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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions) My name is Brandon, and I'll be your conference facilitator today. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Steve Winoker, Vice President of Investor Communications. Please go ahead, sir.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thanks, Brandon, and good morning, and welcome to GE's Fourth Quarter Earnings Webcast. I'm joined by our Chairman and CEO, Larry Culp; and CFO, Jamie Miller. Before we start, I'd like to remind you that the press release, presentation and supplemental have been available since earlier today on our investor website at www.ge.com/investors.

Please note that some of the statements we're making today are forward-looking and are based on our best view of the world and our businesses as we see them today. As described in our SEC filings and on our website, those elements can change as the world changes.

And now I'll turn the call over to Larry.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Thank you, Steve. Good morning, everyone, and thank you for joining us. Our comments are going to be a bit longer than usual this morning to help you understand where we are and where we're going. But rest assured, we'll leave us much time as we can for questions at the end.

First, I'd like to start by welcoming Steve to the GE team. I've known him for over a decade. Steve's already had positive impact here at GE, and I'm sure he'll do the same for you, our investors, going forward.

I'm here today because I believe in GE. There is no company on earth with the scale of GE's global reach, brand, talent and long-term customer relationships. We have leading technology in key infrastructure markets with high barriers to entry and strong aftermarket streams. We're poised to capture recurring revenues on a global installed base of almost 70,000 engines, more than 7,000 gas turbines and aeroderivatives, more than 40,000 onshore wind turbines and more than 4 million Healthcare Systems. In short, GE matters.

We've identified clear opportunities to improve our performance, and we are working to address them at root cause. We have the right portfolio strategy, and I'm confident the company is capable of gaining profitable share and creating long-term value for our shareholders.

So let me cover where we stand on providing an outlook. Then I'll address some of the company changes, followed by updates on our results, the balance sheet, Capital and Power. Jamie will take you through more details on the quarter, and then I'll wrap with some metrics and comments to help you frame the outlook for 2019 before Q&A.

Let's start with the outlook because investors want to know how we expect to perform financially, and you should expect to come from a place of reality. Simply put, the how much is important, but the how is far more fundamental. We have good line of sight in most of our businesses today, including Aviation and Healthcare. For the industrial portfolio in total, we will provide you with our outlook for organic growth, and we'll do so directionally on operating margins and free cash flow. We will give you a more detailed outlook in the near term, but not today.

For Power, we are resetting the baseline. We are reviewing every single project and contract and digging deeper to understand costs and benefits with respect to restructuring, market and commercial execution, improvement opportunities, legacy project issues and our service operations.

We're gaining more meaningful insight into the paths for near and long-term earnings and cash potential of this business. This work takes time, especially with the new structure and leadership team.

In the spirit of providing you with all the information we have as soon as we have it, I'll speak to what I have found over the last 120 days. We were executing against the key priorities we laid out in June and again in October, simply put, deleveraging the balance sheet and strengthening our businesses, starting with Power.

Remember, beyond Power, it's important to recognize the underlying strengths in our businesses with the stories about enhancing our competitive advantage and delivering for customers and shareholders.

With respect to deleveraging, we've taken the following actions: We reduced the quarterly dividend, retaining $4 billion per year; accelerated the sale of a portion of our BHGE ownership stake, raising $3.7 billion; and changed the structure of our transaction with Wabtec, enabling us to retain an incremental $2 billion stake. We're demonstrating our seriousness and the flexibility with respect to our decisions to recut the BHGE and Wabtec deals in particular. We closed Distributed Power for $2.8 billion of net cash in the quarter. For the year, we signed or completed substantially all of our $20 billion industrial asset sale plan, which had targeted roughly $10 billion in proceeds. We also announced the sale of ServiceMax in the fourth quarter. We completed $8 billion of capital asset sales and other actions in the quarter, bringing our total for the year to $15 billion, which were executed at book value or better. We're more than halfway through the total $25 billion capital asset sale program, which we expect to complete this year.

Today, we have announced that we've reached an agreement in principle with the United States Department of Justice to settle the FIRREA investigation of WMC. GE will pay the United States a civil penalty of $1.5 billion, consistent with our reserve accorded for this matter in the first quarter of last year.

We've taken the following actions to strengthen our businesses: In 2018, our Corporate headquarters cost was $1.2 billion, down $400 million from $1.6 billion in 2017. We have begun transferring a significant portion of headcount and activities that were previously managed at Corporate to the segments or to third parties with over 6,500 full-time employees transferred to date. We're confident that as we move more activity and headcount closer to those that are directly accountable, we will see additional savings. Good examples include the recently announced agreement with Genpact around our global operations activities and the delayering and reorganization of our Global Growth Organization.

Our changes in Power follow a similar approach. We have $1.6 billion of cost at Power headquarters and expect to reduce that amount by $300 million for the headquarter's overhead functions. And as we distribute the remaining cost to the business units, we expect that they will find additional savings over time.

We announced this week that we will be delayering the headquarter levels at Renewable Energy and yesterday, announced that we are bringing GE's Grid, Solar and storage assets into that business, creating an end-to-end offering for Renewables customers as the demand for renewable power generation and grid integration continues to grow globally.

We're strengthening our senior team. We've brought in fresh eyes that are already having an impact. We're combining new perspectives from strong external talent, proven GE leaders with domain expertise and entrepreneurial spirit, next-gen thinkers as well as leaders with deep customer relationships.

From a governance perspective, Paula Reynolds joined of our Board of Directors, bring extensive experience in both the Energy and Insurance industries. The majority of our directors now are new since 2017, and I'm finding the board deeply engaged in all matters of our business. Our Audit Committee also announced that they will move forward with the tender process for the appointment of GE's independent audit firm.

And finally, we announced our plan to combine the digital businesses into an independently operated IOT software business, with employee equity, a separate board and the ability to raise capital and operate like a start-up. We're on the precipice of something great, rooted in 100 years of domain and hardware expertise and grown out of our digital DNA over the last several decades.

As my friend Jim Collins of "Good to Great" fame might say, "It's a start." But we have much more work to do. So let me now share with you how I've talked with our team about how we will do it.

Number one is managing first and foremost for operational performance. Preparing for the earnings call, my first month on the job showed me that we often start with corporate and bring in the business leaders, including the CEO, later. We turned that around this quarter, holding operating reviews first and then preparing for this call. Those reviews were tightly focused on how we do and how do we get better, more so than how do we explain what just happened.

Let me give you an example. Previous P&L reviews focused on revenue, contribution margin and base cost and then, of course, operating profit, the same high-level framing I saw in the board room. No more. We now get into much more operating detail: volume; price; mix; material and labor productivity; overhead and operating expenses, like R&D, sales and marketing and G&A, all of which are critical to understanding and then improving the business.

The second is a focus on putting our customer at the center of all we do. Over the past few months, I've spent time with our customers in China, the Middle East, Europe and here, in the U.S. I've learned that what they value is not always aligned with how we measure our own performance. Take quality. When I ask you about quality internally, I often hear about our cost of quality, which measures our issues rather than how the customer experiences us. We're shifting our perspectives so that we understand and measure ourselves the way customers do and work backwards from there.

The third area is having fewer and more impactful priorities. GE has ambition like no other company I've ever seen, and that's mostly a good thing. But we need to focus our attention to more of the things that matter most so we can move them the furthest. At a company level, we've committed to the 2 priorities I mentioned earlier: Deleveraging the balance sheet; and strengthening the businesses, starting with Power.

I'd now like to address some of the areas of importance that are high on my priority list. First, our high-level financial results. We ended the year with adjusted EPS of $0.65. GAAP EPS of negative $2.43 and industrial free cash flow of $4.5 billion. Our backlog stands at $391 billion, up 5% year-on-year with equipment at $89 billion, up 4%; and service at $302 billion, up 5%.

For the fourth quarter, our industrial free cash flow was $4.9 billion. While cash flow was negatively impacted by the weakness in Power, we were encouraged by the strong cash generation in the other businesses. We delivered adjusted EPS of $0.17 and GAAP EPS of $0.08. Jamie will take you through all this in more detail in a moment.

Next, to the balance sheet. As I stated already, we are reducing our debt levels, both at Industrial and GE Capital. We know full well that our shareholders own all debt obligations across GE, but these are 2 distinct sets of businesses with different financing needs and different capital structures and, therefore, we analyze their leverage separately.

In Industrial, we are targeting a net debt-to-EBITDA ratio of less than 2.5x over the next few years. Our Healthcare, Transportation and BHGE separations can provide sources of roughly $50 billion toward that goal. Our Healthcare team continues to prepare for public company separation, and that is progressing very well. We expect to monetize up to just under 50% of our Healthcare business. I talked earlier to the GE Transportation merger with Wabtec and the amended terms to increase our cash proceeds, and we will sell down our remaining 50% ownership in BHGE in an orderly manner over time, building on the actions we took in November. Overall, our liquidity position remains strong with $16.8 billion of industrial cash and funding lines of $40 billion.

Now on Capital, we are targeting a debt-to-equity ratio of less than 4x by 2020. In 2018, we paid down Capital's external debt balance by $21 billion, and we executed $15 billion in asset sales at book, more than half of our $25 billion asset disposition program. Capital ended the year with $124 billion of assets, including $15 billion of liquidity in line with our goal to materially shrink this business. To be clear, we have no plans to sell GECAS.

We expect to contribute approximately $4 billion of parent support in 2019. We've listened to you on the insurance front, and we're preparing increased disclosures in line with peers, which will be available with our 10-K release. Jamie will cover some of that detail shortly.

And then finally on Power. Let me share with you the root causes of our underperformance as I see them today and the actions we're taking to address each one.

First, as I said last quarter, we were late to embrace the realities of the secular and cyclical pressures in the business. Recent data suggest that the market for new generating capacity is settling in to the 25 to 30 gigawatt range for the foreseeable future. We continue to believe gas will play an important role in global electrification, but we have to resize our cost structure, our capital expenses and our supply chains to this new reality now.

As a result, last year, we reduced headcount by 10,000 or 15% in the business, consolidated our footprint by 30% and took out $900 million of base cost exiting at a $1 billion lower run rate. Embracing market reality means a more appropriate revenue outlook, one that is further grounded in the reality of our $92 billion backlog rather than in the hope of new orders not yet won.

Second, Power faces a number of nonoperational headwinds, and we expect a high water mark in this regard this year. These include legal settlements and legacy project erosion, principally driven by the Alstom acquisition. There's also the runoff of the effects of past long-term receivables factoring and other programs. Over the next few years, these effects should come down substantially.

Third, we need to execute better. Running Power better means improved daily management in how we sell, make and service our products. Let me give you a few examples. We had separate teams of managers commissioning new plants, owning the warranty period and overseeing the services contracts after the warranty. Now we present one face to the customer, who is accountable for the best long-term economic answer, both for the customer and GE. We put the sales organization under one leader with deep domain expertise and we are coordinating better on contract negotiations. We now have more experienced people owning negotiations and responsible for project cost. We performed risk assessments of our existing 400 equipment contracts to identify cost and execution risks. We also performed a similar assessment on the 750 CSA contracts to identify price and utilization risk. We have overhauled our commercial underwriting processes to set more realistic commitments and returns from the start.

This is hard work, but I'm encouraged by the Power's team's dedication to proactively address these issues at their root cause. Fixing Power will take time and in turn, will take time for the changes we're making to our daily operations to be reflected in our financial results. But we are improving and I'm confident that those changes will come. As I've met with customers around the world, I've really been struck by their sentiment. They're rooting for us. They want us to succeed, and they want to know how they can help.

So in summary, we're taking action, taking action on the priorities we laid out to you, deleveraging our balance sheet and strengthening our businesses starting with Power.

Jamie will now take you through the detailed financial results.

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

Thanks, Larry. I'll start with the fourth quarter summary. Orders were $34.1 billion, down 1% reported and up 4% organically, with particular strength in equipment orders, up 7% organically, driven by Aviation commercial engines and Renewables. The services orders were up 1% organically.

Revenues were up 5%. Industrial segment revenues were up 2% reported and 8% organically, driven by Renewables, Aviation, Oil & Gas, Healthcare and Transportation.

Equipment revenues grew 10%, and services were up 6% organically. Industrial profit margins were 7.5% in the quarter, down 150 basis points year-over-year on a reported and organic basis, driven by significant declines in Power and Renewables.

For the year, margins were down 80 basis points organically. Industrial profit was down 16% in the quarter with Aviation, Healthcare and Baker Hughes GE all delivering strong profit growth, offset mostly by Power. Specifically, Aviation had another outstanding quarter and year, expanding total year margins while shipping over 1,100 LEAP engines.

Net earnings per share was $0.07, which includes losses from discontinued operations related to GE Capital. GAAP continuing EPS was $0.08, and adjusted EPS was $0.17. I'll walk the GAAP continuing EPS to adjusted EPS on the right side of the page.

Starting from GAAP. Continuing EPS was $0.08, and we had $0.06 of gains, principally from the sale of Distributed Power. And as you will recall, in the third quarter, we booked a $22 billion impairment charge related to Power goodwill based on our best estimate at that time. And during the fourth quarter, we finalized our analysis and booked an incremental $69 million charge for Power, following the third quarter charge. We also recorded a goodwill impairment charge of $94 million in Renewables at our hydro business. Combined, these charges were a $0.02 impact.

On restructuring and other items, we incurred $0.07 of charges, principally at corporate and Power as we continue to resize those segments in line with our stated plan, including $0.02 of charges related to business development transaction expenses and $0.01 for our share of Baker Hughes GE's restructuring.

Lastly, we realized a $0.01 negative impact from U.S. tax reform as we updated our estimate of the transition tax and other aspects of the enactment of the new law. Our current accrual reflects the effects of tax reform enactment based on guidance issued through year-end. Excluding these items, adjusted EPS was $0.17 in the quarter.

Moving to cash. Adjusted industrial free cash flow was $4.9 billion for the quarter, $1.9 billion lower than the prior year, driven primarily by lower progress collections. Income depreciation and amortization totaled $2.3 billion Working capital was positive $2.3 billion for the quarter as we reduced over $1 billion of inventory on higher fourth quarter volume and grew progress collections by $500 million, primarily in Renewables, from strong PTC-driven orders.

Contract assets were a source of cash of $900 million as we saw higher services billings in Aviation, driven by higher fleet utilization and spare parts consumption from strong air traffic. And we spent about $1 billion in gross CapEx or $600 million ex-Baker Hughes GE.

For the year, we generated $4.5 billion of adjusted industrial free cash flow, and we ended the year with higher volume in the fourth quarter as is typical for our businesses. And to provide you with more detail, Power used $2.7 billion in free cash flow for the year due to a combination of restructuring costs, nonoperational headwinds as well as execution and market issues.

Next, I'll cover liquidity. On the left side of the page, you can see the walk of the GE cash balance. We ended the fourth quarter with $16.8

billion of industrial cash in the bank, excluding Baker Hughes GE. And for the total year, we had industrial free cash flow of $4.5 billion. We paid dividends of $4.2 billion. And as of the first quarter of '19, you'll recall that the dividend is decreasing to $0.01 per share per quarter, which will preserve about $4 billion of cash in 2019.

We generated cash proceeds of $5.9 billion net of taxes related to our industrial dispositions, principally Industrial Solutions, Value-Based Care and Distributed Power. And together with Wabtec, that gets to the more than $10 billion we had talked about previously.

Earlier in the year, we assumed $6 billion of debt from GE Capital to fund the principal pension plan, which was completed in the third quarter. Alstom and GE exercised their JV redemption rights and call options, which we settled for $3.1 billion in the fourth quarter. These entities operate at a loss. So the consolidation of 100% of the financials negatively impacted fourth quarter and will be an income headwind for us of about $300 million in 2019.

We also completed a secondary offering for approximately $100 million Baker Hughes GE shares as well as a direct stock buyback with Baker Hughes GE for 65 million shares, bringing our ownership stake to 50.4% in the fourth quarter. These actions, combined with other Baker Hughes GE buybacks during the year, totaled $4.4 billion in cash proceeds. The $2.5 billion of other cash includes a number of items, including about $900 million of investments in our Aviation business, primarily from the first half of the year; $900 million of short data derivative hedge settlements that we used to mitigate risk across the portfolio; and $400 million of FX translation on our non-U. S. dollar-denominated cash.

Running with a higher cash balance will help us address intra-quarter funding needs. In line with our goal to reduce reliance on short-term funding, peak short term funding needs declined from $19.7 billion in the fourth quarter of '17 to $14.8 billion in the fourth quarter of '18. These were funded with commercial paper and some utilization of our credit facilities. As we execute dispositions in 2019, we expect our intra-quarter funding needs to continue to decline, and we'd expect to use a mix of commercial paper, credit facilities and excess cash at GE Capital to efficiently fund these needs.

At the end of the year, commercial paper outstanding was $3 billion, and we had access to $40 billion of committed revolving credit facilities with zero drawn. These lines are available to draw at any time, and they don't have financial covenants, ratings triggers or material adverse change clauses.

As you know, our credit rating was downgraded from A to BBB+ with a stable outlook in early fourth quarter. This impact has been manageable with less than $15 million of collateral posting and a smooth transition to a Tier 2 commercial paper program. We continue to target a sustainable rating in the single A range.

Now I'll take you through financial policy and leverage. We remain committed to our financial policy of a target single-A rating, a leverage level of less than 2.5x net debt-to-EBITDA and ultimately, a dividend level in line with our peers.

Deleveraging both GE and GE Capital is a priority, and we have significant sources to achieve our goals. As Larry mentioned, we view these businesses differently, with different balance sheets and capital structure needs and, therefore, we analyze their leverage separately. Our goal is leverage for the GE Industrial businesses of less than 2.5x net debt-to-EBITDA. We plan to make significant progress towards this goal by the end of 2020. And as a reminder, when we speak about net debt, we're talking about debt adjusted for pensions, operating leases and a portion of preferred stock and cash. Measured on this basis, GE Industrial net debt at the end of 2018 was $55 billion.

As we look out over the next couple of years, we expect to have roughly $50 billion of industrial sources that can be used to delever and derisk the company. These sources include $18 billion of debt and pension transfer to Healthcare and more than $30 billion of cash proceeds from the monetization of up to just under 50% of Healthcare, 100% of our remaining stake in Baker Hughes GE and our stake in Transportation. These sources will be used in part to reduce GE net debt by more than $30 billion, including repaying a significant part of the $14 billion of debt transferred from GE Capital and reducing commercial paper. The parent also plans to contribute $4 billion to GE Capital in 2019 to maintain adequate capital levels there.

At GE Capital, we have a plan to reduce our debt to equity ratio to less than 4x by the end of 2020. GE Capital began the quarter with $70 billion of debt and ended with $66 billion, while our total assets measure $124 billion.

For the year, we made significant progress at GE Capital, paying down $21 billion of external debt, taking down leverage by 1.4 turns, including reducing commercial paper from $5 billion to zero. GE Capital ended 2018 with $15 billion of liquidity.

Over the next 2 years, we expect to generate additional sources of cash from asset sales, including $10 billion in 2019 from completing our GE Capital $25 billion asset reduction plan. We'll have cash from the pay down of most of the debt transferred to GE and capital support from GE. We have reached an agreement in principle on WMC that we expect to conclude expeditiously. And in 2019 to 2020, GE Capital will pay down $25 billion of scheduled debt maturities and continue to contribute about $2 billion per year of capital to our insurance businesses as previously disclosed. We now don't expect to issue new debt until 2021.

We are planning approximately $4 billion of capital contributions to GE Capital in 2019. This includes $1.5 billion for the WMC agreement in principal announced today and ensuring we have adequate risk-based capital levels for our current portfolio.

Going forward, we anticipate funding any insurance capital requirements or strategic options through a combination of GE Capital earnings, asset sales, liquidity and GE parent support. While we have more work to do, we continue to make progress in strengthening the balance sheet.

Next, on Power. Orders were down 19% in the quarter. Gas Power System orders were down 26%. For the year, Gas Power Systems orders were down 40%. We ended the year with a $9 billion backlog, which was down 8% year-over-year. This is consistent with our outlook for a 25 to 30 gigawatt market for the foreseeable future.

Power Services orders were down 20%. Steam orders were up 61%, and Grid orders were down 13% for the year. Power revenue was down 25%. Gas Power Systems revenues were down 21%. Power Services revenue was also down 21%.

During the quarter, we took $400 million of charges related to our CSA contracts, which impacts revenue. Excluding these charges, Power Services revenue was down 11%. Steam revenue was down 30% on lower Americas and Europe volume, and Grid was flat.

Moving to profit. The segment lost $872 million in the fourth quarter. We performed our normal CSA review, and while total utilization on the book is flat, we have seen lower utilization on some of our units in some geographies and some pricing pressure in contracts relative to ongoing market dynamics. And we updated our assumptions to reflect a revised outlook in these areas.

In addition, we had our normal cost standard updates, which included updates to our cost standards, including the impact of the stage 1 blade issue, as expected. This resulted in the $400 million of charges that I previously mentioned.

In addition, we also incurred about $350 million of costs related to Gas Power Systems projects. Similar to the third quarter, we continue to experience project execution issues resulting in liquidated damages as well as partner execution issues. Grid profit was down year-over-year, impacted negatively by the buyout of the Alstom share of the JV.

These items had a significant impact on Power's results. And overall, we see the heavy duty gas turbine market as flat over the next few years and see significant opportunity to improve our own execution.

Next on Aviation, which had another great quarter. Orders of $8.8 billion were up 12%. Equipment orders grew 20%, driven by continued strong momentum of the LEAP engine program, up 56% versus prior year. Military engine orders were up 69%, driven by the F414, and service orders grew 7%. Revenues of $8.5 billion grew 21%. Equipment revenues were up 13% on higher commercial engine, partially offset by lower military volume.

Specifically, we shipped 379 LEAP engines this quarter, up 177 units year-over-year. And in total, we shipped 1,118 LEAP engines for the year. We're still behind on deliveries by about 4 weeks, but the business expects to be back on schedule by mid-2019.

Services revenue grew 26% with spares rate, up 10%, driven by higher fleet utilization and spare parts consumption from strong air traffic. Segment profit of $1.7 billion was up 24% on higher volume, improved price and operating productivity. And compared to the fourth quarter of last year, we shipped almost 90% more LEAP engines. Despite the negative mix from higher LEAP shipments, operating profit margins of 20.4% expanded 60 basis points in the quarter and 130 basis points for the year.

The LEAP engine continues to perform very well with a 58% win rate on the A320neo family and 81% win rate in the narrow-body segment when you add in Boeing 737 MAX and Comac C919. Utilization rates are over 95%. We continue to improve the cost position of the LEAP, and over the last 2 years, we've taken out more than 40% of the cost of the engine and are ahead on the learning curve initially laid out for the program. The overall program will break even around 2021.

Now I'll provide some additional transparency on the engine transition in the narrow-body market. The mixing from CFM56 to LEAP resulted in a margin drag of approximately 160 basis points in 2018 and 130 basis points in the quarter. The business is successfully offsetting this margin pressure through continued growth in aftermarket services, military and changing the mix of company-funded R&D spend. In summary. Another strong year for David and the Aviation team.

In Renewables, Renewables orders were up 19% versus prior year, driven by Onshore equipment up 9%; and services, up 32% on strong repower units. We shipped 44% more megawatts in onshore wind and saw strong orders, booking 3 gigawatts in the fourth quarter and 8.6 gigawatts for the year, and we gained share.

Revenues of $3.4 billion were up 28%, mainly driven by Onshore wind of 34% on both higher new unit shipments and repowering volume. Segment margin of 2% was down 330 basis points for the quarter, and profit of $67 million was down 51%, mainly driven by negative price; liquidated damages for execution delays on a handful of complicated projects, including some legacy Alstom projects; and higher losses in hydro and offshore as we began fully consolidating these entities in the fourth quarter. The consolidation presented a headwind of about 220 basis points.

Recall that we had to book loss reserves at the time of the Alstom deal, and we continue to burn through the negative cash flow impact of those projects. The business has seen favorable cash tailwinds from the PTC cycle, pricing is improving and we continue to see strong product cost reductions. And while we're seeing some adverse impacts from tariffs, we're working to mitigate them with pricing and supply chain actions.

For Healthcare, orders of $5.8 billion were up 2% organically. On a product line basis, Life Sciences orders were up 13% organically, with Bioprocess, up 20%. Healthcare Systems orders were down 1% organically, which was about what we expected as we were comping a very strong fourth quarter in 2017.

Revenue of $5.4 billion was up 6% organically. Healthcare Systems revenue grew 4% organically, and Life Sciences was up 10%. Segment margin was 21.8%, expanding 10 basis points reported and 110 basis points organically, which excluded costs incurred in preparation for a separation in 2019.

Profit was $1.2 billion, up 2% on a reported basis and 12% organically. Organic profit growth was driven by volume and cost productivity, partially offset by inflation, price and higher program investments. As the Healthcare team continues to prepare for separation, they closed out a solid year.

Moving to Oil & Gas. Baker Hughes GE released its financial results this morning, and Lorenzo and Brian will hold their earnings call with investors today following ours.

Next, for Transportation and Lighting. Since we last spoke in October, we signed an agreement to sell Current to American Industrial Partners, and the Justice Department has closed its review of the pending merger between GE Transportation and Wabtec. Last week, we also announced amended transaction terms to further support our deleveraging plan. GE will increase its stake in Wabtec from approximately 10% to approximately 25%, resulting in increased cash proceeds of approximately $2.2 billion as we sell down our stake. We will still receive $2.9 billion in cash from Wabtec at closing, and both transactions are expected to close in early 2019, subject to customary closing conditions.

Finally, I'll cover GE Capital. Net loss from continuing operations was $86 million in the quarter, including a tax reform adjustment of negative $128 million. Adjusted continuing net income was $43 million. We completed our annual GAAP loss recognition testing in our runoff insurance portfolio, which resulted in an after-tax charge of about $65 million to increase reserves. As part of the test, we unlocked our future policy benefit reserve and updated key assumptions related to the book, the 2 largest drivers being the changes to our assumptions and morbidity improvement of a negative $1.2 billion, offset by discount rate impact of $1.9 billion.

Recall that statutory testing, not GAAP, drives funding. We expect to conclude the statutory testing in mid- to late February. And consistent with our existing insurance funding plan, we continue to expect required statutory funding of approximately $2 billion in the first quarter of 2019. We are managing this runoff portfolio with new management and increased board expertise and focus.

To provide additional information that further clarify our insurance obligations, we plan to include enhanced disclosures related to our insurance book in our 10-K, which will be released in mid- to late February. We'll include a wide range of items from the profile of our book, to morbidity and mortality assumptions to lapse rates, premium increases and related sensitivities.

With that, I'll turn it back over to Larry.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Jamie, thank you. So hopefully by now, you have a better sense of what I'm seeing at GE after nearly 4 months: our strengths, our challenges and our strategy for moving forward. I'd like to give you all the information and views on 2019 that we have today, with more to come soon.

We expect industrial organic revenue growth to be up low to mid-single digits on the back of a significant ramp in Renewables and continued strength in Aviation and Healthcare. Power will be down in a flat to slightly down market in 2019. We also expect our industrial operating margins to expand.

On free cash flow, we expect to face operating headwinds, such as the PTC progress cycle reversing in Renewables, and we will spend more cash on restructuring at both corporate and Power.

In addition, we have a number of nonrecurring investments and commitments that create a drag on our free cash flow in 2019, but which will meaningfully lessen in 2020 and '21. These include transitioning the GE Capital supply chain financing program to MUFG and reducing factoring with GE Capital, Alstom pension contributions and legal settlements and the costs related to the preparation for our Healthcare business for our public separation. We anticipate cash flow to grow substantially in 2020 and 2021 as we make significant headway in addressing legacy and structural issues, while simultaneously realizing the benefits from restructuring and stronger daily management of our businesses, particularly in Power.

In Aviation, we see 75% to 80% of the 2019 commercial engine revenues secured in the backlog, with a largely recurring service revenue stream of approximately $15 billion. We are maintaining margin levels consistent with pre-LEAP periods despite mix changes with a healthy new order book. With these in mind, we see high single-digit revenue growth and low single-digit profit growth.

In Healthcare, we expect organic growth in margins in a similar range to last year. We see double-digit revenue growth in Renewables. The business is coming through the PTC cycle in onshore wind, which contributed to strong cash performance in 2018 as a result of progress build. That progress cycle will begin reversing this year as we transition to factory production and book revenue against those contracts. However, we see price declines moderating and within the level of our product cost reduction efforts going forward.

This is our baseline today for 2019 as our plan continues to evolve. As we develop more conviction around the cash flow situation at Power, we will update you in the near term with respect to the outlook for the full year.

So my message for 2019 is that the more stable businesses of Aviation and Healthcare are healthy and growing. Renewables is moving through the PTC cycle. We are working on Power and Capital is shrinking. 2019 is still very much a work in progress, but the company is becoming stronger.

As I said earlier, the how much is important here, but the how is far more fundamental. How is about understanding and fixing problems at root cause. How is about process, not for processes sake, but to ensure the sustainability of our results to create enduring shareholder value. I'm proud of the momentum I see across this company and the changes we're making to strengthen GE for the long run.

With that, we'll open it up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from Wolfe Research, we have Nigel Coe.

Nigel Edward Coe ***Wolfe Research, LLC - MD & Senior Research Analyst***

Lots of questions. I mean, I'm sure a lot of my questions will be picked up by the other analysts. But I just want to start on -- it sounds like your plans on Healthcare now are pretty defined, Larry. It looks like you're looking to monetize 50%, putting in $18 billion of pension debt via an IPO-type process. Is that now defined? Or are there still some moving pieces on that process?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I think we've talked about that separation as the plan of record, and that continues to be the case today. The team is very well along, Nigel, with respect to the preparation for a flotation. We don't have a time frame per se to share with you today, but we are spending a significant amount of money in '19, as we did last year, in preparation. We're, obviously, proud of what Kieran and the team are doing here, very strong top line earnings and cash performance. And we think this is a business of that is going to be a strong, resilient performer through cycles. So that is the plan.

Nigel Edward Coe ***Wolfe Research, LLC - MD & Senior Research Analyst***

Okay. And then my follow on would be, you gave a lot of detail on what you've been doing for the last few months and lots of opportunities for improvement. One thing you didn't really touch on was pricing and pricing excellence. And your one criticism of GE in the past has been maybe trading price for market share. So I'm just curious, what your thoughts are in terms of improving the pricing realization going forward?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Nigel, forgive us if we didn't get into that in detail. We did not want to overstay our welcome with respect to our prepared remarks. But when you hear us refer to profitable market share, that is both an external and an internal recognition that it can't be share for share's sake. And particularly in Power, I think we are acutely aware that we have opportunities, both on new equipment and on the service book, to basically value sell what we're doing more frequently. I got the word last night, for example, within Power of a project that is looking very good, where we're, frankly, we are not the low bid, right. And I think that just speaks to the way we're able to communicate the value of our technology. We know in these businesses, from Healthcare to Renewables, price is a reality. We want to be smarter around pricing. But at the same time, frankly, when you hear us talk about labor and material productivity, we really want to push that hard and do that in line with market realities so that we can maintain margins in light of some of those pressures.

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

And Nigel, just to add a little bit more color there on the numbers. Orders pricing in total for the year was relatively flat. It was actually up just slightly, and it was up more than that in the second half. And as Larry mentioned, we are seeing in the numbers the pressure moderating at Power and at Renewables, Power, really with respect to the enhanced discipline on new projects and bids, as Larry talked about. In Renewables, we're seeing that pressure moderate as we move throughout the year as well, primarily as we're moving through the PTC cycle. The supply chains are more stretched and that price dynamic becomes a little bit more in balance. Aviation and Healthcare are running as you would expect, which is strongly, as Larry mentioned.

Operator

And from JPMorgan, we have Steve Tusa.

Charles Stephen Tusa ***JP Morgan Chase & Co, Research Division - MD***

So you mentioned on the free cash flow dynamics, you mentioned the PTC headwind, a bit more restructuring, cash, some other, I guess, nonrecurring investments. Can you maybe give us some color on that? In addition, just provide some color on how much of a -- I think Jamie said before about $1 billion of headwind or so from divestitures. So maybe just help us with a bit of a rough bridge from the $4.5 billion you did in 2018. Because, obviously that sounds like it's going to be down.

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

Yes. So why don't I talk through the components of 2018 first in terms of really walking through the rounding out of fourth quarter performance, and then we can address some of those questions. So for 2018, if you really walked the changes, we, obviously, had earnings. We also had working capital, which for the year was basically zero impact to free cash flow. Fourth quarter was $2.3 billion positive, as we expected, with large volumes coming through this quarter. Contract assets was basically flat.

Charles Stephen Tusa ***JP Morgan Chase & Co, Research Division - MD***

Sorry. I can see the slide. I just wanted to know like, $4.5 billion, is that -- there's a lot of headwinds that Larry had talked about. I'm just curious as to -- if you could maybe give us some color on the size of some of those headwinds? And obviously, it sounds like it will be down. Will you, as an organization, generate cash, including GE Capital, next year? I guess, that's the simple way to ask the question.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Yes, Steve, and I think the simple answer to the question is what we're trying to communicate today is that we are going to see pressures, both operational and nonrecurring. We are going to be back shortly when we can take you through a detailed walk in that regard. I think from an operating perspective, it's worth acknowledging, a lot of good performance in a number of the businesses. Clearly, Renewables was stronger from a cash perspective in '18 and is likely to be in '19 given the PTC dynamic. And we are going to go deep here on additional restructuring where we see opportunities to put that money to work and generate real returns.

We also have some of these nonrecurring events or issues. Some of them are policy decisions, like the move on the supply chain financing program. I think we got better line of sight today on some of these legacy issues that come out of Alstom that we're on the hook for. Those are real cash commitments in '19 that abate thereafter. And we do have the cost relative in Healthcare IPO. So again, I think the headline is we finished strongly. We know we got some operating and nonoperating pressures and think we work through that in '19 with an eye toward a stronger cash flow performance in '20 and '21, with more details to come soon.

Charles Stephen Tusa ***JP Morgan Chase & Co, Research Division - MD***

Great. And what do you expect GE cash to earn in 2019? And how much, from a ongoing cash generation perspective, how much will they be generating?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Steve, Steve, Steve, as I said, both in my prepared remarks and a moment ago, when we have everything locked down to get into those specifics, and we'll do that soon, we'll be back to you.

Operator

From Vertical Research, we have Jeffrey Sprague.

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

Two from me. Just thinking about the Healthcare exit in particular. Kind of, for lack of a better term, losing that cash flow near term, seems like it would create some stress on the organization. Can you give us a sense of what you foresee as kind of the timing of the exit?

And then Larry, particularly interested also on how you view exiting the remaining 50% stake. Do you see the potential for some kind of equity-friendly exit with that piece, the split off, for example, which might shrink the share count of the remaining company?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, Steve (sic) [Jeff], I'd like to think that everything that we do is shareholder-friendly, right. I think we take a strong view here, and you know from seeing me in other roles that we want to create long-term shareholder value with the cumulative effect of everything that we do. I think with respect to Healthcare, what we can confirm today is that we're on the path toward an IPO here in 2019. Timing is still TBD. So we don't have a date. Like me in my senior prom, I just don't have a date for you today, but I think in time, we'll have more clarity.

With respect to Baker Hughes, I mean, we talk about that as part of that $50 billion pool of options to go to. I think that the high probability there is for us to sell our shares. We certainly are approached by various folks who have an interest in -- a stake in that company. And again, we don't have a timetable per se to share with you today, but we want to reiterate our view to dispose of that stake in an orderly manner, which, again, we think is conducive to value creation for our shareholders.

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

And just as a follow-up. But as an unrelated follow-up, if we think about what you're going through in insurance right now, the comment about the statutory review. Is that to indicate, Larry or Jamie, that even if there is some adverse outcome as it relates to that statutory review, it would not affect your near-term funding needs? And instead, those would be tacked onto the tail, so to speak, of what you're planning from reserve build?

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

Well, Jeff, what I was referring to there was that it's really the statutory calculation, not the GAAP that drives the statutory funding needs. We are right in the middle of that process. We continue to expect to contribute about $2 billion to the insurance entities in 2019. We'll conclude that process over the next 3 to 4 weeks. But at this point, that is what we expect.

Operator

From Barclays, we have Julian Mitchell.

Julian C.H. Mitchell ***Barclays Bank PLC, Research Division - Research Analyst***

Maybe as the first question on Power. I understand you're reticent to give too much forward-looking color, but perhaps, give us a sense of -- if you look at the reported 2018 numbers, EBIT loss of $800 million, free cash of minus $2.7 billion. How would you look at the -- or characterize to us the underlying figures for both of those 2 items if you strip out charges and projects, execution overruns and so on? And maybe also on that point, if you could give any color as to the separation of gas and non-gas within Power? What sort of financial conditions that separation has uncovered in each of the 2 pieces?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Sure, sure. Let me do that. And again, this is very much a work in progress with a new team establishing new operating rhythms. But I would say that -- if we start on the service side of things, right. We've got a $62 billion backlog. We did take the charge in the fourth quarter, $400 million on about a $3.7 billion contract asset book. And we think that's appropriate just given what we see in the marketplace.

I think we're encouraged though, relative to the execution, around pricing here. We have changed the way the folks in the field are compensated, transitioning them, if you will, from volume to margin. But again, there's a good bit of productivity post Alstom that we still need to get from the combined organizations here, and that work is incomplete. But that's part of that operating loss that you see here at year's end. We are clearly dealing with lower demand in the equipment, encouraged by some of the share points in the U.S. market here in the back half, but again, we want to make sure we focused on profitable share. There, we took $350 million of charges around the project book, and we know that we have a lot of execution here to improve just in the way these projects are brought online. I think when you look at the vintages, we're encouraged by the progress that we see post the '16 underwriting class in terms of our margins on those projects. But that's very much a work in progress.

I think with respect to the change in the structure of Power, again, part of it is a cost reduction. We shared some of that in the prepared remarks, but we also are getting better visibility on the underlying businesses P&L by P&L. So we talk about gas, we're combining services and equipment, then we have the rest of our Power portfolio. As Jamie mentioned, we now take on all the cost for Grid now that we own all of it. That doesn't help us at all. But now we've got better line of sight on the discrete P&Ls: Grid, Steam, Power Conversion and Nuclear. All 4 of those businesses have meaningful profit improvement potential, and we're going to manage them from the bottoms up accordingly. So clearly, we're at a breakeven from our P&L perspective, absent some of the charges, a lot of work to do here. And as we have better visibility and more conviction around those improvements, we'll be back, and we'll be back here soon with respect to how that plays out in '19 and '20.

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

The other color I would just add there on negative free cash flow is as volume comes down in the factories and as our projects continue to work their way through, you see volume leveling. But we've been in a declining frame here. So what's really flowing through on cash, in addition to some of the other items Larry mentioned, is a burn down of our progress billings and a burn down of our project payables. Situations where we've received project in advance of constructing the equipment or where we've received progress on projects, and now we're in the phase of the project where the payables and the costs are starting to come through. So that's also pressuring the Power free cash flow. And as that levels, that also starts to level.

Julian C.H. Mitchell ***Barclays Bank PLC, Research Division - Research Analyst***

And then my second question, maybe about a business where there's better medium-term visibility, Aviation. You talked about the LEAP operating margin headwind last year. How do you see that moving in 2019 relative to that 160 bps? And then looking out beyond just this year, anything on the horizon in terms of, let's say, 777X transition or NMA that you think could cause a major risk to the Aviation free cash flow and margin profile?

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

With respect to Aviation's margin and mix, you saw strong fourth quarter. And when we look at the remixing that's happening between CFM and LEAP, significant increase in LEAP shipments in the quarter, up 88% over the prior year. Year-over-year, 2.4x up, and you're seeing CFM come down meaningfully over those same periods. Next year, CFM will come down again about -- I'd say, more than 50% of CFM deliveries will be reduced next year, but the LEAP also ramped from the 1,118 we had this year up to 1,800-plus. So that remixing continues to occur. We mentioned on the call that it was a drag in 2018 of 160 basis points. We do expect continued some small drag next year. But again, Aviation's doing a really nice job offsetting that with services growth. They're shifting in military and the company-funded R&D.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

And, we're clearly in conversations with our major airframe customers about new platforms. I think at this point, it would be premature to suggest that we're going to have a cash flow headwind -- a material cash flow headwind around any of those programs here in '19.

Operator

From Melius Research, we have Scott Davis.

Scott Reed Davis ***Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research***

All kidding aside, the one number you gave that was new, which is kind of eye-popping to me, was this $1.6 billion Power headquarter number. Can you put some context around that? It seems just like such an insane number. But I don't really what you're including in that, I guess, as far as what -- you're talking about headquarter.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, there's -- it's a large number. And again, I think, we've got line of sight here in the near term, Scott, to bring that down by about $300 million. And effectively, as you know, we've done a lot horizontally, both at corporate and at the segment levels over time for the businesses. So it's not as if it's unhelpful or wasteful, but there clearly is an adjustment we can take here as we move those activities into the businesses. And I think, over time, as the businesses have true ownership for them, that they are in their operating budgets as opposed to an allocation from corporate, they're likely to find opportunities for further savings.

But we don't do it primarily for the cost reduction. I think we really do it to help drive visibility and accountability P&L by P&L. I think I've shared with some folks that early on in my tenure, we would talk about Power as if it was one business. It's obviously a number of businesses, some better than others, different issues here and there. I think we've got better visibility on those issues. It's not perfect today, but as we get that visibility, we're, I think, better positioned to take meaningful action to drive better results across that portfolio.

Scott Reed Davis ***Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research***

That makes sense. And then the other thing that's just not totally clear is if the new world is 25 to 30 gigawatts, which arguably, a lot of people can say, that the new world is 25 or even a little lower. But how do you get your capacity down anywhere close to that? I mean, you've got big factories, lots of capital equipment, lot of pressure from governments and unions and everybody else. Is it realistic to be able to get that down in the next 2 years? Is it something that's closer to 30?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I think it is realistic, right. There are going to be a number of competing priorities and pressures, but we took $1 billion of cost out last year. I think we are putting the -- we're putting up the parameters of a program to build on what we did last year. So Scott, we have to do this. We absolutely have to do this. I think we know it's a multiyear effort, but the challenge here around margins is not simply one of capacity, right. Back to the earlier question around pricing; productivity, both in new equipment and in the field on services. It's a whole host of things that I think give us the optimism that we can drive better margin and cash performance in this business. But we have to prove that to you.

Operator

And from Citi, we have Andrew Kaplowitz.

Andrew Alec Kaplowitz ***Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head***

Larry, one of the biggest issues I think that investors have had with GE is the concern that legacy liabilities will continue to surprise the company. The FIRREA agreement with the DOJ seems like a positive development in that regard, and so does the relatively small LTC adjustment. But at this point, do you feel reasonably confident that you've identified all the skeletons in the closet, and the level of negative surprises are really going to start dropping moving forward?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

I don't think I would ever say, even on my last day here, that we have found all the skeletons, right. I don't tend to take absolute positions. But that said, I think you're spot on. The news today around WMC is good, both with respect to a resolution and the fact that we came in right where we were reserved, so we can begin to move that episode behind us. I think we're encouraged by the results that Jamie walked you through relative to the LRT. But again, the cash requirements, really, come from the stat not the GAAP test, and that work still has a few more weeks to run.

But in the absence of no new news, again, with a lot of fresh eyes, and it's not my fresh eyes. We've got a new GC. We've got a new Controller, new to GE, in their first years. I think that is a positive sign that we aren't adding to the list. We're going to be as open and transparent as we possibly can when we find things. And we're going to help you understand what we're doing to address them. But I'm encouraged by what I've seen and what has not arisen here in nearly 4 months' time.

Andrew Alec Kaplowitz ***Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head***

And Larry, you're pretty clear about having no plans to sell GECAS. It sounds quite definitive. But obviously, there's a lot of noise out there. So maybe I can step back and ask you how you weigh the urgency to get GE Capital debt down versus keeping the strong earnings stream intact from GECAS that you have in the business?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I think that we're -- we're, frankly, keen not to comment on every rumor, on every innuendo that's out there. GECAS is one business that we get inbounds on with some frequency. But frankly, we get inbounds on everything but my desk. It's, yes, I think it speaks to the quality of the assets. Again, I think we can delever and bring that net debt down from $55 billion to something closer to $25 billion.

We've got a number of options. We are mindful of the trades when we move assets out and the impact on our earnings and cash capability. But again, you elevate to the strategic level -- I think we're clear. We need to delever, and we're going to work the plan that we've outlined here today, and that's really as, I think, as simple and as straightforward as it gets.

Operator

From Bank of America Merrill Lynch, we have Andrew Obin.

Andrew Burris Obin ***BofA Merrill Lynch, Research Division - MD***

Just a question. You mentioned that you took $400 million of contract asset write-down in Power. And my understanding is that's, sort of culturally, is a big deal. Shall we see more of these write-downs? How far along are we in the process of evaluating the book there?

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

We asked our new Controller, when he started, to take a clean look at everything across the company. And they -- as they went through their normal standards CSA review this quarter, did pay particular attention to higher-risk contracts just to make sure that we were thinking about them cleanly and the right way. And what we talked about on the call, which was really comprised of 3 different buckets, were the results of that review. So as we mentioned before, we had adjustments for utilization, some on pricing pressure and then just sort of standard cost updates. On the utilization side, when you look at the CSA book, utilization has been relatively flat, and it's demonstrating actually a fairly healthy profile. And I think it just continues to support the base that gas continues to be an important source of energy generation. Now some geographies are impacted more by some of the Renewables adoption. And as you look at our book, our concentration of geographies isn't largely in those areas, but we did see some true-ups that we took in places like California and Turkey, just to make sure we were reflecting our best view on that.

On the pricing pressure, we are seeing that in some contracts. These are high-margin, long-term contracts. And when we do go through a renegotiation process on some of these, we are often able to offset that price with scope expansion and cost productivity. Having said that, we wanted to make sure we had a realistic view of how we saw the portfolio when we went through these reviews. We always do standard cost updating in our portfolio. That's just like you do in manufacturing. Those standard costs roll through this quarter as well. And part of that also reflected a small impact from the stage 1 blade issue, but that's something that we had expected would happen there as well.

Andrew Burris Obin ***BofA Merrill Lynch, Research Division - MD***

All right. Got you. And just on GE Capital. How much incremental capital? You said $4 billion in '19. But how much incremental do you need to put in 2020 to achieve your leverage target?

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

Yes. So Andrew, at this point, we're talking about 2019, which is the $4 billion. And as we said, as we get beyond 2019, we, obviously, understand. We will continue to put capital or expect to continue to put capital into the insurance subsidiaries. That will be funded through a combination of GE Capital earnings, asset sales, liquidity and GE parent support. But at this point, we're not prepared to talk more fully about that.

Operator

From Deutsche Bank, we have Nicole DeBlase.

Nicole Sheree DeBlase ***Deutsche Bank AG, Research Division - Director & Lead Analyst***

So I just want to start on Power, kind of a two-part question. You reduced headcount by 15%. You reduced footprint by 30%. I know that pricing is an important part of the equation of getting back to profitability here. But I guess, maybe what inning are you in with respect to what you need to do to get to the right level of capacity utilization? And then same topic, different question. What exactly are you doing to improve Power execution, since that keeps coming up as a driver of weaker profitability? And when might we stop talking about that piece of the margin headwind?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, Nicole, I would say we are in the very early innings relative to the turnaround at Power. I don't know how else to frame it. Again, a new team, a new structure, new operating rhythms. When we talk about execution, we talk about daily management. What I'm really referring to is making sure that every day, the folks in the field, the folks in the factories, the folks in the labs, understand what the key operating metrics are, that they are responsible for, that feed into better margins, both at the gross and the operating level in this business. So that takes time because it's not just a reporting exercise, right. It's a management exercise and making sure they understand, not only how they're being measured, but how to go about actually getting better price, how to go about actually driving better material productivity. Execution in the field as well, not only around cost, but frankly, more importantly, around quality, making sure we get into outages quickly, and we solve issues for customers the first time, and we're not going back. Those are the sorts of things. And it is a big organization. It's a global organization. This is going to take a little while. But I'm optimistic that we'll see it in our operating metrics over time and that, that will in turn, translate into better performance. We'll clearly get some lift sooner from the absence of the adjustments that we made at the end of the year. But what I'm really focused on, and what I think investors ought to be focused on, are those underlying operating improvements.

Nicole Sheree DeBlase ***Deutsche Bank AG, Research Division - Director & Lead Analyst***

Okay, got it. That's helpful. And just a really quick one to tie up. Good progress on corporate expense reduction this quarter. Would you say that the corporate expense that we saw in 4Q is indicative of the run rate for 2019? Or are there items there that we need to consider?

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

I'd say it's roughly indicative. I think it'll be down slightly from that. It was a little bit higher in the quarter due to some onetime expenses we had, but it's close. Little bit down from that in '19.

Operator

From RBC Capital Markets, we have Deane Dray.

Deane Michael Dray ***RBC Capital Markets, LLC, Research Division - Analyst***

I'd also like to add our welcome to Steve Winoker, and wish him all the best.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thanks, Deane.

Deane Michael Dray ***RBC Capital Markets, LLC, Research Division - Analyst***

Hey, looks like I have to burn one of my questions on what's more of a housekeeping question, Larry. Is in the third quarter earnings, you talked about plans for an analyst meeting in early 2019. Looks like there's still a lot more specifics that have to get filled in, in terms of guidance, especially on the cash flow side. Maybe you're not ready yet to host that meeting. But just where does that stand? And what might the timing be?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, Deane, again, I think we're sharing today what we can in terms of not only the fourth quarter, but the actions that are underway, and how we see 2019 shaping up. We know we're not answering every question that folks might have on their minds today. But we're not going to answer any question without a grounding and a level of conviction that we expect of ourselves and I think folks, like yourselves and investors, expect of us as well. But we are indicating that we'll be back soon with more, particularly as we work through some of the issues we've talked about, not only in our prepared remarks, but also here in Q&A with respect to Power.

Deane Michael Dray ***RBC Capital Markets, LLC, Research Division - Analyst***

Okay. And Larry, I appreciate how you started off the call with all the changes in terms of the management approach and the accountability and voice of the customer. I mean, that's -- that was all good color to hear upfront. And then my second question is on the insurance side. We've got good news -- what I see as good news on the loss recognition, certainly not a new surprise. How does that change? In the third quarter, there was lots of calls for how to ring-fence the long-term insurance risk, and where that might be. Where does that stand today in terms of priorities?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, Deane, again, I want to make sure everybody understands that the LRT results here are a positive data point. I think that the stat test is going to be more important. I think we don't expect any major surprises, but we'll have those results to share with you in a few weeks. This is a long-term liability, right. And we have our commitments with respect to the permitted practice. We're in a position to fulfill those. We certainly get inbounds here as well from folks who'd like to take this book off of our hands. But not necessarily in a structure and at a value that would make sense for the GE shareholder. So I suspect that as we enhance our disclosures, they'll be better understanding of what this is. Certainly, I suspect there'll still be some debate. But I'm optimistic that the transparency will lead to better understanding, and we can talk about this in a fact-based way. People can understand what that means. Is it with us forever? Or is there a way to ring-fence it, to use your word. Again, I'm not going to rule anything out. But I think right now, what we're trying to do is make sure that everyone understands what it is and what our obligations are around the insurance book. So hopefully, some helpful disclosures in that regard today with more to come in the K once we're on the other side of the stat test.

Operator

And from Gordon Haskett, we have John Inch.

John George Inch ***Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials***

Just on the capital guide. I may have missed this, Jamie and Larry, but what is capital guide for 2019? What are you expecting? And what kind of are we expecting from say, gains from the $10 billion of asset sales? So it's almost like what's the guide, ex the $10 billion on earnings? And also, Jamie, what was Healthcare's free cash flow in 2018?

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

Well, with respect to GE Capital's 2019, as Larry mentioned, we're not offering 2019 guidance today. So that's something that we will be sharing with you in the near term, but not today. And with respect to Healthcare's free cash flow, I think it's well understood that, that is a strong cash flow business. It's a flow business, unlike some of our long cycle, and I think there's been a lot of valuation math that's been out there. So while we're not disclosing Healthcare's free cash flow, I think you could probably come to a pretty reasonable conclusion there about what that is.

John George Inch ***Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials***

Okay. I think we were targeting breakeven in Capital this year, and we ended up losing money. I'm just wondering, what is -- what actually changed in the mix from, Jamie, when you originally thought it would be breakeven to the loss? And also, in your cash walk, on the fourth quarter cash walk, the Baker Hughes free cash flow is a positive $800 million. It looked like Baker actually generated positive free cash in the fourth quarter. So why would that be a positive? Why isn't that a negative, drawing it out? It's just a technical question, I guess.

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

Well, first, on GE Capital. We have the LRT results in the fourth quarter, so that was $65 million. We actually had tax benefits of less than we expected as well. That impacted us by about $240 million. And then we had some other marks in the portfolio in the second half. So that was really the large difference between what we had expected and where we ended up. And then with respect to Baker Hughes. We are backing out free cash flow. So that might be a labeling issue on the slide there. It says less Baker Hughes free cash flow. If you back it out, and you add the dividend.

Operator

And from Goldman Sachs, we have Joe Ritchie.

Joseph Alfred Ritchie ***Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst***

And so just -- I know you're a little reluctant to answer much on the 2019 guide, but if I can just maybe ask on just Power free cash flow, the $2.7 billion burn this year, do you expect '19 to be better than 2018 from a Power free cash flow perspective?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

I think we're at a place where we're sharing with you today everything that we know, everything we can commit to. And again, we'll be back with more detail, particularly with respect to Power and cash soon. But we're just -- we're not in a position where we're able to do that. But clearly, again the -- hopefully, the color around the $2.7 billion that we burned last year is helpful with respect to framing the magnitude of the task and the challenge, one we understand and are serious about addressing.

Joseph Alfred Ritchie ***Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst***

Yes. Getting the disclosure on the $2.7 billion, definitely helpful. And we'll hopefully get some more color on the path in the near term. But I guess, if I can maybe focus then on just the onetime issues that occurred in the second half of 2018, specifically, around the blade issue. Is it fair to say that those issues are at least behind you? And how should we think about what the, call it roughly -- it sounds like it was like roughly $700 million or so in quantifiable charges there. What does that relate to? Does that relate to all orders that you received so far in the H turbine. Just any color on that would be helpful.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Yes. Well, the -- when we talk about the cost for the blade issue, it's really a function of going out and effectively replacing these blades sooner than we were anticipating, right. Because the useful life is effectively shorter than we had anticipated, unfortunately. But we think we understand that. That work is underway with respect to the installed base. And again, I think, it's regrettable. I think our customers, when you talk to them, understand what's happened, how we're going about remediating the issue in the field. And I'd like to think that, that is not something we're going to continue to cite with respect to the margin pressure in the business here in '19.

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

Yes, and just walking back from third quarter and maybe updating today. So third quarter, we had $240 million of warranty and other accruals related to the stage 1 blade. We also mentioned that would -- we expected to experience a similar amount of that over time as the work outperformed in our services book. So part of what I mentioned earlier on those charges includes that stage 1 blade issue starting to come through the services updates.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

But there are a host of elements of that update, not just the blade.

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

Absolutely. Yes, it's a very small issue in the quarter. But it's just part of that bleed off as we do the work.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Thanks, Joe.

Operator

And our final question from Cowen and Company, we have Gautam Khanna.

Gautam J. Khanna ***Cowen and Company, LLC, Research Division - MD and Senior Analyst***

Two questions. First, I was wondering if you have any changes being contemplated to incentive comp triggers for senior management as we approach the whole proxy time frame? Any changes to the PSU triggers that you're thinking about now?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Nothing that we can reference this morning.

Gautam J. Khanna ***Cowen and Company, LLC, Research Division - MD and Senior Analyst***

Okay. And I was wondering if you could talk about when you expect pricing to bottom in the transactional Power aftermarket? Or if it has already in your opinion? And how that pricing now compares to maybe where it was a year ago?

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

I think that's a question that depends on geography, and it depends on the scope and the kinds of work we're really looking to do with our customers. Over the last year, as we've talked about before, as Scott has come in, he's really refocused our transactional group to focus more on, in some cases, less scope but higher-margin work as we do it. You know it's a competitive market. But even having said that, that as we have our orders come in, we're seeing order CM or margin rate up, in some cases, 10, 12, 15 points on that order book. And it's been consistently increasing throughout the year. Now as Larry mentioned earlier on the call, we're not yet seeing all of that drop through, primarily because of field execution issues and operational issues. But these are things that we believe are fixable. And over time, as we really seek to increase our share in that book and really capture the kind of work that we want to capture, the higher-margin work, the operational execution piece of that, we think should flow through.

But with respect to the margin pressure, generally, I should say pricing pressure, these are very competitive markets that have a lot of capacity. So I think that dynamic will continue as we go through the next couple of years and until the market levels out and until we see the capacity leveling out as well.

Steven Eric Winoker ***General Electric Company - VP of IR***

I know we ran out of time before we can get to everyone in the queue, so you can reach me and my team through the day. But I want to thank everybody for joining us. The replay of today's call will be available this afternoon on our Investor website. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.