
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of Earliest Event Reported): April 30, 2019 (April 30, 2019)

**WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware
(State or other Jurisdiction of Incorporation)**

**033-90866
(Commission File No.)**

**25-1615902
(I.R.S. Employer Identification No.)**

**1001 Air Brake Avenue
Wilmerding, Pennsylvania
(Address of Principal Executive Offices)**

**15148
(Zip Code)**

**(412) 825-1000
(Registrant's Telephone Number, Including Area Code)**

**Not Applicable
(Former Name or Former Address, if Changed Since Last Report.)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 8.01 Other Events.

As previously announced, on February 25, 2019, the merger of Westinghouse Air Brake Technologies Corporation (“Wabtec”) and the transportation business (“GE Transportation”) of General Electric Company (“GE”) was completed. Wabtec is filing this Current Report on Form 8-K to provide certain financial information with respect to GE Transportation and Wabtec’s acquisition of GE Transportation.

Audited Annual Financial Information of GE Transportation

Included in this Current Report on Form 8-K as Exhibit 99.1 are the audited combined financial statements of GE Transportation as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, together with the report of the independent registered public accounting firm thereon and the notes thereto.

Also attached hereto, as Exhibit 23.1, is the consent of KPMG LLP, the independent registered public accounting firm of GE Transportation, related to the above referenced audited combined financial statements of GE Transportation.

Unaudited Pro Forma Financial Information

Also included in this Current Report on Form 8-K as Exhibit 99.2 are unaudited pro forma condensed combined financial statements of Wabtec giving effect to the acquisition by Wabtec of GE Transportation, together with the notes thereto, as of December 31, 2018 and for the twelve months ended December 31, 2018.

GE Transportation MD&A

Included in this Current Report on Form 8-K as Exhibit 99.3 is Management’s Discussion and Analysis of Financial Condition and Results of Operations for GE Transportation.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

The following exhibits are filed with this report on Form 8-K:

Exhibit No.	Description
23.1	Consent of KPMG LLP
99.1	Audited combined financial statements of GE Transportation as of December 31, 2018 and 2017, and for the three years ended December 31, 2018, including the report of the independent registered public accounting firm thereon, and the notes thereto
99.2	Unaudited pro forma condensed combined financial information
99.3	Management’s Discussion and Analysis of Financial Condition and Results of Operations for GE Transportation

Caution Concerning Forward-Looking Statements

This communication contains “forward-looking” statements as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995, including statements regarding the acquisition by Wabtec of GE Transportation (the “transaction”) and statements regarding Wabtec’s expectations about future sales and earnings. All statements, other than historical facts, including statements regarding the expected benefits of the transaction, including future financial and operating results, the tax consequences of the transaction, and the combined company’s plans, objectives, expectations and intentions; legal, economic and regulatory conditions; and any assumptions underlying any of the foregoing, are forward-looking statements. Forward-looking statements concern future circumstances and results and other statements that are not historical facts and are sometimes identified by the words “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “predict,” “continue,” “target” or other similar words or expressions. Forward-looking statements are based upon current plans, estimates and expectations that are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. The inclusion of such statements should not be regarded as a representation that such plans, estimates or expectations will be achieved. Important factors that could cause actual results to differ materially from such plans, estimates or expectations include, among others, (1) unexpected costs, charges or expenses resulting from the transaction; (2) uncertainty of the expected financial performance of the combined company following completion of the transaction; (3) failure to realize the anticipated benefits of the transaction, including as a result of integrating GE Transportation into Wabtec; (4) the ability of the combined company to implement its business strategy; (5) difficulties and delays in achieving revenue and cost synergies of the combined company; (6) inability to retain and hire key personnel; (7) evolving legal, regulatory and tax regimes; (8) changes in general economic and/or industry specific conditions, including the impacts of tax and tariff programs, industry consolidation, and changes in the financial condition or operating strategies of our customers; (9) changes in the expected timing of projects; (10) a decrease in freight or passenger rail traffic; (11) an increase in manufacturing costs; (12) actions by third parties, including government agencies; and (13) other risk factors as detailed from time to time in Wabtec’s reports filed with the SEC, including Wabtec’s annual report on Form 10-K, periodic quarterly reports on Form 10-Q, periodic current reports on Form 8-K and other documents filed with the SEC. The foregoing list of important factors is not exclusive. Any forward-looking statements speak only as of the date of this communication. Wabtec does not undertake any obligation to update any forward-looking statements, whether as a result of new information or development, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on any of these forward-looking statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION**

By: /s/ David L. DeNinno

David L. DeNinno

Executive Vice President, General Counsel and Secretary

Date: April 30, 2019

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Westinghouse Air Brake Technologies Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-219657) on Form S-3 and in the registration statements (Nos. 333-53753, 333-39159, 333-02979, 333-115014, 333-137985, 333-41840, 333-40468, 333-35744, 333-89086, 333-179857, 333-219662, and 333-219663) on Form S-8 of Westinghouse Air Brake Technologies Corporation of our report dated April 18, 2019, with respect to the combined statement of financial position of GE Transportation (a carve-out business of General Electric Company) as of December 31, 2018 and 2017, the related combined statements of earnings, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes, which report appears in the Form 8-K of Westinghouse Air Brake Technologies Corporation dated April 30, 2019.

/s/ KPMG LLP

Chicago, Illinois
April 30, 2019

GE Transportation

(A carve-out business of General Electric Company)

Audited Combined Financial Statements

As of December 31, 2018 and 2017

And for the years ended December 31, 2018, 2017 and 2016

(With Report of Independent Registered Public Accounting Firm Thereon)

GE Transportation

(A carve-out business of General Electric Company)

INDEX TO COMBINED FINANCIAL STATEMENTS

Contents	Pages
COMBINED STATEMENT OF EARNINGS	2
COMBINED STATEMENT OF COMPREHENSIVE INCOME	3
COMBINED STATEMENT OF CHANGES IN EQUITY	4
COMBINED STATEMENT OF FINANCIAL POSITION	5
COMBINED STATEMENT OF CASH FLOWS	6
NOTES TO COMBINED FINANCIAL STATEMENTS	7 - 38



KPMG LLP
Aon Center Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Report of Independent Registered Public Accounting Firm

To the Board of Directors
Westinghouse Air Brake Technologies Corporation:

Opinion on the Combined Financial Statements

We have audited the accompanying combined statement of financial position of GE Transportation (a carve-out business of General Electric Company) (the Company) as of December 31, 2018 and 2017, the related combined statements of earnings, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the combined financial statements). In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the combined financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 2017.

Chicago, Illinois
April 18, 2019

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

GE Transportation

(A carve-out business of General Electric Company)

COMBINED STATEMENT OF EARNINGS

<i>For the years ended December 31 (In thousands)</i>	2018	2017	2016
Revenues			
Sales of goods	\$ 2,513,129	\$ 2,546,637	\$ 3,046,546
Sales of services	1,397,691	1,383,671	1,560,045
Total revenues (Note 3)	3,910,820	3,930,308	4,606,591
Costs of revenues			
Cost of goods sold	2,026,373	2,129,684	2,525,838
Cost of services sold	838,631	877,390	909,116
Gross profit	1,045,816	923,234	1,171,637
Selling, general and administrative expenses	525,733	449,651	432,229
Impairment of goodwill	-	-	2,027
Non-operating benefit costs	9,986	16,877	18,455
Other expenses	1,387	24,307	11,409
Earnings before income taxes	508,710	432,399	707,517
Provision for income taxes (Note 13)	(112,978)	(44,303)	(167,428)
Net earnings	395,732	388,096	540,089
Less net earnings attributable to noncontrolling interests	414	14,311	6,144
Net earnings attributable to Parent	\$ 395,318	\$ 373,785	\$ 533,945

See Notes to the Combined Financial Statements

GE Transportation

(A carve-out business of General Electric Company)

COMBINED STATEMENT OF COMPREHENSIVE INCOME

<i>For the years ended December 31 (In thousands)</i>	2018	2017	2016
Net earnings	\$ 395,732	\$ 388,096	\$ 540,089
Less net earnings attributable to noncontrolling interests	414	14,311	6,144
Net earnings attributable to Parent	395,318	373,785	533,945
Other comprehensive income (loss)			
Foreign currency translation adjustments	(34,713)	15,568	22,970
Benefit plans, net of taxes	(236)	459	(1,092)
Other comprehensive income (loss), net of taxes	(34,949)	16,027	21,878
Less other comprehensive income (loss) attributable to noncontrolling interests	(3,976)	703	(6,101)
Other comprehensive income (loss) attributable to Parent	(30,973)	15,324	27,979
Comprehensive income	360,783	404,123	561,967
Less comprehensive income (loss) attributable to noncontrolling interests	(3,562)	15,014	43
Comprehensive income attributable to Parent	\$ 364,345	\$ 389,109	\$ 561,924

See Notes to the Combined Financial Statements

GE Transportation

(A carve-out business of General Electric Company)

COMBINED STATEMENT OF CHANGES IN EQUITY

<i>(In thousands)</i>	Net Parent Investment	Accumulated Other Comprehensive Income / (Loss)	Equity Attributable to Noncontrolling Interests	Total Equity
Balances as of January 1, 2016	\$ 1,504,045	\$ (98,895)	\$ 21,910	\$ 1,427,060
Net earnings	533,945	-	6,144	540,089
Foreign currency translation adjustments	-	28,992	(6,022)	22,970
Benefit plans, net of taxes	-	(1,013)	(79)	(1,092)
Transfers (to) Parent	(612,311)	-	-	(612,311)
Changes in equity attributable to noncontrolling interests	-	-	6,248	6,248
Total equity balance as of December 31, 2016	1,425,679	(70,916)	28,201	1,382,964
Net earnings	373,785	-	14,311	388,096
Foreign currency translation adjustments	-	14,849	719	15,568
Benefit plans, net of taxes	-	475	(16)	459
Transfers (to) Parent	(112,313)	-	-	(112,313)
Changes in equity attributable to noncontrolling interests	-	-	(1,551)	(1,551)
Total equity balance as of December 31, 2017	1,687,151	\$ (55,592)	\$ 41,664	\$ 1,673,223
Net earnings	395,318	-	414	395,732
Foreign currency translation adjustments	-	(30,747)	(3,966)	(34,713)
Benefit plans, net of taxes	-	(226)	(10)	(236)
Transfers from Parent	65,532	-	-	65,532
Changes in equity attributable to noncontrolling interests	-	-	(8,965)	(8,965)
Total equity balance as of December 31, 2018	\$ 2,148,001	\$ (86,565)	\$ 29,137	\$ 2,090,573

See Notes to the Combined Financial Statements

GE Transportation

(A carve-out business of General Electric Company)

COMBINED STATEMENT OF FINANCIAL POSITION

As of December 31 (In thousands)

	2018	2017
Assets		
Cash and equivalents	\$ 157,893	\$ 105,338
Current receivables, net (Note 5)	295,863	172,386
Inventories (Note 6)	769,709	560,443
Contract and other deferred assets (Note 3)	535,540	535,442
Prepaid expenses and other current assets (Note 9)	75,788	226,280
Total current assets	1,834,793	1,599,889
Property, plant and equipment, net (Note 7)	909,195	943,168
Goodwill and intangible assets (Note 8)	544,233	537,526
Long-term contract and other deferred assets (Note 3)	346,415	321,392
Deferred income taxes (Note 13)	437,202	64,839
Other assets (Note 10)	96,652	77,759
Total assets	\$ 4,168,490	\$ 3,544,573
Liabilities and equity		
Short-term borrowings (Note 11)	\$ 4,477	\$ 45
Accounts payable	891,858	604,328
Progress collections and deferred income (Note 3)	335,195	592,427
Other current liabilities (Note 14)	561,438	282,723
Total current liabilities	1,792,968	1,479,523
Long-term borrowings (Note 11)	16	44,257
Long-term progress collections and other deferred income (Note 3)	40,081	23,797
Deferred income taxes (Note 13)	163,859	231,582
Other liabilities (Note 14)	80,993	92,191
Total liabilities	2,077,917	1,871,350
Net parent investment	2,148,001	1,687,151
Accumulated other comprehensive loss	(86,565)	(55,592)
Total equity attributable to Parent	2,061,436	1,631,559
Equity attributable to noncontrolling interests	29,137	41,664
Total equity	2,090,573	1,673,223
Total liabilities and equity	\$ 4,168,490	\$ 3,544,573

See Notes to the Combined Financial Statements

GE Transportation

(A carve-out business of General Electric Company)

COMBINED STATEMENT OF CASH FLOWS

For the years ended December 31 (In thousands)

	2018	2017	2016
Cash flows - operating activities			
Net earnings	\$ 395,732	\$ 388,096	\$ 540,089
Less net earnings attributable to noncontrolling interests	414	14,311	6,144
Net earnings attributable to the Parent	395,318	373,785	533,945
Adjustments to reconcile net earnings attributable to the Parent to cash provided by operating activities:			
Depreciation and amortization expenses	159,687	184,012	219,628
Unrealized (gains) losses from derivative instruments	(5,010)	2,535	(362)
Impairment of goodwill	-	-	2,027
Share-based compensation expense	11,438	7,375	10,587
Deferred income taxes	(440,084)	(135,461)	14,691
Losses (gains) from sale of property, plant and equipment	(2,009)	100	(14,157)
Losses (gains) from disposal of business	(5,614)	-	-
Changes in operating assets and liabilities:			
(Increase) decrease in current receivables	(151,156)	(10,148)	14,407
(Increase) decrease in inventories	(219,558)	189,659	155,356
(Increase) in contract and other deferred assets	(22,967)	(56,228)	(85,394)
Decrease (increase) in prepaid expenses and other assets	179,507	(46,401)	(107,254)
Increase (decrease) in accounts payable	325,011	(82,736)	(70,253)
(Decrease) increase in progress collections and other deferred income	(249,901)	(83,519)	147,997
Increase (decrease) in other liabilities	257,137	(19,510)	35,345
All other operating activities	(8,909)	(1,459)	(2,851)
Cash provided by operating activities	222,890	322,004	853,712
Cash flows - investing activities			
Additions to property, plant and equipment	(125,651)	(116,811)	(116,389)
Dispositions of property, plant and equipment	2,519	25,550	63,430
Additions to internal-use software	(50,397)	(61,581)	(66,372)
Payments for principal businesses purchased	-	-	(63,439)
Investment in associated companies	-	(50,116)	(444)
All other investing activities	2,443	2,002	15,000
Cash (used for) investing activities	(171,086)	(200,956)	(168,214)
Cash flows - financing activities			
Newly issued debt (maturities longer than 90 days)	29,012	44,256	-
Repayments and other reductions (maturities longer than 90 days)	(65,108)	(114,466)	(13,961)
Transfers from (to) Parent	65,532	(112,313)	(612,311)
All other financing activities	(19,486)	11,461	686
Cash provided by (used for) financing activities	9,950	(171,062)	(625,586)
Effect of currency exchange rate changes on cash and equivalents	(9,197)	4,201	4,133
Increase (decrease) in cash and equivalents	52,556	(45,813)	64,045
Cash and equivalents at beginning of year	105,338	151,151	87,106
Cash and equivalents at end of year	\$ 157,893	\$ 105,338	\$ 151,151
Supplemental disclosure of cash flow information			
Cash paid during the year for interest on borrowings	\$ (4,719)	\$ (4,484)	\$ (7,611)
Cash paid during the year for income taxes	\$ (86,454)	\$ (200,482)	\$ (313,672)

See Notes to the Combined Financial Statements

GE Transportation

(A carve-out business of General Electric Company)

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF THE BUSINESS

GE Transportation (the “Business”, “GET”, “our” or “we”) is a carve-out business of General Electric Company (“GE” or “Parent”). We are a leading global provider of products and solutions to transportation, logistics and other industrial markets. We design, engineer and manufacture diesel-electric locomotives, supply associated aftermarket parts and services and provide digital solutions. Our culture of innovation and differentiated aftermarket solutions has allowed us to build a leading global installed base of diesel- electric locomotives, significant contracted services backlog and longstanding customer relationships. Our products and services are critical to our customers’ operating and financial success and enable them to operate with reliability and efficiency. Leveraging our heritage in diesel-electric locomotives, we have continued to innovate to expand our technologies into new products, end markets and logistics applications. Leveraging our core competencies in locomotive manufacturing, we produce electric motors and premium propulsion systems for mining, marine, stationary power and drilling applications. We have combined industry leadership with engineering and software capabilities to build a digital business that is leading the transformation of the transportation and mining industries. We employ approximately 9,400 employees and serve customers across approximately 60 countries.

The Business is comprised of three reportable segments, which reflect the way performance is assessed and resources are allocated.

EQUIPMENT

Our Equipment segment is a leading producer of diesel-electric locomotives serving freight and passenger railroads. We produce mission-critical products and solutions that help railroads reduce operating costs, decrease fuel use, minimize downtime and comply with stringent emissions standards. In addition to locomotives, we also produce a range of engines, electric motors and premium propulsion systems used in mining, marine, stationary power and drilling applications. This segment represents approximately 38%, 45% and 53% of annual revenues in the years ended December 31, 2018, 2017 and 2016, respectively.

SERVICES

Our Services segment is responsible for supporting railroads in the operation of their fleet of GE Transportation locomotives in an efficient manner throughout their entire lifecycle in terms of safety, availability, reliability and economic performance. We provide aftermarket parts and services to our global installed base, including predictive maintenance, regular maintenance, and unscheduled maintenance and overhaul services for locomotives. Our offerings include supply of parts, technical support and locomotive modernizations. Commercially, locomotive maintenance can be contracted on a fully transactional basis or through multi-year contracts (Contractual Service Agreements or “CSAs”), where we assume certain service activities, and the related performance risks, in return for fixed and variable payments based on underlying utilization of the asset(s) covered. This segment represents approximately 53%, 48% and 41% of annual revenues in the years ended December 31, 2018, 2017 and 2016, respectively.

DIGITAL

Our Digital segment combines decades of industrial leadership with cutting-edge data science and analytics acumen to create an efficient, productive and reliable digital-rail ecosystem – from shipper to receiver – from ports to intermodal terminals – main line locomotives and railcars – to train yards and operation centers. Digital includes transport logistics, transport intelligence, network optimization, train performance and digital mine. Our Digital segment develops and works with our customers to implement a comprehensive set of software-enabled solutions that deliver significant benefits across the transportation and mining landscape. Across global freight and mining industries, productivity and efficiency gains – and new business opportunities – will come largely from digital innovation. Digital tools will improve efficiency of existing assets, connect disparate processes, optimize key chokepoints and entire systems, and open up value across freight and mining. In industries characterized by in-house and boutique solution providers, the breadth and market presence of our Digital solutions have positioned us as a key player for digital innovation. This segment represents approximately 9%, 7% and 6% of annual revenues in the years ended December 31, 2018, 2017 and 2016, respectively.

GE Transportation

(A carve-out business of General Electric Company)

THE TRANSACTION

On February 25th, 2019, Westinghouse Air Brake Technologies (“Wabtec”) Corporation completed its merger with the Business, a former business unit of GE. With this transaction, GE sold a portion of the Business assets to Wabtec, spun off a portion of the Business to GE shareholders and then the Business merged with a wholly owned subsidiary of Wabtec. Wabtec shareholders own approximately 50.8% of Wabtec on a fully diluted basis and GE shareholders own approximately 24.3% of Wabtec on a fully diluted basis. GE owns common stock and non-voting convertible preferred stock, which together represent approximately a 24.9% economic interest in Wabtec on a fully diluted basis. GE also received approximately \$2.9 billion in cash at closing.

BASIS OF PRESENTATION

These combined financial statements were prepared on a stand-alone basis derived from the consolidated financial statements and accounting records of GE and GE accounting policies were followed for accounting purposes. These combined financial statements as of December 31, 2018 and 2017 and for each of the years ended December 31, 2018, 2017 and 2016 are presented as carve-out financial statements and reflect the combined historical results of operations, comprehensive income, financial position and cash flows of the Business, in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). Refer below to *Recent Accounting Pronouncements Reflected in These Combined Financial Statements* for a summary of recent accounting pronouncements that were adopted and applied in these combined financial statements.

These combined financial statements consolidate all majority-owned subsidiaries. The noncontrolling interests have been shown in the Combined Statement of Financial Position as Equity attributable to noncontrolling interests.

All intercompany balances and transactions within the Business have been eliminated in these combined financial statements. As described in Note 4 Related Party Transactions, certain transactions between the Business and GE have been included in these combined financial statements.

The Combined Statement of Financial Position reflects, among other things, all of the assets and liabilities of GE and the Business that are specifically identifiable as being directly attributable to the Business, including Net parent investment as a component of equity. Net parent investment represents GE’s historical investment in the Business and includes accumulated net earnings attributable to GE, the net effect of transactions with GE and GE entities, and cost allocations from GE that were not historically allocated to the Business.

GE uses a centralized approach to cash management and financing of its operations. These arrangements are not reflective of the manner in which the Business would have financed its operations had it been a stand-alone business separate from GE during the periods presented. Cash pooling arrangements are excluded from the asset and liability balances in the Combined Statement of Financial Position. These amounts have instead been reported as Net parent investment as a component of equity.

GE and its affiliates provide a variety of services to the Business. The Business may also sell products in the ordinary course of business to GE and its affiliates. The Combined Statement of Earnings includes expense allocations for services and certain support functions (“GE Corporate Overhead”) that are provided on a centralized basis within GE such as legal, business development, human resources, corporate audit, treasury and various other GE corporate functions that are routinely allocated to the Business and reflected in the Combined Statement of Earnings in Selling, general and administrative expenses. In addition to GE Corporate Overhead allocations, Selling, general and administrative expenses that would have been incurred in the ordinary course of business if the Business operated as a stand-alone company, such as compensation and benefits for employees of the Business, were included based on either specific identification of direct expenses or an allocation using an approach related to the nature of the item (e.g., external revenue or headcount).

Where allocations of amounts were necessary, the Business believes the allocation of these amounts were determined on a reasonable basis, reflecting all of the costs of GE Transportation and consistently applied in the periods presented. These allocated amounts, however, are not necessarily indicative of the actual amounts that might have been incurred or realized had the Business operated as a separate stand-alone entity during the periods presented. Consequently, these combined financial statements do not necessarily represent the results the Business would have achieved if the Business had operated as a separate stand-alone entity from GE during the periods presented.

GE Transportation

(A carve-out business of General Electric Company)

During the fourth quarter of 2018, the Business enacted a series of transfers (“Transfers”) to reorganize its legal structure in preparation for the close of the Transaction. These Transfers involved primarily the creation of new legal entities and the transfer of net assets, including property plant and equipment, intellectual property, and employee related liabilities, from existing shared entities into the newly created standalone legal entities. The transferred asset and liabilities were recorded at their historical cost in accordance with the guidance on common control transactions within Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 805, *Business Combinations*. There were no changes to the overall reporting entity included in the carve-out financial statements as a result of these Transfers. Under U.S. GAAP, the transfer of assets between legal entities results in certain tax consequences which are required to be recorded under ASC 740, *Income Taxes*. See Note 13 Income Taxes for further details of the financial statement impact.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) ESTIMATES AND ASSUMPTIONS

The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of any contingent assets or liabilities at the date of these combined financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other assumptions and information that we believe to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty, and accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. While the Business believes that the estimates and assumptions used in the preparation of these combined financial statements are appropriate, actual results could differ from those estimates.

Estimates are used for, but are not limited to, determining the following: estimates of variable revenues and/or costs on long-term revenue generating contracts, recoverability of long-lived assets and inventory, valuation of goodwill, useful lives used in depreciation and amortization, income taxes and related valuation allowances, accruals for contingencies including warranties, actuarial assumptions used to determine costs on employee benefit plans, valuation assumptions for long term stock-based compensation expense, valuation and recoverability of receivables, valuation of derivatives and the fair value of assets acquired and liabilities assumed in acquisitions.

Our revenue recognition on long-term CSAs requires estimates of both customer payments expected to be received over the contract term as well as the costs expected to be incurred to perform required maintenance services. We routinely review estimates under CSAs and regularly revise them to adjust for changes in outlook, however these estimates may materially vary from actual payments and costs incurred over the life of the contracts.

(B) FOREIGN CURRENCY

Certain of our international operations have determined that the local currency is the functional currency whereas others have determined the U.S. dollar is their functional currency. When the functional currency is not the US dollar, the Business translates assets and liabilities to their U.S. dollar equivalents using rates that approximate the exchange rates in effect at the Combined Statement of Financial Position date, and the Business translates functional currency income and expense amounts to their U.S. dollar equivalents using rates that approximate average exchange rates for the period. The U.S. dollar effects that arise from changing translation rates from functional currencies are recorded in Accumulated other comprehensive loss in the Combined Statement of Financial Position.

Gains and losses from foreign currency transactions, such as those resulting from the settlement of monetary items in the non-functional currency and those resulting from remeasurements of monetary items, are included in Costs of revenues and Selling, general and administrative expenses. Gains (losses) of (\$8,731) thousand, (\$26,177) thousand and \$18,735 thousand were incurred in the years ended December 31, 2018, 2017 and 2016, respectively.

(C) EQUITY-ACCOUNTED INVESTMENTS

Associated companies are entities in which we do not have a controlling financial interest, but over which we have significant influence, most often because we hold a voting interest of 20% to 50%. Associated companies are accounted for as equity method investments. Results of associated companies are presented on a one-line basis. Investments in, and advances to, associated companies are presented in the caption Other assets in our Combined Statement of Financial Position. See Note 10 Other Assets. Income earned on these investments are presented in Other expenses in our Combined Statement of Earnings.

GE Transportation

(A carve-out business of General Electric Company)

(D) ACQUISITIONS

Our combined financial statements include the operations of acquired businesses from the date of acquisition. The Business accounts for acquired businesses using the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Transaction costs are expensed as incurred. Any excess of the consideration transferred over the assigned values of the net assets acquired is recorded as goodwill. When the Business acquires net assets that do not constitute a “business” as defined in U.S. GAAP, no goodwill is recognized.

Amounts recorded for acquisitions can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Note 2(A) Estimates and Assumptions.

There were no significant acquisitions that were completed during the years ended December 31, 2018, 2017 and 2016 that affected our combined financial statements. See Note 8 for information on changes in goodwill and intangible assets as a result of acquisitions.

(E) CASH AND EQUIVALENTS

Marketable securities with original maturities of three months or less are included in Cash and equivalents. Cash held in commingled accounts with our Parent, or its affiliates, are presented within Net parent investment.

At December 31, 2018, \$66,769 thousand of GET cash, cash equivalents and restricted cash 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.

(F) CURRENT RECEIVABLES, NET

Current receivables, net are recorded at the invoiced amount, less an allowance for doubtful accounts, and do not bear interest. The Business maintains an allowance for doubtful accounts for estimated losses inherent in our accounts receivable portfolio. We establish an allowance for doubtful accounts based on various factors including the payment history and financial condition of our debtors and the economic environment. In addition, we consider current receivables aging, unless a specific reserve is established when customers are in bankruptcy or involved in legal disputes about amounts owed. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. See Note 5 Current Receivables, net.

(G) CONCENTRATION OF CREDIT RISK

For the year ended December 31, 2018, two customers each accounted for more than 10% of our combined revenues. For the year ended December 31, 2017, one customer accounted for more than 10% of our combined revenues. For the year ended December 31, 2016, three customers each accounted for more than 10% of our combined revenues. See Note 19 Segment Information and Major Customers for more information.

No individual customer accounted for more than 10% of gross customer receivables as of December 31, 2018 and two customers accounted for approximately 14% and 13%, respectively, of gross customer receivables as of December 31, 2017. Although this concentration affects our overall exposure to credit risk, our customer receivables are spread over a diverse group of customers across many countries, which mitigates this risk. We perform periodic credit evaluations of our customers’ financial conditions, including monitoring our customers’ payment history and current credit worthiness to manage this risk. We do not generally require collateral in support of our customer receivables, but we may require payment in advance or security in the form of a letter of credit or a bank guarantee. See Note 5 Current Receivables, net.

GE Transportation

(A carve-out business of General Electric Company)

(H) CURRENT RECEIVABLES FACTORING PROGRAM

Some of the Business's accounts receivables are legally transferred through current receivables factoring programs established for GE and various GE subsidiaries administered by an operation of GE Capital called Working Capital Solutions ("WCS"). GE Transportation participates in three different WCS Accounts Receivable factoring programs: GE Accounts Receivable ("GEAR"), On Book, and Emerging Market Debtor Pool ("EMDP"). GE Transportation also utilizes external syndication, which is facilitated either internally or by WCS.

Under the factoring programs, WCS performs a risk analysis and allocates a nonrecourse credit limit for each customer. If the customer exceeds this credit limit, then the remaining amount is either factored with recourse or is not factored as certain jurisdictions do not allow factoring with recourse.

All transfers of receivables qualify as true sales in accordance with ASC 860, *Transfers and Servicing* and are therefore derecognized from our Combined Statement of Financial Position. These factoring arrangements are for goods and services sold by GET to third parties in the ordinary course of business, and cash inflows received as part of the transaction are recorded as an operating cash inflow. See Note 4 Related Party Transactions.

In anticipation of the closing of the Proposed Transaction, we stopped factoring receivables after December 31, 2018. However, we are still in the process of collecting on previously factored receivables and remitting the respective payments to WCS.

(I) INVENTORIES

Inventories are stated at the lower of cost and net realizable values. Generally, production inventory including raw materials and work in process and finished goods inventory is valued at cost using a first-in, first-out ("FIFO") basis.

As necessary, we record provisions and write-downs for excess, slow moving and obsolete inventory. To determine these amounts, we regularly review inventory quantities on hand and compare them to estimates of historical utilization, future product demand, market conditions, production requirements and technological developments. See Note 6 Inventories.

(J) RESTRUCTURING COSTS

Costs of restructuring are accounted for in accordance with FASB ASC 420, *Exit or Disposal Cost Obligations*, ASC 712, *Compensation - Nonretirement Postemployment Benefits* and other related pronouncements. ASC 420 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. ASC 712 requires employers to recognize the obligation to provide postemployment benefits if all of the following conditions are met: (a) if the obligation is attributable to employees' services already rendered, (b) employees' rights to those benefits accumulate or vest, (c) payment of the benefits is probable, and (d) the amount of the benefits can be reasonably estimated. If those four conditions are not met, the employer should account for postemployment benefits when it is probable that a liability has been incurred and the amount can be reasonably estimated. See Note 18 Restructuring and Other Activities for additional discussion.

(K) SEGMENT REPORTING

We conduct our operations through three operating and reportable segments, which are generally organized based on product lines. Operating segments represent components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker in determining how to allocate resources and in assessing performance. The chief operating decision maker uses a variety of measures to assess the performance of the Business as a whole, depending on the nature of the activity. Operating activities are managed through three reportable segments: Equipment, Services and Digital. The performance of these three segments is principally measured based on revenues and segment profit, which is defined in Note 19 Segment Information and Major Customers.

GE Transportation

(A carve-out business of General Electric Company)

(L) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (“P&E”) is stated at cost and is depreciated over its estimated economic life. Subsequently, property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

P&E includes rotatable assets used to support sales in our Services segment and are presented in the line item Machinery and equipment within P&E. These assets represent already-repaired equipment exchanged for equipment to be serviced, which in turn is repaired and kept for another exchange. Repair costs on rotatable assets are expensed as incurred.

The Business incurs maintenance costs on our major equipment. Repair and maintenance costs are expensed as incurred. See Note 7 Property, Plant and Equipment, net.

(M) GOODWILL

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination. Goodwill is assigned to specific reporting units, and the Business tests goodwill for impairment at the reporting unit level at least annually or more frequently when facts or circumstances indicate an impairment may have occurred. A reporting unit is an operating segment, or one level below that operating segment (the component level), if discrete financial information is prepared and regularly reviewed by segment management. The Business also tests goodwill for impairment when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Business uses quantitative assessment or qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Business chooses to perform a qualitative assessment and concludes it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a further quantitative fair value test is performed. The Business recognizes an impairment charge if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill based on the results of our quantitative tests. The market and income approach are used for estimating the fair values for our reporting units. See Note 8 Goodwill and Intangible Assets.

(N) INTANGIBLE ASSETS, NET

All intangible assets of the Business other than goodwill are subject to amortization. The cost of intangible assets is amortized on a straight-line basis over their estimated useful lives. See Note 8 Goodwill and Intangible Assets.

INTERNAL USE SOFTWARE

Internal use software is software that is internally developed, purchased or modified to meet internal needs and for which no substantive plan exists to sell, lease or otherwise market the software externally. Software projects which meet this scope include internal software we use in running our business and software products developed to support certain revenue streams in our Digital segment (e.g., SaaS offerings). All costs associated with project tasks classified in the preliminary project development or post-implementation/operation stage are expensed as incurred. Capitalization of application development stage costs begin after both of the following occur: (a) preliminary project development stage is completed, and (b) management authorizes and commits to funding the software project, and it is probable that the project will be completed and the software will be used for the purpose for which it was intended. Capitalization ceases when the project is substantially complete. Capitalized amounts are generally amortized using the straight-line method over the asset's estimated economic life, which in most cases is five years, but does not exceed ten years.

EXTERNAL USE SOFTWARE

External use software is software that is (a) intended to be sold, licensed or marketed to our customers, or is (b) embedded and integral to our tangible products for which research and development has been completed. Costs that are related to the conceptual formulation and design of software are expensed as incurred. Costs that are incurred after technological feasibility has been established are capitalized as an intangible asset. Capitalized costs for software to be sold, leased, or otherwise marketed are amortized on an individual product basis. The annual amortization is the greater of the amount computed using (a) the ratio of current year gross revenues for a product to the total of current year and anticipated future gross revenues for that product, or (b) the straight-line method over the remaining estimated life of the product including the current year.

GE Transportation

(A carve-out business of General Electric Company)

The Business performs reviews to ensure that unamortized capitalized software program costs remain recoverable from future revenue. See Note 8 Goodwill and Intangible Assets.

(O) TRADE PAYABLES ACCELERATED PAYMENT PROGRAM

The Business's North American operations, and certain of its suppliers, participate in accounts payable programs with GE Capital. Supplier invoices may be settled early by GE Capital to obtain early pay cash discounts. The Business settles its obligations by reimbursing GE Capital on the invoice's contractual due date. As the payables in the Trade Payables Services ("TPS") program relate to operating activities incurred in the ordinary course of business and retain the principal characteristics of a trade payable, the results of this program are included within operating activities in our Combined Statement of Cash Flows. However, in anticipation of the closing of the Proposed Transaction, we ended the TPS program for the majority of our suppliers as of December 31, 2018, with the remaining suppliers removed as of deal close. See Note 4 Related Party Transactions.

(P) RESEARCH AND DEVELOPMENT COSTS ("R&D")

The Business conducts R&D activities to continually enhance our existing products and services, develop new products and services to meet our customer's changing needs and requirements and address new market opportunities. R&D costs are expensed as incurred and amounted to \$97,825 thousand, \$113,087 thousand and \$175,020 thousand for the years ended December 31, 2018, 2017 and 2016, respectively, and are included in Costs of revenues. This includes direct R&D expenses as well as expenses incurred with the use of services from GE Global Research. See Note 4 Related Party Transactions.

(Q) PENSION AND POSTRETIREMENT BENEFITS

Certain employees and retirees of the Business participate in pension and postretirement benefit plans sponsored by GE. These plans are accounted for in accordance with ASC Sub topic 715-80, *Compensation – Retirement Benefits: Multiemployer Plans* and Subtopic 715-20, *Compensation – Retirement Benefits: Defined Benefit Plans* respectively. See Note 17 Pension and Postretirement Benefit Plans.

(R) FAIR VALUE MEASUREMENTS

The following sections describe the valuation methodologies the Business uses to measure financial and non-financial instruments accounted for at fair value in accordance with the fair value hierarchy as set forth in ASC 820, *Fair Value Measurement and Disclosures*.

For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price the Business would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Significant inputs to the valuation model are unobservable.

We maintain policies and procedures to value instruments using the best and most relevant data available. In addition, the Business performs reviews to assess the reasonableness of the valuations. This detailed review may include the use of a third-party valuation firm.

GE Transportation

(A carve-out business of General Electric Company)

(S) RECURRING FAIR VALUE MEASUREMENTS

The following sections describe the valuation methodologies used to measure different financial instruments at fair value on a recurring basis.

FINANCIAL INSTRUMENTS – GENERAL

Our financial instruments include trade receivables, trade payables, short and long-term debt and derivative financial instruments. The estimated fair value of our financial instruments as of December 31, 2018 and 2017 approximates their carrying value as reflected in our combined financial statements. See Note 5 Current Receivables, net, Note 9 Prepaid Expenses and Other Current Assets, Note 10 Other Assets, Note 11 Borrowings and Note 14 Other Current Liabilities and Other Liabilities.

DERIVATIVES

The Business uses closing prices for derivatives included in Level 1, which are traded either on exchanges or liquid over-the-counter markets. The majority of our derivatives are valued using internal models and are included in Level 2. Derivative assets and liabilities included in Level 2 are currency exchange contracts, foreign currency forward contracts, and commodity swap contracts.

All derivatives held as of December 31, 2018 and 2017 were valued using Level 2 inputs. See Note 2(W) Derivative Instruments and Hedging Activities.

There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2018 and 2017.

(T) NON-RECURRING FAIR VALUE MEASUREMENTS

Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances. These assets can include long-lived assets that have been reduced to fair value when they are held for sale, and equity method investments and long-lived assets that are written down to fair value when they are impaired. Assets that are written down to fair value when impaired are not subsequently adjusted to fair value unless further impairment occurs. The following sections describe the valuation methodologies the Business uses to measure those assets not measured on an ongoing fair value basis.

EQUITY METHOD INVESTMENTS

Equity method investments are valued using market observable data such as quoted prices when available. When market observable data is unavailable, investments are valued using a discounted cash flow model, comparative market multiples or a combination of both approaches as appropriate and other third-party pricing sources. These investments are included in Level 3.

LONG-LIVED ASSETS

Long-lived assets, such as property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which undiscounted cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. The required undiscounted cash flow estimates are derived from our historical experience and our internal business plans. To determine fair value, the Business uses quoted market prices when available, our internal cash flow estimates discounted at an appropriate discount rate, or independent appraisals, as appropriate. Fair values of long-lived assets are primarily derived internally and are based on observed sales transactions for similar assets. These assets are generally included in Level 3. See Note 18 Restructuring and Other activities for impairments recognized related to long-lived assets.

GE Transportation

(A carve-out business of General Electric Company)

(U) INCOME TAXES

The Business is included in the consolidated U.S. federal, foreign and state income tax returns of GE, where applicable. The Business determines its current and deferred taxes based on the separate return method (i.e., as if the Business were a taxpayer separate from GE). All income taxes due to or due from the Business's Parent that have not been settled or recovered by the end of the period are reflected in Note 13 Income Taxes as such balances will be maintained and settled. Any differences between actual amounts paid or received by the Business and taxes accrued under the separate return method have been reflected in Net parent investment.

The Business accounts for taxes under the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities as well as from net operating losses and tax credit carryforwards, based on enacted tax rates expected to be in effect when taxes are actually paid or recovered and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. The Business currently intends to indefinitely reinvest earnings of our foreign subsidiaries with operations outside the U.S. and, accordingly, has not provided U.S. income tax on such earnings. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes it is not more likely than not to be realized.

Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. The Business operates in approximately 60 countries and our tax filings are subject to audit by the tax authorities in the jurisdictions where business is conducted. These audits may result in assessments of additional taxes that are resolved with the tax authorities or through the courts. The Business has provided for the amounts believed that will ultimately result from these proceedings. The Business recognizes uncertain tax positions that are "more likely than not" to be sustained if the relevant tax authority were to audit the position with full knowledge of all the relevant facts and other information. For those tax positions that meet this threshold, the Business measures the amount of tax benefit based on the largest amount of tax benefit that the Business has a greater than 50% chance of realizing in a final settlement with the relevant authority. The Business classifies interest and penalties associated with uncertain tax positions as interest expense and provision for income taxes, respectively, on the Combined Statement of Earnings. The effects of tax adjustments and settlements from taxing authorities are presented in these combined financial statements in the period they are recorded.

Due to the enactment of U.S. tax reform, repatriations of foreign earnings will generally be free of U.S. federal tax, but may incur other taxes, such as withholding or state taxes. Indefinite reinvestment is determined by management's judgment about and intentions concerning the future operations of the Business. Most of these earnings have been reinvested in active non-U.S. business operations.

Due to the enactment of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), substantially all of our previously unrepatriated foreign earnings were subject to U.S. federal income tax, and therefore we expect to have the ability to repatriate those earnings without incremental U.S. federal tax cost. Future repatriations of foreign earnings may incur other taxes, such as withholding or state taxes. Indefinite reinvestment is determined by management's judgment about and intentions concerning the future operations of the Business. Most of these earnings have been reinvested in active Non-U.S. business operations. Management has considered the passage of the 2017 Tax Act on its indefinite reinvestment assertion and its assertion remains unchanged as of December 31, 2018 as the undistributed earnings are needed to support the non-U.S. operations. It is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely. Additionally, as part of U.S. tax reform, the U.S. has enacted a "base erosion anti-abuse tax" requiring U.S. corporations to make an alternative determination of taxable income without regard to tax deductions for certain payments to affiliates and a minimum tax on certain earnings considered to be "global intangible low-taxed income." Because we have tangible assets outside the U.S. and pay a rate of foreign tax above the minimum tax rate, we generally do not expect a significant increase in tax liability from this new U.S. minimum tax.

GE Transportation

(A carve-out business of General Electric Company)

(V) COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from product warranties, claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. See Note 15 Commitments and Contingencies.

(W) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Our business activities are conducted in diverse markets around the world. As a result, the Business is exposed to the impact of foreign currency exchange. See Note 4 Related Party Transactions. We use derivatives to manage a variety of risks, including risks related to commodity prices. The Business designates our derivative instruments as economic hedges and does not have any derivatives qualifying as hedges of fair value or cash flows. As the hedged item and the hedging derivative may not fully offset, there may be a net effect on earnings in each period due to differences in the timing of earnings recognition between the derivative and the hedged item. See Note 12 Derivatives and Hedging

(X) RECENT ACCOUNTING PRONOUNCEMENTS REFLECTED IN THESE COMBINED FINANCIAL STATEMENTS

In October 2016, the FASB issued ASU 2016-16, *Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*, which amends existing guidance on income taxes to require the accounting for the income tax effects of intercompany sales and transfers of assets other than inventory when the transfer occurs. 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 Business adopted this standard effective January 1, 2018. This standard was applied on a modified retrospective basis, and the impact of adoption did not have a material impact on our combined financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This ASU provides a new framework that will assist in the evaluation of whether business combination transactions should be accounted as acquisition of a business or a group of assets, as well as specifying the minimum required inputs and processes necessary to be a business. The provisions of this ASU are effective for years beginning after December 15, 2017. The adoption of this standard did not have a material impact on our combined financial statements as there were no acquisitions or disposals in the current period. However, any future acquisitions and disposals will be accounted for under these provisions.

(Y) OTHER RECENT ACCOUNTING PRONOUNCEMENTS

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. We plan to elect the new transition method approved by the FASB on July 30, 2018, which allows companies to apply the provisions of the new leasing standard as of January 1, 2019, without adjusting the comparative periods presented by recognizing a cumulative-effect adjustment to the opening balance of retained earnings. We are in the process of finalizing our system solutions and adoption processes to ensure we meet the standard's reporting and disclosure requirements. We are also in the process of completing a review of the impact of the new standard, and we estimate the right of use assets and lease liabilities will increase the assets and liabilities on the Consolidated Balance Sheet. The net cumulative effect adjustment will be recorded upon adoption in 2019.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU simplifies the measurement of goodwill impairment to a single-step test. The guidance removes step two of the goodwill impairment test, which requires a hypothetical purchase price allocation, and a goodwill impairment loss will now be the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. Under the revised guidance, failing step one will always result in goodwill impairment. The new guidance is effective for annual and interim goodwill impairment tests beginning after December 15, 2019 and early adoption is permitted. The Business is currently evaluating the impact of the adoption of ASU 2017-04 on our combined financial statements.

GE Transportation

(A carve-out business of General Electric Company)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for loans and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The new standard will also apply to receivables arising from revenue transactions such as contract assets and accounts receivables and is effective for fiscal years beginning after December 15, 2019. We continue to evaluate the effect of the standard on our combined financial statements.

NOTE 3 REVENUE RELATED TO CONTRACTS WITH CUSTOMERS

The Business accounts for revenue related to contracts with customers for all periods presented under *Topic 606 Revenue from Contracts with Customers*. For the purposes of the financial statement display of Revenues and Costs of revenues in our Combined Statement of Earnings, “goods” include all sales of tangible products, and “services” include all other sales, including other services activities.

PERFORMANCE OBLIGATION IDENTIFICATION

The Business recognizes revenue as it satisfies its performance obligations to our customers. A single contract may have multiple performance obligations comprising multiple promises to our customers. We determine our performance obligations based on our customer’s intended use of our products and services including considering whether we are providing a significant integration service on our customer’s behalf. Non-complex products principally result in each completed product being a separate performance obligation recognized at a point in time. Complex products or services principally result in a single performance obligation as our customer is either procuring a bundled offering that is managed or utilized on a combined basis (e.g., software development solutions in our digital business) or there are multiple complex goods or services in the contract, which are substantially the same and recognized over time (e.g., CSAs or certain highly customized locomotives). When there are multiple performance obligations, revenue is allocated based on the relative stand-alone selling price.

DETERMINATION OF WHEN REVENUE SHOULD BE RECOGNIZED

Revenue for each performance obligation is recognized when our customers obtain control of the underlying goods and services allowing them the ability to direct the use of and substantially obtain all of the remaining benefits. This may occur at a point in time or over time. Non-complex equipment sales manufactured for a broad market, such as platform locomotives, spare parts and other high volume transactional orders are principally recognized at a point in time, which is generally when title transfers to the customer. Services and complex equipment manufactured to a customer’s specification are principally recognized over time including CSAs, certain highly customized locomotives, premium propulsion systems, digital implementation projects and digital service offerings.

GE Transportation

(A carve-out business of General Electric Company)

MANNER IN WHICH REVENUE IS RECOGNIZED FOR OVER TIME CONTRACTS

For those performance obligations recognized over time, we generally recognize revenue either using a straight-line or cost-to-cost measure. A cost-to-cost method is used when costs incurred directly correlates to the fulfillment of our performance obligation to our customers. Under this method of progress, we recognize revenue based upon costs incurred at the estimated margin rate of the related performance obligation. Contract costs are generally accumulated in inventory, and therefore excluded from our measure of progress until the inventory practically or contractually cannot be utilized to fulfill another customer's contract. Contract costs include direct labor, materials and subcontractors' costs, as well as a reasonable allocation of indirect costs related to the service provided or good produced. Certain costs, such as non-recurring engineering, may also be specifically related to the contract, however, do not directly contribute to the transfer of control of the tangible product being created. These types of costs are accounted for as fulfillment costs and amortized proportionally to cost of sales rather than included in our measure of progress.

ESTIMATION PROCESS FOR CONTRACTS RECOGNIZED USING THE COST-TO-COST METHOD

The Business utilizes historical customer data, prior product performance data, statistical analysis, third party data, and internal management estimates to calculate contract-specific margins as our complex products require estimation of costs and certain of our arrangements, including CSAs, have variable billing terms based on customer utilization of the covered assets. While we believe our estimates and estimation processes are reasonable, there can be no assurances that changes in estimates will not occur in the future and such changes may be material. Changes in estimates are recorded in the current period based on a cumulative catch up approach, which recognizes the cumulative effect of the changes on current and prior periods based on the revised percentage of completion and estimated contract margin. The changes in estimates, principally within our CSA portfolio in Services, impacted revenue and operating income, which is defined as Gross profit less Selling, general and administrative expenses, by approximately \$40,006 thousand, \$38,019 thousand and \$83,464 thousand for fiscal years ended 2018, 2017 and 2016, respectively. If our estimation process anticipates a loss on the performance obligation, we reserve for the loss that we expect to incur when it is evident.

MANNER IN WHICH CONTRACT MODIFICATIONS ARE TREATED

Contract modifications are routine in the performance of our complex equipment and CSAs. Modifications that do not change the scope or price of the contract are commonly accounted for as a change in estimate to our existing performance obligation. Contract modifications that significantly change the scope and/or price of our contracts, most commonly in our CSAs, are accounted for prospectively.

GE Transportation

(A carve-out business of General Electric Company)

DISAGGREGATION OF REVENUES

GEOGRAPHIC MARKETS

<i>(In thousands)</i>	Equipment	Services	Digital	Total
U.S.				
2018	\$ 737,416	\$ 1,306,949	\$ 194,441	\$ 2,238,806
2017	775,008	1,205,801	200,556	2,181,365
2016	1,317,493	1,296,111	224,155	2,837,759
Europe				
2018	45,930	2,748	1,883	50,561
2017	60,341	6,028	3,087	69,456
2016	22,462	7,154	826	30,442
Asia				
2018	292,731	215,808	7,273	515,812
2017	190,484	199,383	4,093	393,960
2016	174,085	180,959	3,996	359,040
Other				
2018	440,618	562,488	102,535	1,105,641
2017	742,135	475,743	67,649	1,285,527
2016	930,200	407,316	41,834	1,379,350
Total revenue				
2018	\$ 1,516,695	\$ 2,087,993	\$ 306,132	\$ 3,910,820
2017	1,767,968	1,886,955	275,385	3,930,308
2016	2,444,240	1,891,540	270,811	4,606,591

Geographic market is defined as the “ship to” location.

CONTRACT AND OTHER DEFERRED ASSETS AND PROGRESS COLLECTIONS AND OTHER DEFERRED INCOME

Contract assets reflect revenues earned in excess of billings on our long-term contracts related to our equipment and CSAs. Contract liabilities reflects billings in excess of revenue recognized on similar agreements. Other deferred assets are fulfillment costs that principally relate to contractually required non-recurring engineering incurred during the initial design phase of a contract, which is recoverable over revenues generated as part of our production efforts. Recoverable costs are capitalized and amortized to Costs of revenues based on their expected pattern of benefit of the customers’ order. Amortization of fulfillment costs was approximately \$24,115 thousand, \$23,828 thousand and \$25,519 thousand for fiscal periods ended 2018, 2017 and 2016, respectively.

Revenue recognized that was included in the contract liability at the beginning of the period was \$464,974 thousand and \$570,651 thousand for fiscal years ended 2018 and 2017, respectively.

GE Transportation

(A carve-out business of General Electric Company)

CONTRACT AND OTHER DEFERRED ASSETS, NET

Contract and other deferred assets and progress collections, considering current and non-current classification, as of December 31, 2018 and 2017, are as follows:

<i>(in thousands)</i>	At December 31,	
	2018	2017
Contractual service agreements (a)	\$ 363,294	\$ 416,199
Equipment contract revenue (b)	136,447	79,588
Deferred inventory costs (c)	35,799	39,655
Total contract and other deferred assets	\$ 535,540	\$ 535,442
Long-term contractual service agreements (a)	\$ 226,552	\$ 193,389
Long-term equipment contract revenue (b)	20,311	33,484
Long-term non-recurring engineering costs (d)	99,552	86,868
Other	-	7,651
Total long-term contract and other deferred assets	\$ 346,415	\$ 321,392
Progress collections (e)	\$ 324,449	\$ 564,971
Deferred income	10,746	27,456
Total progress collections and deferred income	\$ 335,195	\$ 592,427
Long-term progress collections (e)	\$ 39,724	\$ 20,740
Long-term deferred income	357	3,057
Total long-term progress collections and other deferred income	\$ 40,081	\$ 23,797
Total contract and other deferred assets, net	\$ 506,679	\$ 240,610

- (a) Reflects revenues earned in excess of billings on our CSAs in our Services segment.
- (b) Reflects revenues earned in excess of billings primarily on our long-term contracts to construct equipment principally in our Equipment and Digital segments.
- (c) Represents cost deferral for shipped goods and other costs for which the criteria for revenue recognition has not yet been met.
- (d) Includes fulfillment costs incurred prior to production (e.g., engineering costs specific to an individual customer's contract) for long-term equipment production contracts, primarily within our Equipment segment, which are allocated proportionately over the life of the contract.
- (e) Includes billings in excess of revenue on our long-term equipment and CSAs.

Total contract and other deferred assets, net, increased by \$266,069 thousand from December 31, 2017 due to revenue recognized for work performed exceeding billings principally in our CSA portfolio and in our long-term equipment portfolios. The changes in estimates for fiscal years ended 2018 and 2017, principally in our CSA portfolio, increased revenue and operating income, which is defined as Gross profit less Selling, general and administrative expenses, by approximately \$40,006 thousand and \$38,019 thousand, respectively.

GE Transportation

(A carve-out business of General Electric Company)

REMAINING PERFORMANCE OBLIGATIONS

As of December 31, 2018, the aggregate amount of the transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations was \$17,407,281 thousand. This amount excludes highly probable but uncommitted purchases from our customers that are not legally enforceable. We expect to recognize revenue as we satisfy the remaining performance obligations as follows:

- Equipment - total remaining performance obligations of \$5,983,195 thousand of which 79% is expected to be satisfied within 5 year(s) and the remaining thereafter.
- Services - total remaining performance obligations of \$10,913,326 thousand of which 50% is expected to be satisfied within 5 year(s), 79% within 10 year(s) and the remaining thereafter.
- Digital - total remaining performance obligations of \$510,760 thousand of which 78% is expected to be satisfied within 5 year(s) and the remaining thereafter.

NOTE 4 RELATED PARTY TRANSACTIONS

As discussed in Note 1 Description of Business and Basis of Presentation, GE provides the Business with a number of services. Some of these services are provided directly by GE, and others are managed by GE through third-party service providers. The cost of certain of these services is either (a) recognized through our allocated portion of GE's Corporate Overhead, or (b) billed directly to the Business (such as most of our employee benefit costs). The cost of other services is included within the service itself, and the incremental cost for GE to provide the service is not discernible (such as payroll processing services included within the cost of payroll). In addition, we and our affiliates obtain a variety of goods (such as supplies and equipment) and services (such as GE Global Research Center) under various master purchasing and service agreements to which GE (and not the Business) is a party. We are billed directly for services we procure under these arrangements.

We receive an allocated share of GE's Corporate Overhead for certain services that GE provides to the Business, but which are not specifically billed to the Business, such as public relations, investor relations, treasury, and corporate internal audit services. Costs of \$35,163 thousand, \$27,163 thousand and \$28,249 thousand for the years ended December 31, 2018, 2017 and 2016, respectively, were recorded in our Combined Statement of Earnings for our allocated share of GE's Corporate Overhead. The Business has related party revenues of \$5,146 thousand, \$817 thousand and \$279 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. The majority of these sales were made by the Equipment segment to other GE industrial business units.

These combined financial statements include additional related party transactions with GE and GE entities that include the following:

- Amounts for due to / due from affiliates are recorded in Accounts payable and Current receivables, and are settled in cash. The Business has accounts payable resulting from amounts due to affiliates of \$39,535 thousand and \$48,057 thousand as of December 31, 2018 and 2017, respectively. The Business has current receivables resulting from amounts due from affiliates of \$21,755 thousand and \$21,259 thousand as of December 31, 2018 and 2017, respectively.
- The Business factors U.S. and non-U.S. receivables through WCS on a recourse and nonrecourse basis pursuant to various factoring and servicing agreements. The Business had factored receivables of \$139,583 thousand and \$146,221 thousand without recourse as of December 31, 2018 and 2017, respectively. The Business had factored receivables of \$9,633 thousand and \$3,989 thousand with recourse as of December 31, 2018 and 2017, respectively. For agreements with recourse, the Business establishes a bad debt reserve based on the aging policy discussed in Note 2(F) Current Receivables. Historically, the Business has outsourced our servicing responsibilities to Global Operations AR CoE for a market-based fee and therefore no servicing asset or liability has been recorded on the Combined Statement of Financial Position as of December 31, 2018 and 2017. Under the programs, the Business incurred interest expense and finance charges of \$12,880 thousand, \$19,943 thousand and \$12,866 thousand for the years ended December 31, 2018, 2017 and 2016, respectively, which are included in Other expenses. Activity related to the factored receivables program is reflected in the Combined Statement of Cash Flows as an operating activity. As noted in Note 2 Summary of Significant Accounting Policies, the Business stopped factoring receivables as of December 31, 2018. However, the Business is still in the process of collecting on previously factored receivables and remitting the respective payments to WCS.

GE Transportation

(A carve-out business of General Electric Company)

- The Business's North American operations participate in accounts payable programs with TPS. The Business's liability associated with the funded participation in the accounts payable programs, which is presented as accounts payable within the Combined Statement of Financial Position, was \$455,738 thousand and \$332,584 thousand as of December 31, 2018 and 2017, respectively. As noted in Note 2 Summary of Significant Accounting Policies, in anticipation of the closing of the Proposed Transaction, the Business ended the TPS program for the majority of our suppliers as of December 31, 2018, with the remaining suppliers removed as of deal close.
- The Business participates in GE Treasury centralized hedging and offsetting programs. See Note 12 Derivatives and Hedging.
- Employees of the Business participate in pensions and benefit plans that are sponsored by GE. See Note 17 Pension and Postretirement Benefit Plans.
- GE grants stock options, restricted stock units and performance share units to its group employees, including those of GE Transportation, under the GE Long-Term Incentive Plan. Compensation expense, net of tax, associated with this plan was \$9,036 thousand, \$4,794 thousand and \$6,881 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.
- Lease agreements are based on market terms. The Business incurs rent expense resulting from related party leases with GE or GE entities as lessor. See Note 16 Leases.
- All adjustments relating to certain transactions among the Business, GE and GE entities, which include the transfer of the balance of cash and equivalents to GE, transfer of the balance of cash held in cash pooling arrangements to GE, settlement of intercompany debt between the Business and GE or other GE entities and pushdown of all costs of doing business that were paid on behalf of the Business by GE or GE entities, are classified as Net parent investment.
- The Business has engaged GE Digital to provide various services such as coding, development and testing various software products. Some of these costs are included in capitalized software and the remainder was expensed as incurred. The total GE Digital charges to the Business were \$18,352 thousand, \$13,304 thousand, and \$2,901 thousand in 2018, 2017 and 2016, respectively.

NOTE 5 CURRENT RECEIVABLES, NET

Current receivables, net, as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	2018	2017
Customer receivables	\$ 159,992	\$ 86,882
Due from GE	21,755	21,259
Sundry receivables	121,871	69,127
	303,618	177,268
Less allowance for doubtful accounts	(7,755)	(4,882)
Current receivables, net	\$ 295,863	\$ 172,386

Sundry receivables primarily consist of value added tax receivables.

GE Transportation

(A carve-out business of General Electric Company)

NOTE 6 INVENTORIES

Inventories as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	2018	2017
Raw materials and work in process	\$ 554,364	\$ 268,261
Finished goods	215,345	292,182
Total inventories	\$ 769,709	\$ 560,443

NOTE 7 PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	Depreciable Life (in years)	Original Cost		Net Carrying Value	
		2018	2017	2018	2017
Land and improvements	8(a)	\$ 15,680	\$ 19,857	\$ 15,554	\$ 16,781
Buildings, structures and related equipment	8-40	636,496	565,076	385,922	337,978
Machinery and equipment (b)	4-20	1,283,749	1,305,883	449,810	476,407
Leasehold costs and manufacturing plant under construction	3-10	61,050	100,597	57,909	112,002
Total property, plant and equipment, net		\$ 1,996,975	\$ 1,991,413	\$ 909,195	\$ 943,168
ELTO (net)		\$ 7,100	\$ 30,075	\$ 6,766	\$ 12,135

(a) Depreciable lives exclude land.

(b) Equipment leased to others ("ELTO") is presented in the line item Machinery and equipment. This is equipment we own that is available to lease to customers and is stated at cost less accumulated depreciation.

As noted in Note 1 Basis of Presentation, during the fourth quarter of 2018, certain plant, property and equipment that was previously part of a shared research and development facility held by the Parent were transferred to the Business as a result of the Transfer. These assets are included in the table above at historical cost in accordance with the guidance on common control transactions within ASC 805.

In 2017, GE Transportation had an asset disposition as part of a sale to a customer with a carrying value of \$25,297 thousand and recognized a gain on the sale of \$203 thousand. The gain on sale is reflected in the Combined Statement of Earnings in Other expenses. This asset was included in our Services reportable segment. Based on estimated cash flows from the potential sale of the asset, an impairment loss of \$2,203 thousand was recorded during the year ended December 31, 2017. The impairment loss was recorded on the Combined Statement of Earnings in Selling, general and administrative expenses.

In 2016, GE Transportation sold locomotives categorized as ELTO with a carrying value of \$14,090 thousand and recognized a gain on the sale of \$11,476 thousand. The gain on sale is included in the Combined Statement of Earnings in Other expenses. Total depreciation expense was \$113,575 thousand, \$112,283 thousand and \$171,776 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

GE Transportation

(A carve-out business of General Electric Company)

NOTE 8 GOODWILL AND INTANGIBLE ASSETS

GOODWILL

After initial recognition, goodwill is measured net of any accumulated impairment losses. Changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017, by reportable segment, are as follows:

<i>(In thousands)</i>	Equipment	Services	Digital	Total
Balance at January 1, 2017	\$ -	\$ 112,483	\$ 177,027	\$ 289,510
Acquisitions and purchase accounting adjustments	-	-	(6,886)	(6,886)
Impairments, currency translation, and other	-	-	-	-
Balance at December 31, 2017	\$ -	\$ 112,483	\$ 170,141	\$ 282,624
Acquisitions and purchase accounting adjustments	-	-	-	-
Impairments, currency translation, and other	-	-	-	-
Balance at December 31, 2018	\$ -	\$ 112,483	\$ 170,141	\$ 282,624

In performing the annual goodwill impairment test during 2018, we determined that the fair value of the reporting units was more likely than not to be higher than their carrying amounts based on a qualitative assessment. Therefore, no goodwill impairment was recognized during the fiscal year. As of December 31, 2018, we believe that goodwill is recoverable for all of the reporting units; however, there can be no assurance that the goodwill will not be impaired in future periods.

In 2016, we recorded a \$2,027 thousand impairment charge to a reporting unit within the Equipment reportable segment. The impairment charge was a direct result of a multi-year suppressed global commodities market and the related effect on the global mining investment environment that caused us to revise the expected cash flows of the reporting units. The impairment loss was recorded on the Combined Statement of Earnings in Impairment of goodwill and represented a complete impairment of goodwill in the Equipment reportable segment.

GE Transportation

(A carve-out business of General Electric Company)

OTHER INTANGIBLE ASSETS

Intangible assets and accumulated amortization as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	Useful Life (in years)	2018			2017		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer-related	11-20	\$ 21,752	\$ (9,016)	\$ 12,736	\$ 21,860	\$ (7,636)	\$ 14,224
Patents & technology	7-11	58,667	(28,707)	29,960	56,866	(21,419)	35,447
Capitalized software - internal-use	5	228,311	(147,364)	80,947	211,209	(116,151)	95,058
Capitalized software - external	5-10	170,424	(32,725)	137,699	130,245	(20,358)	109,887
Trademarks & other	18-30	267	0	267	286	(0)	286
Total		\$ 479,421	\$ (217,812)	\$ 261,609	\$ 420,466	\$ (165,564)	\$ 254,902

During 2018 and 2017, we recorded additions to intangible assets subject to amortization of \$54,376 thousand and \$61,882 thousand, respectively, primarily driven by capitalized software.

Amortization expense related to intangible assets subject to amortization was \$46,102 thousand, \$71,728 thousand and \$47,852 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

Estimated annual amortization for intangible assets over the next five calendar years consists of the following:

<i>(In thousands)</i>	2019	2020	2021	2022	2023
Estimated annual amortization expense	\$ 55,759	\$ 51,694	\$ 46,247	\$ 41,772	\$ 30,413

NOTE 9 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	2018	2017
Derivative assets	\$ 22,227	\$ 3,303
Miscellaneous deferred charges	20,484	36,807
Prepaid insurance and other	9,761	6,080
Income tax receivable	11,807	179,394
Other	11,509	696
Prepaid expenses and other current assets	\$ 75,788	\$ 226,280

GE Transportation

(A carve-out business of General Electric Company)

NOTE 10 OTHER ASSETS

Other assets as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	2018	2017
Associated companies (a)	\$ 61,048	\$ 56,428
Other assets (b)	12,156	21,331
Assets held for sale (c)	23,448	-
Total other assets	\$ 96,652	\$ 77,759

- (a) Associated companies are entities in which we do not have a controlling financial interest, but over which we have significant influence, most often because we hold a voting interest of 20% to 50%.
- (b) Other assets mainly consist of long-term prepaid expenses and non-current value added tax receivables.
- (c) During the first quarter of 2018, the Business entered into an agreement to sell locomotives which were previously utilized for testing purposes that met the criteria for held for sale during the third quarter of 2018. Further, the Business received certifications on another group of locomotives that were being held in Property, plant and equipment, that met the criteria for held for sale during the fourth quarter of 2018 as a result of the certifications and our initiatives to market them for certain parties. The Business expects the sale of these assets to close within the next twelve months.

NOTE 11 BORROWINGS

SHORT-TERM BORROWINGS

The Business maintains an uncommitted credit arrangement with Citibank providing for short-term borrowing capacity and overdraft protection. There were overdrafts of \$4,442 thousand outstanding, primarily in our Ukraine operations, under these short-term credit facilities at a weighted average interest rate of 21% at December 31, 2018, and there were no amounts outstanding under these short-term credit facilities for the year ended December 31, 2017. Interest expense recognized for this short-term borrowing was immaterial for the years ended December 31, 2018. Interest expense is included within Other expenses in the Combined Statement of Earnings.

LONG-TERM BORROWINGS

In September 2017, the Business entered into an unsecured loan facility agreement with Wipro GE Healthcare Private Limited to fund various ongoing projects and operational requirements. The loan had a total disbursement value of \$68,703 thousand, disbursed in three tranches. As of December 31, 2017 the first two tranches had been disbursed with a total value of \$44,256 thousand. The final tranche was disbursed in the first quarter of 2018. The loan carries an 8% annual interest rate, compounded quarterly and matures in three tranches due October 2019, November 2019, and January 2020. However, under the terms of the merger agreement, this loan was settled in November 2018 in anticipation of the closing of the Proposed Transaction. Interest included in interest expense related to this loan is \$4,796 thousand and \$588 thousand for the years ended December 31, 2018 and 2017, respectively. Interest expense is included within Other expenses in the Combined Statement of Earnings.

Due to the nature and terms of the debt, the Business carries the debt at face value and did not recognize a discount or premium at issuance. The current portion of long-term debt is included in Short-term borrowings, and the non-current portion of the debt is included in Long-term borrowings. The amounts outstanding under the long-term borrowings as of December 31, 2018 and 2017 are reflected in the table below.

GE Transportation

(A carve-out business of General Electric Company)

Borrowings as of December 31, 2018 and 2017 consist of the following:

Short-term borrowings

<i>As of December 31 (In thousands)</i>	2018	2017
Current portion of long-term borrowings	\$ 35	\$ 45
Bank borrowings and other	4,442	-
Total short-term borrowings	\$ 4,477	\$ 45

Long-term borrowings

<i>As of December 31 (In thousands)</i>	2018	2017
	<i>Maturities</i>	
Long-term portion of borrowings	<i>2019-2020</i>	
	\$ 16	\$ 44,257
Total long-term borrowings	\$ 16	\$ 44,257

Total interest expense and other finance charges were \$17,688 thousand, \$21,805 thousand and \$20,002 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. Interest expense includes expense related to current receivable factoring programs. See Note 4 Related Party Transactions.

LETTERS OF CREDIT

As of December 31, 2018 and 2017, the Business has off-balance sheet credit exposure primarily for bank guarantees of approximately \$468,830 thousand and \$532,196 thousand, respectively. This balance represents the notional amount of bank guarantees obtained in the normal course of business from non-affiliated third party financial institutions to guarantee the Business's own performance on contracts with customers and suppliers. In the event nonperformance by the Business results in a customer or supplier drawing on the guarantee, the Business would be secondarily liable. Historically, the Business has not experienced any losses on these credit exposures.

NOTE 12 DERIVATIVES AND HEDGING

Economic hedges are not designated as hedged from an accounting standpoint (and therefore we do not apply hedge accounting to the relationship), but otherwise serve the same economic purpose as other hedging arrangements. We use economic hedges when we have exposures to currency exchange and commodity price risk for which we are unable to meet the requirements for hedge accounting or when changes in the carrying amount of the hedged item are already recorded in earnings in the same period as the derivative, making hedge accounting unnecessary. Even though the derivative is an effective economic hedge, there may be a net effect on earnings in each period due to differences in the timing of earnings recognition between the derivative and the hedged item. Notional amounts outstanding related to currency exchange contracts are approximately \$585,402 thousand and \$332,821 thousand as of December 31, 2018 and 2017, respectively. Notional amounts related to commodity contracts are approximately \$63,906 thousand as of December 31, 2018. There were no commodity contracts outstanding as of December 31, 2017. Additionally, the Business enters into contracts from time to time with international customers in the normal course of business that have embedded derivative components that are accounted for separately from the contract.

GE Transportation

(A carve-out business of General Electric Company)

The following table provides information about the fair value of our derivatives, by contract type and the accounts in the Combined Statement of Financial Position in which the balances are presented:

At December 31,

<i>(In thousands)</i>	At December 31,			
	2018		2017	
	Prepaid expenses and other current assets	Other current liabilities	Prepaid expenses and other current assets	Other current liabilities
	<i>Fair Value</i>			
Currency exchange and commodity contracts	\$ 22,227	\$ 17,310	\$ 3,303	\$ 6,372

Derivative instruments are principally administered by GE and the gains (losses) are \$(11,442) thousand, \$(9,210) thousand and \$(25,804) thousand for the years ended December 31, 2018, 2017 and 2016, respectively. These gains (losses) are included in Other expenses.

NOTE 13 INCOME TAXES

The tax provisions have been prepared on a separate return basis as if the Business was a separate group of companies under common ownership. The operations have been combined as if the Business was filing on a consolidated basis for U.S. Federal, U.S. state and non-U.S. income tax purposes, where allowable by law. The Business is subject to regulation under a wide variety of U.S. federal, U.S. state and non-U.S. tax laws, regulations and policies. Changes to these laws or regulations may affect our tax liability, return on investments and business operations.

COMBINED EARNINGS (LOSS) BEFORE INCOME TAXES

<i>(In thousands)</i>	2018	2017	2016
U.S.	\$ 294,868	\$ 280,346	\$ 619,667
Non-U.S.	213,842	152,053	87,850
Total earnings	\$ 508,710	\$ 432,399	\$ 707,517

COMBINED EXPENSE (BENEFIT) PROVISION FOR INCOME TAXES

<i>(In thousands)</i>	2018	2017	2016
Current			
U.S. Federal	\$ 352,056	\$ 70,879	\$ 61,949
U.S. State and Local	79,552	20,202	33,362
Non-U.S.	113,547	92,028	55,838
Deferred			
U.S. Federal	(305,879)	(118,361)	7,305
U.S. State and Local	(79,170)	(1,564)	5,088
Non-U.S.	(47,128)	(18,881)	3,886
Total	\$ 112,978	\$ 44,303	\$ 167,428

GE Transportation

(A carve-out business of General Electric Company)

RECONCILIATION OF U.S. FEDERAL STATUTORY INCOME TAX RATE TO ACTUAL INCOME TAX RATE

<i>(In thousands)</i>	2018	2017	2016
Income before taxes	\$ 508,710	\$ 432,399	\$ 707,517
Statutory Tax Rate	21%	35%	35%
Statutory Tax	106,828	151,340	247,631
Foreign operations and Foreign Tax Credits	13,060	843	(119,780)
State taxes	500	12,115	24,992
U.S. Tax Reform	9,186	(108,714)	-
Foreign-derived intangible income	(9,568)	-	-
Domestic manufacturing deduction benefits	-	(2,610)	(16,214)
Research & Development benefits	(5,008)	(4,147)	(1,601)
Valuation allowance	(1,211)	6,459	25,794
Other	(809)	(10,983)	6,606
Total income tax	\$ 112,978	\$ 44,303	\$ 167,428
Actual Income tax rate	22%	10%	24%

UNRECOGNIZED TAX POSITIONS

The Business is under continuous examination by the Internal Revenue Service (IRS), various U.S. state taxing authorities, and non-U.S. taxing authorities as part of the audit of GE's tax returns. The IRS is currently auditing GE's consolidated U.S. income tax returns for 2012-2013 and has begun the audit for 2014-2015. During 2015, the IRS completed the audit of GE's consolidated U.S. income tax returns for 2010-2011, except for certain issues that were completed in 2016. We believe that there are no jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the results of operations, financial position or cash flows. We further believe that we have made adequate provisions for all income tax uncertainties.

The balance of unrecognized tax benefits, the amount of related interest and penalties we have provided and what we believe to be the range of reasonably possible changes in the next 12 months were as follows:

UNRECOGNIZED TAX BENEFITS

<i>Liability (In thousands)</i>	2018	2017
Unrecognized tax benefits	\$ (7,104)	\$ (5,717)
Accrued interest on unrecognized tax benefits	(2,469)	(2,222)
Accrued penalties on unrecognized tax benefits	(445)	(1,446)
Reasonably possible reduction to the balance of unrecognized tax benefits in succeeding 12 months	-	-
Portion that, if recognized, would reduce tax expense and effective tax rate	(7,104)	(5,717)

GE Transportation

(A carve-out business of General Electric Company)

UNRECOGNIZED TAX BENEFITS RECONCILIATION

<i>(In thousands)</i>	2018	2017
Balance at January 1	\$ (5,717)	\$ (4,802)
Additions for tax positions of the current year	-	-
Additions for tax positions of prior years	(1,696)	(1,320)
Reductions for tax positions of prior years	309	405
Settlements with tax authorities	-	-
Expiration of the statute of limitations	-	-
Balance at December 31	\$ (7,104)	\$ (5,717)

At December 31, 2018, we had \$7,104 thousand of unrecognized tax benefits. In addition, we have accrued interest and penalties of \$2,469 thousand and \$445 thousand, respectively. The amount of unrecognized tax benefits that would impact the effective tax rate would be \$7,104 thousand. Additionally, none of the amount of unrecognized tax benefits are expected to change in the next twelve months. We classify interest on tax deficiencies as interest expense; we classify income tax penalties as a provision for income taxes.

DEFERRED INCOME TAXES

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating loss and tax credit carryforwards, and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. GE Transportation did not operate as a standalone entity in the past and, accordingly, tax losses, receivables and other deferred tax assets included in the combined carve-out financial statements on a separate return basis may not be available upon separation of the Business from GE.

During the fourth quarter, the business executed a series of asset transfers to reorganize its legal structure in preparation for the close of the transaction. Transfers occurring between different tax paying components resulted generally in the recognition of current taxes payable by the seller and of deferred tax assets by the purchasing entity. In addition, assets that were previously part of a shared legal facility held by the Parent were contributed to the Business, and these assets are recorded at historical cost for book purposes. The deferred tax asset related to the difference between the historic cost and fair value is recorded in equity under ASC 740, *Income Taxes*.

We regularly evaluate the recoverability of our deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax assets to an amount that is more likely than not to be realized (a likelihood of more than 50 percent). Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance. In assessing the recoverability of our deferred tax assets at December 31, 2018, we considered all available evidence, including the nature of financial statement losses and reversing taxable temporary differences and future operating profits.

Aggregated deferred income tax amounts are summarized below.

DEFERRED INCOME TAX AMOUNTS

<i>(In thousands)</i>	2018	2017
Assets	\$ 377,959	\$ 6,770
Liabilities	(104,616)	(173,513)
Net deferred income tax asset (liability)	\$ 273,343	\$ (166,743)

GE Transportation

(A carve-out business of General Electric Company)

COMPONENTS OF THE NET DEFERRED INCOME TAX ASSET LIABILITY

<i>(In thousands)</i>	2018	2017
Deferred tax assets		
Goodwill & other intangibles	\$ 440,828	\$ 88,232
Operating loss carryforwards	53,132	56,783
Employee benefits	28,058	12,373
Other	-	-
Total deferred income tax asset	522,018	157,388
Valuation allowances	(144,059)	(150,618)
Total deferred income tax asset after valuation allowance	\$ 377,959	\$ 6,770
Deferred tax liabilities		
Goodwill and other intangibles	\$ (22,555)	\$ (21,888)
Property	(50,605)	(80,075)
Receivables	(6,097)	(41,374)
Inventory	(4,166)	(3,433)
Other accrued expenses	(16,754)	(15,059)
Other	(4,439)	(11,684)
Total deferred income tax liability	\$ (104,616)	\$ (173,513)
Net deferred income tax asset (liability)	\$ 273,343	\$ (166,743)

NET OPERATING LOSSES

At December 31, 2018 and 2017, the Business had net operating loss carryforwards of approximately \$177,888 thousand and \$191,063 thousand, respectively. The net operating loss carryforwards result in a deferred tax asset of \$53,132 thousand and \$56,783 thousand at December 31, 2018 and 2017. The majority of the net operating losses are located in Australia where losses can be carried forward indefinitely.

UNDISTRIBUTED EARNINGS

Substantially all of our undistributed earnings of our foreign subsidiaries are indefinitely reinvested. Due to the enactment of U.S. tax reform during 2017, substantially all of our previously unrepatriated foreign earnings were subject to U.S. federal income tax, and therefore we expect to have the ability to repatriate those earnings without incremental U.S. federal tax cost. Future repatriations of foreign earnings may however incur other taxes such as withholding or state taxes. Indefinite reinvestment is determined by management's intentions concerning the future operations of the Business. Most of these earnings have been reinvested in active non-U.S. business operations. As of December 31, 2018, the cumulative amount of indefinitely reinvested foreign earnings was approximately \$296,855 thousand. Computation of any deferred tax liability associated with and any other remaining basis differences is not practicable.

TAX REFORM

On December 22, 2017, the U.S. enacted legislation commonly known as the Tax Cuts and Jobs Act ("U.S. tax reform") that lowered the statutory tax rate on U.S. earnings to 21%, taxes historic foreign earnings at a reduced rate of tax, establishes a territorial tax system and enacts new taxes associated with global operations.

The impact of enactment of U.S. tax reform was recorded on a provisional basis as the legislation provided for additional guidance to be issued by the U.S. Department of the Treasury on several provisions including the computation of the transition tax. With the enactment of U.S. tax reform, we recorded, for the year ended December 31, 2017, tax expense of \$5,454 thousand to reflect our provisional estimate of the transition tax on historic foreign earnings and we recorded a tax benefit of \$114,168 thousand related to the revaluation of deferred taxes. This amount was adjusted in 2018 based on guidance issued during the year. Additional guidance may be issued after 2018 and any resulting effects will be recorded in the quarter of issuance. For the year ended December 31, 2018, we finalized our provisional estimate of the enactment of U.S. tax reform and revaluation of deferred taxes and recorded an additional tax expense of \$9,186 thousand. Additionally, as part of tax reform, the U.S. has enacted a minimum tax on foreign earnings ("global intangible low tax income"). We have not made an accrual for the deferred tax aspects of this provision.

GE Transportation

(A carve-out business of General Electric Company)

NOTE 14 OTHER CURRENT LIABILITIES AND OTHER LIABILITIES

OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	2018	2017
Employee related liabilities (a)	\$ 151,875	\$ 90,801
Derivative liabilities	17,310	6,372
Discounts and allowances	4,844	14,132
Accrued taxes	275,921	47,113
Accrued costs for freight, utility & other	22,340	28,563
Warranties	49,933	49,564
Restructuring and sundry losses (b)	16,394	24,032
Other current liabilities (c)	22,821	22,146
Total other current liabilities	\$ 561,438	\$ 282,723

- (a) Employee related liabilities are largely comprised of payroll, employee compensation and benefits, pension and other postretirement benefit obligations.
- (b) Restructuring accruals and accruals for costs arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. See Note 18 Restructuring and Other Activities.
- (c) Other current liabilities primarily consist of accruals related to prior acquisitions and investments, as well as various other miscellaneous accruals and professional fees.

GE Transportation

(A carve-out business of General Electric Company)

OTHER LIABILITIES

Other liabilities as of December 31, 2018 and 2017 consist of the following:

<i>As of December 31 (In thousands)</i>	2018	2017
Employee related liabilities (a)	\$ 23,551	\$ 27,135
Sundry losses (b)	169	8,503
Warranties	32,445	30,753
Tax related liabilities (c)	7,548	7,163
Other liabilities (d)	17,280	18,637
Total other liabilities	\$ 80,993	\$ 92,191

(a) Employee related liabilities are largely comprised of long-term employee compensation programs.

(b) Consists of accruals for legal costs and various other accruals.

(c) Consists of reserves for uncertain tax positions.

(d) Other liabilities primarily consist of earn outs and various other liabilities.

NOTE 15 COMMITMENTS AND CONTINGENCIES

WARRANTY OBLIGATIONS

As part of our product sales we provide standard warranty coverage to our customers as part of customary practices in the market to provide assurance that the equipment sold will comply with agreed upon specifications and such standard warranty at the time of sale is limited to fixing product defects. Issuance of a product warranty constitutes a commitment, which must be accrued as a loss contingency if expenditures under the warranty are both probable and reasonably estimable. The Business provides for estimated product warranty expenses when the related product sale is recognized. Additionally, we may elect certain corrective actions, at our expense, for certain product-related matters impacting our product portfolios. Warranty obligations are recognized for these matters when we commit to these corrective actions and they are estimable. Because warranty estimates are forecasts that are based on the best available information, primarily based on historical warranty claims experience and outstanding warranty period, claims costs may differ from amounts provided.

<i>(In thousands)</i>	2018	2017
Balance at January 1	\$ 80,317	\$ 101,492
Current year provisions	78,530	54,346
Utilizations and other	(76,469)	(75,521)
Balance at December 31	\$ 82,378	\$ 80,317

Approximately 39% and 38% of warranty costs as of December 31, 2018 and 2017, respectively, are expected to be incurred beyond 12 months and therefore are classified as a long-term liability in Other liabilities. Refer to Note 14 Other Current Liabilities and Other Liabilities.

GUARANTEES

The Business provides guarantees in the ordinary course of business. The Business believes the likelihood is remote that any such arrangements could have a significant adverse effect on these combined financial statements of the Business. The Business records liabilities for guarantees at estimated fair value, generally the amount of the premium received, or if we do not receive a premium, the amount based on appraisal, observed market values or discounted cash flows, which are zero as of December 31, 2018 and 2017. The Business has off-balance sheet credit exposure through standby letters of credit, bank guarantees, bid bonds, and surety bonds. See Note 11 Borrowings. In addition, our Parent may provide the Business with parent company guarantees in certain jurisdictions where we lack the legal structure to issue the requisite guarantees required on certain projects. We are charged by our Parent the fair market value of such guarantees.

GE Transportation

(A carve-out business of General Electric Company)

LITIGATION

The Business is subject to a variety of legal proceedings and legal compliance risks in all parts of the world where the Business operates or buys or sells its equipment and services. The Business has adopted appropriate risk management and compliance programs to address these and other matters that may arise from time to time. The global and diverse nature of our business and the changing enforcement environments in which it operates, means the Business will continue to face legal and compliance risks, the nature and outcome of which cannot be predicted with certainty. Currently, management believes there are no legal contingencies that are likely to have a material effect on the Business's Combined Statements of Financial Position, Earnings, or Cash Flows.

In late November 2017, staff of the Boston office of the U.S. Securities & Exchange Commission (SEC) notified GE that they are conducting an investigation of GE's revenue recognition practices and internal controls over financial reporting related to long-term service agreements. We have provided documentation to Parent regarding our long-term service agreement practices. Parent is providing documents and other information requested by the SEC staff, and our Parent is cooperating with their ongoing investigation. Staff from the Department of Justice are also investigating these matters, and our Parent is providing them with requested documents and information as well.

OTHER CONTRACTUAL COMMITMENTS

We also had commitments outstanding for purchase obligations, which represents take-or-pay contracts as well as purchase orders for goods and services utilized in the normal course of business such as capital expenditures, inventory and services under contracts.

At December 31, 2018, we had the following purchase obligations:

<i>(In thousands)</i>	2019	2020	2021	2022	2023
Purchase obligations	\$ 3,181	\$ 7,700	\$ 6,933	\$ -	\$ -

OTHER LOSS CONTINGENCIES

Other loss contingencies are uncertain and unresolved matters that arise in the ordinary course of business and result from events or actions by others that have the potential to result in a future loss. Such contingencies include, but are not limited to, environmental obligations, litigation, regulatory proceedings, product quality and losses resulting from other events and developments.

When a loss is considered probable and reasonably estimable, a liability is recorded in the amount of GE Transportation's best estimate for the ultimate loss. When there appears to be a range of possible costs with equal likelihood, liabilities are based on the low end of such range. However, the likelihood of a loss, with respect to a contingency, is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be continuously evaluated to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure is provided.

Disclosure is also provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. GE Transportation regularly reviews all contingencies to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss, or range of loss, can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with, or decisions by, third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimates.

GE Transportation

(A carve-out business of General Electric Company)

NOTE 16 LEASES

LEASE COMMITMENTS

The Business is a lessee under various cancelable and non-cancelable operating lease arrangements for facilities, information technology, fleet, and other equipment having terms, which expire on various dates. Rent expense for third party leases was \$27,261 thousand, \$23,274 thousand and \$28,255 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. We did not enter into any significant capital leases during the three years ended December 31, 2018.

Future minimum lease payments on non-cancelable operating lease arrangements, net of amounts due under subleases, as of December 31, 2018, consist of the following:

<i>For the years ended December 31 (In thousands)</i>	Total
Due in	
2019	\$ 14,353
2020	11,766
2021	10,684
2022	8,912
2023	7,232
2024 and thereafter	30,158
Total	\$ 83,105

This table excludes arrangements with GE and GE entities, which are cancelable at the option of the Business. Rent of approximately \$1,944 thousand was charged by GE for these related party leases for the year ended December 31, 2018, which was generally consistent with prior years. See Note 4 Related Party Transactions.

NOTE 17 PENSION AND POSTRETIREMENT BENEFIT PLANS

Certain employees are covered under GE's retirement plans (e.g. pension, retiree health and life insurance). In addition, certain Canadian employees participate in the GE Canada Defined Benefit Pension Plan as well as the Canada Postretirement Benefits.

The Business is allocated relevant participation costs for these GE employee benefit plans by GE. As such, the Business has not recorded any liabilities associated with our participation in this multi-employer plans in our Combined Statement of Financial Position as of December 31, 2018 and 2017.

Expenses associated with our employees' participation in the U.S. GE pension and postretirement benefit plans are \$83,288 thousand, \$77,965 thousand and \$86,285 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. Expenses associated with our employees' participation in the GE Canada Defined Benefit Pension Plan and Canada Postretirement Benefits are \$994 thousand, \$1,019 thousand and \$1,015 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

NOTE 18 RESTRUCTURING AND OTHER ACTIVITIES

The Business plans for restructuring initiatives to be completed within one year from the date each plan is effective. Restructuring actions are an essential component of our improvement efforts to both existing operations and those recently acquired, and there have been several initiatives in recent years as we have right-sized our businesses for changing market conditions.

Restructuring and other charges relate primarily to workforce reductions, facility exit costs associated with the consolidation of sales, service and manufacturing facilities, and other asset write-downs. The Business continues to closely monitor the economic environment and may undertake further restructuring actions to more closely align our cost structure with earnings goals.

GE Transportation

(A carve-out business of General Electric Company)

The Business's restructuring activities included consolidation of footprint and workforce reductions and realignment. No new material restructuring actions were initiated in 2018, and the impact on operations from the execution of restructuring activities during 2018 was not material. Additionally, there was no material liability remaining related to restructuring for the year ended December 31, 2018. In 2017 and 2016, restructuring activities were primarily in the U.S., Mexico, Canada, Australia, Chile, and Brazil. Restructuring expenses and related charges for the years ended December 31, 2017 and 2016 consisted of the following:

<i>(In Thousands)</i>	For the years ended December 31	
	2017	2016
Equipment		
Asset impairment	\$ 73,576	\$ 81,774
Contract termination costs	33	19,359
Employee separation expense	24,522	29,375
Total Equipment	\$ 98,131	\$ 130,508
Services		
Asset impairment	12,748	21,141
Contract termination costs	-	-
Employee separation expense	14,977	24,100
Total Services	\$ 27,725	\$ 45,241
Digital		
Asset impairment	17,971	1,544
Contract termination costs	-	-
Employee separation expense	1,021	600
Total Digital	\$ 18,992	\$ 2,144
Total	\$ 144,848	\$ 177,893

Restructuring costs are reflected in the Combined Statement of Earnings in Selling, general and administrative expenses and Costs of revenues. Liabilities related to restructuring are included in Other current liabilities. See Note 14 Other Current Liabilities and Other Liabilities.

NOTE 19 SEGMENT INFORMATION AND MAJOR CUSTOMERS

BASIS OF PRESENTATION

Our reportable segments are organized based on the nature of markets and customers. Segment accounting policies are the same as described and referenced in Note 2 Summary of Significant Accounting Policies.

Certain information concerning our segments for the years ended December 31, 2018, 2017 and 2016 is presented in the following tables. Consistent accounting policies have been applied by all segments within the Business, within all reporting periods. A description of our reportable segments as of December 31, 2018 have been provided in Note 1 Description of Business and Basis of Presentation.

GE Transportation

(A carve-out business of General Electric Company)

SEGMENT REVENUES

Refer to the table below for total revenues by segment for the years ended December 31, 2018, 2017 and 2016.

<i>(In Thousands)</i>	Total revenues		
	For the years ended December 31		
	2018	2017	2016
Equipment	\$ 1,516,695	\$ 1,767,968	\$ 2,444,240
Services	2,087,993	1,886,955	1,891,540
Digital	371,785	320,406	344,854
Eliminations	(65,653)	(45,021)	(74,043)
Total revenues	\$ 3,910,820	\$ 3,930,308	\$ 4,606,591

Revenues from customers located in the United States were \$2,238,806 thousand, \$2,181,365 thousand and \$2,837,759 thousand for the years ending December 31, 2018, 2017 and 2016, respectively. Revenues from customers located outside the United States were \$1,672,014 thousand, \$1,748,943 thousand and \$1,768,832 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

OTHER SEGMENT INFORMATION

The Business uses segment profit to manage the Business and allocate resources. Management defines segment profit as Gross profit less Selling, general and administrative expenses, plus interest income, less noncontrolling interest. Costs for corporate overhead functions are first attributed to the segments to the extent possible before being subject to various allocation methodologies. Refer to the table below for segment profit and a reconciliation to Net earnings attributable to Parent for the years ended December 31, 2018, 2017 and 2016.

<i>(In Thousands)</i>	For the years ended December 31		
	2018	2017	2016
	Equipment	\$ (153,838)	\$ (28,907)
Services	669,920	603,344	683,824
Digital	19,418	27,181	93,418
Segment profit	\$ 535,500	\$ 601,618	\$ 919,750
Non-operating benefit costs	(9,986)	(16,877)	(18,455)
Impairment of goodwill	-	-	(2,027)
Restructuring costs	108	(144,848)	(177,893)
Interest expense and other finance charges	(17,326)	(21,805)	(20,002)
Provision for income taxes	(112,978)	(44,303)	(167,428)
Net earnings attributable to Parent	\$ 395,318	\$ 373,785	\$ 533,945

The Business does not identify total assets by segment for internal purposes as the Business' CODM ("Chief Operating Decision Maker") does not assess performance, make strategic decisions, or allocate resources based on assets.

Refer to the table below for details on depreciation and amortization by segment for the years ended December 31, 2018, 2017 and 2016.

GE Transportation

(A carve-out business of General Electric Company)

<i>(In Thousands)</i>	Depreciation and amortization		
	For the years ended December 31		
	2018	2017	2016
Equipment	\$ 90,274	\$ 119,657	\$ 166,405
Services	46,061	47,903	39,596
Digital	23,352	16,452	13,627
Total	\$ 159,687	\$ 184,012	\$ 219,628

MAJOR CUSTOMERS

For the year ended December 31, 2018, two customers each accounted for approximately 14% and 12% of combined revenues, respectively. For the year ended December 31, 2017, a single customer accounted for approximately 17% of combined revenues. For the years ended December 31, 2016 three customers each accounted for approximately 19%, 13% and 13% of combined revenues. These revenues are within the Equipment, Services, and Digital segments.

NOTE 20 SUBSEQUENT EVENTS

The Business performed an evaluation of subsequent events through April 18, 2019, the date these combined financial statements were issued. On February 25th, 2019, the merger between Wabtec Corporation and the Business was completed. Refer to Note 1 Description of Business and Basis of Presentation for further detail on the Transaction.

Unaudited Pro Forma Condensed Combined Financial Statements

The following unaudited pro forma condensed combined financial statements are presented to illustrate the estimated effects of the transactions (the “Transactions”) described in note 1 (“Description of the transaction”) hereto. Unless otherwise defined, capitalized terms have the meaning provided for in note 1.

The following unaudited pro forma condensed combined balance sheet as of December 31, 2018, and the unaudited pro forma condensed combined statements of income for the year ended December 31, 2018 (collectively, the “Pro Forma Statements”) have been prepared in compliance with the requirements of Regulation S-X under the Securities Act using accounting policies in accordance with U.S. GAAP. The unaudited pro forma condensed combined financial information is based on Wabtec’s historical consolidated financial statements and GE Transportation’s historical combined financial statements, as adjusted to give effect to the Transactions, including the Merger.

Accounting policies used in the preparation of the Pro Forma Statements are based on the audited consolidated financial statements of Wabtec for the year ended December 31, 2018. The pro forma adjustments are based on preliminary estimates and currently available information and assumptions that Wabtec management believes are reasonable. The notes to the Pro Forma Statements provide a discussion of how such adjustments were derived and presented in the Pro Forma Statements. Changes in facts and circumstances or discovery of new information may result in revised estimates. As a result, there may be material adjustments to the Pro Forma Statements. See note 7 to the Pro Forma Statements. Certain historical GE Transportation and Wabtec financial statement caption amounts have been reclassified or combined to conform to Wabtec’s presentation and the disclosure requirements of the combined company. See note 6 to the Pro Forma Statements.

The Pro Forma Statements should be read in conjunction with the audited consolidated financial statements of Wabtec as of and for the year ended December 31, 2018, which are included in Wabtec’s annual report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 27, 2019, and the audited combined financial statements of GE Transportation as of and for the year ended December 31, 2018, which are included in Wabtec’s current report on Form 8-K filed with the SEC on April 30, 2019. GE Transportation’s historical financial statements have been presented on a “carve-out” basis from GE’s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities of GE Transportation and include allocations of corporate expenses from GE. These allocations reflect significant assumptions, and the financial statements do not fully reflect what GE Transportation’s financial position, results of operations or cash flows would have been had it been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of GE Transportation’s future results of operations, financial position or cash flows. The note disclosure requirements of annual consolidated financial statements provide additional disclosures to that required for pro forma condensed combined financial information.

The unaudited Pro Forma Statements give effect to the Transactions as if they had occurred on January 1, 2018, for the purposes of the unaudited pro forma condensed combined statements of income for the year ended December 31, 2018. The unaudited Pro Forma Statements give effect to the Transactions as if they had occurred on December 31, 2018, for the purposes of the unaudited pro forma condensed combined balance sheet. In the opinion of Wabtec’s management, these Pro Forma Statements include all material adjustments necessary to be in accordance with Article 11 of Regulation S-X under the Securities Act of 1933, as amended (the “Securities Act”).

The Pro Forma Statements are presented for illustrative purposes only and may not be indicative of the results of operations that would have occurred if the events reflected therein had been in effect on the dates indicated or the results which may be obtained in the future. In preparing the Pro Forma Statements, no adjustments have been made to reflect the potential operating synergies and administrative cost savings or the costs of integration activities that could result from the combination of Wabtec and GE Transportation. Actual amounts recorded upon consummation of the Transactions will differ from the Pro Forma Statements, and the differences may be material.

Westinghouse Air Brake Technologies Corporation
Pro Forma Condensed Combined Statements of Income (Unaudited)
For the Twelve Months Ended December 31, 2018

<u>In millions, except per share data</u> <i>(In U.S. dollars unless otherwise indicated)</i>	Wabtec Historical	GE Transportation Historical	Reclassification Adjustments (Note 6)	Pro Forma Adjustments	Notes	Pro Forma Combined Wabtec/GE Transportation
Sales of goods	\$ 4,363.5	\$ 2,513.1	\$ (220.5)	\$ (3.7)	7(a)	\$ 6,652.4
Sales of services	-	1,397.7	220.5	(190.3)	7(a)	1,427.9
Net sales	4,363.5	3,910.8	-	(194.0)		8,080.3
Cost of goods sold	(3,129.7)	(2,026.4)	298.6	52.6	7(a), 7(d)	(4,804.9)
Cost of services sold	-	(838.6)	(154.7)	(5.3)	7(a), 7(d)	(998.6)
Gross profit	1,233.9	1,045.8	143.9	(146.7)		2,276.9
Selling, general and administrative expenses	(633.2)	(525.7)	-	115.3	7(m)	(1,043.6)
Engineering expenses	(87.5)	-	(97.8)	-		(185.3)
Amortization expense	(39.8)	-	(46.1)	(173.0)	7(e)	(258.9)
Total operating expenses	(760.4)	(525.7)	(143.9)	(57.7)		(1,487.7)
Income from operations	473.4	520.1	-	(204.4)		789.1
Interest expense, net	(112.2)	-	(26.9)	(99.8)	7(j)	(238.9)
Non-operating benefit costs	-	(10.0)	10.0	-		-
Other (expense) income, net	6.4	(1.4)	16.9	-		21.9
Income from operations before income taxes	367.6	508.7	-	(304.2)		572.1
Income tax expense	(75.9)	(113.0)	-	66.0	7(i)	(122.9)
Net income	291.7	395.7	-	(238.2)		449.2
Less: Net income attributable to noncontrolling interest	3.2	(0.4)	-	-		2.8
Net income attributable to Wabtec shareholders	\$ 294.9	\$ 395.3	\$ -	\$ (238.2)		\$ 452.0
Earnings Per Common Share						
Basic						
Net income attributable to Wabtec shareholders	\$ 3.06	-	-	-		\$ 2.37
Diluted						
Net income attributable to Wabtec shareholders	\$ 3.05	-	-	-		\$ 2.37
Weighted average shares outstanding						
Basic	95,994	-	-	\$ 93.898	7(l)	\$ 189.892
Diluted	96,464	-	-	\$ 93.898	7(l)	\$ 190.362

Westinghouse Air Brake Technologies Corporation
Pro Forma Condensed Combined Balance Sheet (Unaudited)
As of December 31, 2018

In millions (In U.S. dollars unless otherwise indicated)	Wabtec Historical	GE Transportation Historical	Reclassification Adjustment (Note 6)	Pro Forma Adjustments	Notes	Pro Forma Combined Wabtec/GE Transportation
Assets						
Current Assets						
Cash and cash equivalents	\$ 580.9	\$ 157.9	\$ -	\$ (563.9)	7(b)	\$ 174.9
Restricted cash	1,761.4	-	-	(1,761.4)	7(b)	-
Accounts receivable	801.2	295.9	-	(10.4)		1,086.7
Unbilled accounts receivables	345.6	-	535.5	(339.3)	7(a)	541.8
Contract and other deferred assets	-	535.5	(535.5)	-		-
Inventories	844.9	769.7	-	176.0	7(k)	1,790.6
Other current assets	115.6	75.8	-	-		191.4
Total current assets	4,449.7	1,834.8	-	(2,499.0)		3,785.5
Property, plant and equipment	1,036.6	1,997.0	-	(815.8)	7(d)	2,217.8
Accumulated depreciation	(472.8)	(1,087.8)	-	1,087.8	7(d)	(472.8)
Property, plant and equipment, net	563.7	909.2	-	272.0	7(d)	1,744.9
Other Assets						
Goodwill	2,396.5	282.6	-	6,068.0	7(f)	8,747.1
Other intangibles, net	1,129.9	261.6	-	3,018.4	7(e)	4,409.9
Long-term contract and other deferred assets	-	346.4	(346.4)	-		-
Deferred income taxes	-	437.2	(437.2)	-		-
Other noncurrent assets	109.4	96.7	783.6	(663.7)	7(a),7(g)	326.0
Total other assets	3,635.8	1,424.5	-	8,422.7		13,483.0
Total Assets	\$ 8,649.2	\$ 4,168.5	\$ -	\$ 6,195.7		\$ 19,013.4
Liabilities and Shareholders' Equity						
Current Liabilities						
Accounts payable	\$ 589.4	\$ 891.9	\$ -	\$ (10.4)		\$ 1,470.9
Customer deposits	373.5	-	335.2	-		708.7
Progress collections and other deferred income	-	335.2	(335.2)	-		-
Accrued compensation	173.2	-	151.9	-		325.1
Accrued warranty	135.6	-	49.9	-		185.5
Current portion of long-term debt	64.1	4.5	-	-		68.6
Other accrued liabilities	310.8	561.4	(201.8)	75.5	7(a),7(h)	745.9
Total current liabilities	1,646.7	1,793.0	-	65.1		3,504.8
Long-term debt	3,792.8	-	-	629.5	7(c)	4,422.3
Long-term progress collections and other deferred income	-	40.1	(40.1)	-		-
Reserve for postretirement and pension benefits	95.4	-	23.6	-		119.0
Deferred income taxes	198.3	163.9	-	(163.9)	7(g)	198.3
Accrued warranty	18.1	-	32.4	-		50.5
Other long term liabilities	28.9	81.0	(15.9)	780.0	7(a),7(h)	874.0
Total Liabilities	5,780.2	2,078.0	-	1,310.7		9,168.9
Equity						
Preferred stock	-	-	-	-		-
Common stock	1.3	-	-	0.7	7(l)	2.0
Additional paid-in capital	914.6	-	2,148.0	4,739.7	7(l)	7,802.3
Net parent investment	-	2,148.0	(2,148.0)	-		-
Treasury stock	(816.1)	-	-	-		(816.1)
Retained earnings	3,022.0	-	-	-		3,022.0
Accumulated other comprehensive loss	(256.6)	(86.6)	-	86.6	7(l)	(256.6)
Total Group shareholders' equity	2,865.1	2,061.4	-	4,827.0		9,753.5

Noncontrolling Interest	<u>3.9</u>	<u>29.1</u>	<u>-</u>	<u>58.0</u>	<u>91.0</u>
Total Equity	<u>2,869.1</u>	<u>2,090.6</u>	<u>-</u>	<u>4,885.0</u>	<u>9,844.7</u>
Total Liabilities and Equity	\$ <u>8,649.2</u>	\$ <u>4,168.5</u>	\$ <u>-</u>	\$ <u>6,195.7</u>	\$ <u>19,013.4</u>

Westinghouse Air Brake Technologies Corporation
Notes to Pro Forma Statements (Unaudited)
(Expressed in U.S. dollars, unless otherwise indicated)

1. Description of the transaction

General Electric Company (“GE”), Westinghouse Air Brake Technologies Corporation (“Wabtec”), Transportation Systems Holdings Inc. (“SpinCo”) and Wabtec US Rail Holdings, Inc. (“Merger Sub”), entered into an original Agreement and Plan of Merger (the “Original Merger Agreement” and, as subsequently amended, the “Merger Agreement”) on May 20, 2018, and GE, SpinCo, Wabtec and Wabtec US Rail, Inc. (the “Direct Sale Purchaser”) entered into the original Separation, Distribution and Sale Agreement (the “Original Separation Agreement” and, as subsequently amended, the “Separation Agreement”) on May 20, 2018, which together provided for the combination of Wabtec and the transportation business of GE (“GE Transportation”), which comprised GE’s worldwide business of sourcing, manufacturing, developing, providing and selling transportation products and services for the railroad, mining, marine, stationary power and drilling industries. The Original Merger Agreement and Original Separation Agreement were each subsequently amended on January 25, 2019. In connection with the separation of GE Transportation from the remaining businesses of GE and its subsidiaries pursuant to the Separation Agreement (the “Separation”), GE conducted an internal reorganization (the “Internal Reorganization”). The Transactions contemplated by the Merger Agreement and the Separation Agreement were approved by the board of directors of Wabtec and the board of directors of GE.

In connection with the Transactions, certain assets of GE Transportation, including the equity interests of certain pre-Transaction subsidiaries of GE that composed part of GE Transportation, were sold (the “Direct Sale”) for a cash payment of \$2.875 billion (the “Direct Sale Purchase Price”) to Direct Sale Purchaser and certain liabilities of GE Transportation were assigned to Direct Sale Purchaser, in each case, as described in the Separation Agreement.

Thereafter, GE transferred the business and operations of GE Transportation, other than those transferred in connection with the Direct Sale, (the “SpinCo Business”) to SpinCo and its subsidiaries (to the extent not already held by SpinCo and its subsidiaries), and SpinCo issued to GE shares of SpinCo Class A preferred stock, SpinCo Class B preferred stock, SpinCo Class C preferred stock and additional shares of SpinCo common stock in connection therewith. Following this issuance of additional SpinCo common stock to GE, and immediately prior to the distribution by GE of SpinCo’s common stock to GE stockholders by way of a pro rata dividend (the “Distribution”), GE owned 8,700,000,000 shares of SpinCo common stock, 15,000 shares of SpinCo Class A preferred stock, 10,000 shares of SpinCo Class B preferred stock and one share of SpinCo Class C preferred stock, which constituted all of the outstanding stock of SpinCo.

Following the Direct Sale, GE distributed the Distribution Shares of SpinCo in a spin-off transaction. Immediately after the Distribution, Merger Sub merged with and into SpinCo (the “Merger”), whereby the separate corporate existence of Merger Sub ceased and SpinCo continued as the surviving company and a wholly owned subsidiary of Wabtec (except with respect to shares of SpinCo Class A preferred stock held by GE). In the Merger, each share of SpinCo common stock was converted into the right to receive a number of shares of Wabtec common stock based on the common stock exchange ratio set forth in the Merger Agreement, and the share of SpinCo Class C preferred stock converted into the right to receive (a) 10,000 shares of Wabtec convertible preferred stock and (b) a number of shares of Wabtec common stock equal to 9.9% of the fully-diluted pro forma Wabtec shares. Immediately prior to the Merger, Wabtec paid \$10.0 million in cash to GE in exchange for all the shares of SpinCo Class B preferred stock.

Immediately after the consummation of the Merger, approximately 49.2% of the outstanding shares of Wabtec common stock was held collectively by GE and holders of GE common stock as of the close of business on February 14, 2019 (with 9.9% held by GE directly in the form of shares of Wabtec common stock and 15% underlying the shares of Wabtec convertible preferred stock to be held by GE, which are convertible into Wabtec common stock) and approximately 50.8% of the outstanding shares of Wabtec common stock was held by pre-Merger Wabtec stockholders, in each case calculated on a fully-diluted, as-converted and as-exercised basis.

Following the Merger, GE also retained 15,000 shares of Class A non-voting preferred stock of SpinCo, and Wabtec held 10,000 shares of Class B non-voting preferred stock of SpinCo. The shares of Wabtec common stock and Wabtec convertible preferred stock held by GE are subject to GE’s obligations under the Shareholders Agreement, including, among other things, and in each case subject to certain exceptions, (i) restrictions on the ability to sell, transfer or otherwise divest such shares for a period of 30 days and (ii) an obligation to sell, transfer or otherwise divest (A) by no later than 120 days following the closing date of the Merger, GE’s (and its affiliates’) ownership of Wabtec common stock and/or Wabtec convertible preferred stock so that GE (together with its affiliates) beneficially owns not less than 14.9% and not more than 19.9% of the number of shares of Wabtec common stock that were outstanding immediately after the closing of the Merger, (B) by no later than one year following the closing date of the Merger, GE’s (and its affiliates’) ownership of Wabtec common stock and/or Wabtec convertible preferred stock so that GE (together with its affiliates) beneficially owns not more than 18.5% of the number of shares of Wabtec common stock that were outstanding immediately after the closing of the Merger, in each case of clauses (A) and (B) treating the Wabtec convertible preferred stock as the Wabtec common stock into which it is convertible both for purposes of determining the number of shares of Wabtec common stock owned and for purposes of determining the number of shares of Wabtec common stock outstanding and (C) by no later than the third anniversary of the closing date of the Merger, all of the subject shares that GE (together with its affiliates) beneficially owns, and (iii) an obligation to vote all of such shares of Wabtec common stock in the proportion required under the Shareholders Agreement.

The estimated total value of the consideration paid by Wabtec in the Transactions is approximately \$10.3 billion, including the cash paid for the Direct Sales Assets, equity transferred for SpinCo, contingent consideration, assumed debt and net of cash acquired. The estimated consideration is based on the

Company's closing share price of \$73.36 on February 22, 2019. The value of the preliminary purchase price consideration could change when the Company has completed a detailed valuation of the contingent consideration and other necessary calculations.

2. Basis of presentation

The Transactions have been accounted for as a business combination using the acquisition method in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 805, Business Combinations. As the acquirer for accounting purposes, Wabtec has estimated the fair value of GE Transportation's assets acquired and liabilities assumed and conformed the accounting policies of GE Transportation to its own accounting policies.

The pro forma purchase price allocation is preliminary and subject to change based on the finalization of purchase price adjustments and completion of Wabtec management's assessment of the fair values of the assets and liabilities acquired. The final purchase price allocation will be determined when the Company has completed detailed valuations and necessary calculations. The final purchase price allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in allocations to intangible assets such as backlog, customer relationships trade names and intellectual property as well as goodwill and (3) other changes to assets, liabilities and non-controlling interest. The final allocation could differ materially from the preliminary valuation used in the pro forma adjustments and included in Note 3 below.

Estimated remaining transaction costs for Wabtec and GE Transportation are reflected as an adjustment to cash and retained earnings in the unaudited pro forma condensed combined balance sheet. Estimated remaining transaction costs for Wabtec and GE Transportation have not been reflected in the unaudited pro forma condensed combined statement of income on the basis that these expenses are directly related to the Transactions but are nonrecurring in nature. Total estimated transaction costs for Wabtec and GE Transportation are approximately \$150.0 million. Certain of GE Transportation's transaction costs will be borne by GE.

3. Preliminary purchase price allocation

The Transactions have been accounted for as a business combination in accordance with Financial Accounting Standards Board ASC 805, Business Combinations. Under the acquisition method of accounting, Wabtec allocated purchase price to the tangible and intangible net assets acquired pursuant to the Direct Sale and the Merger based on the preliminary estimated fair values as of the assumed date of the Merger.

Wabtec has performed a preliminary valuation analysis of the fair market value of GE Transportation's assets and liabilities. The following table summarizes the allocation of the preliminary purchase price as of the assumed date of the Merger (in millions):

Cash and cash equivalents	\$	0.0
Accounts receivable		481.7
Inventories		945.7
Other current assets		75.8
Property, plant and equipment		1,181.2
Goodwill		6,350.6
Trade names		50.0
Intellectual property		1,220.0
Backlog		1,480.0
Customer relationships		530.0
Other noncurrent assets		216.5
Total assets acquired	\$	12,531.5
Current liabilities	\$	(1,776.0)
Off-market contracts		(422.0)
Contingent consideration		(440.0)
Other noncurrent liabilities		(121.1)
Total liabilities assumed		(2,759.1)
Net assets acquired	\$	9,772.4
Noncontrolling interest acquired	\$	(87.1)

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the Pro Forma Statements. The final purchase price allocation will be determined when Wabtec has completed detailed valuations and necessary calculations. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments. The final allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in allocations to intangible assets such as trade names, backlog, intellectual property, and customer relationships as well as goodwill and (3) other changes to assets and liabilities.

4. Financing transactions

Wabtec and the other Borrowers entered into the Credit Agreement on June 8, 2018, which includes (i) a \$1.2 billion Revolving Credit Facility, (ii) a \$350.0 million Refinancing Term Loan and (iii) a \$400.0 million Delayed Draw Term Loan. Wabtec also obtained Bridge Commitments in respect of the Bridge Loan Facility in an amount not to exceed \$2.5 billion. On September 14, 2018, in accordance with the Commitment Letter, the Bridge Commitments were permanently reduced to \$0 in connection with Wabtec's issuance of \$500 million aggregate principal amount of its Floating Rate Senior Notes due 2021 (the "Floating Rate Notes"), \$750 million aggregate principal amount of its 4.150% Senior Notes due 2024 (the "2024 Notes") and \$1.25 billion aggregate principal amount of its 4.700% Senior Notes due 2028 (the "2028 Notes," and, together with the Floating Rate Notes and the 2024 Notes, the "New Wabtec Notes"). Wabtec used proceeds from the Delayed Draw Term Loan and the issuance of the New Wabtec Notes to pay the Direct Sale Purchase Price. Additionally, in the Merger, Wabtec issued common stock and convertible preferred stock valued (based on Wabtec's closing stock price on the New York Stock Exchange (the "NYSE") as of December February 25, 2019) at approximately \$4.8 billion and \$2.1 billion, respectively. The Wabtec convertible preferred stock is convertible into a number of shares of Wabtec common stock that constitutes 15% of the Wabtec common stock on a fully-diluted, as-converted, as-exercised basis. The Wabtec convertible preferred stock will automatically convert into the right to receive Wabtec common stock upon a transfer by GE to a third party but is not otherwise convertible.

5. Tax benefits

As a result of the Transactions, Wabtec will be able to deduct for tax purposes the stepped-up basis of certain acquired assets including, but not limited to, property, plant and equipment, trade names, intellectual property, customer relationships, backlog and goodwill. Wabtec estimates the net present value of the gross tax benefits created in the Transactions to be approximately \$1.1 billion, with the first \$400 million on a net present value basis of cumulative cash benefits to be paid to GE and the remainder to accrue to Wabtec. The final amount and timing of when these tax benefits may be realized could differ materially from the preliminary estimate.

Deferred taxes have not been reflected in the Pro Forma Statements because based on currently available information there are no significant book to tax differences on the acquired assets and assumed liabilities.

6. Reclassification adjustments

Certain reclassifications have been made to the historical presentation of GE Transportation to conform to the historical financial statement presentation of Wabtec. Specifically, Wabtec presents Engineering expense and Amortization expense as separate captions within the statement of income, while GE Transportation presents these expenses within the Cost of goods sold caption within the statement of income. Reclassification adjustments have been made to conform the GE Transportation presentation of these expenses to the Wabtec financial statement presentation. Additionally, certain other GE Transportation income statement and balance sheet accounts have been reclassified to conform to Wabtec's financial statement presentation. Reclassifications have also been made to the historical presentation of Wabtec to disclose the amount of revenue and costs related to goods and services.

These reclassification adjustments had no net impact on Income from operations, Income from operations before income tax, Net income, Net income attributable to Wabtec stockholders, Total current assets, Total assets, Total current liabilities, Total liabilities, Total group shareholders' equity, or Total equity.

7. Pro forma adjustments

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the Pro Forma Statements:

- a. Reflects adjustments to GE Transportation's historical financial statements to conform to Wabtec's revenue recognition policy for long term service contracts. Additionally, reflects a \$75.3 million adjustment to revenue for off-market long term contracts. Other adjustments may be required to conform to Wabtec's accounting policies, but they are not expected to be material.
- b. Represents the change in cash and cash equivalents and restricted cash resulting from the following adjustments directly related to the Transactions (in millions):

	<u>As of December 31, 2018</u>
Additional new debt	\$ 630.0
Deferred issuance costs on new debt	(0.5)
Direct Sale Purchase Price payment from restricted cash	(1,761.4)
Direct Sale Purchase Price payment from cash and cash equivalents	(1,113.6)
Additional Transaction costs paid at closing	(69.8)
Purchase of SpinCo Class B Preferred Stock	(10.0)
Pro forma decrease in cash and cash equivalents	<u>\$ (2,325.3)</u>

- c. Represents additional borrowings of \$630.0 million, net of deferred issuance costs of \$0.5 million, to finance the Direct Sale Purchase Price.
- d. Reflects the adjustment of \$272.0 million to increase the basis in the acquired property, plant and equipment to estimated fair value and eliminates GE Transportation's historical Accumulated depreciation of \$1,087.8 million against property, plant and equipment. The estimated useful lives range from three to forty years. The fair value and useful life calculations are preliminary and subject to change after Wabtec finalizes its review of the specific types, nature, age, condition and location of GE Transportation's property, plant and equipment. The following table summarizes the changes in the estimated depreciation expense (in millions):

	Year Ended December 31, 2018
Estimated depreciation expense	\$ 131.7
Historical depreciation expense	(113.6)
Pro forma increase in depreciation expense	<u>\$ 18.1</u>

For the year ended December 31, 2018, \$12.8 million and \$5.3 million of additional depreciation expense is included in Cost of goods sold and Cost of services sold, respectively. Additionally, for the year ended December 31, 2018 the adjustment with respect to Cost of goods sold also reflects the impact on Cost of goods sold in the amount of \$65.4 million from the elimination of sales between Wabtec and GE Transportation, which are considered intercompany sales following the consummation of the Transactions.

- e. Reflects the adjustment of historical intangible assets acquired by Wabtec to their estimated fair values. As part of the preliminary valuation analysis, Wabtec identified intangible assets, including trade names, intellectual property, backlog and customer relationships. The fair value of identifiable intangible assets is determined primarily using the “income approach,” which requires a forecast of expected future cash flows related to these intangibles. The fair value and useful life calculations are preliminary and subject to change after Wabtec finalizes its review of the specific nature, detailed valuations and necessary calculations of the acquired intangibles from GE Transportation. The following table summarizes the estimated fair values of GE Transportation’s identifiable intangible assets, their estimated average useful lives and their amortization on a linear basis (in millions):

	Estimated Fair Value	Estimated Useful Life in Years	Amortization for Year Ended December 31, 2018
Trade names	\$ 50.0	5	\$ 10.0
Intellectual property	1,220.0	12	99.2
Backlog	1,480.0	17	86.9
Customer relationships	530.0	23	23.0
	<u>\$ 3,280.0</u>		<u>\$ 219.1</u>
Historical amortization expense			(46.1)
Pro forma increase in amortization expense			<u>\$ 173.0</u>

- f. Reflects adjustment to remove GE Transportation’s historical goodwill of \$282.6 million and record goodwill associated with the Transactions of \$6,350.6 million as shown in Note 3.
- g. Reflects adjustment to eliminate GE Transportation’s historical deferred tax assets and deferred tax liabilities in the amount of \$437.2 million and \$163.9 million, respectively.
- h. Represents the estimated fair value of contingent consideration of \$440.0 million related to payment of a fixed amount, \$470.0 million, to GE which is directly related to the timing of tax benefits expected to be realized subsequent to the Transactions. \$82.0 million of the total contingent consideration is classified in Other accrued liabilities and \$358.0 million is classified in Other long term liabilities.
- i. Reflects the income tax effect of pro forma adjustments based on an estimated combined tax rate of 21.7% for the year ended December 31, 2018.
- j. Represents the net increase to interest expense resulting from interest on the new debt to finance the Direct Share Purchase Price and other interest adjustments directly related to the Transactions, as follows (in millions):

	Year Ended December 31, 2018
Interest expense on new debt	\$ 122.4
Elimination of interest expense on Bridge Commitments	(29.2)
Elimination of interest on retired GET debt	(4.8)
Accretion of contingent consideration	7.5
Amortization of new debt issuance costs	3.9
Pro forma adjustments to interest expense	<u>\$ 99.8</u>

The effect of a 1/8 percent variance in the assumed interest rate related to the new debt would impact pro forma interest expense by approximately \$3.9 million for the year ended December 31, 2018.

- k. Represents the estimated adjustment to step up GE Transportation's inventory to a fair value of approximately \$945.7 million, an increase of \$176.0 million from the carrying value. The fair value calculation is preliminary and subject to change. The fair value was determined based on the estimated selling price of the inventory less the remaining manufacturing and selling costs and a normal profit margin on those manufacturing and selling efforts. After the consummation of the Transactions, the step-up in inventory fair value of \$176.0 million will increase cost of sales over approximately 2-4 months as the inventory is sold. This increase is not reflected in the unaudited pro forma condensed combined statements of income because it does not have a continuing impact.
- l. Represents the elimination of the historical equity of GE Transportation and the issuance of 10,000 shares of Wabtec convertible preferred stock which will be convertible into 28.1 million shares of Wabtec common stock and the issuance of 65.8 million shares of Wabtec common stock as consideration in the Merger resulting in an immaterial adjustment to Preferred Stock and adjustments to Common stock and Additional paid-in capital of \$0.7 million and \$6,887.6 million, respectively. The shares of Wabtec common stock and Wabtec convertible preferred stock held by GE will be subject to GE's obligations under the Shareholders Agreement.
- m. Represents the elimination of transaction costs of \$115.3 million directly related to the Transactions which will not have a recurring impact on operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR GE TRANSPORTATION

The following discussion and analysis of GE Transportation's financial condition and results of operations should be read in conjunction with GE Transportation's unaudited condensed combined financial statements and related notes and audited combined financial statements and related notes, each of which are included elsewhere in this current report on Form 8-K. Some of the information contained in this discussion and analysis constitutes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and set forth in Item 1A, Risk Factors, in Westinghouse Air Brake Technologies Corporation's ("Wabtec") Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as may be supplemented from time to time in Wabtec's filings with the Securities and Exchange Commission (the "SEC").

GE Transportation's historical financial statements included in this current report on Form 8-K have been presented on a "carve-out" basis from the consolidated financial statements of General Electric Company ("GE") using the historical results of operations, cash flows, assets and liabilities of GE Transportation and include allocations of corporate expenses from GE. These allocations reflect significant assumptions, and the financial statements do not fully reflect what GE Transportation's financial position, results of operations or cash flows would have been had it been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of GE Transportation's future results of operations, financial position or cash flows.

Overview

GE Transportation is a leading global provider of products and solutions to transportation, logistics and other industrial markets. GE Transportation designs, engineers and manufactures diesel-electric locomotives, supplies associated aftermarket parts and services and provides digital solutions. GE Transportation's culture of innovation and differentiated aftermarket solutions has allowed it to build a leading global installed base of diesel-electric locomotives, significant contracted services backlog and longstanding customer relationships. GE Transportation's products and services are important to its customers' operating and financial success and help them operate with reliability and efficiency. Leveraging its heritage in diesel-electric locomotives, GE Transportation has continued to expand its technologies into new products, end markets and logistics applications. Leveraging its core competencies in locomotive manufacturing, GE Transportation produces electric motors and premium propulsion systems for mining, marine, stationary power and drilling applications. GE Transportation also has used its engineering and software capabilities to build a digital business that delivers significant benefits across the transportation and mining landscape. GE Transportation's products are globally recognized for their quality, reliability, fuel efficiency and emissions compliance, and GE Transportation is known for its superior customer service. These attributes combined have fostered strong brand loyalty and generated longstanding customer relationships, which contribute to its leading market positions. As of December 31, 2018, GE Transportation's North American installed base was more than 16,000 diesel-electric locomotives and kits, comprising the largest portion of GE Transportation's global installed base of more than 23,000 diesel-electric locomotives and kits. As of December 31, 2018, GE Transportation had sales in more than 50 countries and eight primary manufacturing facilities and approximately 9,400 employees worldwide. For the year ended December 31, 2018, GE Transportation generated revenue of \$3,911 million and net earnings of \$396 million.

For over 110 years, GE Transportation has served the worldwide freight and passenger rail industries, which are a critical component of the global transportation system and the global economy. In North America, railroads carry about 28% of total freight, as measured by ton-miles, and over 40% of long distance freight travelling over 750 miles, which is more than any other mode of transportation. Rail is one of the most cost-effective, energy-efficient modes of transport, both domestically and internationally. GE Transportation's North American customers are principally Class I railroads. GE Transportation's international customers are principally international freight and passenger railroads in Latin America, Russia/CIS, Australia, India and Sub-Saharan Africa, who depend on diesel-electric locomotives. GE Transportation's diverse product portfolio is designed to cater to the varying requirements of Class I and international railroads. GE Transportation's customers' ongoing usage of locomotives and associated wear and tear on the equipment present opportunities to support railroads with aftermarket parts and services. Railroads place a high value on reliability, fuel efficiency and minimal downtime. As a result, the availability of replacement parts and GE Transportation's maintenance and overhaul services are important value drivers for GE Transportation's customers and generate high-margin recurring revenue opportunities.

GE Transportation's business experienced significant headwinds in 2016 and 2017 due to a downturn in the U.S. freight rail industry driven by commodity prices. GE Transportation has recently undergone a set of transformation and restructuring initiatives, including expanding its international footprint, optimizing its supply base and utilizing digitization and lean manufacturing to enhance the efficiency and effectiveness of its total supply chain. GE Transportation believes these initiatives have resulted in a more streamlined cost structure and optimized workforce to position it for growth in the recovering U.S. freight rail market and in international markets.

Factors Impacting GE Transportation's Performance

GE Transportation primarily serves the worldwide freight and transit rail industries. As such, its operating results are largely dependent on the level of activity, financial condition and capital spending plans of railroads and passenger transit agencies around the world, and transportation equipment manufacturers who serve those markets. Many factors influence these industries, including general economic conditions; traffic volumes, as measured by freight carloadings and passenger ridership; government spending on public transportation; and investment in new technologies. In general, trends such as increasing urbanization, a focus on sustainability and environmental awareness, an aging equipment fleet, and growth in global trade are expected to drive continued investment in freight and transit rail.

GE Transportation monitors a variety of factors and statistics to gauge market activity. Freight rail markets around the world are driven primarily by overall economic conditions and activity, while transit markets are driven primarily by government funding and passenger ridership. Changes in these market drivers can cause fluctuations in demand for GE Transportation's products and services.

According to the 2018 edition of the World Rail Market Study by UNIFE, the Association of the European Rail Industry, the accessible global market for railway products and services is more than \$115 billion and is expected to grow at about 2.6% annually through 2023. The three largest geographic markets, which represent nearly 80% of the total accessible market, are Western Europe, North America and Asia Pacific. UNIFE projects that all regional markets will grow through 2023, with more mature markets like North America accounting for the largest share of absolute growth due to planned large-scale transit projects and smaller markets like Latin America and Africa/Middle East experiencing the highest growth rates due to infrastructure and transit investments. The largest product segments of the market are services, rolling stock, and infrastructure, which represent almost 90% of the accessible market. UNIFE projects that the rolling stock and services segments will be the most significant absolute growth drivers through 2023, with projected growth rates of 2.7% and 2.5%, respectively. UNIFE projects spending on rolling stock to grow due to increased investment in passenger transit vehicles (particularly high-speed trains). UNIFE estimates that the global installed base of locomotives is about 114,000 units, with about 33% in Asia Pacific, about 26% in North America and about 18% in Russia/CIS.

In North America, railroads carry about 40% of long distance freight travelling over 750 miles, as measured by ton-miles, which is more than any other mode of transportation. Through direct ownership and operating partnerships, U.S. railroads are part of an integrated network that includes railroads in Canada and Mexico, forming what is regarded as the world's most-efficient and lowest-cost freight rail service. There are more than 500 railroads operating in North America, with the largest railroads, referred to as "Class I," accounting for more than 90% of the industry's revenues. The railroads carry a wide variety of commodities and goods, including coal, metals, minerals, chemicals, grain, and petroleum. These commodities represent about 50% of total rail carloadings, with intermodal carloads accounting for the rest. Railroads operate in a competitive environment, especially with the trucking industry and the emergence of autonomous trucks, and are always seeking ways to improve safety, cost and reliability. New technologies offered by GE Transportation and others in the industry can provide some of these benefits. Demand for GE Transportation's locomotives, freight related products and services, and digital solutions in North America is driven by a number of factors, including rail traffic, average railroad velocity and production of new locomotives and new freight cars. In the U.S., the passenger transit industry is dependent largely on funding from federal, state and local governments, and from fare box revenues. Demand for North American passenger transit products is driven by a number of factors, including government funding, deliveries of new subway cars and buses, and ridership. The U.S. federal government provides money to local transit authorities, primarily to fund the purchase of new equipment and infrastructure for their transit systems. Demand for GE Transportation's services is affected by the number of parked locomotives, which hit historic highs in 2016 and recovered into 2018.

Growth in the Asia Pacific market has been driven mainly by the continued urbanization of China and India, and by investments in infrastructure, metro vehicles, and rail controls. India is making significant investments in rolling stock and infrastructure to modernize its rail system; for example, the country has awarded a 1,000-unit locomotive order to GE Transportation.

Other key geographic markets include Russia/CIS and Africa-Middle East. With about 1.2 million freight cars and about 26,000 locomotives, Russia/CIS is among the largest freight rail markets in the world, and it's expected to invest in both freight and transit rolling stock. Africa-Middle East rail supply is expected to grow over the long-term due to investment in transit vehicles in South Africa, growing demand for infrastructure in the Middle East, and services needs to support new rail systems going into service.

In its study, UNIFE also said it expected increased investment in digital tools for data and asset management, and in rail control technologies, both of which would improve efficiency in the global rail industry. UNIFE said data-driven asset management tools have the potential to reduce equipment maintenance costs and improve asset utilization, while rail control technologies have been focused on increasing track capacity, improving operational efficiency and ensuring safer railway traffic. GE Transportation offers integrated solutions to help customers make ongoing investments in these initiatives.

In 2018 and beyond, general global economic and market conditions will have an impact on GE Transportation's sales and operations. To the extent that these factors cause instability of capital markets amid a rising interest rate environment, shortages of raw materials or component parts, longer sales cycles, deferral or delay of customer orders or an inability to market GE Transportation's products effectively with a higher cost of capital, GE Transportation's business and results of operations could be materially adversely affected. In addition, GE Transportation faces risks inherent in global expansion and risk associated with its four-point growth strategy, including the level of investment in innovation that customers are willing to make, especially in integrated technologies developed by the industry and GE Transportation. When necessary, GE Transportation will modify its financial and operating strategies to reflect changes in market conditions and risks.

Presentation

Certain terms are used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations for GE Transportation" as follows:

- **Equipment segment:** GE Transportation's Equipment segment is a leading manufacturer of diesel-electric locomotives serving freight and passenger railroads. GE Transportation produces products and solutions that help railroads reduce operating costs, decrease fuel use, minimize downtime and comply with stringent emissions standards. In addition to locomotives, GE Transportation also produces a range of engines, electric motors and premium propulsion systems used in mining, marine, stationary power and drilling applications.
- **Services segment:** GE Transportation's Services segment is responsible for supporting railroads in the operation of their fleet of GE Transportation locomotives in an efficient manner throughout their entire lifecycle in terms of safety, availability, reliability and economic performance. GE Transportation provides aftermarket parts and services to its global installed base, including predictive maintenance, regular maintenance, and unscheduled maintenance and overhaul services for locomotives. GE Transportation's offerings include supply of parts, technical support and locomotive modernizations. Commercially, locomotive maintenance can be contracted on a fully transactional basis or through multi-year contracts (Contractual Service Agreements or "CSAs"), where GE Transportation assumes certain service activities, and the related performance risks, in return for fixed and variable payments based on underlying utilization of the asset(s) covered.
- **Digital segment:** GE Transportation's Digital segment combines a history of industrial leadership with cutting-edge data science and analytics acumen to create an efficient, productive and reliable digital-rail ecosystem, from mine to port, from shipper to receiver, from port to intermodal terminals to main line locomotives and railcars and across train yards and operation centers. GE Transportation's Digital segment develops and works with customers to implement a comprehensive set of software-enabled solutions that deliver significant benefits across the transportation and mining landscape. Characterized by in-house and boutique solution providers, the breadth and market presence of GE Transportation's Digital solutions have positioned GE Transportation as a key player for digital innovation.
- **Sales (costs) of goods:** Goods primarily consists of GE Transportation's Equipment segment, as well as parts sales in GE Transportation's Services segment and some Digital segment products. Specifically, goods consist of locomotives, locomotive parts, modernizations, marine, stationary and drilling apparatuses and parts, mining equipment and parts, and digital equipment.
- **Sales (costs) of services:** Services primarily consists of GE Transportation's Services segment, as well as some Digital segment products. Sales and costs of services consists of maintenance services, marine, stationary and drilling services, mining services, and digital services.
- **Operating income:** The term "operating income" is used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations for GE Transportation" and in the combined financial statements of GE Transportation and the notes thereto. This term is defined as Gross profit less Selling, general and administrative expenses.

Results of Operations

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

The following table sets forth GE Transportation's income statement data for the years ended December 31, 2018 and 2017:

	2018	For the Year Ended December 31		Variation (%)
		2017	Variation (\$)	
In thousands, except for percentages				
Income Statement Data:				
Revenues				
Sales of goods	\$ 2,513,129	\$ 2,546,637	\$ (33,508)	(1%)
Sales of services	1,397,691	1,383,671	14,020	1%
Total revenues	3,910,820	3,930,308	(19,488)	0%
Cost of revenues				
Cost of goods sold	2,026,373	2,129,684	(103,311)	(5%)
Cost of services sold	838,631	877,390	(38,759)	(4%)
Gross profit	1,045,816	923,234	122,582	13%
Selling, general and administrative expenses	525,733	449,651	76,082	17%
Impairment of goodwill	—	—	—	—
Non-operating benefit costs	9,986	16,877	(6,891)	(41%)
Other (expense) income	(1,387)	(24,307)	22,920	94%
Earnings before income taxes	508,710	432,399	76,311	18%
Provision for income taxes	(112,978)	(44,303)	(68,675)	155%
Net earnings	395,732	388,096	7,636	2%
Less net earnings attributable to noncontrolling interests	414	14,311	(13,897)	(97%)
Net earnings attributable to Parent	\$ 395,318	\$ 373,785	\$ 21,533	6%
Other comprehensive (loss) income				
Foreign currency translation adjustments	(34,713)	15,568	(50,281)	(323%)
Benefit plans, net of taxes	(236)	459	(695)	(151%)
Other comprehensive (loss) income, net of taxes	(34,949)	16,027	(50,976)	(318%)
Less other comprehensive income (loss) attributable to noncontrolling interests	(3,976)	703	(4,679)	(666%)
Other comprehensive (loss) income attributable to Parent	(30,973)	15,324	(46,297)	(302%)
Comprehensive income (loss)	360,783	404,123	(43,340)	(11%)
Less comprehensive income (loss) attributable to noncontrolling interests	(3,562)	15,014	(18,576)	(124%)
Comprehensive income attributable to Parent	\$ 364,345	\$ 389,109	\$ (24,764)	(6%)

Sales of goods

Sales of goods for the year ended December 31, 2018 was \$2,513,129 thousand, a decrease of \$33,508 thousand, or 1%, from \$2,546,637 thousand for the year ended December 31, 2017. Locomotive deliveries were down 37%, offset by wheel shipments up 77%, and modernization shipments up 83%.

Sales of services

Sales of services for the year ended December 31, 2018 was \$1,397,691 thousand, an increase of \$14,020 thousand, essentially flat to December 31, 2017.

Total revenues

Total revenues for the year ended December 31, 2018 was \$3,910,820 thousand, a decrease of \$19,488 thousand, essentially flat, from \$3,930,308 thousand for the year ended December 31, 2017.

Cost of goods sold

Cost of goods sold for the year ended December 31, 2018 was \$2,026,373 thousand, a decrease of \$103,311 thousand, or 5%, from \$2,129,684 thousand for the year ended December 31, 2017, in-line with the decline in locomotive deliveries and reduction in restructuring charges of \$93,517 thousand, partly offset by increased modernization and mining wheels volume.

Cost of services sold

Cost of services sold for the year ended December 31, 2018 was \$838,631 thousand, a decrease of \$38,759 thousand, or 4%, from \$877,390 thousand for the year ended December 31, 2017. The decrease in cost of services sold was driven primarily by lower volume on long-term service contracts.

Gross profit

Gross profit for the year ended December 31, 2018 was \$1,045,816 thousand, an increase of \$122,582 thousand, or 13%, from \$923,234 thousand for the year ended December 31, 2017. The gross profit on both goods and services improved in 2018, attributable to increased services, mining, and modernization output, and lower restructuring charges. In addition, the mix of goods versus services shifted favorably towards services, improving overall profit margins to 27% compared to 23% for the year ended December 31, 2017. Gross profit margins on sales of goods was 19% compared to 16% for year ended December 31, 2017, and gross profit margins on sales of services was 40% compared to 37% for the year ended December 31, 2017.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2018 was \$525,733 thousand, an increase of \$76,082 thousand, or 17%, from \$449,651 thousand for the year ended December 31, 2017, primarily attributable to costs associated with the Transaction and business-specific incentive compensation, offset by lower restructuring charges of \$51,270.

Impairment of goodwill

There was no impairment of goodwill for the year ended December 31, 2018 or for the year ended December 31, 2017.

Non-operating benefit costs

Non-operating benefit costs for the year ended December 31, 2018 was \$9,986 thousand, a decrease of \$6,891 thousand, or 41%, from \$16,877 thousand for the year ended December 31, 2017, primarily attributable to a decrease in pension costs assessed by GE.

Other (expense) income

Other (expense) income for the year ended December 31, 2018 was (\$1,387) thousand, a decrease of \$22,920 thousand, or 94%, from (\$24,307) thousand for the year ended December 31, 2017, primarily driven by lower interest expense from receivables factoring. Additionally, gains were realized in 2018 related to asset sales associated with prior period restructuring projects.

Income taxes

The effective income tax rate was 22% and 10% in the years ended December 31, 2018 and 2017, respectively. The increase in the effective income tax rate in the year ended December 31, 2018 was primarily the result of foreign operations. The decrease in the effective income tax rate in the year ended December 31, 2017 was primarily the result of the 2017 enacted U.S. Tax reform regulations. GE Transportation's operating results are included in the consolidated income tax returns of GE where allowable. The provision for income taxes represents federal, state and local, and non-U.S. taxes on income calculated on a separate tax return basis. As a separate stand-alone company, GE Transportation's tax profile may differ from historical results.

Net earnings

Net earnings for the year ended December 31, 2018 was \$395,732 thousand, an increase of \$7,636 thousand, or 2%, from \$388,096 thousand for year ended December 31, 2017, primarily attributable to improvements in gross profit, other income, and non-operating benefit costs, offset by higher SG&A costs and increased provision for taxes.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

The following table sets forth GE Transportation's income statement data for the years ended December 31, 2017 and 2016:

	2017	For the Year Ended December 31 2016		Variation (%)
		In thousands,	except for percentages	
Income Statement Data:				
Revenues				
Sales of goods	\$ 2,546,637	\$ 3,046,546	\$ (499,909)	(16)%
Sales of services	1,383,671	1,560,045	(176,374)	(11)%
Total revenues	3,930,308	4,606,591	(676,283)	(15)%
Cost of revenues				
Cost of goods sold	2,129,684	2,525,838	(396,154)	(16)%
Cost of services sold	877,390	909,116	(31,726)	(3)%
Gross profit	923,234	1,171,637	(248,403)	(21)%
Selling, general and administrative expenses	449,651	432,229	17,422	4%
Impairment of goodwill	—	2,027	(2,027)	(100)%
Non-operating benefit costs	16,877	18,455	(1,578)	(9)%
Other (expense) income	(24,307)	(11,409)	(12,898)	113%
Earnings before income taxes	432,399	707,517	(275,118)	(39)%
Provision for income taxes	(44,303)	(167,428)	123,125	(74)%
Net earnings	388,096	540,089	(151,993)	(28)%
Less net earnings attributable to noncontrolling interests	14,311	6,144	8,167	133%
Net earnings attributable to Parent	373,785	533,945	(160,160)	(30)%
Other comprehensive income (loss)				
Foreign currency translation adjustments	15,568	22,970	(7,402)	(32)%
Benefit plans, net of taxes	459	(1,092)	1,551	(142)%
Other comprehensive income (loss), net of taxes	16,027	21,878	(5,851)	(27)%
Less other comprehensive income (loss) attributable to noncontrolling interests	703	(6,101)	6,804	(112)%
Other comprehensive income (loss) attributable to Parent	15,324	27,979	(12,655)	(45)%
Comprehensive income (loss)	404,123	561,967	(157,844)	(28)%
Less comprehensive income (loss) attributable to noncontrolling interests	15,014	43	14,971	34,816%
Comprehensive income attributable to Parent	\$ 389,109	\$ 561,924	(172,815)	(31)%

Sales of goods

Sales of goods for the year ended December 31, 2017 was \$2,546,637 thousand, a decrease of \$499,909 thousand, or 16%, from \$3,046,546 thousand for the year ended December 31, 2016. Locomotive unit shipments were down 42%, driven by a 72% decrease of North America shipments, partially offset by a 36% increase in international locomotive shipments. Locomotive shipment decline was partially offset by an 82% increase in mining wheel shipments and a 24% increase in sales of locomotive spare parts.

Sales of services

Sales of services for the year ended December 31, 2017 was \$1,383,671 thousand, a decrease of \$176,374 thousand, or 11%, from \$1,560,045 thousand for the year ended December 31, 2016. Contractual services were down 11%, primarily driven by lower volume on existing long term maintenance contracts attributable to lower asset utilization by North American customers reducing the need for spare parts and maintenance. Though carload volumes improved slightly in 2017 and the number of parked locomotives declined, parking still remained near historically high levels and the environment for sales of services remained challenging. The decline in sales of services was partly offset by continued sales to the international installed base, as well as aftermarket digital product sales, which continued to see growth.

Total revenues

Total revenues for the year ended December 31, 2017 was \$3,930,308 thousand, a decrease of \$676,283 thousand, or 15%, from \$4,606,591 thousand for the year ended December 31, 2016. The Equipment segment was the largest contributor to the decline in revenues with a \$676,272 thousand decline, or 28%. International revenues increased as a percentage of total revenues over 2016, increased to 45% of total revenues compared to 38% of total revenues in 2016.

Cost of goods sold

Cost of goods sold for the year ended December 31, 2017 was \$2,129,684 thousand a decrease of \$396,154 thousand, or 16%, from \$2,525,838 thousand for the year ended December 31, 2016. The decrease was due to the decrease in North America shipments discussed above and a \$36,766 thousand decrease in restructuring costs, partially offset by increased costs from increased international locomotive shipments, mining wheels and locomotive spare parts volume discussed above.

Cost of services sold

Cost of services sold for the year ended December 31, 2017 was \$877,390 thousand, a decrease of \$31,726 thousand, or 4%, from \$909,116 thousand for the year ended December 31, 2016. The decline was due to a 9% decrease in contractual services, primarily driven by lower volume on existing long term maintenance contracts.

Gross profit

Gross profit for the year ended December 31, 2017 was \$923,234 thousand, a decrease of \$248,403 thousand, or 21%, from \$1,171,637 thousand for the year ended December 31, 2016. Gross profit related to goods was down 20% primarily driven by softness in North American locomotive markets, partially offset by increased locomotive spare parts volume and lower restructuring charges. Gross Profit related to services were down 22% primarily driven by softness in the contractual services market for maintenance.

Selling, general and administrative expenses

Selling, general and administrative expense for the year ended December 31, 2017 was \$449,651 thousand, an increase of \$17,422 thousand, or 4%, from \$432,229 thousand for the year ended December 31, 2016. The increase is primarily attributable to costs from new acquisitions of \$8,941 thousand and restructuring costs of \$4,321 thousand.

Impairment of goodwill

There was no impairment of goodwill for the year ended December 31, 2017 compared to \$2,027 thousand for the year ended December 31, 2016, due in part to an improved global commodities market positively impacting the fair value of the reporting units.

Non-operating benefit costs

Non-operating benefit costs for the year ended December 31, 2017 was \$16,877 thousand, a decrease of \$1,578 thousand, or 9%, from \$18,455 thousand for the year ended December 31, 2016, primarily due to a decrease in severance charges, partly offset by an increase in health benefits for retirees.

Other (expense) income

Other (expense) income for the year ended December 31, 2017 was \$(24,307) thousand, an increase of \$12,898 thousand, or 113%, from \$(11,409) thousand for the year ended December 31, 2016, primarily attributable to a one-time sale of leased equipment in 2016.

Income taxes

The effective income tax rate was significantly reduced to 10% in the year ended December 31, 2017 from 24% in the year ended December 31, 2016. The decrease in the effective rate was primarily the result of newly enacted U.S. tax reform regulations. The effective tax rate in the year ended December 31, 2016 benefited by 16 percentage points from a restructuring of GE Transportation's foreign operations that resulted in a one-time recognition of foreign tax credits.

Net earnings

Net earnings for the year ended December 31, 2017 was \$388,096 thousand, a decrease of \$151,993 thousand, or 28%, from \$540,089 thousand for the year ended December 31, 2016. The main contributing factor for the decrease in net earnings was the decline in North American locomotive sales, partly offset by recent growth in sales of mining equipment and parts.

Cash Flows

<u>In thousands</u>	For the Years Ended December 31,		
	2018	2017	2016
	(in thousands of U.S. dollars)		
Net earnings	\$ 395,732	\$ 388,096	\$ 540,089
Less net earnings attributable to noncontrolling interests	414	14,311	6,144
Net earnings attributable to GE	395,318	373,785	533,945
Cash provided by (used for) operating activities	222,890	322,004	853,712
Cash provided by (used for) investing activities	(171,086)	(200,956)	(168,214)
Cash provided by (used for) financing activities	9,950	(171,062)	(625,586)
Effect of currency exchange rate changes on cash and equivalents	(9,197)	4,201	4,133
Increase in cash and equivalents	52,556	(45,813)	64,045
Cash and cash equivalents at beginning of period	105,338	151,151	87,106
Cash and cash equivalents at end of period	\$ 157,893	\$ 105,338	\$ 151,151

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Operating Activities

Cash provided by operating activities was \$222,890 thousand during the year ended 2018, a decrease of \$99,114 thousand, from \$322,004 thousand during the prior year period. The decrease was driven by cash used for working capital management which was partially offset by improved earnings before income taxes. Changes in working capital were primarily attributable to increases in inventory in preparation for 2019 locomotive and mining unit deliveries and increases in accounts receivable due to lower utilization of the receivable factoring program and increases in customer days sales outstanding. The increase in inventory and accounts receivable was partially offset by improvements in accounts payable days to pay. The cash generated by earnings was attributable to improvements in gross profit and lower interest expense, partially offset by increases in SG&A.

Investing Activities

Cash (used for) investing activities was \$(171,086) thousand during the year ended 2018, a decrease of \$29,870 thousand, from \$(200,956) thousand during the prior year period. The decrease was driven by GE Transportation's purchase of a 50% interest in locomotive manufacturer Lokomotiv Kurastyru Zauyty (LKZ) in 2017 partially offset by asset purchases related to legal entity restructuring in preparation for disposition. Similarly, there were less proceeds generated from disposition of property, plant and equipment in 2018 compared to 2017.

Financing Activities

Cash provided by financing activities was \$9,950 thousand during the year ended 2018, an increase of \$181,012 thousand, from \$171,062 thousand during the prior year period. The increase was primarily due to a reduction of \$177,845 thousand of transfers received from GE when compared to the year ended 2017 in addition to dividends paid to noncontrolling interest holders, partially offset by lower repayment of loans in 2018 compared to 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Operating Activities

Cash provided by operating activities was \$322,004 thousand during the year ended December 31, 2017, a decrease of \$531,708 thousand, from \$853,712 thousand during the year ended December 31, 2016. Earnings before income taxes was down \$275,118 thousand primarily due to lower North American locomotive deliveries and services volume decline. Working capital decreased by \$197,695 thousand primarily due to down payments received in prior years that were recognized as revenue in 2017.

Investing Activities

Cash (used for) investing activities was \$(200,956) thousand during the year ended December 31, 2017, a decrease of \$32,742 thousand, from \$(168,214) thousand in year ended December 31, 2016. This was mainly due to an increase in GE Transportation's non-U.S. manufacturing footprint and continued investment in GE Transportation's Digital business, partly offset by proceeds from the sale of assets as part of GE Transportation's restructuring activities.

Financing Activities

Cash (used for) financing activities was \$(171,062) thousand during the year ended December 31, 2017, an increase of \$454,524 thousand, from \$(625,586) thousand in the year ended December 31, 2016, mainly due to a substantial \$499,998 thousand reduction in payments to GE when compared to 2016. GE Transportation also made repayments of debt, which were partly offset by newly issued debt.

Indebtedness

As of December 31, 2018, GE Transportation's borrowings consisted principally of short-term credit facilities.

Unsecured loan facility

In September 2017, GE Transportation entered into an unsecured loan facility agreement with Wipro GE Healthcare Private Limited to fund various ongoing projects and operational requirements. The loan had a total disbursement value of \$68,703 thousand, disbursed in three tranches. As of December 31, 2017, the first two tranches had been disbursed with a total value of \$44,256 thousand. The final tranche was disbursed in the first quarter of 2018. The loan carries an 8% annual interest rate, compounded quarterly and matures in three tranches due October 2019, November 2019, and January 2020. However, under the terms of the merger agreement, this loan was settled in November 2018 in anticipation of the closing of the Proposed Transaction.

Off Balance Sheet Obligations

As of December 31, 2018 and 2017, the Business has off-balance sheet credit exposure for bank guarantees of approximately \$468,830 thousand and \$532,196 thousand, respectively. These balances represent the notional amount of bank guarantees obtained in the normal course of business from non-affiliated third party financial institutions to guarantee the Business's own performance on contracts with customers and suppliers. In the event nonperformance by the Business results in a customer or supplier drawings on the guarantee, the Business would be secondarily liable. Historically, the Business has not experienced any losses on these credit exposures.

Contractual Obligations, Commitments and Contingencies

Future minimum lease payments on non-cancelable operating lease arrangements, net of amounts due under subleases, as of December 31, 2018, consist of the following:

In thousands	Contractual Obligations	Total	Payment Due by Period			
			Less than 1 year	1-3 years	3-5 years	More than 5 years
	Operating Leases	\$ 83,105	14,353	22,450	16,144	30,158

GE Transportation did not enter into any additional material operating leases during the year ended December 31, 2018. Additionally, GE Transportation did not enter into any significant capital leases during the three years ended December 31, 2018.

Quantitative and Qualitative Disclosure About Market Risk

GE Transportation's business involves buying, manufacturing and selling components and products across global markets. These activities expose GE Transportation to changes in foreign currency exchange rates and commodity prices which can adversely affect revenues earned and costs of its operating businesses. When the currency in which equipment is sold differs from the primary currency of the legal entity and the exchange rate fluctuates, it will affect the revenue earned on the sale. These sales and purchase transactions also create receivables and payables denominated in foreign currencies and exposure to foreign currency gains and losses based on changes in exchange rates. Changes in the price of raw materials used in manufacturing can affect the cost of manufacturing, including any potential change in tariffs and free trade agreements. GE Transportation uses derivatives to mitigate or eliminate these exposures, where appropriate. Most derivative activity consists of currency exchange and commodity contracts.

Critical Accounting Estimates

The preparation of combined financial statements in conformity with U.S. GAAP requires GE Transportation's management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of any contingent assets or liabilities at the date of these combined financial statements and the reported amounts of revenue and expenses during the reporting period. GE Transportation bases its estimates and judgments on historical experience and on various other assumptions and information that it believes to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty, and accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as GE Transportation's operating environment changes. While GE Transportation believes that the estimates and assumptions used in the preparation of these combined financial statements are appropriate, actual results could differ from those estimates.

Estimates are used for, but are not limited to, determining the following: estimates of variable revenues and/or costs on long-term revenue generating contracts, recoverability of long-lived assets and inventory, valuation of goodwill; useful lives used in depreciation and amortization; income taxes and related valuation allowances; accruals for contingencies including warranties; actuarial assumptions used to determine costs on employee benefit plans, valuation assumptions for long term stock-based compensation expense, valuation and recoverability of receivables, valuation of derivatives and the fair value of assets acquired and liabilities assumed in acquisitions.

Revenue from contracts with customers

Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, (ASC 606), requires GE Transportation to make certain estimates that affect the amount and timing of revenue recognized in a given period, primarily related to equipment and service contracts that are recognized on an overtime basis (refer to Note 2 and Note 3 to GE Transportation's audited financial statements included elsewhere in this current report on Form 8-K for further discussion of GE Transportation's accounting policy for these contracts). The most critical estimates relevant to GE Transportation's revenue accounting are related to GE Transportation's long-term CSAs as discussed below.

GE Transportation enters into CSA contracts with GE Transportation's customers, which require GE Transportation to provide preventative maintenance, asset overhaul / updates, and standby "warranty-type" services that include certain levels of assurance regarding asset performance and uptime throughout the contract periods, which generally range from 5 to 25 years. Contract modifications that extend or revise contract terms are not uncommon and generally result in GE Transportation's recognizing the impact of the revised terms prospectively over the remaining life of the modified contract (i.e., effectively like a new contract). GE Transportation's revenue recognition on CSAs requires estimates of both customer payments expected to be received over the contract term as well as the costs expected to be incurred to perform required maintenance services. GE Transportation routinely reviews estimates under product services agreements and regularly revises them to adjust for changes in outlook as described below.

GE Transportation recognizes revenue as it performs under these arrangements using an over-time accounting model based on costs incurred relative to total expected costs. Throughout the life of a contract, this measure of progress captures the timing and extent of GE Transportation's underlying performance activities as GE Transportation's stand-ready services often fluctuate between routine inspections and maintenance, unscheduled service events and major overhauls at pre-determined usage intervals. Customers generally pay GE Transportation based on the utilization of the asset (daily billing rate per running locomotive for example) or upon the occurrence of a major event within the contract such as an overhaul. As a result, a significant estimate in determining expected revenues of a contract is estimating how customers will utilize their assets over the term of the agreement. Changes in customer utilization can influence the timing and extent of overhauls and other service events over the life of the contract.

As a result, the revenue recognized each period is dependent on GE Transportation's estimate of how a customer will utilize their assets over the term of the agreement. GE Transportation generally uses a combination of both historical utilization trends as well as forward-looking information such as market conditions, locomotive parking and potential asset retirements in developing GE Transportation's revenue estimates. This estimate of customer utilization will impact both the total contract billings and costs to satisfy GE Transportation's obligation to maintain the equipment. To the extent required, GE Transportation limits the amount of variable consideration used to estimate GE Transportation's transaction price such that it is improbable that a significant revenue reversal will occur in future periods.

To develop GE Transportation's cost estimates, GE Transportation considers the timing and extent of future maintenance and overhaul events, including the amount and cost of labor, spare parts and other resources required to perform the services. In developing GE Transportation's cost estimates, GE Transportation utilizes a combination of GE Transportation's historical cost experience and expected cost improvements. Cost improvements are only included in future cost estimates after savings have been observed in actual results or proven effective through an extensive regulatory or engineering approval process.

GE Transportation regularly assesses customer credit risk inherent in the carrying amounts of receivables and contract assets and estimated earnings, including the risk that contractual penalties may not be sufficient to offset GE Transportation's accumulated investment in the event of customer termination. GE Transportation gains insight into future utilization and cost trends, as well as credit risk, through GE Transportation's knowledge of the installed base of equipment and the close interaction with GE Transportation's customers that comes with supplying critical services and parts over extended periods.

Long-lived assets

GE Transportation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which undiscounted cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. GE Transportation derives the required undiscounted cash flow estimates from GE Transportation's historical experience and GE Transportation's internal business plans. To determine fair value, GE Transportation uses quoted market prices when available, GE Transportation's internal cash flow estimates discounted at an appropriate discount rate and independent appraisals, as appropriate.

See Note 2 to GE Transportation's audited financial statements included elsewhere in this current report on Form 8-K for further information on impairment losses.

Goodwill and other identified intangible assets

GE Transportation tests goodwill for impairment annually each year. The impairment test consists of two steps: in step one, the carrying value of the reporting unit is compared with its fair value; in step two, which is applied when the carrying value is more than its fair value, the amount of goodwill impairment, if any, is derived by deducting the fair value of the reporting unit's assets and liabilities from the fair value of its equity, and comparing that amount with the carrying amount of goodwill. GE Transportation determines fair values for each of the reporting units using the market approach, when available and appropriate, or the income approach, or a combination of both. GE Transportation assesses the valuation methodology based upon the relevance and availability of the data at the time GE Transportation performs the valuation. If multiple valuation methodologies are used, the results are weighted appropriately.

Valuations using the market approach are derived from metrics of publicly traded companies or historically completed transactions of comparable businesses. The selection of comparable businesses is based on the markets in which the reporting units operate giving consideration to risk profiles, size, geography, and diversity of products and services. A market approach is limited to reporting units for which there are publicly traded companies that have the characteristics similar to GE Transportation's businesses.

Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. GE Transportation uses its internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on GE Transportation's most recent views of the long-term outlook for each business. Actual results may differ from those assumed in GE Transportation's forecasts. GE Transportation derives its discount rates using a capital asset pricing model and analyzing published rates for industries relevant to GE Transportation's reporting units to estimate the cost of equity financing. GE Transportation uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in GE Transportation's internally developed forecasts.

Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. It is reasonably possible that the judgments and estimates described above could change in future periods.

GE Transportation reviews identified intangible assets with defined useful lives and subject to amortization for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. GE Transportation tests intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows.

See Notes 2 and 8 to GE Transportation's audited financial statements included elsewhere in this current report on Form 8-K for further information.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill*. This ASU simplifies the measurement of goodwill impairment to a single-step test. The guidance removes step two of the goodwill impairment test, which requires a hypothetical purchase price allocation, and will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Under the revised guidance, failing step one will always result in goodwill impairment. The new guidance is effective for annual and interim goodwill impairment tests beginning after December 15, 2019 and early adoption is permitted. GE Transportation is currently evaluating the impact of the adoption of ASU 2017-04 on GE Transportation's combined financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for loans and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models under current U.S. GAAP, which generally require that a loss be incurred before it is recognized. The new standard will also apply to receivables arising from revenue transactions such as contract assets and accounts receivables and is effective for fiscal years beginning after December 15, 2019. GE Transportation continues to evaluate the effect of the standard on GE Transportation's combined financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, creating ASC Subtopic 842, *Leases*. ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to present a right-of-use asset and a corresponding lease liability on the balance sheet. Lessor accounting is substantially unchanged compared to the current accounting guidance. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and for the interim and annual reporting periods thereafter, with early adoption permitted. We are planning to elect the new transition method approved by the FASB on July 30, 2018, which allows companies to apply the provisions of the new leasing standard as of January 1, 2019, without adjusting the comparative periods presented by recognizing a cumulative-effect adjustment to the opening balance of retained earnings. We are currently in the process of accumulating and evaluating all the necessary information required to properly account for our lease portfolio under the new standard. Additionally, we are implementing an enterprise-wide lease management system to support the ongoing accounting requirements. Development and testing of our selected systems solution is ongoing. Our Parent is working closely with the software system developer as the timely readiness of the lease software system is critical to ensure an efficient and effective adoption of the standard. We are evaluating additional changes to our processes and internal controls to ensure we meet the standard's reporting and disclosure requirements. While we continue to evaluate the effect of the standard on our combined financial statements, the adoption of the ASU will result in the recognition of a right of use asset and related liability in the Combined Statement of Financial Position upon adoption.