



Conference Call Transcript

GE - General Electric 1Q 2008 Earnings Call

Event Date/Time: Apr. 11. 2008 / 8:30AM ET

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Results are discussed on a continuing operations basis except as noted.

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the General Electric first-quarter 2008 earnings conference call. At this time, all participants are in listen-only mode. My name is Melanie and I will be your coordinator 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, Dan Janki, VP of Investor Communications. Please proceed.

Dan Janki - General Electric Company - VP, Investor Communications

Thank you, Melanie. First of all, I would like to welcome everyone to our first-quarter earnings conference call. Today's presentation material, press release and supplementals are available at our investor website at www.ge.com/investor. Today's presentation does contain forward-looking statements based on the world and economic environment as we see it today and that is subject to change.

Today, we are going to cover our first-quarter results, second-quarter and total year outlook and to do that, we have our Chairman and CEO, Jeff Immelt and our Vice Chairman and CFO, Keith Sherin. So at this time, I would like to turn it over to Jeff to get us started.

Jeff Immelt - General Electric Company - Chairman & CEO

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Great, Dan. Good morning, everyone. Just say at the outset that we are disappointed in our performance. We missed our guidance, primarily, but not solely driven, by financial services. We did continue to see a few bright spots. Our global growth was very strong at up 22% emerging markets and even the developed ex US were solid, but we did see a slowing US economy in Q1.

The industrial earnings were up substantially, really led by infrastructure, which remains strong across the board, but the financial services environment was very difficult and became even more difficult late in the quarter and commercial finance and GE Money were down about 20%.

We had planned for a difficult environment in December. The environment, I think particularly in financial services, became more difficult during the quarter and what we have tried to do and what Keith will go through is that we have reframed the balance of the year based on the world that we see today and some of the challenges we saw in financial services in March.

If you look at the first quarter, there are really three basic things that I would go through. First, what happened versus guidance. Commercial finance, which has been a very reliable performer, which has consistently hit its numbers over the years, had about a \$0.05 earnings per share impact from lower gains and mark-to-market impairment versus planned. Healthcare, because OEC didn't ship and C&I had a very challenging appliance market also created headwinds.

We had planned for a difficult environment. We had planned for an environment that was going to be challenging, but what I would say is kind of late in the quarter, particularly after the Bear Stearns event, we experienced an extraordinary disruption in our ability to complete asset sales and incurred marks of impairments and this was something that we clearly didn't see until the end of the quarter.

We also saw a slowdown in March in the US healthcare and C&I market, so I think what we did is try to reflect on that, not create excuses about it, but take appropriate actions. We have reviewed all the businesses in the last few weeks. We have made operational adjustments as we approach the year going forward. The Company fundamentals remain strong. We have got good global growth, we have got big infrastructure backlogs, we have got strong productivity programs, a strong balance sheet, and great industrial cash flow.

We believe that the strategy and the fundamentals of the Company remain strong, but we felt like it was wise to revise guidance for the remainder of 2008 to reflect today's market realities and what Keith will go through basically sketches out industrial earnings that still remains up 10% to 15%, but allowing for financial service earnings to be down 5% to down 10%. So we are really assuming no improvement during the year. We think we have adequately reflected the environment that we see today and really aren't counting on any overall improvements.

Just looking at the key performance metrics, growth remained fairly strong for the quarter, orders up 8%, revenues up 8%, assets up 20%. Our organic revenue growth was 5% industrially, down 7% financially, really based on lower volume as we drove price and fewer gains. EPS, as I've said earlier, miss plan and we are below guidance.

Returns at 18.1% were flat year-over-year. Margins were down year over year. We did achieve good productivity in pricing, but the mix of equipment versus service and a lower overall healthcare earnings really did bring down overall margin rate for the quarter and cash, led by industrial cash flow growth of 8%, remains a solid story and should carry forward for the rest of the year. So overall, a mixed performance in a tough environment and Keith will take you through some of the details.

Keith Sherin - General Electric Company - Vice Chairman & CFO

Thanks, Jeff. Let me start with orders. We continue to have very strong absolute orders. On the left side are major equipment orders. For the first quarter, we had \$12 billion of major equipment orders, up 11%. These orders are always lumpy on a quarterly basis. You can see that in aviation. In the fourth quarter, they were up 66%. In the first quarter, they are down 21%. Aviation has had pretty tough comparisons in commercial engines, but even down 21%, the absolute level of orders continued to allow us to build backlog. The orders were 1.3 times to shipments.

You can see that energy had another great quarter, up 59%. Our thermal orders were up 125%. Our wind orders were up 40%. Oil and gas and transportation were also lumpy, but both grew their orders numbers and they built their backlog and finally, I think if you look at infrastructure in total, infrastructure out of this total major equipment orders had \$9.3 billion of orders, up 15% and the backlog grew to \$46.8 billion. It's up 48% from last year.

So we just continue to have a tremendous performance in our infrastructure segment, not only the absolute level of orders, which you can see in the bar on a rolling four-quarter average of \$12.5 billion, but then that is building backlog because, again, on a rolling four-quarter average, you are dealing with \$9.8 billion of shipments, so we are adding \$3 billion to \$4 billion of backlog a quarter here as we continue. Even with these

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orders leveling off at these levels, it is going to continue to sustain growth for the next several years, so great performance in orders on major equipment driven by infrastructure.

In the middle of services, we had service orders of \$8.3 billion, up 5%. You can see aviation was up 4% driven by strength in military. Commercial spares orders were \$19.7 million a day versus \$19.3 million last year, up 2%. Energy service orders were down 2%. That is really driven by timing in nuclear service. The orders were down 29%. The PowerGen services were up 9% and you'll see later in revenue, they had a good quarter.

Oil and gas was very strong. Healthcare had a good services quarter and over on the right side are our flow orders, \$3.9 billion in the quarter, were down 2%. This is organically, so we don't have any impact from favorable translation on overseas orders. This is what it would be in local currency.

You can see appliances had a tough market. That is mostly in the US. Retail down 5% and the contract -- the builder channel down 14% created down 6% for appliances in total and enterprise solutions was up 3% with good strength in sensing, inspection technologies and digital energy. So our infrastructure orders continue to be the strength of the Company. The flow environment is tougher, but we continue to build backlog and it bodes well for going forward in the industrial businesses.

I'm going to start with a summary of the first quarter and then I will cover the industrial businesses followed by the financial businesses. This is a summary of operations on the left side. Revenues of 42.2, up 8%. The industrial sales of \$24 billion were up 12%, so the lower revenue number was in financial services. Earnings of \$4.4 billion were down 12% with earnings per share of \$0.44 down 8% and then on a total reported basis, including the impact of discontinued operations, down 2%. Cash flow of \$4.9 billion is down versus last year because of the special dividends in GE Capital. I'll show that on the cash page later and industrial CFOA of \$3.7 billion was up 8%.

Taxes, you can see the consolidated rate for the quarter came in at 16%. That is four points lower than last year. You can also see the lower rate was all due to the GE Capital rate of 3% in the quarter. The capital rate came in at 3% as a result of the lower US pretax earnings, principally caused by the negative mark-to-market impact and lower gains that Jeff mentioned and since the US earnings are taxed at a much higher rate than our average rate, decreasing those earnings caused the average rate to decline. So for the total year, our guidance today would be to have the tax rate in line with a 16% Q1 rate and that will be flat with last year.

And on the right side, you can see the business results. I am going to cover this business by business, but if you take the whole quarter, our segment profit of \$6.3 billion was about \$600 million short of our guidance. Most of that miss came in commercial finance as Jeff said and the balance was in healthcare and industrial. So there are really two drivers that we are dealing with. Tougher capital markets impacted our financial services business. I will take you through the details of that and a slower US economy pressured our results.

I'm going to do the pitch in a little different order this time. We are going to start with a summary of our industrial businesses and look at those and then go into the financial businesses because I think there are two different stories in the quarter. If you look at the industrial businesses, on the left side, our industrial net income, so not including any of the financial services impact, is up 26% year over year.

Now on a segment basis, so if you look at the four businesses without any impact of corporate, the net income is up about 12%. But the fact that we had less restructuring and other charges at corporate this year than last year lifts the reported net income up to 26%. It is driven by strong revenue growth led by the global activity. Revenue is up 12%, organic up 5%, global up 28%, services strong.

And on the right side are the drivers by business. I am going to take you through each of these pages business by business, but infrastructure did have a great quarter. NBCU continues to deliver solid profitable growth. Healthcare had a tough quarter and also has tough comparisons. I will explain that when I get to the healthcare page and industrial had a mixed story of strong performance from enterprise solutions, but the market for C&I was very challenging, so let me go through the details.

Going to start with infrastructure. We had another great quarter in infrastructure. Revenues of \$14.9 billion, up 23%. The segment profit of \$2.6 billion, up 17%. The key business results are listed down the left side and if you look at the box on the bottom left, you can see the industrial businesses in here without any impact of the financial services verticals, revenue and segment profit were both up 21%, another very strong quarter.

On the right side are some of the business dynamics and let me start with a little more detail on aviation, then I will go into energy and wrap up with infrastructure. So aviation, revenues up 25% and segment profit up 11%. Revenues up 8% ex Smiths. Total orders, as I mentioned, \$5.1 billion were down 11%. Commercial engines had \$1.5 billion of orders. It is down 50% because of the really tough comparisons we had last year

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in the first quarter for GE90 and GENx. But even with that, we added over 120 GENx orders in the quarter and military engine orders were up 52%.

Product backlog continues to grow. We ended the quarter at \$19.3 billion, up 51%, so we continue to build backlog even while we are shipping more engines. Revenues of \$4.3 billion were up 25% as I said. The commercial engine revenues were up 10%. We shipped 35 more commercial engines this year than last year. Service revenues were up 6%. In that, commercial was actually down 3%. We had very strong spare parts sales in the quarter, 19.4 million a day versus 17.5 last year, so that is up 11%, but that was offset by lower contractual services results against some tough comparisons last year.

Military engines were up 18% and Smiths added close to \$600 million, about 18 points of the revenue. So op profit up 11%, really driven by Smiths, that is up 7% and the core operations up 4% and a pretty positive quarter here despite some tough comparisons.

Energy is next. Energy is just extremely strong. Energy revenues were up 21%, segment profits up 32%. Total orders continue to be excellent here. The orders of \$4.8 billion were up 30% in the quarter. Major equipment orders were up 60%, so we are getting a good backlog build. Thermal orders, \$2.2 billion, were up 125%. We received orders for 38 gas turbines this year versus 33 last year. The thermal backlog that we're working off is up to \$7.4 billion, up 100% from a year ago and the wind business continues to perform very well. Wind orders of \$1.8 billion were up 40% and the backlog is now close to \$12 billion, up more than two times from first quarter a year ago.

Overall, the PowerGen orders, price is also positive, up 4% for the quarter, which also bodes well for the future. Revenues in the quarter of \$5.6 billion were up 21%, driven by thermal. Thermal revenue was up 33%. We shipped 36 gas turbines in the quarter, up from 28 last year. We shipped 569 wind turbines versus 524 last year and the service revenues were up 11%. So op profit was up 32%, driven by both volume and price at PowerGen. Overall, just a great broad-based excellent quarter.

Oil and gas and transportation both had very strong performances and the asset quality in the verticals continues to be excellent. We have zero non-earning assets in these two businesses. So overall, infrastructure continues to be the strength for the Company and it is based on tremendous global demand.

Next is healthcare, healthcare had a challenging quarter both in the marketplace, as Jeff mentioned, and with tough comparison. The tough comparison is because, last year, we changed our recognition method for revenue from recognizing revenue on delivery to recognizing revenue on shipment. We did that in the third quarter. And we corrected prior periods to reflect that. So when you look at the reported results here, revenue of \$3.9 billion was flat and segment profit of \$528 million was reported down 17%. The reported variance looks much worse than the actual operating performance.

The way to think about it, if you look at the footnote A in the bottom of this page, the revenue recognition change that we made last year added \$254 million of revenue to the first quarter of '07 and \$117 million of op profit. Basically those shipments that were recorded as revenue in the fourth quarter of '06, because we had to go to delivery, rolled into the first quarter of '07. The business had no operating activity associated with that; it was just an accounting move. And if you adjust for just that change impact, the business was closer to flat on op profit. So the V looks worse than it is in terms of operations.

You can see that also in the marketplace. When you start with the commercial trends, the orders were up 2%. Service was up 8%, equipment was down 1%. We continue to see a very tough equipment market. CT was down 15%, MR was up 8%, x-ray was down 5%, and in Americas, the Americas DI was down 13%. We still have some pretty tough comparisons versus DRA. We had backlog coming into '07 and the international was up 5%. So it is a similar story, good strong global performance and tougher in the US market.

Services, backlog of \$2.1 billion, up 7%. We had a great long-term service agreement win with HCA, five-year service contract on both DI and Biomet, so we had pretty good service performance and on the right side are the dynamics that impacted us versus our guidance. First of all, as Jeff mentioned, we are disappointed not to ship from OEC. We have been working this for 20 months. We are in a tough process here. We have completed all of our obligations and we're working through responses from the FDA. That hurt us by about five points versus our estimate not having those shipments. We do expect to ship in April here and we have got to work through the final steps.

The bigger impact in the quarter though is the US market was tougher than we forecast and that hurt us by about 15 points versus estimate. So the V looks worse than it is, but we did miss versus our guidance because of our performance in the marketplace.

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The bright side of healthcare continues to be global. The global equipment revenues were strong. DI internationally was up 8%, clinical systems internationally is up 13%, life sciences figure in Europe up 24% and services was up 9%, so a very good story. Our miss in healthcare was driven by the challenging US environment, partially offset by continued global growth.

Industrial, overall results had a tough quarter. Revenue up 1% and segment profit down 16%. You need to split that, as I said earlier, between consumer and industrial and enterprise solutions. On the left side, you can see some of the commercial trends we are dealing with. The US appliance industry core was down 10% in units, total was down 18% in the first quarter. Core was down 9% in January and February and then it went down 11% in March and you all know the housing story, which is really impacting our contract channel, our builder channel. The partial offset continued to be global growth in both the rest of C&I and enterprise solutions. US orders were down 5%, but Asia and Latin America were up over 20%.

On the right side you can see that enterprise solutions had a very good quarter, revenue up 8, segment profit up 15 driven by the growth that we see in sensing and inspection and digital energy and that should continue. However, that didn't offset the pressure we had in commercial, consumer and industrial. We responded to the inflationary inputs that we have on raw materials. We raised price; we did have positive price in the quarter. We lost about a point a share and we didn't offset all the inflation.

We are taking a lot of actions on costs. Base costs were down, salaried employees were down and we're doing a lot of restructuring in C&I to deal with this environment. So we're operating in a tough US environment. The consumer market is tough, especially in C&I, and we are getting some of the benefits from the stronger global growth here in the segment.

And next is NBC. NBC delivered their sixth quarter in a row of positive earnings growth. I think revenues of 3.6, up 3% and segment profit of 712 up 3%, pretty good performance. When you look at the pieces of NBC, the network and local stations were basically flat and revenue in the quarter, but up 3% in op profit. So our shows have been performing pretty well. The prime time is on track to finish number two.

Our prime ratings of 2.8 are within 3% of last year, so that's the best year-to-year comparison for any of the networks. We can continue to improve that, but we feel good about the progress the teams are making. NBCU produced content really helped in the quarter. We had strong DVD sales from products like Heroes and House and 30 Rock that we produce, and the one offset here in the network was the local markets were challenging. We saw a local ad spending decrease of about 11% in the quarter, this is an indicator that it's tough out there.

The real bright spot and strength here continues to be in entertainment and information cable. We had another great quarter. USA was number one for the seventh consecutive quarter, they're winning in total viewers and all the demos, again the great results at USA together with Bravo and Sci Fi helped deliver double-digit profit growth in this segment. And the information cable channels are doing great. MSNBC had its highest-rated quarter in six years. The ratings at CNBC Business Day were the highest in seven years, so this whole segment is really performing.

Film had a very strong quarter with nice results in the award shows. Op profit was up double digit, principally driven by this year's DVDs. American Gangster and Atonement had very good results versus easier comparisons last year and for the parks, we saw good attendance and spending in January and Feb, but slightly lower than expected in March, another thing we are watching.

Digital, we launched the consumer version of hulu, very good reviews and our digital revenue was up about 5% in the quarter. So overall, another on-track quarter for the NBCU team.

And finally, on industrial, one more page, we are running the Company with a disciplined focus on operations. If you look at the left side about our operating profit rate, the rate is down 70 basis points in the quarter. I think you have got to peel it apart a little bit. With our growth and the op profit then, we still grew our op profit dollars and on the positive side here, if you look at the variance items here, our pricing actions that we are taking are more than offsetting inflation. We are getting positive productivity, so we're working hard on the cost structure, getting more output with the same or less input.

There are two drags here that are both future opportunities. The equipment services mix, we are up 3X on equipment versus services at lower margins. That is just a future opportunity as we continue to build the install base and the fact that our acquisitions, especially in infrastructure with Vetco and Smith, are at lower op profit is another opportunity because we're working on the cost structure and we will get those op profit rates up. So the one play -- we definitely have more work to do in healthcare. It was a drag of 50 basis points in the quarter and right now, overall, when you look at the dynamics, we expect the total year to be about flat with last year at about 16.6%, but that will be accompanied by good revenue growth and good op profit growth.

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In the middle, as a result of the first quarter, we are going back with all the teams. We are taking on an additional \$600 million of base costs, another 3% reduction on the base cost balance here, so we are taking a lot of actions to try and deal with some of the environment we see that is tougher than we thought and on the right side, we are totally focused on delivering our net income growth and cash flow in the quarter is up 8%, a little ahead of plan, but on track for the up 10% for the year on the industrial side with a lot of good activities on cycle time and lean and focus on progress collections. I have a page later on on cash, but we are off to a good start. So we are running the Company with a lot of operating discipline and we have to given that we have got a tougher environment.

Let me shift now to the financial services side. Everyone is aware of the challenges that are out there in these financial markets. There have been massive write-offs. That has created the need for significant capital infusions. GE Capital is not directly impacted anywhere near the way the financial institutions have been hit. But you have to realize the leveraging effect that is going on in the marketplace is slowing some of the global commercial activity and I tried to put a couple of indicators on the bottom half of this chart to show that. The global commercial real estate sales have been running at \$250 billion plus a quarter and we saw a real slowdown in the first quarter, down 60%.

The leveraged loan market really fell off in the first quarter. The large cap transactions obviously fell off in the fourth quarter, but there has been a lot of mid-market activity that has continued and that slowed down and the US CapEx is also slowing, which does impact some of our flow businesses some. And then one the other event that is not on the page obviously Jeff mentioned was the meltdown and the takeover of Bear Stearns, which created more volatility in the capital markets in the second half of March than we could ever have anticipated.

So this is a really tough environment. GE Capital has great real estate assets. Our underwriting is fantastic. We are very disciplined in what we do in terms of underwriting and risk management, spread of risk diversification, but we are not completely immune from this capital markets volatility.

And on the next page, there are a lot of positives around our financial services. This is not a gloom and doom story. Our funding is in great shape. We did \$35 billion of long-term debt in the first quarter. We are ahead of our plan for the total year. Demand for our commercial paper is strong, our spreads have come down, CDS swap rates have come back into more normal relationships and I think that is all good news.

Our new business margins are improving. You can see on the right side the Q1 commercial finance volumes at higher spreads. We have an opportunity to put capital to work at great returns and senior secured debt positions that we know the assets at low loan-to-value real estate positions where we can underwrite and understand the assets and we are doing that and that will demonstrate improvement in the future.

And the credit, this is not a credit story. The credit is solid as expected. The commercial finance 30-day delinquencies are 1.36%. It is up 10 basis points from a year ago. These are at historic low levels for us, so the quality of the portfolio continues to be very robust. GE Money delinquencies are in line with the plan and I will cover that on the GE Money page and the one issue we had is that the capital markets and the gains were tougher than expected and I will cover the impact of that in the next few pages.

So we are continuing to reshape financial services. We are on track for a \$50 billion redeployment goal. We closed the Merrill Lynch Capital deal. We have got an LOI on European commercial platforms in the commercial business in Italy. We sold the corporate card in the first quarter. We got that done with American Express. I will show you the impact of that. We have got an LOI on some select European GE Money dispositions where we don't have scale and we think it is appropriate to get them with a bigger player and we are really going to lighten up on our US exposure obviously. We are on track for selling the US PLCC business and we are on track for the final exit in Japan. So the core business remains solid and the investments and redeployment are going to be more positive going forward.

So here is a summary of the financial businesses in the first quarter. Our miss was in commercial finance. As Jeff said, we had \$270 million of negative marks and impairments versus our plan and they basically were in three categories. They were in public equities, they are in retained interest valuations from things that we have securitized where we still own the equity tranche and they are in warehouse marks. We also had lower gains than planned. Over \$100 million of gains in real estate pushed out of the quarter and other asset sales that we are working on didn't get completed. Some of those real estate transactions have already been completed in April, so it is a timing issue to some extent.

Now those were the big drivers. On the other side, the asset quality is stable as I said. We have lots of attractive origination opportunities and both GE Money and the verticals met their estimates and I will take you through the pieces of where we are in GE Money, but we did have a miss in commercial finance. I think it is important to keep in perspective. We still earned over \$2.5 billion in net income in our financial services businesses at a 20% return on equity, so it is a solid relative performance, but it is below our expectation and it is not what we expected and we are disappointed.

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So let me take you through the two businesses and commercial finance was a really challenging quarter. We continue to see strong asset growth. Our global originations are good. Assets are reported up 27%, it is up 19% ex FX. Revenues were up 7% and the segment profit of \$1.158 billion was down 20%.

Two drivers here really; one was real estate. Real estate earnings were down 16% in the quarter and that is driven lower gains on property sales. We did sell \$1.7 billion of assets in the quarter; however, we are working on and forecasting internally another \$900 million or so of sales that didn't happen. The good news is we are selling properties and we did complete some of those, as I said, in the second quarter and we will continue to be able to realize those benefits, but they are going to be at a lower level than we wanted and they we are in the first quarter.

We sold in the quarter 56 properties for \$1.7 billion and we added \$7 billion of assets. Now we are also remixing the real estate portfolio. The \$7 billion of asset growth was in 85% of that senior secured debt at about 70% loan-to-values and 25% to 30% ROE, so there are really good solid opportunities out there to get a spread business earning great returns and we are doing a good job of remixing that portfolio and the quality of the portfolio remains strong. The non-earnings in real estate are 0.38% of outstanding receivables. We do not have a credit issue here. 30-day delinquencies, 0.36%; down four basis points over last year. So credit is very strong and the quality of the portfolio and the assets are great.

Capital solutions, really not a big driver in the quarter. Our earnings were up 1%. We had good core asset growth and we had some acquisitions in Europe and Japan. They had some of the marks, about \$15 million of the marks on retained interest were in the capital solutions business, but the balance of the commercial finance earnings were down year over year driven by corporate finance. That was down 41%. That is where the majority of the negative marks were.

As I said, they fall into three categories -- public equity investments where you are just marking them security to whatever the market is at the end of the period from public stock valuations; retained interest on securitizations where we hold the equity. That is really a model that we have to run and then finally warehouse loans and assets. We underwrite a lot of loans with the intent to sell them in the marketplace and at the end of the quarter, we had to take some of those marks. The index, loan index for the comparable products was about \$0.95 on the dollar as we started the year and that went down as low as \$0.85 on the dollar through the quarter and towards the end of the quarters between \$0.85 and \$0.88 or so. So that was about \$55 million.

The largest mark we had was about a \$40 million write-down on our Hong Kong listed wind turbine gear manufacturer and we also wrote off our common stock in FGIC, about \$36 million after tax. So we are subject to additional market decline, but, as Jeff said, our normal volatility here from the marks is somewhere around 25 a quarter. We had \$50 million in the fourth quarter and then in the first quarter, we really have had a spike here. I think we don't anticipate anything like that as you go forward into the second quarter. We have taken a very hard look at it, but we are subject to some of the volatility in the marketplace obviously here.

Q1 new business underwriting is at much improved pricing; that is really good news. The portfolio quality in commercial remains stable as I have said and we are also reducing our costs in commercial finance, so the core here is in great shape and we had a tough quarter.

GE Money also had a tough quarter. The difference is right in line with our expectations. Revenues of \$6.4 billion, up 7%; segment profit at \$995 million, down 19%; again, asset growth up 21%. Really the assets are up 8% ex the foreign exchange translation impact. So we had pretty good core growth in Europe. We had -- the Americas had \$6 billion in growth year over year, but that is down about 6% from year-end, so we have taken some pretty strong underwriting actions here and we are slowing the growth in the Americas.

Segment profit, down 19%, is what we expected. Really it is the mix. Global non-Americas earnings were up 15% and the Americas was down 50%. We had lower securitization. As you know, last year, we had additional securitizations we did in the first quarter that partially offset some of the losses we had from our WMC business and the WMC losses went into discontinued operations, but the securitization gains remained in continuing ops, which drives this negative variance obviously.

We also had higher provisions in the quarter in the Americas. It is about in line with our plan. We said we are going to have about \$600 million of higher provisions and we had about \$200 million in the quarter, driven by the Americas and I will cover some more of that in a minute and then we partially offset both of those impacts with the gain from selling the corporate card business to American Express and you can see in the GE Money segment, it's a \$218 million of benefit against those lower securitizations and the additional provisions.

On the top right, you can see the portfolio quality, the 30-plus day delinquency for GE Money. Total delinquencies at 5.64% are up 42 basis points and almost all that is explained by the growth in the delinquencies in North America, in line with what we expected, up 100 basis points. We are making real progress on repositioning some of the money portfolio.

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As I said, it is great to have the corporate card closed. We are in the process of exiting some of our European platforms where we don't have scale. We are on track for the US PLCC sale. We have the data room, we have a banker or two and we have interested parties working on that and Japan is progressing really well and we continue to take a lot of costs out here. We have taken the headquarters way down in the Money organization. In the quarter, operating expenses were down 5% despite the fact that we are investing in global growth and we are adding more collectors domestically. So the team is doing a good job of taking costs out in this tougher environment.

Next is cash. First-quarter cash flow, \$4.9 billion was our plan. It is down year over year because of the GECS special dividend from the sale of the Swiss Re shares. Industrial cash flow of 8%, just slightly ahead of our internal plan and on the right side, you can see the walk. We started with \$6.7 billion of cash. We added the \$4.9 billion of cash we generated, less the dividends we paid of \$3 billion. We repurchased \$1 billion of stock in the quarter.

Plant and equipment investment was about \$900 million and we didn't really close any acquisition or disposition activity in the quarter, relatively minor and last year, if you remember, we raised the long-term bond. We used that to pay off our commercial paper on the industrial side at the end of the quarter. So we lowered the total debt from where we were at the end of the year and we ended with about \$5 billion in cash in the quarter. So with this start and even adjusting for what I'm going to cover in a minute on revised guidance, we are on track for the \$23 billion loss of CFOA that we have for the year.

So that finishes the quarter and now I'm going to shift to going forward, which is one of the points Jeff made. We hate missing our numbers. It is something that the team takes incredibly seriously. It is something we pride ourselves on and this is a really tough quarter for us. Jeff teed up that we have put together a framework to deal with these first-quarter issues in a responsible way for investors. We want to give you a framework that reflects all the realities we are dealing with, captures the down sides, but it doesn't assume things are going to get better and we have completed detailed operating reviews with all our teams over the last 10 days. We have ground through every single one of the operations about what happened and what does it mean for the future and we think this framework takes into account the need for more flexibility in a more volatile world.

This chart is structured to look at what happened in the first quarter, what is our view of the changes for the balance of the year and why. So let me take you through it. If you look, our original guidance was \$2.42, up 10% plus. First is infrastructure. Infrastructure remains very solid. We are adding a \$0.01 to the balance of the year. It is going to be up 20%.

Second, if you look at the balance of our industrial businesses, we had a miss in the first quarter. We do not think that miss carries through at the same rates for the balance of the year, so giving a guidance, a lower guidance range of \$0.03 to \$0.04 impact for the balance of the year is an appropriate risk reduction. We have been through each of the businesses as we said. We are expecting continued US softness, but we do have the OEC benefits that are going to happen and we do have additional cost actions, so we think that is appropriate.

And finally, financial services, we have to take into account the first-quarter miss, \$0.05 in the first quarter, but again the same thing here. There is going to be less of an impact quarterly going forward we anticipate. First of all, the new business margins are strong. We are going to continue to allocate capital to great opportunities and we are seeing big bulk opportunities where we can put it into core spread business and we are going to continue to do that. We are going to have to assume lower gains based on what we had in the quarter, probably \$0.02 to \$0.03 lower in real estate alone for the balance of the year. Real estate made \$2.3 billion last year and they are down 17% in the quarter. We are going to be down somewhere between 15% and 20% for the year in real estate and so that is one of the big drivers here.

The US continues to be pressured in the consumer business and we expect to have probably some pressure on provisions as we look at going through the year and finally, I think the thing that we are also trying to deal with here is the range contemplates the second half PLCC sale. If we do that, it is most likely that the earnings, which are about \$0.04 from PLCC, and any gain that we get would end up in discontinued operations. So I think rather than having a set of range guidance that we give you today and then having to deal with that in the second half, we are just saying anticipate probably about \$0.04 in that range for the total year from PLCC. So our new range is \$2.20 to \$2.30, up 0% to 5%. I think it reflects what we saw in the first quarter; I think it is a realistic look. I will show you the second quarter in a minute and I think it is an appropriate risk reduction as you look at the year and we still have got to execute and we know that and we are going to do that.

Infrastructure is incredibly strong. We are counting on that and we think you can count on that too. We are adjusting the rest of industrial to reflect the tougher US environment that we saw in March and the tougher capital market environment for financial services, a reality we are dealing with.

So what does that mean for the second quarter? If you look at the second quarter by business here, infrastructure remains solid. We should have great revenue growth. We are taking the segment profit anticipated up 20% plus; we have got broad strength and a lot of visibility. I mean

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everybody asks is infrastructure slowing, are you seeing it globally? This is in backlog. This is the thing that is going to continue for a couple of years and then there is an opportunity to have it continuing even longer than that based on the global needs that will happen in places like the US where we are going to need energy and in places like the US where the carrier is going to have to re-fleet when the global carriers get done. So I think this is a really broad-based business for us and very good visibility in the short term.

Commercial finance, we took it from down 20% in the first quarter to down 10%. We do have some of the real estate carryover I mentioned. As I said, some of the sales have happened, but we have got some more real estate to do. We don't anticipate a repeat of the Q1 marks from the impairments and we do have some pretty good growth that we put in place at higher returns.

GE Money, down 20%, similar to the first quarter; it is going to continue to be challenging. We have the US pressure, probably additional pressure and tough securitization comparisons, the same as what we had in the first quarter, pretty similar in the second quarter, offset by the continued global growth. So I would say a pretty similar profile to the first quarter.

Healthcare, we are going to get the OEC shipments and the comparisons are just easier in the second quarter. The adjustment that we had in healthcare in the first quarter that added op profit and created a negative V of 17 went the other way in the second quarter of '07, so we actually had a \$40 million reduction in second-quarter '07 op profit from that change and that gives that business an easier comparison. So the V looks a little funny compared to the first quarter, but I think driven by OEC and that change in the rev rec, we are pretty confident about where we are here.

NBC Universal continues its first-quarter performance and industrial continues to have pressure in C&I, but good growth and easier comparisons in enterprise solutions.

So overall, for the total Company, we're talking about \$45 billion of revenue, up about 6%. Continuing earnings of \$5.3 billion to \$5.5 billion and a continuing earnings EPS of \$0.53 to \$0.55, down 2% to plus 2%.

So let me wrap up with just -- putting it back together as a summary for what the 2008 total year looks like revised. We have got revenues of \$187 billion, up 8%. That is down a bit. Earnings, obviously \$22 billion to \$23 billion, down from where we were. CFOA at \$23 billion plus, 10% industrial, we still feel good about that and the return on total capital of 18% and on the right side, you can see the new segment outlook Vs. Infrastructure continues to be strong. We have reflected the pressure in the financial services businesses here and in total, with those Vs, we expect the GE industrial earnings to be up 10% to 15% for the year and GE financial to be down 5% to 10% and with that, that is the range of \$2.20 to \$2.30, 0% to 5%.

So that is a look at the quarter, a look at the changes in guidance and how we feel about it going forward and let me turn it back to Jeff.

Jeff Immelt - General Electric Company - Chairman & CEO

Great, Keith, thanks. Just to recap, we are disappointed in performance. We hate to disappoint investors. I do think the environment and first quarter '08 was more difficult than we expected, particularly in financial services and particularly late in the quarter just to put it in context, but we are not -- that really doesn't mitigate kind of where we ended up this quarter.

Nonetheless, the business model remains very strong, the balance sheet is strong. We have got great global growth, we have got strong orders, very strong backlog. The backlog is up 34%. Infrastructure has very strong momentum. We have got good restructuring activity going on. The cash flow is high. We are committed to the dividend and buyback plan. So we think the Company has got lots of strengths as we sit here today and we are reframing this year to model a more difficult environment with guidance of \$2.20 to \$2.30, industrial up 10% to 15%, financial services down 5% to down 10%.

So that is an update on the quarter. Again, we are happy to answer questions. We have a very strong commitment to execute in a difficult 2008.

Dan Janki - General Electric Company - VP, Investor Communications

Thanks, Jeff. Melanie, we would like to open it up for questions now.

QUESTION AND ANSWER

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Operator

(OPERATOR INSTRUCTIONS). Jeff Sprague, Citigroup.

Jeff Sprague - Citigroup - Analyst

I guess one thing we will all be struggling with here today is just trying to get comfortable that we have got a baseline we can have some confidence in and I guess just a couple of things that I am wondering is although you are looking for lower gains, if you could give us some sense of how important gains still are in your earnings outlook for the remainder of the year?

Keith Sherin - General Electric Company - Vice Chairman & CFO

I think the biggest place here is real estate, obviously, Jeff. If you look at our real estate book, about 50% of the assets are debt and about 50% are equity. The real estate business made about \$2.3 billion last year as I said. They are going to be down somewhere between 15% and 20% we would anticipate and the gains are going to be 60% of their year probably. So we are selling a lot of real estate. We are lowering what we thought we would have. We had as we entered the year an embedded gain of over \$3 billion in the properties that we have. We have still got a pretty robust global market, but we are counting on real estate property sales as part of that business model to continue to be a significant piece of those earnings.

At the same time, all the investment we are making is on the debt side of the business to remix it and that gives us more of a spread business going forward. So we sat down with Mike Neal and Ron Pressman and the commercial finance team. Obviously, we spend a lot of time on this and these numbers take into account the pressure they have seen and what they think will happen as we go forward on real estate. And certainly as far as visibility into the second quarter, we think we have got our hands around what the second quarter looks like and we have got pretty good confidence on that for commercial finance. So there is still more in the quarter to get done and more in a year to get done, but we think we have captured what that exposure is for us.

Jeff Immelt - General Electric Company - Chairman & CEO

What I would say is if you look on the industrial side first where we've guided up 10% to 15%, it's really driven by infrastructure and I just think that is really very bedrock solid with high visibility in the backlog and I think when you think about healthcare, C&I and NBC, I think what Keith laid out adequately reflects -- if the economy gets a little bit worse, we could still accommodate that.

And on the financial service side, I think we are just looking at run rates. What we saw in the first quarter, we are not assuming anything gets better and I think executing on that plan gives us a level of confidence than in commercial finance. We are going to be in good shape for the rest of the year.

Keith Sherin - General Electric Company - Vice Chairman & CFO

And I think another -- Jeff mentioned run rates. Commercial finance made \$1.158 billion in the first quarter. We are somewhere around the \$1.175 billion in the second quarter. I think it is a thought-out, well thought-out plan for them and we are trying to make sure we don't have this happen again, Jeff, obviously.

Jeff Sprague - Citigroup - Analyst

Can you give us a sense of the size of the asset base subject to marks and impairments and is there -- you've got kind of a calendar tempo on reevaluating aircraft and other things. I would guess none of that happened in the quarter. Are you looking at any of that in the back half of the year?

Keith Sherin - General Electric Company - Vice Chairman & CFO

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I would say we will have to wait and see where those go, but right now, things like the asset values on aircraft and everything continue to be incredibly strong. I mean we can't get enough aircraft for the global demand, so I wouldn't anticipate that that is something that we are going to be dealing with in any big way in the year based on what we see today.

On the other side, on what is subject to it, we have, in the three categories, we have about \$700 million of public equities that are in a trading category that get mark to market through the P&L. The normal volatility on those securities has been plus or minus 10%, and we just had one security that was down 45% from the end of the year to first quarter based on I guess the Chinese stock market really is probably the biggest driver, so I think that volatility was extraordinary.

We have at all times somewhere around a \$4 billion to \$5 billion warehouse. Right now, it is about \$4 billion of loans that we have originated to sell. It is a lower cost of market model. I think taking the mark somewhere from \$0.95 down to between \$0.85 and \$0.89 depend upon the security in the quarter. That was a pretty dramatic move. Right now, that is above that and the index is above that mark, so we will see where that goes.

And then retained interest, we have about \$1.5 billion of retained interest in the commercial finance book related to the securitizations we have done. Again, that is a mark -- that is not a credit mark, that is a mark based on the fact that the yields investors expect for securities like this have risen and so the present value of the discounted cash flow really came down and that is about \$55 million in the quarter. I mean the spreads widened from the end of the year from 400 basis points to 1000 basis points depending upon those securitizations and what we had to discount the cash flows by. I think the dramatic mark to market there is totally based on the market conditions and basically, as long as we hold those securities to maturity, we are going to earn that back.

So those are the three categories. We do have a lot of investment securities in our insurance business. You have to evaluate those for impairment, whether there are other than temporarily impaired and we have always had unrealized gains and unrealized losses in those portfolios, but these are the three categories that gave us the volatility this quarter, Jeff.

Jeff Immelt - General Electric Company - Chairman & CEO

And Jeff, again, those could go the other way, but we are not counting on any improvements during the year.

Jeff Sprague - Citigroup - Analyst

And just finally, and I'll pass it on, can you give us a sense of what your guidance assumes on provisioning in Money in particular, but across the entire finance portfolio?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Sure. I would say that, in commercial finance, we do have a plan that does have a little higher losses. That hasn't really changed -- that outlook hasn't really changed for us. I think in GE Money, first of all, the provisions are growing with asset growth globally, but the main provision pressure point is obviously the Americas. We said at the beginning of the year and the end of last year, we are going to have about \$600 million more provisions. This guidance does anticipate that that could be a couple hundred million more as we go through the year in the Americas. We saw about \$200 million in the first quarter out of the \$600 million, so we just, based on the delinquencies and we will see where the consumer goes here, the guidance does contemplate that we could have more there.

Jeff Sprague - Citigroup - Analyst

All right. Thanks a lot.

Operator

Deane Dray, Goldman Sachs.

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Deane Dray - Goldman Sachs - Analyst

Thank you. Good morning. Jeff, I think what investors will have difficulty reconciling today is the timing of this miss because, back on March 13 at that retail and investor webcast, you did talk about reaffirming guidance and feeling as though the environment hadn't changed significantly and that was two weeks to go in the quarter. So just take us through about what you knew then and how did conditions change. Was it reporting lines, was it just that you did not see the severity of this in the last two weeks? I know March is, what, 50% of the quarter, so the timing is there. But just take us through what you knew at March 13 and how we should think about that.

Jeff Immelt - General Electric Company - Chairman & CEO

Deane, we had the CC the week before that webcast. I had a chance to review in some detail what the businesses were doing. At that point in time, we still felt like we were on track for the quarter and for the year. We spend a lot of time thinking about those things. I think two days after the webcast, the weekend of the Bear Stearns situation took place. The last two weeks of March were a different world, particularly in financial services. And like I said, I don't want to -- I don't want this to be a company that is about excuses, but I think the \$500 million plus in commercial finance that we missed in the quarter fundamentally took place with really the inability to do transactions in the last two weeks that we normally could get done and marks that basically we do at the end of the quarter that basically all went negative. And that is the vast majority of what we saw and what we experienced.

Deane Dray - Goldman Sachs - Analyst

And then looking forward for the expectation about the portfolio moves you are anticipating, including the sale of private-label credit card, has the credit market conditions and prices that you think you could get as you shift out of GE Money into commercial finance, have those expectations changed both in the timing and valuations?

Jeff Immelt - General Electric Company - Chairman & CEO

Deane, let me use your question to maybe answer it a little bit more expansively. Look, I think there is a question investors could ask today about financial services, vis-à-vis, where it fits in GE because the industrial businesses are strong and the financial businesses aren't as strong as we would like to see. What I would say is that basically what we have done over the last few years is try to de-risk financial services by exiting insurance, reinsurance, mortgage insurance and we want to continue to do that to get to more of a debt spread and consistent model and we continue to drive along those lines.

I think what the corporate card experience shows is that when you have got strategic buyers that like an asset that you can still have very beneficial transactions that take place in these markets, so I feel good about the swap we are doing with Santander. I feel good about the AMEX transaction. We think that the PLCC is going to get a lot of interest because it is a unique asset and we plan to continue to do this throughout the year to redeploy to higher return, de-risk the business and improve the overall perspective on what we have got in financial services.

Deane Dray - Goldman Sachs - Analyst

Any change in buybacks, how you are feeling about that? You have got a \$15 billion program --.

Jeff Immelt - General Electric Company - Chairman & CEO

I think the buyback -- Deane, the buyback and dividend remain in tact and we will continue to look to see, as we do additional transactions, the best way to redeploy that capital.

Deane Dray - Goldman Sachs - Analyst

Thank you.

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Operator

Steve Tusa, JPMorgan.

Steve Tusa - JPMorgan - Analyst

Hi, good morning. So I am just trying to understand the healthcare result. I know you talked about the tough comp there, but wasn't that something you would have known about at the beginning of the year when you gave the first-quarter guidance because it was still a pretty big -- the comp was still a pretty big miss to actual guidance?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Sure, I am trying to distinguish between two things. I think clearly we knew the comp and I was just trying to use that explanation to make sure you saw it. Down 17% looks pretty funny to then say you are going to be up 5% in the second quarter. That is completely separate from the fact that we missed our guidance and on the miss of guidance, really it is OEC that hurt us about \$50 million in revenue in the first quarter versus what we were planning on and then DRA was worse than we expected. The US DI revenue came in about eight to nine points below our plan. That is probably about \$90 million of revenue and then we also saw a spillover into some of the other businesses from the economy into clinical systems and we saw community hospital orders down 18% in March, but I think they were impacted by some of their funding capability, but that was about \$100 million of revenue. So you look at our -- first, our guidance; Steve, you are right. We had a revenue miss of about \$250 million and that's built into op profit miss at about a 15% contribution margin rate.

Steve Tusa - JPMorgan - Analyst

Right. And I think you guys missed last year, even though it was pretty clear that DRA was going to be an impact and kind of getting back to Deane's comments around what happened in mid-March and then a year ago or a couple of years ago, there was the whole organic growth guidance. People look at you guys as a pretty visible company.

Jeff, I am just wondering if you could maybe comment on -- is there something cultural here with regards to GE that makes it difficult with a company this big to take a really good hard look in the mirror and put, whether it is forecasts or make the changes necessary to perhaps unlock some of the value that is clearly going on in the infrastructure business because everything that is great about your company is seeming to be offset by things that people maybe aren't focused on because there is not enough visibility into the businesses and these surprises in financial services. I am just wondering if there is something that makes you guys think twice about the strategy that you guys have been on over the last few years.

Jeff Immelt - General Electric Company - Chairman & CEO

Steve, what I would say, because, again, I think if you look at the financial service situation and the way it took place in this quarter, we weren't alone in that. I would say the financial service markets have remained volatile. I think clearly we are in an unprecedented area, vis-à-vis, what we have seen in March and at the end of the day, our earnings -- I'm not giving an excuse -- our earnings being down 20% versus the industry are still reasonably strong and so I think our business model is still strong.

In the case of healthcare, look, I am not happy about the fact that we have had a plant shutdown for 20 months in our healthcare business. I think until we get that plant up and going, it is difficult to look to see how our healthcare business really is performing in itself what is a difficult market.

Keith Sherin - General Electric Company - Vice Chairman & CFO

The commercial finance track record, Jeff, is just unparalleled. It is a business team that executes, that got a lot of credibility, more than 10 years in a row, of basically meeting every commitment and managing risks and opportunities in a way that you have got to look at some of the disruption here as being extraordinary.

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Steve Tusa - JPMorgan - Analyst

Yes and I completely agree with you guys because I think that is a great financial services franchise, but what seems to be somewhat of an inability for investors to get comfort with, the fact that there aren't going to be surprises there and then we see a quarter like this where there is kind of a lack of gains and a little bit more benefit from gains in real estate, etc., it makes it hard for investors, especially in this environment, to have conviction I think that you guys really are a safe, reliable growth company, which is kind of the core of the value proposition you guys have put forth to the investment community.

Keith Sherin - General Electric Company - Vice Chairman & CFO

Look, I still, Steve, think that the strength of the Company, the big backlogs we have got in infrastructure, I like our healthcare business, vis-à-vis, over a five or 10-year time period, this has been a 15% earning grower. We have got world-class franchises across the board. We don't like surprising investors. We will continue to work the portfolio to invest in higher-growth, higher-margin businesses like we have been doing and look, we have laid out for the balance of 2008 what we believe is appropriate for the Company.

So look, I understand your frustration. I am not going to be defensive about it, but by the same time, I think we have got to look at, in the totality of the Company, this is a company that has delivered for a long time, a lot of quarters. We earn a lot more money than we did five or six years ago. We generate a lot more cash. We have bought back a lot of stock and I think the franchise of the Company is very strong and I feel the same way about the strategy.

Steve Tusa - JPMorgan - Analyst

Okay, thanks a lot.

Operator

Robert Cornell, Lehman Brothers.

Robert Cornell - Lehman Brothers - Analyst

Good morning, everybody. A couple of questions. I am not sure if Deane asked this, I stepped away for a minute, but you said, Jeff, I think you both, the second half of March, you saw the increase in financial stress. What have you seen so far in April in that regard? Have you seen any recovery, has it gotten worse, what is the story?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Well, I mentioned we have concluded some of the real estate transactions that were kind of hung up at the end, so those did execute. There's very few indicators in the first two weeks that we see relative to the whole quarter. The leveraged loan market marks that we saw are -- the index is up over \$0.90, so we have seen a little comeback in that since March. That's one indicator, but it is hard to say that we have seen a different environment than we saw in the second half of March. I think the extraordinary volatility has definitely calmed down as you got to the end of March, but it didn't help us necessarily with some of the marks, Bob.

Robert Cornell - Lehman Brothers - Analyst

I guess -- Jeff asked this question earlier. I mean when you talk about -- and you answered it, but I just want to go a little bit deeper. If things started to unravel in the middle of March, you didn't have an awful lot of time to really recast an annual result for a company as global and big as GE is. I mean can you take us through the re-planning process a bit to help us understand how you got to the current guidance?

Jeff Immelt - General Electric Company - Chairman & CEO

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Yes, Bob, look, I think we saw what happened at the end of March. We have sat down and basically gone through with each one of our business teams the way to go through the quarter and look what is next. Within infrastructure, it is pretty easy, right? You see nothing but strength; we can profile it. We look to see, could they do more on the balance of the year? The commercial finance team is one of the strongest management teams in the Company, has delivered -- we have got a lot of ways to look at the business.

So look, we went through fundamentally kind of what we have seen, which was tougher than where we forecasted we would be in December and re-profiled the year and we did it from the context of -- look, we hate missing, we hate disappointing investors, we don't want to do it again. So we've tried to create a framework that we know has got our credibility associated with it and that is something that we all take very seriously.

Keith Sherin - General Electric Company - Vice Chairman & CFO

I think if you look at the framework, Bob, we did all those meetings that Jeff talked about and done a lot of analysis and risk management planning here. If you look at the first quarter, we are down \$0.07. We have got to deal with that reality. If you look at the second quarter, our midpoint of our guidance range would be \$0.04 less than consensus. So at the half, you are about \$0.11 down. So from \$2.42, that would get you to about \$2.31 and in the second half, we think we have got a range that deals with the volatility plus also one of the points you have raised is what happens to PLCC. We have tried to say in our guidance, let's take those \$0.04 out for the year. Eventually, that is going to happen. We have got to do a lot to execute that, but why have to change later and I think we have tried to analyze what happened in the first quarter that doesn't repeat, what gets better as you go through the year and we have tried to risk-reduce some of the areas where we had volatility that we weren't able to recover from in that late March period and I think we have done that and taken some of these numbers out. So we have tried to make sure that we are dealing with the down side, but we are not laying down.

Robert Cornell - Lehman Brothers - Analyst

Okay. I mean what is the economic backdrop you guys have based this on? Is this -- I mean everybody is talking about the US recession, whether it is a two month -- two quarter or three quarter, how deep. I mean what is the economic backdrop that you guys have used to frame this outlook?

Jeff Immelt - General Electric Company - Chairman & CEO

Again, Bob, I think in the case of infrastructure, this is primarily driven by global demand and then backlog. In the case of NBC and C&I and healthcare, we assume that the economy is going to be very tough and will remain tough.

Keith Sherin - General Electric Company - Vice Chairman & CFO

The bottom end of that range would have it tougher than it is today. And in financial services, I think we have got run rate. I think we have left probably one of the toughest quarters in financial services, so we have got a run rate that we can use to really re-baseline, if you will, where financial services could be and look, I think we have been appropriately conservative in financial services.

Robert Cornell - Lehman Brothers - Analyst

Okay, thanks.

Operator

Scott Davis, Morgan Stanley.

Scott Davis - Morgan Stanley - Analyst

Yes, good morning, guys. I don't want to throw gas on the fire. I think it is going to be a rough day for everybody, but it seems like something is broken here. I was looking at your working capital turns, they got a lot worse last year and margins disappointed. I mean what is -- is there something else going on here? I mean can you comment that maybe culturally you are having issues or maybe losing some of your key people like the Calhouns of the world is having an impact? I mean just a little bit more color there.

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Keith Sherin - General Electric Company - Vice Chairman & CFO

I don't think there is a characterization about losing some of our discipline here is really fair. We have run the Company with a lot of operating discipline. We have continued to execute very effectively and deliver earnings growth. If you look at the industrial forecast this year, Scott, we are talking about 10% to 15% earnings growth from a \$100 billion enterprise. I think that is pretty good performance.

We continue to generate cash flow in line with our earnings and that is a challenge while you are growing a company of our size to be able to manage working capital, to be able to fund the growth, but also deliver cash to pay the dividend and to do the buyback and do acquisitions. We have got an operating council led by the senior leadership team of this company that we meet every month or so to review where we are on global sourcing, on external factors that are affecting us from a cost perspective, on reducing our cost structure, on making sure that our new product introductions come in and better cost positions than old ones. So we have just got so many operating mechanisms in this company that continue and are secure, so I don't know; I feel like we are executing pretty well.

I think there is one soft spot. I think healthcare has been tough and I think we have got to turn that around. I think having a plant shutdown really distorts the measurements and that is an unfortunate thing. We are just to the end of that, but other than that, I think we have been operating the Company pretty well and we have been hitting our numbers pretty well. We have got a disruption here in financial services that we have to deal with. Unprecedented volatility, it is not an excuse as Jeff said, but I think you have got to separate that from how we run the Company and how we operate and where we are strategically positioned with these businesses, which I think is extraordinary.

Jeff Immelt - General Electric Company - Chairman & CEO

Scott, our equipment revenue is two or three times services for a long time. That is an incredible headwind on margin rates. That all comes back with a big service backlog at some point. I don't think that is worth apologizing about and the infrastructure business is the shining star of the Company and that remains very strong and very solid if you look at how we are positioned.

Keith Sherin - General Electric Company - Vice Chairman & CFO

One good example, Jeff, is the wind business and I think, Scott, we have had a lot of discussions about margins and should we be getting margin growth in infrastructure. John Krenicki will have a debate with you. Should we stop selling all these wind units just because their margin rate is a little lower than the Company average? And the answer is absolutely not. We ought to build that install base. We ought to take every one of these orders. The wind business is up to a 15% operating profit and it is growing 20% plus a year. Now our margin looks like it is going down as we grow wind as a rate, but we are getting more margin dollars, we are more profitable and it is the right thing to do for shareholders that generates cash.

So I think the overall mix of the businesses is creating a little bit of pressure on the margin rate in total, but the individual businesses and the operating actions they are taking are the right things for us to grow our earnings and grow our cash and I think that is a good example where you have got to separate just what the absolute margin rate is from what the dynamics are driving the profitability in the future.

Scott Davis - Morgan Stanley - Analyst

Sure and it is tough for us without having the granularity to really see behind the performance. I guess when I think about it, I reread -- Jeff, I reread your annual letter last night and it just seems to be such a disconnect from the bullishness that I am guessing you penned that letter sometime in December or January, but it just seems to be such a disconnect when you look at margins, you look at working capital, you look at your ability to forecast and the controls and although you kind of are saying you are not a company that offers excuses, this has been kind of a conference call full of excuses.

So I just -- it just feels like a different GE to me and you always talk about and I think you even referenced this in your annual letter that tough times are when GE is supposed to shine and is there just something here where the business model feels like it is broken and there is always going to be an issue whether it is healthcare, whether it is financial services, whether it is -- I mean you could make an argument that infrastructure even could be at risk given where commodity prices are. So I am just wondering whether is it time to rethink the business model or are there issues here that --.

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I think an earlier question asked are there cultural issues that just prevent you from kind of thinking out of the box of maybe this business model worked 10 years ago, but it's just -- you have underperformed in the up cycle and now you are on pace to under perform in the down cycle. That would be -- it just doesn't seem to work. So I don't know whether I am asking a question or just making a comment.

Jeff Immelt - General Electric Company - Chairman & CEO

Look, Scott, I would say the last five years from continuing ops, revenue grew 13, earnings grew 14, cash was very strong, strong buyback, expanding returns. We are into an unprecedented financial cycle and with that, our earnings down 20% is better than our peers and we are going to be positioned to deliver on the commitments we have made today going forward in the year. So look, I accept your point. I think we should continue to drive the strategy that we have got and that is what we are going to do.

Scott Davis - Morgan Stanley - Analyst

Okay. And then last question, I mean at what point -- as a shareholder, when do we know whether this business model is working or not? I mean at what point do we put a timeline on it and say, okay, if we can't execute our goals for the end of the year then we are going to have to rethink the strategy and maybe GE Capital and GE industrial shouldn't be together anymore, maybe there are other changes that need to be made. I guess it feels like in the six years I have covered the stock, ever year, it is kind of like the Chicago Cubs. It is next year, it's next year and now you're looking at a year where you could under grow the S&P in a year when you really -- it looked like you could substantially beat the S&P. So I guess for the credit of shareholders, how should we judge you -- if we get into the end of the year and things aren't working, do we need to make changes or are we going to have another, well, 2009 is going to be great or 2010 is going to be great, so hold on?

Jeff Immelt - General Electric Company - Chairman & CEO

Scott, again, I think it's -- no matter what form the Company is in, it is about driving revenue growth, earnings growth, returns and cash flow and we will see when this year ends how we stack up against everybody else. But look, I think the Company has grown earnings, it had PE compression and our belief is that we will continue to execute on our portfolio strategy that adds value and continue to deliver and that is what we are going to do.

Scott Davis - Morgan Stanley - Analyst

Okay. Sorry to beat up on you guys; I just wanted to clarify those issues.

Operator

Nicole Parent, Credit Suisse.

Nicole Parent - Credit Suisse - Analyst

Good morning. I think, Jeff, we are all wrestling with how much of the shortfall in the quarter is tied to the credit market, the economy versus being self-inflicted. And so I think you said in the answer to an earlier question, you are not assuming things get better, but do they get worse. I think you have cited US down 5% in the first quarter. What is your view of the second half and I guess now that plastics has gone, how good of an early cycle read do you think you have on Western Europe in light of the non-precedented financial market turmoil out there? I mean do you see Europe and do you see this bleeding over into other countries?

Jeff Immelt - General Electric Company - Chairman & CEO

Nicole, I think we still, in the US, have pretty good early warning systems with appliances and NBC and things like that. As it pertains to Europe, we don't see real slowdowns yet in the businesses that we are really basic in, which are the longer cycle businesses. So again, I think we have reflected in the guidance range a US economy that is going to stay very tough. The infrastructure piece that we look at basically looks to -- portrays what we see in backlog and sustained -- ability to ship where the pricing is, things like that. So again, I think we have got some window

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on the global economy in the markets that we are in and the long cycle businesses really dominate still what we do and I include in there healthcare what we do outside the United States.

Nicole Parent - Credit Suisse - Analyst

Okay, not to nitpick, but I guess when you think about the US being down 5% in terms of your business in the first quarter, do you think that is going to stay down for the rest of the year or could it get worse or could it get better? Could you just elaborate a little bit more?

Jeff Immelt - General Electric Company - Chairman & CEO

Again, I think in the case of businesses like appliances and some of the other businesses, we get easier comparisons as you get forward in the year, but look, we are not counting on the business getting any better, vis-à-vis, what we see and in the case what Keith said on the US consumer, we have actually allowed for a worsening of the US consumer in our GE Money business. So I think that is the way to think about the US and the US economy.

Nicole Parent - Credit Suisse - Analyst

Okay, thanks. And I guess just one follow-up, how should we think about healthcare CapEx? I think, Keith, you acknowledged community hospital spend was down 18% for you guys in the quarter. Do you think hospitals have access to credit in this market? I mean what is your CapEx forecast as you sit here today? Your revised one looking at what happened in the quarter versus today?

Keith Sherin - General Electric Company - Vice Chairman & CFO

I think we did see some of that pressure for community hospitals and other hospitals that access the public markets like the auction markets to provide their funding. We have seen the DRA impact, right, Nicole? And that is spread around to not just clinics, but to hospitals. Now we are going to get into the second quarter and third quarter where we have got better comparisons and run rates on those, but we have to watch what happens with some of the other businesses like the clinical systems and the monitoring and some of the other flow products and some of the smaller entities.

So our view in healthcare was that we are going to continue to see pressure from the diagnostic imaging and clinical systems business in the US and continue to see good growth outside the US and our range accommodates that what we saw in the fourth quarter -- saw in the first quarter, some of that continues, but we also have to take into account the better comparisons as we get in through the year and the fact that OEC is going to be shipping. But I think the hospitals are going to continue to face some pressure in terms of funding and CapEx, Nicole. I don't have a specific CapEx number; I'm sorry.

Jeff Immelt - General Electric Company - Chairman & CEO

But, Nicole, NEMA, which is the industry that tracks the market with diagnostic imaging, they have forecast a second half of this year where the market grew 8% and in our scenario business reviews that we did with Joe and his team, we have kind of said flat at best. So we are not counting on any -- we are not counting on what the people that watch the industry have kind of stated in terms of what they're going to look at for diagnostic imaging.

Nicole Parent - Credit Suisse - Analyst

Okay, great. And then just one last one on infrastructure margins. Do you guys think just based on the mix issues, which aren't anything new, do you think you can actually expand margins in infrastructure '08 versus '07?

Keith Sherin - General Electric Company - Vice Chairman & CFO

I do think we can. I think if you look at what happened to us this quarter in infrastructure, every business was up except for aviation and aviation had some tough comparisons. I think the energy business is going to be our horse. Energy took their margin up from 14.8% to 16.1%. They are

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up 1.3%. Oil and gas took their margin up 1.5 points. Transportation took their margin up three points in the quarter. So I think we do have an opportunity to grow our margins in the infrastructure business.

It is going to be powered by energy and it is also going to be powered by the synergies we get out of both Vetco and Smith and so I think we can do that; I think the team is doing a great job. I mean in the quarter where they grew the revenue 21%, they basically kept their op margin flat and they are selling a lot more wind turbines at lower than average margin and they have got the impact of the acquisitions, which diluted them by about 30 to 50 basis points. So I think even despite the pressure they have, the equipment services mix, 3X, this business is really performing well and I think it will grow its margins in the future.

Jeff Immelt - General Electric Company - Chairman & CEO

We have got a positive value gap, positive price inflation gap at all those businesses, Nicole, and that is the key.

Nicole Parent - Credit Suisse - Analyst

Okay, great. And just one last one. When you think about how this all evolved over the quarter and the severity of what you learned in March in the second half, I mean do you think about revising your planning process at the Company or how do you think about that? I think when we all make mistakes, we all say what could I have done differently and I guess if you look back on this, how do you answer that question?

Jeff Immelt - General Electric Company - Chairman & CEO

Nicole, when I stood up in December and talked about 10% plus, we had put a lot of planning into that before we did that. I really do believe that March was an extraordinary set of circumstances. I mean you guys know the commercial finance team is one of the best teams in the Company, has delivered consistently over time.

Look, all that being said, I don't want to be -- personally appear to be stubborn about the Company or that we can't learn from it and clearly, we are going to learn from this and factor it into the way that we think about running the Company going forward. This is -- we like the team, we like the strategy, we like the businesses and we need to deliver what we have laid out for the rest of the year.

Nicole Parent - Credit Suisse - Analyst

Okay, thank you.

Operator

John Inch, Merrill Lynch.

John Inch - Merrill Lynch - Analyst

Thank you, good morning. So just to understand, the \$2.20 to \$2.30, how much of non-real estate gains from asset sales are you guys taking into the forecast? How should we be thinking about it? You have got \$0.02 of the CPS business, I don't know if there were other business sales in there. What's basically the target, maybe a range or something?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Other than real estate, that would be the one place where you would say as part of the business model the sales of those equity properties are built in. We do have other flow transactions that we are planning on doing for the year, but I don't have a big, transactional item. The biggest BD thing that we are working on, John, is PLCC and we would anticipate a gain with that, but that that would go into discontinued operations. So I think the real estate model is the one that we are most focused on, but we still plan on doing securitizations, we still plan on selling other assets in GE Capital, but we have got that in kind of the core flow businesses I would say.

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We are going to continue to reposition financial services. We have got some of equipment services that we're working on repositioning. That could provide some upside and then on the other side of GE Money, as we have said, there are going to be some asset dispositions that we will do and we did anticipate that some of those would fund some of the provisions and some of the comparisons to securitizations like the corporate card did in the first quarter. I don't have a specific number on that though.

John Inch - Merrill Lynch - Analyst

That's fine, but basically you are suggesting aim toward the low end of the \$2.20 to \$2.30, but if you sell the PLCC business, that is -- there's -- did you say \$0.04 of gain in that?

Keith Sherin - General Electric Company - Vice Chairman & CFO

No, no. I said the PLCC -- what we would say that if you looked at our guidance and you said that PLCC was going to be sold, that has about \$0.04 of earnings in our year and the \$2.20 to \$2.30, we would say you should probably take that out.

John Inch - Merrill Lynch - Analyst

So there is no gain from the PLCC in the numbers?

Keith Sherin - General Electric Company - Vice Chairman & CFO

That's correct, that's correct. I'm sorry I didn't say that clearer.

John Inch - Merrill Lynch - Analyst

Okay. Now I get it. Just a couple more quick ones. So just kind of sort of going back to the point about the misses in healthcare and yes, obviously we all know the economy is tough, but, Jeff, are you contemplating sort of management changes, not necessarily senior management changes, but other operational or changes or structural, some kind of structural shakeup to perhaps kind of refocus some of these businesses in the next couple of years or how should we think about what is going on behind the scenes now at GE?

Jeff Immelt - General Electric Company - Chairman & CEO

Well, look, I think we liked the healthcare business from the outset. We like where it is positioned, we like the demographic positioning of the Company. Over a long period of time, it has been a good performer. John, again, I think there are certain things that are market-based, there are certain things that are bad execution. I am not at all happy about having a plant shut down for 20 months by the FDA. I think that is all on us and so we have already made some management changes associated with that and look, if people don't perform here, we still work very hard and if you just look at the set of officers and the annual report every year, there is a different group every year and people have to perform to stay here. So look, I just think -- we believe in the healthcare franchise and we have got to get this plant back up and going. I think once we do that, this is a business that is going to perform in 2008.

John Inch - Merrill Lynch - Analyst

Just lastly, Keith, how are you guys thinking about the AAA? I mean maybe you could just sort of size -- are there risks to the AAA given the financial services environment or do you guys feel still pretty good that you're in pretty good shape to kind of preserve it?

Keith Sherin - General Electric Company - Vice Chairman & CFO

No, we feel great about it. We have an incredible discipline from the Board of Directors to the leadership team of this Company to the actions we take at GE Capital and the Capital board to run the Company as a AAA. We have an incredible risk management process. We have a great

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liquidity profile and we are in contact with the rating agencies every week on all sorts of things around the world and both the rating agencies understand where we are and they are both supportive of us keeping the AAA today and in the future.

We believe in funding ourselves for safety and security first. That is why we kind of did our debt plan to get ahead of the year. We had a year plan of doing about \$80 billion of long-term debt. We did \$35 billion in the first quarter. Even though the markets were tough, we went out and did the debt to get it in place in advance of some of the transactions we think we are going to do. We have been very disciplined about our commercial paper, keeping it right around \$100 billion balance. We ended the quarter I think at \$102 billion. We could have a much higher balance of commercial paper, but we've chosen to keep that at a certain level so it is completely in line with all our liquidity backup plans. We have a cash balance and a liquidity plan that we keep in place for any type of temporary disruption and we feel great about the business, the underlying business model that we have and the rating agencies agree with us, John.

John Inch - Merrill Lynch - Analyst

Okay, thanks very much.

Operator

Ann Duignan, Bear Stearns.

Ann Duignan - Bear Stearns - Analyst

Hi, guys, good morning. It's a tough day to be a Bear Stearns employee considering the impact it has had on you guys. A quick follow-up question. Just curious, I think you said that your outlook for your tax rate now is 16% versus your initial guidance of 18%. Is that correct or did I pick it up wrong?

Keith Sherin - General Electric Company - Vice Chairman & CFO

No, that is correct.

Ann Duignan - Bear Stearns - Analyst

Okay. And you didn't call that out in your revised '08 framework, but that would've had a positive impact?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Well, we revised it from 18% to 16%, but if you look at the revised EPS guidance, the reduction in the financial services earnings includes the impact of the lower tax rate.

Ann Duignan - Bear Stearns - Analyst

Okay. So that is where it's --.

Keith Sherin - General Electric Company - Vice Chairman & CFO

So we have taken into account in the financial services EPS range.

Ann Duignan - Bear Stearns - Analyst

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Okay. And then I think most of my questions have been answered, but what are you seeing -- I know you said that you aren't seeing a significant slowdown in your long cycle businesses in Western Europe and places outside of the US, but what are things like GE Money seeing in Europe, particularly in Eastern Europe? Is there any knock-on effect or are you anticipating any knock-on effect in other regions of the world?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Actually, in GE Money, I would say the one place we have seen an increase in delinquencies is in the secured book in the UK, which is our I group mortgage book. It is up around 14% delinquency. We have seen those rates over the last three years go as high as 17%, 18%. That is the one place globally we have seen an increase in delinquency. We do not have any losses rolling through in that book.

We have very low loan-to-value exposure. We have mortgage insurance that we use any time it gets above 80%. We underwrite all those loans to the highest possible rate that could impact the consumer based on how they have borrowed and we have got a very good business team there and everything obviously after all the lessons we have learned in WMC, we went over and made sure we applied all those in our global mortgage business. So I think we are in pretty good shape there. The rest of the delinquencies outside of the US and outside of that UK secured book are actually down in GE Money globally. So we feel pretty good about the global balance sheet asset quality at GE Money outside the pressure we are seeing in the Americas, Ann.

Ann Duignan - Bear Stearns - Analyst

Okay and finally, just one quick follow-up, commercial aftermarket in aerospace I think you said was down 3% in the quarter. So any risk to that business as we look at higher fuel prices and all the complexities that are going on in the aerospace industry right now? I know original equipment demand remains strong around the world, but what about aftermarket, particularly in the US, as we begin to see activities slow maybe in this region?

Keith Sherin - General Electric Company - Vice Chairman & CFO

I think overall, first of all, you have seen a couple of airlines go bankrupt in the last couple of weeks. Number one, we don't have any significant exposure to them. Everything we have is secured by relatively new aircraft. I think the total was around \$100 million for the couple that went bankrupt and we have a very good position in Great Plains.

The revenue passenger mile growth is what really drives our aftermarket performance here, Ann, and the revenue passenger miles were up 4.5% in the quarter. So the airlines are flying and as long as they are flying, we're going to be doing more maintenance and I think the things that are getting pressured will be the older, less fuel-efficient engines and that is not the bigger proportion of our mix. We have got a lot of the newer aircraft out there.

So I think, number one, we can't get enough planes today based on the global demand. You don't really feel that when you are sitting here reading about some ATA or Aloha going bankrupt, but it is true. Henry Hubschman and the team could really use more aircraft. We are -- our order book is placed through 2009 and I think almost all of 2010 is now placed for new aircraft we are getting out of Airbus and Boeing, so the global demand is incredibly strong. The aircraft values are very good and I think we're going to have to deal with the airlines being under financial pressure because of fuel and we have seen that cycle obviously a lot of times in the last 10 years. So we feel pretty good about it, but it is something obviously we have to watch.

Ann Duignan - Bear Stearns - Analyst

Okay. Thank you. I will take my other questions off-line.

Dan Janki - General Electric Company - VP, Investor Communications

And Melanie, we would like to take the last question, please.

Operator

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Nigel Coe, Deutsche Bank.

Nigel Coe - Deutsche Bank - Analyst

Thanks. 45 minutes of Q&A; I admire your stamina for tough questions. So you're down 11% in the first hour of trading. It looks like the market is pricing at \$2.20 already for the full year. I guess the downside from here would be if anything happens to infrastructure and I tend to agree that 2008 is in the bag, but orders were a little bit lighter this quarter and I understand it is lumpy and that could be the reason, but is there any sign that the tougher credit conditions or slowing global growth is causing products to get pushed back or canceled and therefore we might see orders starting to weaken from here?

Jeff Immelt - General Electric Company - Chairman & CEO

Actually we haven't seen that. I would say just a couple of the numbers on the orders, just so I give them to you and then I want to tell you about what I think the next phase is coming. If you look at the dollars of orders in infrastructure -- so up 11%, not the 30% that we have been averaging -- but if you look at -- we did \$10.5 billion in the first quarter of last year of major equipment orders, \$12.8 billion in the second quarter, \$11.7 billion in the third quarter, \$13.8 billion in the third quarter, all 1.2 to 1.4 times the revenue we had in the quarter, building an incredible backlog. The total orders last year were \$50 billion, up 29% and the absolute level of orders that we have this year at \$11.7 billion in the first quarter against some tough comparisons up 11 and I think the thing that is really positive is we are just now starting to see a little bit of gas turbine ordering in the US.

In the first quarter, I think we had four orders out of the 39 that were for the US and if you look at the energy dynamics in this country and you look at supply/demand and you look at the need for more capacity and you look at the environmental regulations and you look at how difficult it is to site a nuclear plant and you are selling every wind turbine you possibly can, gas turbines are going to be sold in this country and the price is greater than inflation in that business and so I feel like this is really in good shape now. I can't say never say never, but this is the most sustainable, long cycle, positive revenue-generating thing that I have seen at GE in my career.

Nigel Coe - Deutsche Bank - Analyst

Okay, so just some of the indicator for orders -- tender activity, proposals -- that is all consistent with what you expect at this stage?

Jeff Immelt - General Electric Company - Chairman & CEO

I think the energy business, you are going to continue to see incredible. I think oil and gas is going to continue to be very strong. I think you're going to see lumpiness in aviation because Airbus and Boeing are basically full through 2011, 2012. So I think that is the one place, Nigel, where you say you have got to expect that to level off just based on how full people are based on things like the push-outs of the 787s, the push-out of the Airbus deliveries. I think that is the one place that you say we have got to see a leveling off in aviation, but again it is leveling off at a very, very good number for us.

Nigel Coe - Deutsche Bank - Analyst

Fair enough. So just two quick questions. Price inflation spread is still positive, but it's much narrower than the second half of the year and steel prices running fair. What are you baking into the second half of the year for that spread?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Well, we are going to still have a positive value gap in the infrastructure business. I think we have pressure in healthcare where the price erosion does not offset inflation and we have got to recover some of that price value gap in the industrial segment. So infrastructure is the power and overall for the whole Company, our price inflation gap was positive and for the whole year, we expect it to be positive driven by infrastructure.

Nigel Coe - Deutsche Bank - Analyst

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Okay and then just finally on the -- in your run-up insurance business, you do have some unrealized losses on the securities in that business and I understand that these are held to maturity security, so they are not mark to markets, but what would have to happen for you to actually realize that loss?

Keith Sherin - General Electric Company - Vice Chairman & CFO

Basically in the investment securities portfolio, you have to determine that the securities are other than temporarily impaired. We have a process where every quarter you look at what is the security, we do a discounted cash flow underwriting of the Company. We look at whether it is a credit issue or a market issue and we look at how long it has been underwater and we have to periodically take those impairments that our other than temporary and put them into the P&L based on that disciplined process and we have been doing that for years obviously since we have had that portfolio forever here.

Nigel Coe - Deutsche Bank - Analyst

Okay, thanks a lot.

Dan Janki - General Electric Company - VP, Investor Communications

Okay, I would like to thank everybody. JoAnna and I will be available all day and transcripts and other information will be available on our website. So thank you very much.

Operator

This concludes your conference call. Thank you for your participation today. You may now disconnect. Have a wonderful day.

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