Appliances business in the second quarter of 2016, and Transportation.
- Industrial segment profit decreased $0.6 billion, or 5%, driven primarily by lower earnings at Oil & Gas, Power, Lighting due to the sale of Appliances in the second quarter of 2016, and Transportation, partially offset by higher earnings at Aviation, Healthcare, and Renewable Energy.
- Industrial segment margin decreased 70 bps to 13.7% in 2017 from 14.4% in 2016 driven by price and business mix. The decrease in Industrial segment margin reflects decreases at Oil & Gas, Power and Transportation, partially offset by increases at Aviation, Renewable Energy, Healthcare and Lighting.

*Non-GAAP Financial Measure

POWER

OPERATIONAL OVERVIEW
(Dollars in billions)
2017 YTD SUB-SEGMENT REVENUES

EQUIPMENT/SERVICES REVENUES

(a) Includes Distributed Power
(b) Includes Water & Process Technologies and GE Hitachi Nuclear

Services Equipment

ORDERS

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Services Equipment

Services Equipment

UNIT SALES

	3Q 2016	3Q 2017	V	YTD 2016	YTD 2017	V
Gas Turbines	30	22	(8)	69	63	(6)

MD&A SEGMENT OPERATIONS | POWER

FINANCIAL OVERVIEW
(Dollars in billions)
SEGMENT REVENUES SEGMENT PROFIT SEGMENT PROFIT MARGIN
Services Equipment

SEGMENT REVENUES & PROFIT WALK:

THREE MONTHS

	Revenues	Profit
September 30, 2016	$ 9.0	$ 1.3
Volume	(0.5)	(0.1)
Price	(0.1)	(0.1)
Foreign Exchange	0.1	—
(Inflation)/Deflation	N/A	—
Mix	N/A	(0.2)
Productivity	N/A	(0.4)
Other	0.2	0.1
September 30, 2017	$ 8.7	$ 0.6

NINE MONTHS

	Revenues	Profit
September 30, 2016	$ 25.7	$ 2.9
Volume	0.9	0.1
Price	(0.2)	(0.2)
Foreign Exchange	(0.1)	—
(Inflation)/Deflation	N/A	0.1
Mix	N/A	(0.2)
Productivity	N/A	(0.4)
Other	0.3	0.2
September 30, 2017	$ 26.6	$ 2.5

COMMENTARY: 2017 - 2016

Segment revenues down $0.3 billion (4%);
Segment profit down $0.6 billion (51%):

- The decrease in revenues was driven by lower services volume at Power Services due to 15 fewer AGP upgrades. Equipment volume also decreased, primarily at Gas Power Systems, as a result of eight fewer gas turbine and 32 fewer aeroderivative units, partially offset by seven more Heat Recovery Steam Generator shipments and extended scope including higher balance of plant revenues. Further decreases in revenue were due to lower prices offset by the effects of a weaker U.S. dollar versus the euro and increased other income including a reduction in foreign exchange transactional losses.
- The decrease in profit was due to negative variable cost productivity, unfavorable business mix due to higher revenues from lower margin balance of plant volume and fewer higher margin aeroderivative units, lower prices and lower overall volume, partially offset by increased other income including a reduction in foreign exchange transactional losses.

Segment revenues up $0.9 billion (4%);
Segment profit down $0.4 billion (14%):

- The increase in revenues was driven by higher equipment volume, primarily at Gas Power Systems, due to higher balance of plant as well as 36 more Heat Recovery Steam Generator shipments, partially offset by six fewer gas turbine and 27 fewer aeroderivative units. Revenues also increased due to increased other income including a reduction in foreign exchange transactional losses offset by lower prices and the effects of a stronger U.S. dollar versus the euro.
- The decrease in profit was due to negative variable cost productivity, unfavorable business mix due to higher revenues from lower margin balance of plant volume and fewer higher margin aeroderivative units, and lower prices. These decreases were partially offset by positive base cost productivity on higher volume and increased other income including a reduction in foreign exchange transactional losses.

RENEWABLE ENERGY

OPERATIONAL OVERVIEW
(Dollars in billions)
2017 YTD SUB-SEGMENT REVENUES

EQUIPMENT/SERVICES REVENUES

Services Equipment

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Services Equipment

UNIT SALES

	3Q 2016	3Q 2017	V	YTD 2016	YTD 2017	V
Wind Turbines	976	749	(227)	2,500	2,073	(427)

MD&A | SEGMENT OPERATIONS | RENEWABLE ENERGY

FINANCIAL OVERVIEW
(Dollars in billions)
SEGMENT REVENUES SEGMENT PROFIT SEGMENT PROFIT MARGIN
Services Equipment

SEGMENT REVENUES & PROFIT WALK:

THREE MONTHS

	Revenues	Profit
September 30, 2016	$ 2.8	$ 0.2
Volume	0.1	—
Price	—	—
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	—
Mix	N/A	—
Productivity	N/A	0.1
Other	—	—
September 30, 2017	$ 2.9	$ 0.3

NINE MONTHS

	Revenues	Profit
September 30, 2016	$ 6.5	$ 0.4
Volume	0.6	—
Price	(0.1)	(0.1)
Foreign Exchange	0.1	—
(Inflation)/Deflation	N/A	0.1
Mix	N/A	—
Productivity	N/A	(0.1)
Other	0.2	0.2
September 30, 2017	$ 7.4	$ 0.5

COMMENTARY: 2017 - 2016
Segment revenues up $0.1 billion (5%);
Segment profit up $0.1 billion (27%):

- The increase in revenues was primarily driven by higher services volume due to increased repowering projects at Onshore Wind, partially offset by lower equipment sales driven by 227 fewer wind turbine shipments and 16% fewer megawatts shipped than in the prior year.
- The increase in profit was due to positive cost productivity.

Segment revenues up $0.9 billion (13%);
Segment profit up $0.1 billion (27%):

- The increase in revenues was primarily driven by higher volume due to increased repowering projects at Onshore Wind and higher equipment sales at Hydro, partially offset by 427 fewer wind turbine shipments and 4% fewer megawatts shipped than in the prior year. Revenues also increased due to increased other income including a reduction in foreign exchange transactional losses, and the effects of a weaker U.S. dollar versus the Brazilian real, partially offset by lower prices.
- The increase in profit was due to material deflation and increased other income including a reduction in foreign exchange transactional losses. These increases were partially offset by negative cost productivity and lower prices.

OIL & GAS

OPERATIONAL OVERVIEW
(Dollars in billions)
2017 YTD SUB-SEGMENT REVENUES

(a) Previously referred to as Surface
(b) Previously referred to as Subsea Systems & Drilling

EQUIPMENT/SERVICES REVENUES

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Services Equipment
(a) Included $2.5 billion related to Baker Hughes
(b) Included $2.5 billion related to Baker Hughes

Services Equipment

MD&A SEGMENT OPERATIONS | OIL & GAS

FINANCIAL OVERVIEW
(Dollars in billions)

SEGMENT REVENUES SEGMENT PROFIT SEGMENT PROFIT MARGIN

Services Equipment

SEGMENT REVENUES	SEGMENT PROFIT	SEGMENT PROFIT MARGIN
(a) $2.8 billion, excluding $2.5 billion related to Baker Hughes*	(a) $0.1 billion, excluding $(0.1) billion related to Baker Hughes*	(a) 3.9%, excluding (5.7)% related to Baker Hughes*
(b) $8.9 billion, excluding $2.5 billion related to Baker Hughes*	(b) $0.5 billion, excluding $(0.1) billion related to Baker Hughes*	(b) 5.3%, excluding (5.7)% related to Baker Hughes*

SEGMENT REVENUES & PROFIT WALK:

THREE MONTHS

	Revenues	Profit
September 30, 2016	$ 3.0	$0.4
Volume	(0.2)	—
Price	—	—
Foreign Exchange	0.1	—
(Inflation)/Deflation	N/A	—
Mix	N/A	—
Productivity	N/A	(0.3)
Other	0.1	—
Baker Hughes	2.5	(0.1)
September 30, 2017	$ 5.4	$—

NINE MONTHS

	Revenues	Profit
September 30, 2016	$ 9.5	$1.0
Volume	(0.5)	(0.1)
Price	(0.2)	(0.2)
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	0.1
Mix	N/A	—
Productivity	N/A	(0.5)
Other	0.2	0.1
Baker Hughes	2.5	(0.1)
September 30, 2017	$ 11.5	$0.3

*Non-GAAP Financial Measure

COMMENTARY: 2017 - 2016

Segment revenues up $2.4 billion (81%);

Segment profit down $0.4 billion (110%):

- The increase in revenues was primarily driven by the effects of Baker Hughes, a weaker U.S. dollar versus the euro and increased other income including a reduction in foreign exchange transactional losses, partially offset by negative market conditions which resulted in lower organic equipment volume primarily in Oilfield Equipment.
-

The decrease in operating profit was driven by negative variable cost productivity as well as restructuring and other charges, partially offset by increased volume from Baker Hughes.

Segment revenues up $2.0 billion (21%);
Segment profit down $0.7 billion (67%):

- The increase in revenues was primarily driven by the effects of Baker Hughes and increased other income including a reduction in foreign exchange transactional losses, partially offset by negative market conditions which resulted in lower prices and lower organic equipment volume primarily in Oilfield Equipment and Turbomachinery & Process Solutions.
- The decrease in operating profit was primarily driven by negative variable cost productivity, restructuring and other charges, lower prices, and lower organic volume, partially offset by increased volume from Baker Hughes, deflation and increased other income including a reduction in foreign exchange transactional losses.

AVIATION

OPERATIONAL OVERVIEW
(Dollars in billions)
2017 YTD SUB-SEGMENT REVENUES

EQUIPMENT/SERVICES REVENUES

Services Equipment

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Services Equipment

Services Equipment

UNIT SALES

	3Q 2016	3Q 2017	V	YTD 2016	YTD 2017	V
Commercial Engines	654	641	(13)	2,055	1,895	(160)
LEAP Engines(a)	22	111	89	33	257	224
Military Engines	100	145	45	402	402	—
Spares Rate(b)	$19.1	$23.2	$4.1	$18.5	$22.2	$3.7

(a) LEAP engines are a subset of commercial engines
(b) Commercial externally shipped spares and spares used in time & material shop visits in millions of dollars per day

MD&A SEGMENT OPERATIONS | AVIATION

FINANCIAL OVERVIEW
(Dollars in billions)
SEGMENT REVENUES SEGMENT PROFIT SEGMENT PROFIT MARGIN
Services Equipment

SEGMENT REVENUES & PROFIT WALK:
THREE MONTHS

	Revenues	Profit
September 30, 2016	$ 6.3	$ 1.5
Volume	0.5	0.1
Price	—	—
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	0.1
Mix	N/A	—
Productivity	N/A	—
Other	—	—
September 30, 2017	$ 6.8	$ 1.7

NINE MONTHS

	Revenues	Profit
September 30, 2016	$ 19.1	$ 4.4
Volume	1.0	0.2
Price	0.1	0.1
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	—
Mix	N/A	(0.1)
Productivity	N/A	0.2
Other	—	—
September 30, 2017	$ 20.2	$ 4.9

COMMENTARY: 2017 - 2016
Segment revenues up $0.5 billion (8%);
Segment profit up $0.2 billion (12%):

- The increase in revenues was primarily due to an increase in services volume including a higher commercial spares shipment rate, partially offset by a decrease in equipment volume. Equipment volume decreased primarily due to fewer GE90 and CF6 Commercial engine shipments, partially offset by 89 more LEAP engine shipments than in the prior year.
- The increase in profit was mainly driven by higher volume and material deflation.

Segment revenues up $1.1 billion (6%);
Segment profit up $0.5 billion (11%):

- The increase in revenues was primarily due to higher services volume including a higher commercial spares shipment rate and military spare parts demand, and higher prices. Equipment revenues decreased primarily due to 160 fewer Commercial engine shipments, partially offset by 224 more LEAP engine shipments than in the prior year.

- The increase in profit was mainly driven by positive cost productivity, higher overall volume and higher prices at Services, partially offset by unfavorable business mix due to negative LEAP margin impact.

HEALTHCARE

OPERATIONAL OVERVIEW
(Dollars in billions)
2017 YTD SUB-SEGMENT REVENUES

EQUIPMENT/SERVICES REVENUES

Services Equipment

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Services Equipment

Services Equipment

MD&A SEGMENT OPERATIONS | HEALTHCARE

FINANCIAL OVERVIEW
(Dollars in billions)
SEGMENT REVENUES SEGMENT PROFIT SEGMENT PROFIT MARGIN
Services Equipment

SEGMENT REVENUES & PROFIT WALK:

THREE MONTHS

	Revenues	Profit
September 30, 2016	$ 4.5	$0.7
Volume	0.3	—
Price	(0.1)	(0.1)
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	—
Mix	N/A	—
Productivity	N/A	0.1
Other	—	—
September 30, 2017	$ 4.7	$0.8

NINE MONTHS

	Revenues	Profit
September 30, 2016	$ 13.2	$2.1
Volume	0.8	0.1
Price	(0.2)	(0.2)
Foreign Exchange	(0.1)	—
(Inflation)/Deflation	N/A	(0.1)
Mix	N/A	—
Productivity	N/A	0.3
Other	—	—
September 30, 2017	$ 13.7	$2.3

COMMENTARY: 2017 - 2016

Segment revenues up $0.2 billion (5%);
Segment profit up $0.1 billion (14%):

- The increase in revenues was due to higher equipment and services volume driven by Healthcare Systems and Life Sciences, partially offset by lower prices at Healthcare Systems.
- The increase in profit was mainly due to positive cost productivity driven by cost savings resulting from previous restructuring actions as well as a small gain on the disposition of a nonstrategic operation in Life Sciences, partially offset by lower prices at Healthcare Systems.

Segment revenues up $0.5 billion (4%);
Segment profit up $0.2 billion (7%):

- The increase in revenues was due to higher equipment and services volume driven by Healthcare Systems and Life Sciences, partially offset by lower prices at Healthcare Systems and the effects of a stronger U.S. dollar versus the pound sterling and the Chinese renminbi.
- The increase in profit was mainly due to positive cost productivity driven by cost savings resulting from previous restructuring actions, as well as higher volume, partially offset by lower prices at Healthcare Systems and inflation.

TRANSPORTATION

OPERATIONAL OVERVIEW

(Dollars in billions)

2017 YTD SUB-SEGMENT REVENUES

EQUIPMENT/SERVICES REVENUES

(a) Includes Marine, Stationary, Drilling and Digital

Services Equipment

ORDERS

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Services Equipment

Services Equipment

UNIT SALES

	3Q 2016	3Q 2017	V	YTD 2016	YTD 2017	V
Locomotives	200	77	(123)	578	354	(224)

SEGMENT
MD&A OPERATIONS |
TRANSPORTATION

FINANCIAL OVERVIEW
(Dollars in billions)
SEGMENT REVENUES SEGMENT PROFIT SEGMENT PROFIT MARGIN
Services Equipment
SEGMENT REVENUES & PROFIT
WALK:
THREE MONTHS

	Revenues	Profit
September 30, 2016	$ 1.2	$ 0.3
Volume	(0.2)	—
Price	—	—
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	—
Mix	N/A	0.1
Productivity	N/A	(0.1)
Other	—	—
September 30, 2017	$ 1.1	$ 0.3

NINE MONTHS

	Revenues	Profit
September 30, 2016	$ 3.5	$ 0.7
Volume	(0.3)	(0.1)
Price	—	—
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	—
Mix	N/A	0.1
Productivity	N/A	(0.1)
Other	—	—
September 30, 2017	$ 3.2	$ 0.6

COMMENTARY: 2017 - 2016
Segment revenues down $0.2 billion (14%);
Segment profit down 11%:

- The decrease in revenues was due to lower locomotive equipment volume as a result of decreased North America shipments, partially offset by increased international shipments and increased services volume including locomotive parts.
- The decrease in profit was driven by negative cost productivity, partially offset by a favorable business mix.

Segment revenues down $0.3 billion (8%);
Segment profit down $0.1 billion (15%):

- The decrease in revenues was due to lower locomotive equipment volume as a result of decreased North America shipments, partially offset by increased international shipments and increased services volume including locomotive

parts.

- The decrease in profit was driven by negative cost productivity and lower volume, partially offset by a favorable business mix.

LIGHTING

OPERATIONAL OVERVIEW
(Dollars in billions)
2017 YTD SUB-SEGMENT REVENUES

EQUIPMENT/SERVICES REVENUES

Services Equipment

ORDERS

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Services Equipment

(a) Lighting began reporting orders in 3Q'16. As a result, 3Q'16 QTD and YTD orders amounts are the same.

Services Equipment

SEGMENT
MD&A OPERATIONS
| LIGHTING

FINANCIAL OVERVIEW
(Dollars in billions)
SEGMENT REVENUES SEGMENT PROFIT SEGMENT PROFIT MARGIN
Services Equipment

SEGMENT REVENUES & PROFIT WALK:

THREE MONTHS

	Revenues	Profit
September 30, 2016	$ 0.6	$—
Volume	(0.1)	—
Price	—	—
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	—
Mix	N/A	—
Productivity	N/A	—
Other	—	—
September 30, 2017	$ 0.5	$—

NINE MONTHS

	Revenues	Profit
September 30, 2016	$ 4.2	$0.2
Volume	(2.7)	(0.2)
Price	(0.1)	(0.1)
Foreign Exchange	—	—
(Inflation)/Deflation	N/A	—
Mix	N/A	—
Productivity	N/A	0.1
Other	—	—
September 30, 2017	$ 1.4	$—

COMMENTARY: 2017 - 2016
Segment revenues down $0.1 billion (16%);
Segment profit up 253%:

- The decrease in revenues was mainly due to lower equipment revenues primarily driven by the decline in sales of traditional lighting product and region exits outside of North America, partially offset by LED, Solar and Digital growth in Current.
- The increase in profit was driven by positive cost productivity due to the effects of restructuring actions.

Segment revenues down $2.8 billion (66%);
Segment profit down $0.2 billion (78%):

- The decrease in revenues was mainly due to the Appliances disposition in June 2016, lower equipment revenues primarily driven by the decline in sales of traditional lighting product, lower prices and region exits outside of North America, partially offset by LED growth in GE Lighting and Current as well as Solar and Digital growth in Current.
- The decrease in profit was due to lower volume driven by the Appliances disposition in June 2016, as well as lower prices, partially offset by positive cost productivity due to the effects of restructuring actions.

CAPITAL

OPERATIONAL AND FINANCIAL OVERVIEW
(Dollars in billions)
2017 YTD SUB-SEGMENT REVENUES

SEGMENT REVENUES

SEGMENT PROFIT (LOSS)[(a)]

Verticals Other Continuing

Verticals Other Continuing

(a) Includes interest and other financial charges and income taxes

SIGNIFICANT TRENDS & DEVELOPMENTS

- As of March 30, 2017, GE Capital's non-US activities are no longer subject to consolidated supervision by the U.K.'s Prudential Regulation Authority (PRA). This completes GE Capital's global exit from consolidated supervision, having had its designation as a Systemically Important Financial Institution (SIFI) removed in June 2016.
- GE Capital paid common dividends of $4.0 billion to GE in the nine months ended September 30, 2017.
- Our run-off insurance activities include future policy benefit reserves of $19.2 billion and claim reserves of $4.9 billion at September 30, 2017 of which approximately $9.0 billion and $3.4 billion, respectively, relates to long-term care insurance contracts. We test future policy benefit reserves associated with our run-off insurance activities for premium deficiencies annually. We have recently experienced elevated claim experience for a portion of our long-term care insurance contracts that requires the completion of a comprehensive review of premium deficiency assumptions across all insurance products. This review will be completed in the fourth quarter of 2017. Based upon the work performed to date and complexity of the review as further described within our Critical Accounting Estimates and Note 11 to the consolidated financial statements, a charge related to a probable deficiency is not reasonably estimable at September 30, 2017. Until the above described review has been completed we have deferred the decision whether GE Capital will pay additional dividends to GE.

MD&A SEGMENT OPERATIONS | CAPITAL

COMMENTARY: 2017 - 2016

THREE MONTHS

Capital revenues decreased $0.2 billion, or 8%, primarily due to higher impairments and organic revenue declines, partially offset by higher gains.

Capital earnings decreased 8%, primarily due to lower tax benefits primarily associated with a 2016 IRS tax settlement, higher impairments and lower gains, partially offset by lower treasury and headquarters operation expenses associated with the GE Capital Exit Plan and core increases.

- Within Capital, Verticals net earnings decreased $0.2 billion, or 36%, primarily due to higher impairments ($0.2 billion) and lower gains, partially offset by core increases.
- Other Capital losses decreased $0.2 billion, or 38%, primarily associated with the GE Capital Exit Plan as follows:
- Lower headquarters operation expenses of $0.3 billion.
- Lower treasury operation expenses of $0.2 billion reflecting lower excess interest expense and derivative activities that reduce or eliminate interest rate, currency or market risk between financial assets and liabilities.
- Lower tax benefits of $0.3 billion primarily associated with a 2016 IRS tax settlement.

NINE MONTHS

Capital revenues decreased $0.7 billion, or 9%, primarily due to higher impairments, organic revenue declines and lower gains.

Capital losses decreased $1.3 billion, or 87%, primarily due to lower treasury and headquarters operation expenses associated with the GE Capital Exit Plan, lower preferred dividend expenses associated with the January 2016 preferred equity exchange and core increases, partially offset by lower gains, higher impairments and lower tax benefits primarily associated with a 2016 IRS tax settlement.

- Within Capital, Verticals net earnings decreased 3%, primarily due to lower gains ($0.1 billion) and higher impairments ($0.1 billion), partially offset by core increases ($0.2 billion).
- Other Capital losses decreased $1.3 billion, or 45%, primarily associated with the GE Capital Exit Plan as follows:
- Lower treasury operation expenses of $0.7 billion reflecting lower excess interest expense, including costs associated with the February and May 2016 debt tenders and derivative activities that reduce or eliminate interest rate, currency or market risk between financial assets and liabilities.
- Lower headquarters operation expenses of $0.7 billion.
- Lower preferred dividend expenses of $0.2 billion associated with the January 2016 preferred equity exchange.
- Lower tax benefits of $0.3 billion primarily associated with a 2016 IRS tax settlement.

MD&A CORPORATE ITEMS AND ELIMINATIONS

CORPORATE ITEMS AND ELIMINATIONS

REVENUES AND OPERATING PROFIT (COST)

(In millions)	Three months ended September 30 2017	2016	Nine months ended September 30 2017	2016
Revenues				
Gains (losses) on disposals	1,897	208	1,899	3,395
Eliminations and other	(869)	(878)	(2,676)	(2,714)
Total Corporate Items and Eliminations	1,028	(670)	(777)	681
Operating profit (cost)				
Gains (losses) on disposals	1,897	208	1,899	3,395
Restructuring and other charges	(2,027)	(683)	(3,755)	(2,557)
Principal retirement plans(a)	(583)	(542)	(1,668)	(1,489)
Eliminations and other	(383)	(507)	(1,164)	(1,469)
Total Corporate Items and Eliminations	(1,095)	(1,524)	(4,687)	(2,120)

CORPORATE COSTS

(In millions)	Three months ended September 30 2017	2016	Nine months ended September 30 2017	2016
Total Corporate Items and Eliminations	(1,095)	(1,524)	(4,687)	(2,120)
Less: non-operating pension cost	(570)	(511)	(1,708)	(1,534)
Total Corporate costs (operating)*	(525)	(1,012)	(2,979)	(586)
Less: restructuring and other charges	(2,027)	(683)	(3,755)	(2,557)
Less: gains (losses) on disposals	1,897	208	1,899	3,395
Adjusted total corporate costs (operating)*	(396)	(538)	(1,124)	(1,424)

(a) Included non-operating pension cost* of $0.6 billion and $0.5 billion in the three months ended September 30, 2017 and 2016, respectively, and $1.7 billion and $1.5 billion in the nine months ended September 30, 2017 and 2016, respectively, which includes expected return on plan assets, interest costs and non-cash amortization of actuarial gains and losses.

2017 - 2016 COMMENTARY: THREE MONTHS ENDED SEPTEMBER 30

Revenues and other income increased $1.7 billion, primarily as a result of:
- $1.9 billion gain from the sale of our Water business to Suez

This increase to revenues and other income was partially offset by the following:
- $0.2 billion of lower other income for the nonrecurrence of a $0.4 billion gain from the sale of GE Asset Management to State Street Corporation and a $0.2 billion charge related to the sale of a non-strategic platform in the Aviation business in the third quarter of 2016

Operating costs decreased $0.4 billion, primarily as a result of:
- $1.9 billion of higher gains from the sale of our Water business to Suez
- $0.1 billion of lower corporate structural costs

These decreases to operating costs were partially offset by the following:
- $1.3 billion of higher restructuring and other charges driven by a charge of $0.9 billion for the impairment of Power Conversion goodwill and a charge of $0.3 billion for the impairment of a power plant asset

2017 - 2016 COMMENTARY: NINE MONTHS ENDED SEPTEMBER 30

Revenues and other income decreased $1.5 billion, primarily as a result of:
- $1.5 billion of lower net gains primarily driven by the nonrecurrence of the sale of our Appliances business to Haier for $3.1 billion in the second quarter of 2016, partially offset by the sale of our Water business to Suez for $1.9 billion in the third quarter of 2017

*Non-GAAP Financial Measure

MD&A CORPORATE ITEMS AND ELIMINATIONS

Operating costs increased $2.6 billion, primarily as a result of:

- $1.5 billion of lower net gains primarily driven by the nonrecurrence of the sale of our Appliances business to Haier for $3.1 billion in the second quarter of 2016, partially offset by the sale of our Water business to Suez for $1.9 billion in the third quarter of 2017
- $1.2 billion of higher restructuring and other charges driven by a charge of $0.9 billion for the impairment of Power Conversion goodwill and a charge of $0.3 billion for the impairment of a power plant asset
- $0.2 billion of higher costs associated with our principal retirement plans, including the effects of lower discount rates

These increases to operating costs were partially offset by the following:

- $0.3 billion of lower corporate structural costs

RESTRUCTURING

Restructuring actions are an essential component of our cost improvement efforts to both existing operations and those recently acquired. Restructuring and other charges relate primarily to workforce reductions, facility exit costs associated with the consolidation of sales, service and manufacturing facilities, the integration of recent acquisitions, including Alstom, the Baker Hughes transaction, and other asset write-downs. We continue to closely monitor the economic environment and may undertake further restructuring actions to more closely align our cost structure with earnings and cost reduction goals.

RESTRUCTURING & OTHER CHARGES

	Three months ended September 30		Nine months ended September 30	
(In billions)	2017	2016	2017	2016
Workforce reductions	$ 0.3	$ 0.3	$ 1.0	$ 0.9
Plant closures & associated costs and other asset write-downs	0.8	0.2	1.3	0.9
Acquisition/disposition net charges	0.3	0.1	0.7	0.5
Goodwill impairment(a)	0.9	—	0.9	—
Other	—	0.1	0.1	0.3
Total(b)(c)	$ 2.4	$ 0.7	$ 4.1	$ 2.6

(a) This amount was recorded in Other costs and expenses in the Statement of Earnings. See Note 8 to the consolidated financial statements for further information.

(b) Subsequent to the Baker Hughes transaction, restructuring and other charges are included in the determination of segment operating profit for our Oil & Gas segment.

(c) Included $2.0 billion in GE and $0.4 billion in our Oil & Gas segment for the three months ended September 30, 2017, and $0.6 billion in GE and $0.1 billion in our Oil & Gas segment for the three months ended September 30, 2016. Included $3.5 billion in GE and $0.6 billion in our Oil & Gas segment for the nine months ended September 30, 2017, and $1.9 billion in GE and $0.6 billion in our Oil & Gas segment for the nine months ended September 30, 2016.

2017 - 2016 COMMENTARY: THREE MONTHS ENDED SEPTEMBER 30

For the three months ended September 30, 2017, restructuring and other charges were $2.4 billion of which approximately $0.8 billion was reported in cost of products/services, $0.7 billion was reported in selling, general and administrative expenses (SG&A), and $0.9 billion was reported in other costs and expenses. These activities were primarily at Power, Corporate and Oil & Gas. Cash expenditures for restructuring and other charges were approximately $0.6 billion for three months ended September 30, 2017. Of the total $2.4 billion restructuring and other charges, $0.4 billion was recorded in the Oil & Gas segment, which amounted to $0.3 billion net of noncontrolling interest.

For the three months ended September 30, 2016, restructuring and other charges were $0.7 billion of which approximately $0.5 billion was reported in cost of products/services and $0.2 billion was reported in SG&A. These activities were primarily at Power, Oil & Gas and Lighting. Cash expenditures for restructuring and other charges were approximately $0.5 billion for the three months ended September 30, 2016.

MD&A CORPORATE ITEMS AND ELIMINATIONS

2017 - 2016 COMMENTARY: NINE MONTHS ENDED SEPTEMBER 30

For the nine months ended September 30, 2017, restructuring and other charges were $4.1 billion of which approximately $1.9 billion was reported in cost of products/services, $1.3 billion was reported in SG&A, and $0.9 billion was reported in other costs and expenses. These activities were primarily at Power, Corporate and Oil & Gas. Cash expenditures for restructuring and other charges were approximately $1.6 billion for the nine months ended September 30, 2017. Of the total $4.1 billion restructuring and other charges, $0.4 billion was recorded in the Oil & Gas segment, which amounted to $0.3 billion net of noncontrolling interest.

For the nine months ended September 30, 2016, restructuring and other charges were $2.6 billion of which approximately $1.6 billion was reported in cost of products/services, $0.8 billion was reported in SG&A. These activities were primarily at Power, Oil & Gas, and Healthcare. Cash expenditures for restructuring and other charges were approximately $1.2 billion for the nine months ended September 30, 2016.

COSTS NOT INCLUDED IN SEGMENT RESULTS

As discussed in the Segment Operations section within the MD&A, certain amounts are not included in industrial segment results because they are excluded from measurement of their operating performance for internal and external purposes. The amount of costs not included in segment results follows.

COSTS

	Three months ended September 30		Nine months ended September 30	
(In billions)	2017	2016	2017	2016
Power(a)	$1.1	$0.4	$1.7	$1.0
Renewable Energy	—	—	0.2	0.2
Oil & Gas(b)	—	0.1	0.2	0.7
Aviation	—	—	0.1	0.1
Healthcare	0.1	0.1	0.2	0.4
Transportation	—	—	0.1	0.2
Lighting(a)	—	0.1	0.2	0.2
Total	$1.3	$0.7	$2.7	$2.7

GAINS (LOSSES)

	Three months ended September 30		Nine months ended September 30	
(In billions)	2017	2016	2017	2016
Power(a)	$1.9	—	$1.9	—
Renewable Energy	—	—	—	—

Oil & Gas	—	—	—	—	
Aviation	—	(0.2)	—	(0.2)	
Healthcare	—	—	—	—	
Transportation	—	—	—	—	
Lighting(a)	—	—	—	3.1	(c)
Total	$1.9	$(0.2)	$1.9	$2.9	

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

(b) Subsequent to the Baker Hughes transaction, restructuring and other charges are included in the determination of segment operating profit for our Oil & Gas segment.

(c) Related to the sale of our Appliances business in the second quarter of 2016.

OTHER CONSOLIDATED INFORMATION

INCOME TAXES

GE pays the income taxes it owes in every country it does business. Many factors impact our income tax expense and cash tax payments. The most significant factor is that we conduct business in approximately 180 countries and more than half of our revenue is earned outside the U.S., often in countries with lower tax rates than in the U.S. We reinvest most of our foreign earnings overseas to be able to fund our active non-U.S. business operations. Our tax liability is also affected by U.S. and foreign tax incentives designed to encourage certain investments, such as research and development, and by acquisitions, dispositions and tax law changes. Finally, our tax returns are routinely audited, and settlements of issues raised in these audits sometimes affect our tax rates.

GE and GE Capital file a consolidated U.S. federal income tax return. This enables GE and GE Capital to use tax deductions and credits of one member of the group to reduce the tax that otherwise would have been payable by another member of the group. The effective tax rate reflects the benefit of these tax reductions in the consolidated return. GE makes cash payments to GE Capital for tax reductions and GE Capital pays for tax increases at the time GE's tax payments are due.

See Other Consolidated Information - Income Taxes section and Critical Accounting Estimates - Income Taxes section within MD&A in our Annual Report on Form 10-K for the year ended December 31, 2016 for further information on income taxes.

CONSOLIDATED – THREE AND NINE MONTHS ENDED SEPTEMBER 30
(Dollars in billions)
PROVISION (BENEFIT) FOR INCOME TAXES
2017 – 2016 COMMENTARY: THREE MONTHS ENDED SEPTEMBER 30

- The consolidated income tax rate was (23)% and 1% for the quarters ended September 30, 2017 and 2016, respectively.
- The third quarter 2017 consolidated tax rate reflects a 128% tax rate on $0.2 billion of pre-tax loss at GE Capital and a (4)% tax rate* on $1.7 billion of pre-tax income at GE.
- The third quarter 2016 consolidated tax rate reflects a 137% tax rate on $0.2 billion of pre-tax loss at GE Capital and a 11% tax rate* on $2.2 billion of pre-tax income at GE.
- The consolidated tax provision includes $0.1 billion benefit and $0.2 billion expense for GE (excluding GE Capital) for the third quarters of 2017 and 2016, respectively.
- Consolidated income tax benefit was $0.3 billion in the third quarter of 2017 and insignificant for the third quarter of 2016. The decrease in tax expense is primarily due to the benefit from a lower tax rate on the disposition of the Water business, a larger benefit from global activities and a decrease in pre-tax income taxed at above the average tax rate, partially offset by the adjustment to increase the 2017 year-to-date rate to be in line with the higher projected full year rate compared to the decrease in the 2016 year-to-date rate to be in-line with the lower projected full-year rate. The adjustment to bring the third quarter year-to-date tax rate in-line with the full year tax rate in 2017 decreased the rate compared to prior quarters of 2017 due to a decrease in projected full year pre-tax income.

*Non-GAAP Financial Measure

MD&A OTHER CONSOLIDATED INFORMATION

2017 – 2016 COMMENTARY: NINE MONTHS ENDED SEPTEMBER 30

- The consolidated tax rate was (8)% in the first nine months of 2017 compared to 5% in the first nine months of 2016.
- The first nine months of 2017 consolidated tax rate reflects a 110% tax rate on $0.5 billion of pre-tax loss at GE Capital and a 7% tax rate* on $4.4 billion of pre-tax income at GE.
- The first nine months of 2016 consolidated tax rate reflects a 42% tax rate on $1.7 billion of pre-tax loss at GE Capital and a 13% tax rate* on $7.9 billion of pre-tax income at GE.
- The consolidated tax provision includes $0.3 billion and $1.0 billion for GE (excluding GE Capital) for the first nine months of 2017 and 2016, respectively.
- Consolidated income tax benefit was $0.3 billion for the first nine months of 2017 compared to tax expense of $0.3 billion for the first nine months of 2016. The decrease in tax expense is primarily due to the decrease in pre-tax income taxed at above the average tax rate, a larger benefit from global activities and the benefit from a lower tax rate on the disposition of the Water business. This decrease was partially offset by the adjustment to increase the 2017 year-to-date rate to be in-line with the higher projected full-year rate compared to the decrease in the 2016 year-to-date rate to be in-line with the lower projected full-year rate and the non-repeat of a deductible stock loss. The adjustment to bring the third quarter year-to-date tax rate in-line with the full year rate decreased the tax rate relative to prior quarters of 2017 due to a decrease in projected full year pre-tax income.

The effective tax rate in future periods is expected to increase as a result of changes in our income profile due to changes in GE Capital earnings as we continue to execute on the GE Capital Exit Plan. We expect the GE effective tax rate excluding GE Capital earnings to be in the low single digits for the full year of 2017.

See Note 13 to the consolidated financial statements for additional information related to income taxes.

BENEFITS FROM GLOBAL OPERATIONS

Our consolidated income tax provision is reduced because of the benefits of lower-taxed global operations. There is a benefit from global operations as non-U.S. income is subject to local country tax rates that are significantly below the 35% U.S. statutory rate. These non-U.S. earnings have been indefinitely reinvested outside the U.S. and are not subject to current U.S. income tax. Most of these earnings have been reinvested in active non-U.S. business operations and we do not intend to repatriate these earnings to fund U.S. operations. The rate of tax on our indefinitely reinvested non-U.S. earnings is below the 35% U.S. statutory tax rate because we have significant business operations subject to tax in countries where the tax on that income is lower than the U.S. statutory rate and because GE funds certain non-U.S. operations through foreign companies that are subject to low foreign taxes.

A substantial portion of the benefit related to business operations subject to tax in countries where the tax on that income is lower than the U.S. statutory rate is derived from our GECAS aircraft leasing operations located in Ireland where the earnings are taxed at 12.5%, from our Power operations located in Switzerland and Hungary where the earnings are taxed at between 9% and 18.6%, and our Healthcare operations in Europe where tax deductions are allowed for certain intangible assets and earnings are taxed below the U.S. statutory rate.

We expect our ability to benefit from non-U.S. income taxed at less than the U.S. rate to continue, subject to changes in U.S. or foreign law. In addition, since this benefit depends on management's intention to indefinitely reinvest amounts outside the U.S., our tax provision will increase to the extent we no longer indefinitely reinvest foreign earnings.

DISCONTINUED OPERATIONS

Discontinued operations primarily relate to our financial services businesses as a result of the GE Capital Exit Plan and includes our U.S. mortgage business (WMC). All of these operations were previously reported in the Capital segment.

See Notes 2 and 18 to the consolidated financial statements for additional information related to discontinued operations.

*Non-GAAP Financial Measure

STATEMENT OF FINANCIAL POSITION

Because GE and GE Capital share certain significant elements of their Statements of Financial Position, the following discussion addresses significant captions in the consolidated statement. Within the following discussions, however, we distinguish between GE and GE Capital activities in order to permit meaningful analysis of each individual consolidating statement.

MAJOR CHANGES IN OUR FINANCIAL POSITION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

- The Baker Hughes transaction increased total assets (excluding cash assumed as a result of the transaction) by $27.5 billion, primarily due to goodwill of $14.2 billion, other intangible assets of $4.4 billion, property, plant and equipment of $4.0 billion, current receivables of $2.4 billion and inventories of $2.0 billion. See Note 8 to the consolidated financial statements for additional information.
- Cash and equivalents decreased $8.3 billion. GE Cash and equivalents increased $2.3 billion due to the issuance of long-term debt, primarily to fund acquisitions, of $8.6 billion, debt effected through GE Capital of $7.3 billion, common dividends from GE Capital of $4.0 billion and proceeds from business dispositions of $2.9 billion. The increase was partially offset by payments of dividends to shareowners of $6.3 billion, business acquisitions of $6.1 billion (net of $4.1 billion cash assumed as a result of the Baker Hughes transaction), treasury stock net purchases of $2.6 billion (cash basis), net PP&E additions of $2.2 billion, net settlements of derivative hedges of $1.4 billion, the settlement of the remaining portion of 2016 debt effected through GE Capital of $1.3 billion and additions to capitalized software of $0.4 billion. GE Capital Cash and equivalents decreased $10.6 billion primarily due to net repayments of debt of $17.6 billion, GE debt effected through GE Capital of $7.3 billion and payments of dividends to shareowners of $4.2 billion, partially offset by maturities of liquidity investments of $6.5 billion, net collections of financing receivables of $3.2 billion, cash collections from discontinued operations of $2.9 billion, proceeds from borrowings assumed by the buyer in a business disposition of $1.8 billion and the settlement of the remaining portion of 2016 GE debt effected through GE Capital of $1.3 billion. See the Statement of Cash Flows section for additional information.
- Investment securities decreased $5.6 billion, primarily due to maturities of liquidity portfolio investments at GE Capital. See Note 3 to the consolidated financial statements for additional information.
- Inventories increased $1.5 billion (excluding the impact of the Baker Hughes transaction), primarily due to lower-than-anticipated sales volume, mainly in our Power segment and build for future demand in our Power, Aviation and Renewable Energy segments. See Note 5 to the consolidated financial statements for additional information.
- Goodwill increased $2.4 billion (excluding the impact of the Baker Hughes transaction), primarily due to the effects of currency exchange of $2.3 billion, the acquisition of LM Wind Power in our Renewable Energy segment of $1.3 billion and the acquisition of ServiceMax in Digital of $0.7 billion, partially offset by the classification of the Industrial Solutions business in our Power segment as held for sale of $1.1 billion and an impairment in the Power Conversion business in our Power segment of $0.9 billion. See Note 8 to the consolidated financial statements for additional information.
- Contract assets increased $4.6 billion. Revenues in excess of billings increased $2.6 billion and $1.3 billion for our long-term service and equipment agreements, respectively. The remaining increase in contract assets of $0.7 billion is primarily due an increase in deferred inventory costs and non-recurring engineering costs. See Note 9 to the consolidated financial statements for additional information.
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- Assets of discontinued operations decreased $8.0 billion, primarily due to the disposition of businesses at GE Capital. See Note 2 to the consolidated financial statements for additional information.
- The Baker Hughes transaction increased total liabilities by $6.8 billion, primarily due to borrowings of $3.4 billion, accounts payable of $1.1 billion, other GE current liabilities of $1.1 billion and non-current compensation and benefits of $0.8 billion. See Note 8 to the consolidated financial statements for additional information.
- Borrowings decreased $3.2 billion (excluding the impact of the Baker Hughes transaction), primarily due to net repayment of debt at GE Capital of $17.6 billion, partially offset by the issuance of long-term debt at GE of $8.6 billion, primarily to fund acquisitions and the effects of currency exchange of $5.9 billion. See Note 10 to the consolidated financial statements for additional information.
- Liabilities of discontinued operations decreased $3.2 billion, primarily due to the disposition of businesses at GE Capital. See Note 2 to the consolidated financial statements for additional information.
- Common stock held in treasury increased $2.2 billion, primarily due to treasury stock purchases of $3.7 billion (book basis), partially offset by treasury stock issuances of $1.6 billion.
- Noncontrolling interests increased $16.3 billion, primarily due to the recognition of an approximate 37.5% noncontrolling interest attributable to BHGE's Class A shareholders in conjunction with the Baker Hughes transaction. See Note 8 to the consolidated financial statements for additional information.

FINANCIAL RESOURCES AND LIQUIDITY

LIQUIDITY AND BORROWINGS

We maintain a strong focus on liquidity. At both GE and GE Capital we manage our liquidity to help provide access to sufficient funding to meet our business needs and financial obligations throughout business cycles.

Our liquidity and borrowing plans for GE and GE Capital are established within the context of our annual financial and strategic planning processes. At GE, our liquidity and funding plans take into account the liquidity necessary to fund our operating commitments, which include primarily purchase obligations for inventory and equipment, payroll and general expenses (including pension funding). We also take into account our capital allocation and growth objectives, including paying dividends, repurchasing shares, investing in research and development and acquiring industrial businesses. At GE, we rely primarily on cash generated through our operating activities and any dividend payments from GE Capital. Cash generated from operating activities at GE can be subject to variability based on many factors, including seasonality and timing of billings on long-term contracts. GE has available a variety of liquidity management tools to fund its operations, including a commercial paper program, as well as bank operating lines and short-term intercompany loans from GE Capital which are repaid within the same quarter.

We maintain a detailed liquidity policy for GE Capital that defines GE Capital's liquidity risk tolerance under stress based on its liquidity sources, and a comprehensive framework for managing liquidity risk including metrics to identify and monitor liquidity risk and procedures to escalate and address potential issues.

Based on asset and liability management actions we have taken, GE Capital does not plan to issue any incremental GE Capital senior unsecured term debt until 2019. GE Capital mainly relies on excess cash positions, cash generated through dispositions, and the cash flow from our Verticals to fund our debt maturities, including the current portion of long-term debt ($15.6 billion at September 30, 2017), and our operating and interest costs. GE Capital's liquidity position is targeted to meet its obligations under both normal and stressed conditions. We expect to maintain an elevated liquidity position as we generate cash from asset sales, returning to more normalized levels in 2019. During this period we expect to continue to have excess interest costs as asset sales have outpaced our debt maturities. While we maintain elevated liquidity levels, we may engage in liability management actions, such as buying back debt, based on market and economic conditions in order to reduce our excess interest costs.

As part of GE’s previously formulated and communicated plan to incur new long-term debt primarily to fund acquisitions and to refinance existing debt, we issued $15.9 billion of long-term debt in 2017. $8.6 billion equivalent of euro debt was issued in the external debt markets, and $7.3 billion was done through two transactions with GE Capital. The $8.6 billion equivalent consists of €1,750 million of 0.375% Notes due 2022, €2,000 million of 0.875% Notes due 2025, €2,250 million of 1.50% Notes due 2029 and €2,000 million of 2.125% Notes due 2037. In lieu of issuing the $7.3 billion of debt externally in the capital markets, GE effected the transactions through GE Capital because GE Capital is holding excess debt as a result of the GE Capital Exit Plan. The debt transactions with GE Capital were priced at markets terms with a weighted average interest rate of 3.5% and a weighted average term of 15 years. To effectuate these transactions, GE and GE Capital entered into intercompany transactions that had the effect of reducing the intercompany payables and receivables given the right of offset between GE and GE Capital by $7.3 billion, as shown in the table below.

In 2015, senior unsecured notes and commercial paper were assumed by GE upon its merger with GE Capital resulting in an intercompany receivable and payable between GE and GE Capital. On the GE Statement of Financial Position, assumed debt is presented within borrowings with an offsetting receivable from GE Capital and on the GE Capital Statement of Financial Position, this is reflected as an intercompany payable to GE within borrowings. As of September 30, 2017, the amount of assumed outstanding debt was $49.9 billion (see Note 10 to the consolidated financial statements for additional information). The following table illustrates total GE and GE Capital external debt and debt assumed by GE as of September 30, 2017.

September 30, 2017 (in billions)	GE	GE Capital	Consolidated(a)
External debt	$83.8	$54.9	$ 136.4
Debt assumed by GE from GE Capital	(49.9)	49.9	—
Intercompany loans with right of offset	7.3	(7.3)	—
Total intercompany payable (receivable) between GE and GE Capital	(42.6)	42.6	—
Debt adjusted for assumed debt and intercompany loans	$41.3	$97.5	$ 136.4

(a) Includes $2.4 billion elimination of other intercompany borrowings between GE and GE Capital.

MD&A FINANCIAL RESOURCES AND LIQUIDITY

LIQUIDITY SOURCES

GE cash and equivalents of $12.8 billion at September 30, 2017, comprising $8.0 billion at GE and $4.8 billion at BHGE. GE Capital maintained liquidity sources of $32.5 billion that consisted of cash and equivalents of $27.0 billion, high-quality investments of $5.0 billion and cash and equivalents of $0.5 billion classified as discontinued operations. Additionally, at September 30, 2017, GE has $20.0 billion of committed unused credit lines extended by 36 banks in a syndicated credit facility agreement, as well as $5.3 billion of committed operating lines extended by nine banks. GE Capital has the right to compel GE to borrow under these credit lines and transfer the proceeds as loans to GE Capital.

CASH AND EQUIVALENTS

(In billions)	September 30, 2017		September 30, 2017
GE(a)	$ 12.8	U.S.	$ 7.9
GE Capital(b)	27.0	Non-U.S.(c)	31.9

(a) At September 30, 2017, $4.5 billion of GE cash and equivalents was held in countries with currency controls that may restrict the transfer of funds to the U.S. or limit our ability to transfer funds to the U.S. without incurring substantial costs. These funds are available to fund operations and growth in these countries and we do not currently anticipate a need to transfer these funds to the U.S. Included in this amount was $1.2 billion of BHGE cash and equivalents, which is subject to similar restrictions.

(b) At September 30, 2017, GE Capital cash and equivalents of about $0.6 billion were primarily in insurance entities and were subject to regulatory restrictions.

(c) Of this amount at September 30, 2017, $4.6 billion is held outside of the U.S. and is available to fund operations and other growth of non-U.S. subsidiaries; it is also available to fund our needs in the U.S. on a short-term basis through short-term loans, without being subject to U.S. tax. Under the Internal Revenue Code, these loans are permitted to be outstanding for 30 days or less and the total of all such loans is required to be outstanding for less than 60 days during the year. If we were to repatriate this cash, we would be subject to additional U.S. income taxes and foreign withholding taxes.

COMMERCIAL PAPER

(In billions)	GE	GE Capital
Average commercial paper borrowings during the third quarter of 2017	$14.8	$ 5.0
Maximum commercial paper borrowings outstanding during the third quarter of 2017	$19.5	$ 5.1
Ending commercial paper balance at September 30, 2017	$2.0	$ 5.0

GE Capital commercial paper maturities have historically been funded principally through new commercial paper issuances and at GE are substantially repaid before quarter-end using indefinitely reinvested overseas cash, which as discussed above, is available for use in the U.S. on a short-term basis without being subject to U.S. tax.

We securitize financial assets as an alternative source of funding. At September 30, 2017, consolidated non-recourse securitization borrowings were $0.7 billion.

FOREIGN CURRENCY

As a result of our global operations, we generate and incur a significant portion of our revenues and expenses in currencies other than the U.S. dollar. Such principal currencies are euro, the pound sterling, the Brazilian real and the Chinese renminbi. The results of operating entities reported in currencies other than U.S. dollar are translated to the U.S. dollar at the applicable exchange rate for inclusion in the financial statements. We use a number of techniques to manage the effects of currency exchange, including selective borrowings in local currencies and selective hedging of significant cross-currency transactions. The foreign currency effect arising from operating activities outside of the U.S., including the remeasurement of derivatives, can result in significant transactional foreign currency fluctuations at points in time, but will generally be offset as the underlying hedged item is recognized in earnings. The effects of foreign currency fluctuations, decreased net earnings by $0.1 billion for the nine months ended September 30, 2017.

See Notes 16 and 21 to the consolidated financial statements for further information about our risk exposures, our use of derivatives, and the effects of this activity on our financial statements.

CREDIT RATINGS

We have relied, and may continue to rely, on the short-term and long-term debt capital markets to fund, among other things, a significant portion of our operations and significant acquisitions. The cost and availability of debt financing is influenced by our credit ratings.

On October 20, 2017, Standard and Poor's Global Ratings (S&P) placed all of its ratings on GE, GE Capital, and their affiliates on CreditWatch, with negative implications. S&P stated it will be conducting a review of these ratings and expects to complete this review at approximately the same time GE announces its financial results for the fourth quarter 2017, if not earlier. On October 30, 2017, Fitch Ratings (Fitch) changed its rating outlook to Negative from Stable for GE, GE Capital, and their affiliates.

We are disclosing these updates and the ratings below to enhance understanding of our sources of liquidity and the effects of our ratings on our costs of funds. Our ratings may be subject to a revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating. For a description of some of the potential consequences of a reduction in our credit ratings, see our Annual Report on Form 10-K for the year ended December 31, 2016 under "Risk Factors - Financial Risks - Funding access/costs - Failure to maintain our credit ratings, or conditions in the financial and credit markets, could adversely affect our access to capital markets, funding costs and related margins, liquidity and competitive position."

GE's and GE Capital's ratings as of the date of this filing are set forth in the table below.

	Moody's	S&P	Fitch
GE			
Outlook	Stable	CreditWatch Negative	Negative
Short term	P-1	A-1+	F1+
Long term	A1	AA-	AA-
GE Capital			
Outlook	Stable	CreditWatch Negative	Negative
Commercial paper	P-1	A-1+	F1+
Senior notes	A1	AA-	AA-

MD&A FINANCIAL RESOURCES AND LIQUIDITY

STATEMENT OF CASH FLOWS - NINE MONTHS ENDED SEPTEMBER 30, 2017 VERSUS 2016

CONSOLIDATED CASH FLOWS

We evaluate our cash flow performance by reviewing our industrial (non-GE Capital) businesses and GE Capital businesses separately. Cash from operating activities (CFOA) is the principal source of cash generation for our industrial businesses.

GE CASH FLOWS – NINE MONTHS ENDED SEPTEMBER 30
(in billions)

With respect to GE CFOA, we believe that it is useful to supplement our GE Statement of Cash Flows and to examine in a broader context the business activities that provide and require cash.

The most significant source of cash in GE CFOA is customer-related activities, the largest of which is collecting cash resulting from product or services sales. The most significant operating use of cash is to pay our suppliers, employees, tax authorities and others for a wide range of material and services. Dividends from GE Capital represent the distribution of a portion of GE Capital retained earnings, and are distinct from cash from continuing operations within the GE Capital businesses.

All other operating activities reflect cash sources and uses as well as non-cash adjustments to net income including those related to taxes, interest, pension, contract assets and gains (losses) on principal business dispositions. See Note 21 to the consolidated financial statements for further information.

See the Intercompany Transactions between GE and GE Capital section within the MD&A and Notes 4 and 19 to the consolidated financial statements for further information regarding certain transactions affecting our consolidated Statement of Cash Flows.

OPERATING CASH FLOWS		INVESTING CASH FLOWS		FINANCING CASH FLOWS	
2016	2017	2016	2017	2016	2017

MD&A FINANCIAL RESOURCES AND LIQUIDITY

2017 – 2016 COMMENTARY

GE cash from operating activities decreased $14.3 billion primarily due to the following:
- GE Capital paid common dividends to GE totaling $4.0 billion in 2017 compared with $16.1 billion in 2016.
- Cash generated from Industrial CFOA* amounted to an insignificant amount and $2.3 billion in 2017 and 2016, respectively, primarily due to the following:
- Net income plus depreciation and deferred income taxes of $5.9 billion in 2017 compared with $9.1 billion in 2016. Net income included pre-tax gains of $1.9 billion from the sale of Water in 2017 and $3.1 billion from the sale of Appliances and $0.4 billion from the sale of GE Asset Management in 2016 which are not included in Industrial CFOA and are instead reflected as a component of total proceeds from principal business dispositions within cash flows from investing activities. Net income also included non-cash pre-tax impairments of $1.3 billion related to Power Conversion goodwill and a power plant asset in 2017 and current tax expense of $0.7 billion and $1.0 billion in 2017 and 2016, respectively.
- A decrease in cash used for working capital of $0.1 billion in 2017 compared with 2016. This was primarily due to a reduction in inventory build of $1.1 billion, partially offset by an increase in cash used for accounts payable of $0.9 billion across all businesses.
- An increase in contract assets of $4.0 billion in 2017 compared with $3.0 billion in 2016, primarily due to cumulative catch up adjustments driven by lower forecasted cost to complete the contracts as well as increased forecasted revenue on our long-term service agreements and the timing of revenue recognized relative to the timing of billings and collections on both our long-term service agreements and long-term equipment contracts.
- GE Pension Plan contributions of $1.4 billion in 2017 compared with zero in 2016.
- Lower taxes paid of $1.8 billion in 2017 compared with $2.3 billion in 2016.
- See Note 21 to the consolidated financial statements for further information regarding cash sources and uses as well as non-cash adjustments to net income reported as All other operating activities.

GE cash used for investing activities increased $8.1 billion primarily due to the following:
- Business acquisition activities of $6.1 billion, primarily driven by the Baker Hughes transaction for $3.4 billion ($7.5 billion cash consideration, less $4.1 billion of cash assumed), LM Wind Power for $1.6 billion (net of cash acquired) and ServiceMax for $0.9 billion (net of cash acquired) in 2017, compared with business acquisitions of $0.9 billion in 2016.
- Business disposition proceeds of $2.9 billion, primarily driven by the sale of our Water business for $2.7 billion (net of cash transferred) in 2017, compared with proceeds of $5.3 billion, primarily driven by the sale of our Appliances business for $4.8 billion and the sale of GE Asset Management for $0.4 billion in 2016.
- Net settlements of derivative hedges of $1.4 billion in 2017 compared with minimal net settlements in 2016.

GE cash from financing activities increased $23.9 billion primarily due to the following:
- Net repurchases of GE treasury shares of $2.6 billion and $18.0 billion in 2017 and 2016, respectively.
- A net increase in borrowings of $14.9 billion in 2017, mainly driven by the issuance of long-term debt of $8.6 billion, primarily to fund acquisitions, and 2017 debt effected through GE Capital of $7.3 billion, partially offset by the settlement of the remaining portion of 2016 debt effected through GE Capital of $1.3 billion, compared with a net increase in borrowings of $6.2 billion in 2016, primarily driven by debt effected through GE Capital of $5.0 billion.

*Non-GAAP FInancial Measure

MD&A FINANCIAL RESOURCES AND LIQUIDITY

GE CAPITAL CASH FLOWS – NINE MONTHS ENDED SEPTEMBER 30
(Dollars in billions)

OPERATING CASH FLOWS		INVESTING CASH FLOWS		FINANCING CASH FLOWS	
2016	2017	2016	2017	2016	2017

2017 – 2016 COMMENTARY-CONTINUING OPERATIONS:

GE Capital cash from operating activities-continuing operations increased $0.2 billion primarily due to the following:

- Lower income tax payments of $0.2 billion and a general increase in cash generated from earnings of continuing operations.
- These increases were partially offset by a net decrease in cash collateral received from counterparties on derivative contracts of $0.8 billion.

GE Capital cash from investing activities-continuing operations decreased $38.7 billion primarily due to the following:

- Net proceeds from the sales of our discontinued operations of $1.0 billion in 2017 compared to $53.2 billion in 2016.
- Maturities of $10.4 billion related to interest bearing deposits in 2016.
- GE debt effected through GE Capital of $7.3 billion, partially offset by the settlement of the remaining portion of 2016 GE debt effected through GE Capital of $1.3 billion in 2017, compared to GE debt effected through GE Capital of $5.0 billion in 2016.
- Net cash paid for derivative settlements of an insignificant amount in 2017 compared to net cash received from derivative settlements of $0.6 billion in 2016.
- These decreases were partially offset by the following increases:
- Investment securities of $18.7 billion related to maturities of $6.5 billion in 2017 compared to investments of $12.2 billion in 2016.
- Higher net collections of financing receivables of $3.1 billion in 2017.
- A general reduction in funding related to discontinued operations.

GE Capital cash used for financing activities-continuing operations decreased $45.3 billion primarily due to the following:

- Lower net repayments of borrowings of $17.6 billion in 2017 compared to $50.7 billion in 2016.
- GE Capital paid common dividends to GE totaling $4.0 billion in 2017 compared to $16.1 billion in 2016.

MD&A FINANCIAL RESOURCES AND LIQUIDITY

GE CAPITAL DISCONTINUED OPERATIONS CASH FLOWS – NINE MONTHS ENDED SEPTEMBER 30
(Dollars in billions)

OPERATING CASH FLOWS		INVESTING CASH FLOWS		FINANCING CASH FLOWS	
2016	2017	2016	2017	2016	2017

2017 – 2016 COMMENTARY-DISCONTINUED OPERATIONS:

GE Capital cash used for operating activities-discontinued operations decreased $5.2 billion primarily due to the following:

- Lower cash paid for income taxes in 2017.

GE Capital cash used for investing activities-discontinued operations decreased $9.7 billion primarily due to the following:

- The sale of bank deposits of $16.5 billion resulting in net cash paid in conjunction with the sale of GE Capital Bank's U.S. online deposit platform during 2016.
- This decrease was partially offset by the following increases:
- Reduction in funding from continuing operations (primarily our treasury operations).
- Sale of bank deposits for $0.5 billion resulting in net cash paid related to our Consumer platform during 2017.

GE Capital cash from financing activities-discontinued operations increased $1.6 billion primarily due to the following:

- Debt issued of $1.8 billion in 2017 and $0.9 billion in 2016 by a discontinued business sold during the first quarter of 2017.
- Lower repayment of borrowings and bank deposit activity of $0.6 billion in 2017.

MD&A FINANCIAL RESOURCES AND LIQUIDITY

INTERCOMPANY TRANSACTIONS BETWEEN GE AND GE CAPITAL

We are repositioning GE to be the world's best infrastructure and technology company, with a smaller financial services division. Our focus is on driving infrastructure leadership, investing in innovation and achieving a culture of simplification to better serve our customers around the world. Over the last decade, we have made significant strides in transforming our portfolio and focusing on our industrial leadership. We have grown our infrastructure platforms with major portfolio moves, investing in adjacencies and pursuing opportunities that are closely related to our core.

In parallel, we have made a concentrated effort to reduce the size of our GE Capital business and align its growth with Industrial earnings. As a result, GE Capital Verticals are now focused on investing financial, human and intellectual capital to promote growth for our industrial businesses and their customers. GE Capital accomplishes this in part through related party transactions with GE that are made on an arms-length basis and are reported in the respective GE and GE Capital columns of our financial statements, but are eliminated in deriving our consolidated financial statements. These transactions include, but are not limited to, the following:

- GE Capital dividends to GE,
- GE Capital working capital solutions to optimize GE cash management,
- GE Capital enabled GE industrial orders, including related GE guarantees to GE Capital, and
- Aircraft engines, power equipment, renewable energy equipment and healthcare equipment manufactured by GE that are installed on GE Capital investments, including leased equipment.

In addition to the above transactions that primarily enable growth for the GE businesses, there are routine related party transactions, which include, but are not limited to, the following:

- Expenses related to parent-subsidiary pension plans,
- Buildings and equipment leased between GE and GE Capital, including sale-leaseback transactions,
- Information technology (IT) and other services sold to GE Capital by GE
- Settlements of tax liabilities, and
- Various investments, loans and allocations of GE corporate overhead costs.

CASH FLOWS

GE Capital paid $4.0 billion and $16.1 billion of common dividends to GE in the nine months ended September 30, 2017 and 2016, respectively.

In order to manage credit exposure, GE sells current receivables to GE Capital and other third parties in part to fund the growth of our industrial businesses. These transactions can result in cash generation or cash use. During any given period, GE receives cash from the sale of receivables to GE Capital and other third parties. GE also leverages GE Capital for its expertise in receivables collection services and sales of receivables to GE Capital are made on an arm's length basis. The incremental amount of cash received from sales of receivables represents the cash generated or used in the period relating to this activity. The effect of cash generated in GE CFOA from current receivables sold to GE Capital, including current receivables subsequently sold to third parties, decreased GE's CFOA by $2.3 billion and $0.2 billion in the nine months ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, GE Capital had approximately $11.2 billion recorded on its balance sheet related to current receivables purchased from GE. Of these amounts, approximately half had been sold by GE to GE Capital with recourse (i.e., the GE business retains the risk of default). The evaluation of whether recourse transactions qualify for accounting derecognition is based, in part, upon the legal jurisdiction of the sale; as such, the majority of recourse transactions outside the U.S. qualify for sale treatment. Claims by GE Capital on receivables sold with recourse to GE have not been significant for the nine months ended September 30, 2017 and 2016.

In December 2016, GE Capital entered into a Receivables Facility with members of a bank group, designed to provide extra liquidity to GE. The Receivables Facility allows us to sell eligible current receivables on a non-recourse basis for cash and a deferred purchase price to members of the bank group. The purchase commitment of the bank group increased from $3.0 billion to $3.2 billion during the third quarter of 2017. See Note 4 to the consolidated financial statements for further information.

ENABLED ORDERS

Enabled orders represent the act of introducing, elevating and influencing customers and prospects that result in an industrial sale, potentially coupled with programmatic captive financing or driving incremental products or services across the GE Store. During the nine months ended September 30, 2017 and 2016, GE Capital enabled $8.8 billion and $8.2 billion of GE industrial orders, respectively. 2017 orders are primarily with our Power ($3.3 billion), Renewable Energy ($3.3 billion), Healthcare ($1.0 billion) and Oil & Gas ($0.7 billion) businesses.

AVIATION

During the nine months ended September 30, 2017 and 2016, GE Capital acquired 34 aircraft (list price totaling $4.6 billion) and 32 aircraft (list price totaling $4.7 billion), respectively, from third parties that will be leased to others, which are powered by engines that were manufactured by GE Aviation and affiliates. Additionally, GE Capital had $1.5 billion of net book value of engines, originally manufactured by GE Aviation and affiliates and subsequently leased back to GE Aviation and affiliates at both September 30, 2017 and December 31, 2016, respectively.

POWER, RENEWABLE ENERGY AND AVIATION

GE leverages GE Capital for its expertise in structuring long-term financing arrangements with certain Power, Renewable Energy and Aviation customers for the purchase of equipment, upgrades and long-term service contracts. These arrangements are made on an arm's length basis and any fair value adjustments are recognized within the results of our Power, Renewable Energy and Aviation segments. Any associated deferred income recorded by GE Capital is eliminated in our consolidated results. In relation to these arrangements, GE Capital had approximately $2.3 billion and $1.9 billion of long-term financing receivables outstanding, net of deferred income of approximately $0.3 billion and $0.3 billion reported on its balance sheet at September 30, 2017 and December 31, 2016, respectively. The effect of cash generated in GE CFOA from long-term financing arrangements with GE Capital increased GE's CFOA by $0.4 billion and $1.0 billion in the nine months ended September 30, 2017 and 2016, respectively.

PENSIONS

GE Capital is a member of certain GE Pension Plans. As a result of the GE Capital Exit Plan, GE Capital will have additional funding obligations for these pension plans. These obligations do not relate to the Verticals and are recognized as an expense in GE Capital's other continuing operations when they become probable and estimable. The additional funding obligations recognized by GE Capital were an insignificant amount and $0.3 billion for the three and nine months ended September 30, 2017, respectively, and $0.1 billion and $0.4 billion for the three and nine months ended September 30, 2016, respectively.

Certain of this additional funding is recorded as a contra pension expense for GE because GE's related future pension obligations will be paid by GE Capital. For certain other pension plan funding obligations triggered by the GE Capital Exit Plan, GE agreed to assume the funding obligation that would have been triggered by GE Capital at the date of exit from the plan in exchange for an assumption fee that GE recorded as Other income. There was no cash transferred to GE for the assumption of these GE Capital funding obligations for the three and nine months ended September 30, 2017. The total cash transferred for similar funding obligations assumed by GE from GE Capital for the three and nine months ended September 30, 2016 were zero and $0.1 billion, respectively.

On a consolidated basis, the additional required pension funding and any related assumption fees do not affect current period earnings. Any additional required pension funding will be reflected as a reduction of the pension liability when paid.

GE GUARANTEE OF GE CAPITAL THIRD-PARTY TRANSACTIONS

In certain instances, GE provides guarantees to GE Capital transactions with third parties primarily in connection with enabled orders. In order to meet its underwriting criteria, GE Capital may obtain a direct guarantee from GE related to the performance of the third party. GE guarantees can take many forms and may include, but not be limited to, direct performance or payment guarantees, return on investment guarantees, asset value guarantees and loss pool arrangements. As of September 30, 2017, GE had outstanding guarantees to GE Capital on $1.5 billion of funded exposure and $1.2 billion of unfunded commitments. The recorded amount of these contingent liabilities was $0.1 billion as of September 30, 2017 and is dependent upon individual transaction level defaults, losses and/or returns.

GE GUARANTEE OF CERTAIN GE CAPITAL DEBT

GE provides implicit and explicit support to GE Capital through commitments, capital contributions and operating support. As previously discussed, debt assumed by GE from GE Capital in connection with the merger of GE Capital into GE was $49.9 billion, and GE guaranteed $44.5 billion of GE Capital debt at September 30, 2017. See Notes 10 and 20 to the consolidated financial statements for additional information.

CRITICAL ACCOUNTING ESTIMATES

We utilized significant estimates in the preparation of the third quarter financial statements.

Please refer to the Critical Accounting Estimates section within MD&A and Note 1, Basis of Presentation and Summary of Significant Accounting Policies, to the consolidated financial statements of our Form 10-K Report filed on February 24, 2017, for a discussion of our accounting policies and the critical accounting estimates we use to: recognize revenue on long-term product services agreements; assess the recoverability of assets such as financing receivables and goodwill; determine the fair value of financial assets; and determine our provision for income taxes and recoverability of deferred tax assets.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance and investment contract liabilities amounted to $26.6 billion and $26.1 billion at September 30, 2017 and December 31, 2016, respectively and primarily comprise a liability for future policy benefits for those claims not yet incurred and claim reserves for claims that have been incurred or are estimated to have been incurred but not yet reported. Reserves ceded to reinsurers were $2.2 billion and $2.0 billion at September 30, 2017 and December 31, 2016, respectively and are included in the caption “Other receivables” on our Consolidated Statement of Financial Position.

Claim reserves amounted to $4.9 billion and $4.6 billion of which $3.4 billion and $3.1 billion relates to long-term care insurance contracts as of September 30, 2017 and December 31, 2016, respectively. Claim reserves are established when a claim is incurred or is estimated to have been incurred and represents our best estimate of the ultimate obligations for future claim payments and claim adjustment expenses. Key inputs include actual known facts about the claims, such as the benefits available and cause of disability of the claimant, as well as assumptions derived from our actual historical experience and expected future changes in experience factors. Claim reserves are evaluated periodically for potential changes in loss estimates with the support of qualified actuaries and any changes are recorded in the period in which they are determined.

Future policy benefit reserves amounted to $19.2 billion and $18.7 billion of which $9.0 billion and $8.7 billion relates to long-term care insurance contracts at September 30, 2017 and December 31, 2016, respectively. These reserves represent the present value of such benefits less the present value of future net premiums and are based on actuarial assumptions established at the time the policies were issued or acquired. These assumptions include, but are not limited to interest rates, health care experience (including type and cost of care), mortality, and the length of time a policy will remain in force. Our annual premium deficiency testing assesses the adequacy of future policy benefit reserves, net of capitalized acquisition costs using current assumptions. As we no longer originate new policies, we perform premium deficiency testing in the aggregate across our run-off insurance products.

We have recently experienced elevated claim experience for a portion of our long-term care insurance contracts, which is most pronounced for policyholders with higher attained ages. As a result, and as described below, we are conducting a comprehensive review of premium deficiency assumptions across all insurance products, including a reassessment of future claim projections for long-term care contracts that will be incorporated within our annual test of future policy benefit reserves for premium deficiencies, which is expected to be completed in the fourth quarter of 2017.

A comprehensive review of premium deficiency assumptions is a complex process and depends on a number of factors, many of which are interdependent and require evaluation individually and in the aggregate across all insurance products. The vast majority of our run-off insurance activities comprises reinsurance from multiple ceding insurance entities with underlying treaties having unique terms and conditions. Premium deficiency testing relies on claim and policy information provided by these ceding entities and considers each of the unique treaties. In order to utilize that information for purposes of completing experience studies covering all key assumptions, we perform detailed procedures to conform and validate the data received, including periodic evaluation of the operating environment at ceding entities. Our long-term care business includes coverage where credible claim experience for higher attained ages is still emerging and to the extent that recent experience deviates from previous expectations, new projections of claim costs extending over the expected life of the policies require development. Significant uncertainties exist in making these best estimate projections for these long-duration insurance contracts that includes consideration of a wide range of possible outcomes as well as actuarial peer reviews before a final determination can be made.

Should the net liability for future policy benefits plus the present value of expected future gross premiums be insufficient to provide for the present value of expected future policy benefits and expenses, we would be required to reduce any remaining capitalized acquisition costs and, to the extent a shortfall still exists, increase our existing future policy benefit reserves. We would record a charge to earnings for any premium deficiencies in the fourth quarter of 2017 upon completion of this review. Based upon the work performed to date and complexity of the review described above, a charge related to a probable deficiency is not reasonably estimable at September 30, 2017. Until the above described review has been completed we have deferred the decision whether GE Capital will pay additional dividends to GE.

See Note 11 to the consolidated financial statements of this report and Note 1 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 for further information.

MD&A OTHER ITEMS

OTHER ITEMS

NEW ACCOUNTING STANDARDS

ASU NO. 2016-16, ACCOUNTING FOR INCOME TAXES: INTRA-ENTITY TRANSFERS OF ASSETS OTHER THAN INVENTORY

In October 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The ASU eliminates the deferral of the tax effects of intra-entity asset transfers other than inventory. As a result, the tax expense from the intercompany sale of assets, other than inventory, and associated changes to deferred taxes will be recognized when the sale occurs even though the pre-tax effects of the transaction have not been recognized. The new standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The effect of the adoption of the standard will depend on the nature and amount of future transactions but is currently expected as an increase to retained earnings of approximately $0.4 billion. Future earnings will be reduced in total by this amount. The effect of the change on future transactions will depend on the nature of those transactions as it will affect the timing of recognition of both tax expense and tax benefits, with no change in associated cash flows.

ASU NO. 2016-15, STATEMENT OF CASH FLOWS

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The new standard requires that cash receipts from payments on a transferor’s beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities. The new standard is effective for fiscal years beginning after December 15, 2017. A retrospective transition approach is required. Note 4 to the Financial Statements describes the DPP created by the Receivables Facility. We currently report cash receipts from the purchasing entities to reduce their DPP obligation to the Company as cash inflows from operating activities in the Consolidated Statement of Cash Flows.

ASU NO. 2016-02, LEASES

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Similarly, lessors will be required to classify leases as sales-type, finance or operating, with classification affecting the pattern of income recognition. Classification for both lessees and lessors will be based on an assessment of whether risks and rewards as well as substantive control have been transferred through a lease contract. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While we continue to evaluate the effect of the standard on our ongoing financial reporting, we anticipate that the adoption of the ASU may materially affect our Statement of Financial Position.

ASU NO. 2014-09, REVENUE FROM CONTRACTS WITH CUSTOMERS

BACKGROUND

In May 2014, the FASB issued a new comprehensive set of revenue recognition principles (ASU No. 2014-09, Revenue from Contracts with Customers) that supersedes most existing U.S. GAAP revenue recognition guidance (including ASC 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts). The new standard will become effective for annual reporting periods beginning after December 15, 2017. We will adopt the standard on January 1, 2018, will apply it retrospectively to all periods presented and will elect the practical expedient for contract modifications. Since the issuance of the new standard by the FASB, we have engaged in a collaborative process with our industry peers and worked with standard setters on important interpretive matters with the objective of ensuring consistency in the application of the standard.

TRANSITION METHOD FOR APPLYING THE NEW STANDARD

Companies can use either a full retrospective or modified retrospective method to adopt the standard. Under the full retrospective method, all periods presented will be updated upon adoption to conform to the new standard and a cumulative adjustment for effects on periods prior to 2016 will be recorded to retained earnings as of January 1, 2016. Under the modified retrospective approach, prior periods are not updated to be presented on an accounting basis that is consistent with 2018. Rather, a cumulative adjustment for effects of applying the new standard to periods prior to 2018 is recorded to retained earnings as of January 1, 2018. Because only 2018 revenues reflect application of the new standard, incremental disclosures are required to present the 2018 revenues under the prior standard.

MD&A OTHER ITEMS

As noted above, we have elected to apply the full retrospective approach. We chose that approach because we believe that it is the most helpful to our investors. First and foremost, when we adopt the standard in 2018 we will provide investors with a consistent view of historical trends, as 2016 and 2017 will be on a basis consistent with 2018.

CHANGE IN TIMING AND PRESENTATION, NO IMPACT TO CASH OR ECONOMICS

The new standard requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time based on when control of goods and services transfer to a customer. As a result, we expect significant changes in the presentation of our financial statements, including: (1) timing of revenue recognition, and (2) changes in classification between revenue and costs. The new standard will have no cash impact and, as such, does not affect the economics of our underlying customer contracts. The effect of applying the new guidance to our existing book of contracts will result in lower reported earnings in 2018 (and comparative periods previously reported) and in the early years after adoption. However, we expect to experience an increase in reported earnings, on that existing book of contracts, as they mature. The new standard will provide for a better alignment of cash and earnings for the affected long-term customer contracts and we expect that it will enhance comparability across industry peers.

SPECIFIC EFFECT ON GE BUSINESSES

Power and Aviation Service Agreements - For our long-term product service agreements, primarily in our Power and Aviation businesses, we expect to continue to recognize revenue based on costs incurred plus an estimated margin rate (over time model). However, the new standard provides prescriptive guidance tied to several factors for determining what constitutes the proper scope of a customer contract for accounting purposes. These factors include optional purchases, contract modifications, and termination clauses. For example, under the new standard contract modifications will be accounted for prospectively by recognizing the financial effect of the modification over the remaining life of the contract. Under existing accounting guidance revisions to estimated margin rates resulting from modifications were reflected as cumulative effect adjustments to earnings in the current period.

Aviation Commercial Engines - Consistent with industry peers, the financial presentation of our Aviation Commercial engines business will be significantly affected as they will be accounted for as of a point in time, which is a change from our current long-term contract accounting process. Our current process applies contract-specific estimated margin rates, which include the effect of estimated cost improvements, to costs incurred. This change is required because our commercial engine contracts do not transfer control to the customer during the manufacturing process. Each install and spare engine will be accounted for as a s