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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome the General Electric Third Quarter 2018 Earnings Conference Call.

(Operator Instructions) My name is Brandon, and I'll be your operator for 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, Todd Ernst, Vice President of Investor Communications. Please go ahead, sir.

Todd B. Ernst ***General Electric Company - VP of IR***

Thank you, Brandon. Good morning, everyone, and welcome to GE's Third Quarter Earnings Webcast.

I'm joined this morning 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, supplemental and 10-Q have been available since earlier today on our investor website at www.ge.com.

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

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

Larry?

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

Todd, thanks. Good morning, everyone, and thank you for joining us. We have a lot to share with you, so let's get to it.

During the third quarter, we saw positive results in most segments, with outstanding performance in our Aviation business and strong results in Healthcare, which was unfortunately offset by weakness in Power. Our overall orders were up 13% organically, with server -- service orders up 5%. Core revenue was up 1% organically with increased commercial engine shipments in Aviation, onshore wind turbine

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deliveries in Renewables. And in Healthcare we saw growth in developed markets and in Life Sciences.

Adjusted EPS was $0.14. And GAAP continuing EPS was a negative $2.63, which includes the charge for goodwill in Power.

Our adjusted industrial free cash flow was $1.1 billion.

Now I know there's been renewed speculation on our future strategic direction. The strategy we announced on June 26 to create a more focused portfolio that sets up our businesses to win and strengthening our balance sheet is today the right plan going forward. Consistent with this strategy, we are announcing 2 actions this morning. First, GE plans to reduce its quarterly dividend from $0.12 to $0.01 per share, beginning with the board's next dividend declaration which is expected to occur in December 2018. This change will allow GE to retain about $3.9 billion of cash per year compared to the prior payout level. Going forward, we will target a dividend payout ratio in line with peers over time.

Second, we will take a materially different approach to running our Power business. In the past 30 days, I've spent a lot of time with Russell Stokes and his team. It has become clear to us that we need to simplify the business structure. Therefore, today, we are announcing our intent to reorganize Power into 2 units, both of which will report directly to me. The first is a unified gas life cycle business combining our product and services group, Gas Power Systems and Power Services, with the second constituting the portfolio of Steam, Grid, Nuclear and Power Conversion. Additionally, we intend to consolidate the Power headquarters, Gas Power Systems and gas -- and Power Services teams into the new gas life cycle business, effectively eliminating the Power headquarter structure. We have much more to do to improve our performance in Power, and we intend to move quickly to enhance our execution agility and improve our cost structure. These actions are a start in bolstering GE for the road ahead.

In the last month, I have visited many of our primary business locations. Getting to know this company better from the inside has only strengthened my conviction that GE has considerable strengths. The talent here is real. The technology is special. And the global reach of the GE brand and our relationships are truly impressive, but GE needs to change. Our team knows this. In my old job, we acquired dozens of good but often underperforming businesses, and we always came prepared to convince the acquired teams that they and we needed to drive change. That is not the case here. Our GE team needs no convincing. They really want direction to know how to change. And while I don't have all the answers after 1 month, I do have a few early impressions.

We could use a lot more out and a good bit less up around here, meaning we need to focus more on customers and competition and, frankly, less on corporate. We're going to strike a better balance between managing and reporting so that we ensure we're properly focused on the daily operating rhythms which drive our actual financial results well ahead of our reporting cycles. Strong daily management makes reporting a lot easier, first things first. And we need to accelerate our progress on cash generation. Changes to our compensation system and internal reporting this year were a good start, but we need to operationalize real improvements on cash through business processes in every business every day.

And with that, let me turn it over to Jamie for a more detailed discussion of the quarter.

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

Thanks, Larry.

I'll start with our consolidated quarterly performance. Orders were strong at $31.4 billion, up 7% reported and 13% organically. This was driven by equipment orders, which were up 22% organically; and services, up 5%. Revenues were down 4%, with industrial revenues down 5%. Organically, industrial revenues increased 1%, driven by Renewables, Aviation, Healthcare and Oil & Gas. Industrial profit, which includes corporate, was down 23% reported and 17% organically, driven by declines in Power and renewables partially offset by solid growth in Oil & Gas, Aviation and Transportation. Industrial profit margins were 8.1% in the quarter, down 180 basis points year-over-year on a reported and organic basis, driven by declines in Power and Renewables. Year-to-date margins were down 50 basis points organically.

Net earnings per share was negative $2.62, which includes income from discontinued operations related to GE Capital. Adjusted

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earnings per share was $0.14. And I'll walk the GAAP continuing EPS to adjusted EPS on the right-hand side of the page.

Starting from GAAP continuing EPS of negative $2.63, we had $0.01 of gains principally from the sale of Value-Based Care, partially offset by held-for-sale marks in Lighting, Aviation and Power. We also booked multiple impairments this quarter related to Power. The first was goodwill. As disclosed previously, we had a thin margin between fair value and carrying value for both Power generation and Grid. And in the third quarter, both businesses failed their goodwill impairment tests, which required us to fair value the assets of the businesses with any remaining value being allocated to goodwill. The size of the charge results from the significant value associated with the unrecognized legacy assets, principally our profitable services backlog, long-standing customer relationships and our gas turbine technology. And the value of these assets essentially squeezed out any remaining room for goodwill. Based on our best estimate, we booked a charge of $22 billion. $19 billion related to our Power Gen reporting unit, and $3 billion related to Grid. Most of the $22 billion charge is related to the Alstom acquisition, which occurred in the fourth quarter of 2015. We will true this up in the fourth quarter as it gets finalized. Also, the SEC expanded the scope of its ongoing investigation to include the goodwill charge. The Department of Justice is also investigating this charge, and the other areas that we have previously reported are part of the SEC's investigation. We are cooperating with the SEC and DOJ as they continue their work on these matters.

On restructuring and other items, we had $0.05 of charges related to intangibles and long-lived assets in Power Conversion, where we continue to restructure the business in the face of market challenges. We also incurred $0.06 of restructuring principally in corporate and Power, $0.02 of charges related to BD transactions and $0.01 for our share of Baker Hughes GE's restructuring. Lastly, the remaining $0.01 related to an unrealized mark associated with our equity investment in Pivotal.

Excluding these items, adjusted EPS was $0.14 in the quarter.

Moving to cash. Adjusted industrial free cash flow was $1.1 billion for the quarter and negative $300 million year-to-date. Income, depreciation and amortization totaled $1 billion after adjusting for the $22 billion noncash goodwill impairment. Working capital was negative $100 million for the quarter, as we had a small build in inventory ahead of fourth quarter shipments, offset by increased payables volume. Contract assets were a use of cash of $100 million, and we spent $900 million in gross Capex or $600 million ex Baker Hughes GE.

On the right-hand side of the page, you can see the walk of the GE cash balance. We ended third quarter with $9.1 billion of cash in bank excluding Baker Hughes GE. And a few highlights: We generated cash proceeds of $3.2 billion related to business dispositions, principally Industrial Solutions and Value-Based Care. We assumed $6 billion of debt from GE Capital to fund the principal plan. And $2.4 billion of other cash includes investing activity in our Aviation business from the first half of the year, derivative settlements and FX on our cash and a few other items. While our businesses are generating cash flow in line with expectations, it's clear that, with respect to Power, the issues will persist longer and with deeper impact than we had initially expected, which will cause us to significantly miss our full year cash flow and earnings targets.

Next I'll discuss financial policy and which reflects our strategic commitment to strengthen and delever the balance sheet. A solid rating is important to us, and we will target a sustainable credit rating in the A range. S&P downgraded GE and GE Capital's credit rating from A to BBB+ with a stable outlook on October 2. And Moody's and Fitch have our ratings on review. The impact of the downgrade is manageable and we were prepared for this. The most pronounced impact is on our commercial paper program. As you know, we have $40 billion of committed credit lines in place. We have tapped a portion of these revolvers and are currently transitioning our commercial paper program to a smaller size, and this is in line with our long-term objective of reducing our reliance on commercial paper. We have sufficient liquidity to execute this transition smoothly.

We continue to target a leverage ratio of 2.5x net debt-to-EBITDA and expect to make substantial progress toward this goal in the next few years. As described in June, we have significant sources available to delever and derisk the company. The action we announced today on the dividend is an example of strengthening our position. We also continue to complete the remaining actions and transactions that are part of the $20 billion disposition program, with an expected close of Distributed Power in the fourth quarter and Transportation by early 2019.

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Now we'll turn to take you through the third quarter operating results by segment.

Starting with Power, which has faced significant external and internal challenges. The market size continues to be in line with our previous expectation, but as we move into the second half, it's clear that our previous forecasts were overly optimistic on the timing and the level of deal closures on heavy-duty gas turbines and particularly on aeros. And while we're seeing some progress, we're not seeing the pace of operational improvement we expected. And we continue to see issues driven by our own execution and some on project execution with customers and partners. Additionally, as Larry mentioned earlier, we're announcing our intent to reorganize the Power business into 2 units; and are effectively eliminating the Power headquarter structure, with an intent to enhance Power's execution agility, improve their cost structure and drive better outcome.

Now with respect to the third quarter results for Power. Orders were down 18% reported and down 3% organically. While Gas Power Systems orders were down 45% year-to-date, they were up 55% in the quarter based on easy comparisons . We booked orders for 21 heavy-duty gas turbines, including 5 HAs. Aero orders for 2 units were down 7 versus last year. Power Services orders were down 16%, driven by tough comparison and a more disciplined deal selection process on the transactional fleet, which is resulting in higher margins. CSA orders were flat.

Revenue was down 33% reported and down 20% organically. GPS revenue was down 55% on lower volume. Power Services revenue was down 4%, with CSAs up 2% and transactional services down 12%. While we're making progress commercially on the transactional fleet, the conversion time between orders and revenue has been longer than expected. And CSA utilization was in line with expectations.

In the quarter, the business incurred an operating loss of $631 million. Profitability was negatively impacted by charges in GPS related to challenges in project execution and liquidated damages. We also recorded $240 million of warranty and maintenance reserves related to the HA, 9FB stage 1 blade issue. We have a replacement blade in production. And we're working proactively with our customers to schedule outages to replace the parts over time, but we also expect to incur a similar incremental amount of cost over time related to the blades as we perform planned outages in our services contracts.

Next, on Aviation, which had another great quarter. Orders were up 35%. Equipment orders grew by 82%, driven by continued strong momentum of the LEAP engine program. Services orders grew 12%. Revenues in the quarter grew 12%. Equipment revenues were up 17% on commercial engines, partially offset by lower military volume. Specifically, we shipped 303 LEAP engines this quarter, up 192 units compared to last year. Services revenues grew 9% on higher shop visits; and a spares rate of $28 million per day, up 20%. We continued to experience favorability in services, with strengthened air traffic drying high -- driving high fleet utilization and spare parts consumption.

Segment profit was up 25% on higher volume, improved price and operating productivity. This was partially offset by negative mix from higher LEAP shipments. Operating profit margins expanded 240 basis points in the quarter. Year-to-date, we've shipped 739 LEAP engines. And we're roughly 4 weeks behind on production as a result of the delays in material, but we remain committed to delivering 1,100 to 1,200 units. Aviation's performance remains on track to deliver 15-plus-percent op profit growth for the year.

Next, on Healthcare. Healthcare orders were flat versus last year and up 3% organically. On a product line basis, Life Sciences orders were up 6% organically, with bioprocess up 9%. Healthcare Systems orders were up 2% organically. Geographically, organic orders were up 4% in Europe, driven by successful new product launches across Healthcare System. The U.S. was down 3% due to the non-repeat of a large Healthcare Systems government order. Emerging market organic orders were up 9%, with China up 13%. And in China, we saw good performance in bioprocess, imaging and ultrasound.

Healthcare revenues of $4.7 billion grew 3% on an organic basis, with Healthcare Systems up 3% and Life Sciences up 5%. Segment profit was up 2% on a reported basis and 10% organically, driven by volume and cost productivity, partially offset by lower price. Margins expanded by 120 basis points organically. Consistent with our strategy to focus and win, the Healthcare team continues to prepare for separation.

On Renewables, orders were down 3% versus last year, driven by lower Hydro orders. Onshore wind orders totaled $2.7 billion, with U.S.

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equipment volume up 2.7x and U.S. repower volume up 72%. International volume was down 66% on tough comps versus last year. Backlog at the end of the quarter totaled $16 billion and was up 17% from strength in Onshore Wind.

Revenues were up 15% reported and 19% organically, mainly driven by Onshore Wind equipment which was up 37%. This was partially offset by Onshore Wind repower volume which was down 55%, primarily driven by timing, including delays from inclement weather and customer site readiness as well as a number of new unit delivery delays driven by supply chain issues. The repower market remains robust, and we're seeing continued strong demand through 2019 and beyond. Segment profit was down 72%. And margins were down 660 basis points, driven by significant pricing pressure and lower repower volume. We expect sequential improvement in our segment profit driven by higher wind turbine and repowering volume and continued product cost improvement.

We will continue to monitor the supply chain and logistical issues as we ramp in fourth quarter for the higher volume.

Moving to Oil & Gas. Baker Hughes GE released its financial results this morning at 6:45, and Lorenzo and Brian will hold their earnings call with investors today at 9:00 a.m.

Next we provide the summary financial results for Transportation and Lighting, shown here. And additional information is available in the 10-Q.

Finally, on GE Capital. Continuing operations generated net income of $19 million in the quarter, down $5 million from the prior year. Total year earnings will be affected by the timing of asset sales and related gains and losses. Additionally, the business may be impacted by updates to U.S. tax reform legislation; and our assessment of the insurance reserves in the runoff insurance business, which we perform annually in the fourth quarter.

GE Capital ended the quarter with $129 billion of assets, down $11 billion year-to-date ex liquidity. And we remain focused on shrinking and deleveraging GE Capital, including improving its leverage profile. We expect to reduce GE Capital's commercial paper balance to 0 in the fourth quarter of 2018 as we transition the overall company to a smaller CP program. And as it relates to capital contributions, we're monitoring tax reform, WMC and the fourth quarter insurance reserves evaluation. And we continue to evaluate derisking options for the portfolio. At this point, we're planning at least $3 billion of capital contributions in 2019. And we'll continuously assess the capital adequacy and risk profile of GE Capital. GE Capital's resources are more limited as it shrinks. And GE may need to support GE Capital further, if necessary, either to achieve desired capital levels or to execute strategic options around its portfolio.

There was a new insurance accounting standard issued on August of 2018. We're evaluating the effect of the standard and anticipate its adoption will materially affect our financial statements when it takes effect in 2021.

Now I'll turn it back to Larry.

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

Jamie, thanks.

Right now I'm spending most of my time with the Power business, with real help from Jamie; and our Vice Chair, David Joyce. We need to establish a realistic outlook there, particularly for the gas business; and drive improvements from there. The moves we've announced today, in addition to the daily, weekly and monthly operating disciplines we are instilling, will drive transparency and accountability on the path to improved operating performance. When we have our arms around this, we will provide you with our outlook in 2019. As I mentioned earlier, we also intend to maintain a disciplined financial policy and are committed to strengthening and delevering the balance sheet over the next few years.

In summary, GE has and will continue to have a strong commitment to all its stakeholders. We are making GE a stronger company operationally and financially. I'm truly excited to lead this storied company into its next chapter. I've spent my career improving strong franchise businesses and taking them from good to great. We know what to do. Now is the time to execute.

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Before we go to Q&A, I want to acknowledge the pent-up demand for information that you have on a range of topics, but I've been in this job for all of 30 days. I will share with you what I know and can today, but please know that I will be back to you with more definitive plans and views in the months ahead.

In closing, I also want to thank John Flannery for his 30 years of exceptional service to this company. John also made a number of important contributions as CEO. I have the utmost respect for John and wish him nothing but the best going forward.

With that, Todd, back to you.

Todd B. Ernst ***General Electric Company - VP of IR***

Thanks, Larry.

Brandon, let's open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from Vertical Research, we have Jeffrey Sprague.

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

Larry, best of luck. My first question, and I think it's kind of everyone's question, really is kind of the balance sheet here. And just wondering, as you're sitting there kind of with your fiduciary hat on looking at an unstable perhaps global economic environment certainly relative to what the market is telling us, do you see the need to move more quickly on the balance sheet? Is there something with these lawsuits or something that tie your hands on moving with the balance sheet? Could you just give us a little bit more color on how you might move to more quickly kind of lift the cloud and stabilize things here?

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

Jeff, let me take that, and then Jamie probably has some perspectives as well. I think we're mindful of the market environment but perhaps more mindful of our leverage situation today. So coming in as a director earlier in the year, that was clear; all the more true today as Chairman and CEO. I think what we've tried to do throughout the course of the year is move as briskly but smartly as we possibly can. The dividend move today, to me, fundamentally is straightforward given our desire to preserve that cash to help delever the business. We have a lot of options. We laid these out, I think, in some detail back in June. Certainly, the strategy that we talked about relative to derisking and focusing the portfolio is very much intact today. How we move through those various options, the timing, the pace of sequencing, is something very much on the table to make sure that we tend to the balance sheet as quickly as we can. We don't want to be rushed. We don't want to be rash, but we need to get after this straight away. And I hope today's move on the dividend is evidence of that intent in action.

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

Yes. And the only other thing I would add: Jeff, you mentioned lawsuits. There really is no consideration around that in terms of something that would be a constraint to that plan.

Operator

And from JPMorgan, we have Steve Tusa.

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

So I guess, as a fresh voice in the room there, I -- you guys kind of addressed the insurance thing. That seems like it's going to be a little bit bigger than expected, but there's been a lot of information coming out on these from these, the closures from the shareholder lawsuits, that talks about the accounting for LTSAs and contract assets; several whistleblowers out there talking about the behavior in the past. I'm wondering, in your seat, if you've kind of really delved into that and you're comfortable enough there to kind of unequivocally rule out the need for more capital and specifically the potential for an equity raise.

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

Well, Steve, there are a number of questions there. Let me try to take them in, in order. Let me state in a straightforward fashion we have no plans for an equity raise. I think, with respect to the service business within Power, this is a good opportunity for us to, frankly, manage this franchise better than we have. I've been encouraged by what I've seen at the operational level. Clearly, there are a lot of issues that -- from the past that the team is dealing with, but the opportunity here to work closely with our customers around this installed base and do so in a way that's a win-win for them and for us, I think, is clear. I'm excited about this. Now it's not a business in the state that it should be in or could be in, will be in, but I think a good bit of the time that we've spent with Russell and Scott and the team has been very much geared toward putting those improvements in motion. So I think, as we exit this year, go into next year, at the operational level, look for continued progress there.

Operator

And from Melius Research, we have Scott Davis.

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

Welcome, Larry, and good luck to you. It's not going to be an easy job. You have a lot to fix. I wish you the best of luck...

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

We -- well, I appreciate that, Scott, I'm excited...

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

Better you than me.

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

Well, anytime you want to join us, let me know, but I'm excited to be here. This is an outstanding company, right? The people here, I think, are strong. The technology, again, is impressive. And in 30 days, I've begun to appreciate all the more the reach and the impact this company has around the world. We can do better than where we are today, but this is an important company and I'm pleased to be on the team.

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

Well, I'm, we're glad to have you, but anyways, my question really is on the business model at GE. It's so different than Danaher. I mean the 2 biggest businesses, Power and aircraft engines, you're -- the company is willing to sell the unit at a big loss and in hopes of capturing the spare parts. And that seems to be working in aerospace, but it doesn't seem to be working in Power. Can you fix Power without fixing how you go to market traditionally? Has something drastically need to change there?

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

Well, Scott, it's hard to say that we don't need dramatic or drastic change in a business that is performing in the way that Power is, right? I mean in some respects it's that simple. So in my mind, beyond compliance and quality, everything is on the table at Power. And I think Russell and the team would echo that if they were on the call. There's no question that in my prior life I was really on the periphery of both the power space and aerospace as well, certainly in the heart of health care, but I'm of the view that there's a lot that I've done previously that's relevant -- is I joined this team. I -- driven a lot of change. Every time we brought a new company in, we were driving a lot of change. That was effectively the value proposition for our investors, and I think over time we were able to do that. That change really comes as a function of revisiting assumptions; clarifying strategy; putting the right team together; driving operations day in, day out; and clearly deploying capital in and around that business as appropriate. But in a more fundamental level, Scott, it's really about expectations, right? It's about making sure that problems are surfaced and solved; and managing in a substantive, not superficial, way. I think all that's relevant, but to be clear: This isn't about me. This is about the 300,000 people on the payroll, myself included, that want and are committed to having GE in a better place and performing better both for our customers and for our shareholders.

Operator

From Citi, we have Andrew Kaplowitz.

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

Larry or Jamie, obviously you didn't give us EPS or cash guidance, but -- for the year, but industrial free cash flow in Q3 was arguably not as bad as feared. You did say that you would significantly miss your previous cash flow and earnings targets for the year. How should we think about GE's ability to generate earnings and especially cash in what seasonally is usually a strong Q4? And then really more importantly, when we think about next year, are there any guideposts you would give us at this point as you review the businesses, Larry? Should the Power business, in particular, be less of a drag on cash in 2019?

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

Yes, so let me take the first discussion on that one. So as you noted, we're not offering updated guidance right now, but as we look at the businesses, we see real strengths in Healthcare and in Aviation. And in Power we just started seeing continued impacts from the lower market penetration I talked about, deal closure delays and uncertainties and just other operational and project execution issues. And we do see those continuing into '19, but as we pull back: Fourth quarter, as you referenced, has always been a significant volume quarter for GE. And we expect this fourth quarter to be the same, again with strong volume in units at Aviation, Healthcare, renewables and at Power. And Power is also back-end loaded historically, which is another reason that, as we really look at Power and the visibility we have there both with respect to the market and the operations, we're positioning our views on that right now the way we are.

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

Andrew, Larry here. I hope that you and others will appreciate that, when we talk about numbers on a forward-looking basis, we want to do so with conviction and confidence. I don't want to fool you, let alone myself, and thinking 30 days in that I can give you that today. So with respect to the quarter and certainly the outlook for next year, there'll be a time and place for that, but make no mistake. We know that the Power business has to perform better, and that is what we're going to spend a ton of time on once we get past earnings today.

Operator

From Deutsche Bank, we have Nicole DeBlase.

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

So I guess maybe we could talk a little bit about Power. So just based on the actions that you're announcing today, is there any sense of the level of savings that those, like the headquarter consolidation, could actually drive? Just to give us a sense of what the baseline of savings could be as we move into 2019.

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

Nicole, I think what we've done today is really share both internally and publicly the organizational architecture, if you will, that we have in mind. There are a number of details that Russell, the team and I will be working through in the days and weeks to come. And as those details become more clear, we'll share those first internally and then we will share them with you and others publicly. So give us a little bit of time to work through that. I think, in the interim, we want to leave that open, but I will just underscore that while there's an opportunity to improve our cost structure, dare I say an imperative given our current performance, a good bit of what we're talking about here is also geared toward running the businesses better. I think, by consolidating the headquarters and really putting that support around the gas business, we'll all have a better line of sight on the action day to day in that business; and be able to make decisions, I think, more crisply, with more transparency and more accountability. Having the rest of that portfolio, the Power portfolio, coming in directly as well through a different path will give us an opportunity to see those P&Ls clearly without any noise and work business by business to drive improvements there. And I say that's a better way for us to operate. We can come come together and do things together, that makes sense, but we're going to make sure that we're maximizing and optimizing those individual businesses first.

Operator

From Barclays, we have Julian Mitchell.

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

Maybe just my question will be around GE Capital. Jamie, you had talked about sort of more work to be done looking at the liabilities relating to tax, WMC, insurance and so on. Obviously, that will set alarm bells ringing given the scale of miscalculations at things like insurance and so forth, so maybe just give us an update on how sizable you think some of these liabilities might be. Is there a risk that

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they do end up similar to the scale of the insurance adjustment earlier in the year? And also related to that, I didn't see -- maybe I missed it, but I didn't see any reiteration of that $25 billion capital asset sale plan by the end of 2019, so I just wondered if you can give an update on the pace of those asset exits at capital.

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

Sure. So with respect to the first piece, at this point, we see at least $3 billion of capital contributions into GE Capital, as I mentioned. We continue to shrink GE Capital, and we still are on our plan for $25 billion of asset reductions. To date, we've seen asset reductions via sale of about $7 billion. You saw $11 billion done on the balance sheet. A lot of that is just seasonal timing, some others shifting. We do expect to see another big tranche be sold in the fourth quarter, so well on track there. And then with respect to the other elements we're monitoring, it's a little bit of a moving target. I mean we monitor tax reform. We got some interpretations we expect to either be cleared up or sent out in the fourth quarter. That could cause some tax adjustments in the fourth quarter for GE Capital. WMC is something we continue to monitor, and then our annual fourth quarter insurance evaluation as well. With respect to that, we just reset that last year, as you mentioned. And interest rates are up more than planned, which is helpful, but it's a process we go through and it's something we're monitoring. And I'd say, when I look out in '19, '20 and beyond, I mean, GE Capital's resources are just more limited as it shrinks, so GE may need to support GE Capital further if necessary. And when we think about either achieving desired capital levels, derisking debt maturities, those are the kinds of things we're thinking about, but right now as we look at '19, we see the 3 things I mentioned as the monitoring points.

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

Thanks, Julian.

Operator

From Wolfe Research, we have Nigel Coe.

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

So you mentioned obviously the portfolio plans laid out in June remains the bid case. And that portfolio plan is key levers in delevering and derisking the balance sheet. Can just give us an update on the timing and the moving pieces for Baker Hughes and GE Healthcare? That's the first part of my question. And the second part would be you've obviously spent much of your time, so far, with Power. Obviously, Power results this quarter were less than -- obviously, well below what we expected. Can you maybe just quantify what those onetime items were hitting the P&L this quarter and how you see the path of cost reduction in Power progressing?

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

Sure, sure. Nigel, I would say, with respect to the strategy, again what we're reinforcing today is the framework, the strategic framework, that we highlighted in June with respect to derisking and deleveraging the balance sheet and really setting the businesses up to win and in some cases businesses in an independent form. You mentioned Healthcare. We talked about that back in the summertime. Today, I don't think we really have much to say relative to Baker Hughes. They've got their earnings call here shortly. I think what we can say is that our intent, as expressed in June, holds; and that you should expect us in an orderly fashion over several years to implement that objective. I think, with respect to Healthcare, we're still of the view that Healthcare operating in an independent form is probably what is best for that business and that team. Might the timing and sequencing there change relative to some other things that we're working on? Too early to tell, but it's certainly something that Kieran and I have been talking about.

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

Yes. And I'll jump in here on Power. You asked about the negative op profit in the quarter and some of the different charges. So I talked through earlier the goodwill and the Power Conversion intangibles focusing on Power operations. In the quarter, we had $240 million of charges, on the blade issue, with respect to warranty and maintenance reserves. We saw about $400 million of project reserves and other execution issues and about $150 million of just some other execution issues. We saw lower volume in the quarter. And if you really put that back together, Power probably came in about as expected operationally, with the exception of these charges that are incrementally flowing through.

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Operator

From RBC Capital Markets, we have Deane Dray.

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

Covered a lot of territories, so far. And maybe some broad-brush questions for you, Larry. Maybe first would be what do you think are the -- 30 days in, the biggest misperceptions that people on the outside have right now about GE. And then related is you're coming in from the outside and you're basically on unfamiliar ground. You're surrounded by senior managers who didn't grow up with DBS, don't know the playbook. Is it -- how are you set with building out your team, basically your inner circle of advisers?

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

Sure. Well, let me take those in order. Biggest misperceptions: Deane, there are a lot of people around GE that know the company far better than I do, right? In this role for 30 days, on the board for less than a year, I won't claim any special expertise, but again I think, as you get into the business -- I have been truly impressed with the talented people I've met really around the world. This team has been through a lot the last several years. The company perhaps doesn't enjoy the reputation in certain quarters that it once did, but people here are committed to embracing that reality and changing it. And I take a lot of comfort and strength from that. Frankly, I'm not sure, when my board colleagues came to me, that I would have stepped into this role hadn't I been out on the road over the course of the summer, visiting our business and our team in China, getting the opportunity to walk a couple of plants in Power, getting out with David Joyce and the Aviation team and really seeing the strengths of GE that go a bit perhaps underappreciated today. And I don't want that to sound like I'm sugarcoating our reality. This is not a quarter that we're particularly proud of, but that said, Aviation knocked the cover off the ball. And Healthcare wasn't too far behind, Transportation in a good place. We really like what we're going to do strategically there with the merger. So there are good things going on here. That doesn't necessarily take away from today's headlines, but there are things we can do to build on this team, these assets, these strengths; and that's what we're going to do. With respect to the team, Deane, you and I both know we share a passion for the local ball club here. Alex Cora just won a World Series, as best I can tell, largely with the team that was on the field a year ago that didn't do so well. So I am listening to a lot of people here in these first weeks. That will continue, listening, learning, but again I feel good about the group that we have here. And we're committed to building a stronger General Electric.

Operator

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

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

We've been getting a lot of question on GE Capital, particularly the aircraft leasing business. Can you just walk us through what you guys are seeing in terms of book value of the assets? And just a broader question: As you look at GE Capital and as you sort of make a statement about no capital raise, does that mean that you feel that, GE Capital, you are comfortable with where GE Capital values are? Or are you saying that, "Look, I'm only in for 30 days, and it's going to take us a while to get through those?" So just 2-part question.

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

Yes, Andrew, on GECAS, I would say, with respect to asset values there, we're not seeing anything unusual come through. We'll have to -- we can work it more offline to give you more specifics if there's specific questions on that. And then with respect to the discussion about an equity raise, I'm not sure we have -- I have anything more to add to what Larry said before.

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

I don't have much to add either.

Operator

From UBS, we have Steve Winoker.

Steven Eric Winoker ***UBS Investment Bank, Research Division - MD & Industrials Analyst***

Larry, if I think back to when Dave Cote took over Honeywell and Ed Breen took over Tyco and in similarly difficult times, and you've got capital, the thing that's striking the most to me is at least these expanded investigations that came out today and the ongoing question about facing the numbers that you've got to base your decisions on. So just trying to get a sense for what is giving -- where are you in

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kind of your continuum of getting confidence into the underlying numbers that are kind of at the core of basing the rest of the decisions on? And this is before I go, if you can also just address Healthcare. You're saying it's very strong. It's just came a little flat in terms of the growth up 3%. Rest of the segment peers seem to be doing a little bit better. A little confidence there should be helpful.

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

Yes, Steve, I would say, with respect to my discovery work here and beginning to kick things into gear, it's early, but where I'm focused primarily is what we can change going forward in terms of the trajectory and the underlying performance. I think part of what we need to do at Power is ring out a little bit of the undue optimism that I think we referenced in our prepared remarks so that we can establish a baseline that we can build on, a baseline frankly for our own internal processes, let alone when we're talking about the business on the outside. And in that regard, again it's early, but I have conviction that there are things to build upon. There are improvements that are well within our reach, and we just need to do that. And that, again it's not going to happen overnight. It's going to take some time, but I'm hopeful that we can build that credibility, deliver that performance over time.

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

And Steven, just a quick comment on Healthcare, as you asked about. Healthcare revenues were up 3% on an organic basis. We saw segment profit up 10%, a consistent basis. And when you really peel back the layers, we're seeing very consistent growth across the different regions as well as in the product lines. U.S. was down a bit this quarter, and we expect it to have tough comps again in the fourth quarter but largely driven to big orders we had last year from VA in the U.S. China's strength continues. And what the business is really doing well is getting a really nice mix of growth in the market coupled with strong cost control and a real steady focus on how they're investing in R&D. So nice profile.

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

And Steve, just to be clear. I think we're well aware that, Aviation, really it was the stand-out force in the third quarter of this year. My comments about the strength of the Healthcare business were not rooted in the last 90 days but really looking at that business on a prospective basis. I think it's an outstanding business there, well positioned in a number of attractive submarkets. And we intend to grow that going forward.

Operator

From Crédit Suisse, we have John Walsh.

John Fred Walsh ***Crédit Suisse AG, Research Division - Director***

So I wanted to actually talk about Aviation because that was clearly a source of strength in the quarter, and you reiterated your view of 15%-plus on the OP line there. So that does imply sequentially that the margins are lighter. Obviously, there is the LEAP ramp or there's higher LEAP in Q4, but as we think about that longer term because it will be a big driver of the future GE, do you still believe that the construct of holding the margins while you ramp LEAP is the right way to think about that business? Or has anything changed there?

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

Yes, I'll give a little bit of context on the quarter, the year and just a macro level. In the quarter, we just continued to see real underlying strengths in the business, global passenger travel up 6.8% year-to-date, passenger load factors at all-time high, which just means our engines are just flying more, which means we build more hours under services contracts. We consume our parts as they go in for maintenance. We are seeing negative mix as the LEAP volume ramps. This has been partially offset by nice improvement in LEAP product costs; and at services, like I mentioned, just a very strong spares rate and just strong spare part consumption on our T&M contracts. Peeling back and looking forward, we do see CFM coming down, but it's more than offset by military being stronger, the LEAP cost curve really coming down over the next few years and the services strengths continuing. We expect to see continued healthy growth there, particularly as CFM continues to work its way through the services cycle. So backlog, strong revenue growth, air miles, strong services growth and LEAP coming down the cost curve is probably the way to think about it.

Operator

From Goldman Sachs, we have Joe Ritchie.

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

So just a couple quick clarifications. Jamie, on the net leverage target, I didn't see you guys explicitly call out 2020, but you did mention in the next few years. So has that 2.5x changed at all from a timing perspective? And then the second question, in just thinking about the comments around GE needing to support capital beyond the $3 billion in capital infusion in 2019, is the -- are the -- is the new insurance policy going to make you revisit the $15 billion capital outlay over the next few years?

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

So with respect to the first question, on the net debt-to-EBITDA, we intend to reach net debt-to-EBITDA of 2.5x. We plan to achieve that over time, with substantial progress through 2020. That's really how we're thinking about that right now. With respect to the -- and I assume you're talking about the insurance accounting standard. That is something that, as I said, we expect will have a material impact on the financial statements, it's not effective until 2021. It requires more granularity around loss testing. It changes the discount rate assumptions. And we'll evaluate that over the next couple of years, but it does not impact the statutory reserve accounting. And that is really what drives the capital funding requirements for insurance.

Operator

From Gordon Haskett, we have John Inch.

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

Jamie, what was the capital stranded debt at the end of the third quarter? And as a follow-up, what would you say are the -- or like what's the actual free cash of the businesses that we've committed to selling? To try and discern what could be some sort of a normalized cash rate. Say once is working capital, and restructuring balance. So I guess there's rail, ambulance, Distributed Power or Industrial Solutions. Is there any way to put that into a context?

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

Yes. We said before that the free cash flow of the businesses that we're selling is a little over $1 billion, about $1.2 billion in free cash flow. So that's some sizing there. And with respect to excess debt, paydowns in 2018 will be $7 billion. 2019, we expect that to be about $9 billion. And then we've got long-term debt maturities in 2020 in GE Capital of $16 billion. It's really a question there of issuances that might offset that. So that might give you a little bit of sizing there.

Operator

From Cowen and Company, we have Gautam Khanna.

And we'll take the next question from Oppenheimer. We have Christopher Glynn.

Christopher D. Glynn ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Just wondering as you look at GE Capital overall and the GECAS asset. Curious if you see net positive value of the GE capital balance sheet and earnings power here and if we should think of potentially selling GECAS as like a silver bullet to sure up what may come with the accounting standard change in insurance and if you will not wait until 2021 to answer that rather than leave it as an overhang.

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

GECAS is a really strong business. Over the years, it's I think demonstrated its strength in terms of its risk in its underwriting and how it performed with lower loss ratios over time. We think it's really advantaged because of its knowledge of the underlying assets, and due to that, we receive inbounds on this business all the time. We think it's a valuable franchise. We have not made any decisions or have plans right now to do anything with GECAS, but certainly that's something. As we think about the timing and the pace of execution on our overall plan, that is something we could think about.

Operator

And our last question comes from Justin Bergner with Gabelli & Company.

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Justin Laurence Bergner ***G. Research, LLC - VP***

Are there other plans on the asset sales side within industrial? There have been some sort of news reports about potential asset sales beyond the sort of ones already announced.

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

We've got our $20 billion disposition plan in motion. We've executed a number of those already this year. Distributed Power, as I mentioned, is on track to be sold in the fourth quarter. Transportation is on track for the first quarter. We do have a few Aviation businesses and Current & Lighting that we're still well underway in those processes, so those will likely come through as well. Beyond that, I think it really gets back to Larry's comments on Baker Hughes and Healthcare and a plan to orderly separation over time with Baker Hughes and over time a separation of Healthcare as well.

Operator

Thank you. We will now turn it back to Todd Ernst for closing remarks.

Todd B. Ernst ***General Electric Company - VP of IR***

Okay, thanks, Brandon. Thanks, everyone, for joining us today.

The replay of today's call will be available this afternoon on our investor website.

Have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect. Speakers, please stand by for your post conference.

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