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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the General Electric second-quarter 2005 conference call. At this time all participants are in a listen-only mode. My name is Rachel and I will be your conference coordinator today. (OPERATOR INSTRUCTIONS) As a reminder, ladies and gentlemen, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Bill Cary, VP of Investor Communications. Please proceed, sir.

Bill Cary *- GE - VP of Investor Communications*

Welcome everybody. JoAnna and I are delighted to host our second-quarter 2005 earnings call. Please remember that this is a webcast so you can go to our website at GE.com/investor to get the press release and the slides from this morning. If you don't see them, please refresh your browser. They should be available and of course you can download and print the slides to follow along with the call.

As always elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Of course those elements can change as our world changes and we'd ask that you interpret our comments in that light. This morning we're going to cover several things. We will run you through our current second-quarter performance. We'll give you an outlook for the third quarter and of course, we'll have time at the end for questions and answers.

So with that, we've got Jeff Immelt, our Chairman and CEO and Keith Sherin, our Senior Vice President and CFO this morning. Let's go ahead and get started, Jeff.

Jeff Immelt *- GE - Chairman and CEO*

Good morning everybody. Just to go through an overview of the quarter, again a very strong quarter for the Company. The business fundamentals remain positive. We had strong order rate, 13% which you know across the breadth of GE very strong; good asset quality and we built major equipment backlog by 15%.

The financial performance that you saw in the press release just to give a little bit more color to it, organic revenue up 8%, total revenue of 13%. Earnings were up 24%, at 4.6 billion; earnings per share of $0.44. We had all 11 businesses of at least double-digit earnings growth including Energy which is the first quarter for them in several years. Our profit rating began to show good expansion as we offset inflation and we think that will continue over time.

Very strong cash; cash up 18% and industrial CFOA up 24%; our incremental return on total capital up 30%. So again, across really every dimension of performance a very strong quarter for the Company, one of the best quarters really in the history of the Company.

The initiative around organic growth again continued to pay good dividends. Our service sales were up 10%. The CSA backlog grew by 15%. Global growth very strong and growth platforms as well, so again, the initiatives we've been talking about for the past several years are delivering for the Company really across the breadth of the Company. And we are very bullish on the second half of the year and going into 2006 with sustained strong revenue growth; earnings, EPS growth at the high end of the range and really CFOA and cash flow really above the 2005 plan.

So a very strong quarter and not just in the second-quarter but looking into the second half of the year, we feel great about how the Company looks and the momentum that we have.

Just kind of a brief selection of wins and then Keith will take you through the segments in more detail. But transportation continued to win really in commercial aviation and in the locomotive business building backlog and getting good global wins behind lots of new product introductions. In Energy we're seeing good global revenue growth and some increased expansion around the ecomagination products. Several big wind orders and enhanced H System and continuous wins in China.

In Healthcare, again, constant flow of technology is helping us drive growth. We announce some nice collaborations with a couple of pharma companies, really that shows the power of the combination of the Amersham business with GE and continue seeing launching new products like the Innova 2100.

Consumer finance continues to globalize with new platforms in both Spain and Central America. Commercial finance continues to grow globally and add platform acquisitions which build to our strengths like CIT, a corporate aircraft portfolio and the Bombardier inventory finance business.

At NBC Universal, we think the NFL is going to continue to give us strength in prime time and help us and the future. At infrastructure, a nice win in Algeria in desalination which is going to be the most efficient desalination plant in the world. And we're seeing nice growth across the security product lines.

Our consumer industrial continues to execute a strategy around high end products which is helping to boost margin rates and Advanced Materials is also seeing MPIs grow both margins and volume growth. So across the Company, we're seeing great wins that we think will continue to propel growth into the future.

And lastly, just talking about organic growth which is something that we've focused on; 8% organic growth for the quarter, about three times global GDP. We had several businesses that had organic growth in excess of 10%, consumer finance, Healthcare and transportation. So good growth across the Company. Just some of the major initiatives around growth that we've highlighted, product service sales up 10%; seeing 3.1 billion in new CSA commitments and good momentum really across the Company. The growth platform is growing 23%, that is 9% organic. Great growth in Healthcare IT and oil and gas and continued expansion in both security and water.

Global revenue is up 20% as we continue to drive the infrastructure initiative across the Company. China 40%. But also great growth in Europe and Asia as well. And imagination breakthroughs continue to add we think incremental organic growth across the Company. Just a couple highlights there, the nondestructive testing continues to grow by 30% plus; the European commercial finance business which was one of the original imagination breakthroughs have assets of 49%. And again, as we said, desalination really is driving great backlog of more than $4 billion.

So the growth initiatives are delivering and we think that gives us good momentum as we look at the second half of the year and into 2006.

With that, I'm going to turn it over to Keith to really take you through the financials and give you more details about the Company's performance. Keith?

Keith Sherin *- GE - CFO*

Thanks, Jeff. Let me start with orders. We continue to have very strong orders across GE, the total Company orders were up 18.3 billion, up 13%. On the left side here you can see the major equipment was very strong. Energy up 77% in the quarter, transportation and Healthcare both up strong double-digit. We've given you the four quarter rolling average for the major equipment orders, 6.6 billion at the end of the second quarter. We grew our backlog up to 23 billion, up 15% and we continue to build the install base. The CSA backlog also grew up to $83 billion, up 15%. So the major equipment orders which build the installed base which lead to the services growth continue to be very strong.

In the middle, the service numbers are good, and they are actually stronger than they look. You can in the quarter services were up 4%. Two things I think, the number were against the toughest comparison we had. We had a fantastic service quarter last year; second-quarter was up 28%. So the absolute dollars for service orders continue to be very strong.

The second thing is if you look at the core of the profitability here, it is tremendous. Aircraft Engine Commercial Spares at $15.4 million a day, we're up 17% in the quarter. And as I said last year, we had a huge order in the nuclear fuel business that ex that, Energy would been up 13%. So June actually grew a little better, up 6%. And the third quarter outlook for services continues to be strong, up 10%. So we feel great about where services is.

When you look at the flow business on the right side, the second quarter was up 6%. $5.5 billion is what we have as the quarterly amount for the flow orders. We had stronger pricing in advanced materials. That has continued to benefit us as we recover, more than recover inflation. I'll show you that when we get to the materials page. But June was also stronger than May. The total in June was up 7%, so we still feel like we got some nice momentum back. And Asia continues to be very strong up double-digit.

So just a great quarter in total for the Company of our size to have 13% orders. Fabulous. And we expect the double-digit performance for total orders to continue in the third quarter.

Now the quality of the portfolio continues to be a highlight for us. The delinquencies on the left side here, you can see are in great shape. On the consumer side delinquencies are up about 10 basis points. So it is really driven by the secured lending in the UK where we have basically no losses. And the commercial delinquency is now 23 basis points versus a year ago. It's really down in all the portfolios, the commercial equipment finance, vendor finance, European equipment finance, Healthcare finance, all down double digits. So we love the shape of the portfolio.

Non-earning assets were down, down 128 million in the quarter. We have no aircraft on the ground at GECAS and this interest rate environment and economic environment continues to be very good for us from the financial services portfolio.

On the right side, our businesses, this is mostly Art Harper's team and equipment services continue to see great utilization, good economic activity, a very strong 86% in the quarter. And that has given us a lot of opportunity to raise prices as well as put more assets out on leases and on rental. So solid stable portfolio and great utilization rates continue.

In terms of the income statement we put out just to show you the numbers here, 41.6 billion of revenues, up 13%. That is the reported V. We also have a column here to show you the V before the FAS 133 correction that was made in the first quarter. Industrial sales up 12; financial services up 12; 8% organic growth, basically 8% organic growth in both industrial and financial services. The industrial organic growth was 8% in the first quarter. It's 8% in the second quarter and that is our outlook for the year right now.

Net earnings of $4.6 billion up 24%. Op profit rate for the industrial company was up over 1.5 points to over 15%. So we did get the margin expansion that we told you about in the first quarter. EPS at $0.44, up 22% and just a great cash flow performance year to date. Cash flow up 18%. And on the industrial side up 24%.

On the right side, I've listed of the tax rates. Both the industrial tax rate and the capital tax rate were up in the quarter. Last year for the GE rate, ex GECS, the second-quarter rate was 17%. This year it is 25%, so it is up 8 points. That is really driven by no repeat of the 2004 IRS tax settlements that we had last year. And in GECS, last year's second-quarter rate was 14%; this year the second-quarter rate is 16, up two points. It's higher because there is no repeat of the loss on the Genworth IPO, partially offset by the aircraft leasing benefits associated with the FISC (ph) replacement that we're getting this year.

So, tax rates in total up in the Company about 5 points. And probably about $300 million increased tax expenses. So great business performance. As Jeff said, just a terrific quarter across the Company.

Now in May, we told you we had about a penny of onetime items in the quarter and we raised our guidance by a penny and I just wanted to give you an update of what happened in the quarter. The first item is in the NBCU segment, the IACI, Interactive Corp. unwind. We unwound all of our relationships with Interactive Corp. and Vivendi Universal as part of NBCU. And we also had a charge in Paxson (ph). Basically NBC Universal redeemed all of the preferred stock interests that were held by IACI in Vivendi Universal Entertainment. And we also acquired the 5.4% minority share that IACI had of common stock in Vivendi Universal so we simplified the ownership structure.

Basically IACI had preferred A&B shares that were secured by treasury securities and also IACI common stock. And there was a gain in the quarter because NBCU had a fair value, all the consideration to redeem the preferred stock. It resulted in a GE impact of about 259 million pretax or 126 million after tax. And it was partially offset in the quarter by an investment impairment of our ownership position in Paxson which was 79 pretax or were 45 after tax. So you can see in the quarter, the impact on our earnings was an 81 million favorable from the sum of those two items in the NBCU segment.

We also mentioned that we were going to sell MedPro in the second quarter. We did that. We completed the sale with Berkshire Hathaway for about $825 million. The after-tax gain in May we thought was going to be 75. It turned out to be 62 million, slightly lower than our earlier estimate. And we mentioned that in the final marked-to-market on our derivatives transactions, we thought we would have an impact of less than $50 million. The final number was only 4 million as a result of the changes in interest rates as we closed out the open positions during the quarter.

So the second-quarter impact a little different composition but consistent with the May guidance in terms of the impact on the quarter.

Now just a summary of the second-quarter operations. We put old basis here. This is the 11 business basis before the reorganization. We obviously had a great quarter. You can see the broad strength of both Energy and transportation and a good part of the cycle for those industries; Healthcare, infrastructure, NBCU benefiting from great organic growth and also the benefit of the acquisitions and synergies. Commercial and consumer finance, solid underwriting, great risk management and good performance in the cash generator. So just a terrific quarter. As Jeff said, all 11 business at least double-digit earnings growth. Great breadth.

I'm going to take you through the individual businesses second-quarter performance in a few pages here. Our Company continued to deliver excellent cash flow. After we finished paying down the parent supported debt which we did in the first quarter with our outlook for the year we were able to take the GECS dividend cumulatively at the half to 40%. So you can see the $1.8 billion at GECS dividend at the half. That is basically flat with last year and the industrial cash flow at the half is $6.2 billion, up 24%.

We expect the total year industrial to be up about 10 to 15%. So we are getting some very favorable results out of cash earnings plus other items. We returned $5.4 billion to shareholders in the form of dividends plus buyback. Our dividend yield is still 2.5% which is a great return. And we're going to continue the GECS dividend for now at 40% for the second half.

So over on the right side, just to do the cash walk, we started with 3.2 billion. We have a CFOA of 8 billion from the left side. It adds to it. We've paid our dividends. We ramped up the stock buyback; we did about 100 million in the first quarter. We did about 600 million in the second quarter and we're going to continue to ramp that up for the 3 billion target for the year.

P&E. Acquisitions and dispositions mostly completed in the first quarter and at the end of the quarter we ended with 1.7 billion of cash. So just a great cash performance. We've been able to keep net debt down below $10 billion at the industrial side and we are very positive about the outlook that we have for cash flow here.

I'm going to shift gears and go into the businesses. But before I do that I just want to summarize the third-quarter outlook on the old basis. We're going to cover the reorganization in a few pages but we want to give you this page to show you the outlook on the 11 business basis. And then after I go through the businesses, we will show you the third quarter on the new six business basis. So we're going to give it to you both ways here.

Third quarter looks a lot like second quarter. Broad business strength. Right now we've got 10 of 11 up at least double digit and even in equipment and other services, the business itself is up and equity and some other favorable GE capital items from last year we're not repeating. So we continue to have the momentum that we saw in the first half carry through in the third quarter and I would like to tell you about how the businesses perform now and what the outlook looks like for the third quarter.

Let me start with advanced materials. A great quarter. Revenue up 10 and our profit up 60. We're benefiting from strong price, up 20%; volumes down about 13; and FX is up 3. We had great leverage here. The quarter ended strong. Total quarter orders were up 3% but you can see June orders were up 8. We built a couple of weeks of backlog. This is really driven by plastics. Q1 (ph) orders were 6100 metric tons a day, up 30% from the April and May level. So the economic activity that Jeff talked about really benefited us in our plastics business.

The profit growth here is really driven by getting price realization greater than the material inflation. For the plastics business as part of the segment, revenue was up 11 and our profit was up over 80%. Just a great benefit from price. We ended the quarter at about 419 ASP. Volume was down and inflation was up 30%. So we've been able to manage the volume price trade-off and being able to recover inflation. The team has done a great job with that.

Asia continues to be very strong. Second-quarter benzene average 306 which is up 30%. So we are still seeing inflation. June benzene was down around 230 but in July it is back up over $3. So basically when you look forward, we see a lot of the same third-quarter dynamics. We should have strong nonprofit of 15% plus. The prior price actions we've taken will more than offset material inflation and we're looking for another good quarter and a good outlook.

On the right side consumer and industrial had another strong quarter. The reported V's here; revenue is up two and our profit up 11 but you know we sold a few pieces of the Motors business last year. And ex the dispositions of those Motors business, this team had a great result; revenue up 7, and op profit up 28. Clearly broad-based revenue growth. Our industrial business ex the Motors dispositions were up 12 in revenue. V supply was up 8; appliances with up 6.

We picked up a little share at the high end. Our high-end appliance unit growth was -- Monogram up 34 and Profile up 7 versus the industry of around 4. And this team also has done a great job of getting price realization greater than inflation. We had a 1.7% positive price index in this business in the quarter. It is about 60 million of benefit partially offset by 2.6%. Material and inflation mostly steel is about 47 million benefit -- hurt. So the team has done a great job and the third-quarter dynamics look similar. Our profit up 10 to 15% with again, another period where we more than recover inflation with good pricing actions.

Let's shift to infrastructure. 43% revenue, 25% op profit. This was really driven by the acquisitions. In security we had great growth. Orders were up over 100%, organically they were up over 13%. Both the acquisition of InVision and Edwards are contributing. The Homeland Protection business had a great second quarter. Orders were up 36%. We had more than a 50 million order with a TSA for explosive detection systems.

The water business had strong orders up 38%. We love the Ionics business, the integration is going really well. And we continue to invest to build out the water service model. Our profit was down in water as we invest in our global services and in new products. We're going to realize the benefit of those investments as we go forward. So third-quarter dynamics look the same in is business op profit, a little better up 40% plus and pretty good strength in both water and services and panic and sensing. So a good quarter.

Consumer finance, another great quarter. The team just continues to perform. You can see assets up 28, earnings up 23. It is really driven by core growth, 14 points of the 23. Acquisitions were 7 points and we had a little bit of securitization, 138 million versus 123 million, up 2 points.

And by region it is very strong. We feel great about the Americas assets and earnings were both up 30% plus; strong core growth and good asset quality, delinquencies were done. In Europe assets were up 9 and earnings were up 15 and across Europe we had great performance despite a slower UK market. A very good core growth in the rest of the European continent.

In Asia a strong asset growth as proved by the acquisitions in Australia; earnings up 24%. And Australia and Korea acquisitions contributing and Japan was stable. It was up 6% as lower losses more than offset lower volumes. So continued solid asset quality, delinquencies down 3 basis points and non-earnings were flat. So just a great performance. Really on the leverage we think this business has continued potential to grow double digit, strong double digit in the future, 15 to 20% in net income in the third quarter based on the outlook and based on the asset growth we have and good global operations. So we feel great about where consumer is.

Commercial finance, another great quarter. Again the breadth of the portfolio was really shown in the quarter. Assets were up 4%; income was up 25%, 22 points of that is core growth; improved asset quality; and some tax benefits that I will talk about. We did have a small impact from acquisitions that was offset by lower securitization in the commercial finance segment.

On the asset growth it's up 4 but we have continued to selectively prune. If you look at the real estate portfolio, the assets were down 3%. We are selling into good markets. And we see a lot of liquidity out there. Earnings were down slightly, down 2%, gains were done in the real estate portfolio. GECAS had a great quarter, net income up 39%. Basically we got about 90 million of benefits from the American Jobs Creation Act, the FISC replacement which was partially offset by about 70 million of impairments. The largest individual one there is about 53 million after-tax for U.S. Air. In the agreement with America West we've agreed to take out 34 737s and we've provided for that in the quarter.

As I said, there is no aircraft on the ground. Again, another quarter of that. 100% of the '05 new order book and off lease book is placed and over 80% of '06 is also placed. We see great activity in the marketplace. Lease rates are up and a lot of demand for aircraft.

In the midmarket segment we had a tremendous quarter. Volume was very strong, up 14%. We got great distribution. Commercial loans and leases assets were up 5 and earnings were up 30%. Really a great benefit from the portfolio improvement, the quality of the portfolio with lower loss performance. Delinquencies were down 30 basis points year-over-year, non earnings in the segment are down 11 basis points. Write-offs are up a little bit from last year. It's driven by provisions we made in the fourth quarter for U.S. Air as they went back into Chapter 11. Ex U.S. Air, basically flat. So it looked like another good quarter, 10 to 15% income growth with solid operations and asset qualities as we look at the third quarter.

On the right side is insurance, obviously a huge improvement over last year when we had the storms impact Insurance Solutions. Basically the improvement up over $200 million driven by two items. First Insurance Solutions at 196 million is up 38%. That includes the MedPro gain that I mentioned. Ex MedPro, Insurance Solutions is about flat. As we shrink the business, that is a great performance.

We continue to execute the strategy and exit on profitable lines, reduce our investment. Selling MedPro transferred about just under $3 billion of assets. So continue to shrink the business. Focus on the core.

The second impact is really the Genworth impact. And last year if you recall we had a loss on the initial IPO of Genworth. And this year we have lower earnings because we own less. So the net impact of Genworth is up about $175 million. Those are the two drivers for the growth in insurance. We realized 86 million which was our share of Genworth net income in the quarter. And we have a nice embedded gain in our remaining 52% ownership position at Genworth which our current plans are we will continue to sell that down in an orderly manner.

Third-quarter should be very strong, 40% plus net income. As I said we had significant catastrophes, the hurricanes in the third quarter last year and we will have to see how that plays out. But right now we expect this to be a very strong segment in the quarter.

NBC Universal. The numbers are probably a little higher-than-expected. It is really driven by the IACI unwind that I mentioned. And I'll point out the numbers and the impact here. The network prime is in a tough cycle. We had about 17% lower ratings in the season and no repeat of Friends and Frasier finales last year in the second quarter, so it made it for even tougher comparisons. And the '05 prime upfront sales were below '04. I'd like to clarify our upfront performance. There have been a few numbers thrown around. For the prime performance last year, we sold about 2.7 billion of advertising in the upfront. This year we sold 2 billion on a same basis, but we also sold about five points less. So we have about 200 to 250 million of that delta to sell in the market next season, and we plan on taking advantage of that.

For the second quarter, we tried to break out the dynamics here of Universal and the more diversified business revenue streams that we have. We think we've got a better business model. We love the Universal performance and the capabilities it has brought to NBC Universal. Prime stations and TV production, we had a very tough May sweeps and it impacted our pride and stations. If you look in the quarter, for 33% of the NBC profit ex the IACI, it was down about 30%. The great news is if you look at the rest of the business, it is really delivering. Film and DVD continues to have very strong performance, up over 100%. Entertainment cable is up over 100%. Our DVD sales, there has been a lot written about DVDs and the pressure. Our DVD sales are 6% ahead of our plan. So I think a lot of that is about what expectations are, and we continue to plan in a way that we meet and beat. And then we also had the IACI unwind benefit which is about 180 million pretax in the segment in the quarter. Basically, if you take out the impact of IACI and Paxson, the NBCU op profit was up 4%.

When you go forward, you look at the third quarter. We continue to see strong news, cable, film and parks performance. We've got easier comparisons in the third quarter. If you remember last year, we had the Athens Olympics. So we should have the operating profit up 15 to 20% and continued strong film and cable. So we are looking forward to that outlook.

On the right side is healthcare. The team also had a great quarter, very broad-based. Look at the revenues up 12%, driven by volume. Volume was up 13, price was down 3. We got a little benefit from FX. Op profit up 15%. A great performance in the marketplace. Strong equipment orders, up 16% versus the second quarter last year. If you look at the strength of the product line today, CT was up 71% globally in orders. It is driven by the VCT. We took orders for 158 units. Our total backlog is now at 224 units. In MR we had a great quarter, up 27% globally. That is driven by the high-definition MR. We took orders for 185 units. We built a backlog of 222 units now. Monitoring and cardiology was up 23%. Ultrasound and biosciences were both up 9%. Just a great global performance in the marketplace.

On a regional basis we had a very strong performance. Americas was up 11, Europe was up 12, Asia was up 9. So it is nicely spread around the globe. And when you look at it by business, the biosciences had a good quarter, revenue was up 9, op profit up 13, really driven by the strength in medical diagnostics and protein separations. Medical diagnostics was up 15%, driven by great performance of our patented products, up over 23% driven by both procedure growth and penetration. And protein separation has had a great quarter, up 18% and the future looks pretty strong for both of them.

The margin in biosciences that we talked about in the first quarter went from 10% to 18%. So we saw the lift that we expected as we grew the revenue. And the outlook looks very strong.

Healthcare technology has had a great quarter, revenue up 13, op profit up 20. So we've had a nice benefit from the orders we got in the first quarter, continued orders we got in the second quarter. CT sales were up 37%. We delivered 124 of those VCTs; ultrasound sales up 22%; healthcare IT up 19%. So good broad strength and the healthcare business and the outlook looks good; third-quarter dynamics 15% plus op profit. And we feel very good about where the team is.

Transportation had another great quarter. If you look, revenue up 9 and op profit up 11. The profit growth is really driven by services in commercial engines. The aircraft engines team had a great quarter; revenue up 7 and op profit up 18. That's driven by commercial and services. Commercial spares rate I mentioned at 15 4 a day. The revenues in the quarter are 14 4 a day, up 11%. So we built a little backlog in the spares.

And we had great equipment deliveries. Commercial engine shipments were up 4%. We had a big quarter in locomotives, up 5%. We had a great quarter in the marketplace. We took over 250 orders and the total year right now for the locomotive business should be over 850 locomotives versus 800 last year. That continues to be very strong. And we started -- really ramped up the EVO deliveries. We went from 13 in the first quarter to 193 in the second quarter. We are dealing with higher startup costs and inflation. We've got about 50 million of pressure that we had in this quarter that we will get back as you look at the third and fourth quarter. So we are going to continue to deliver a lot of EVOs and come down the cost curve and that looks pretty positive for the second half.

Third-quarter dynamics – op profit up 10 to 15% based on continued strength and services and equipment deliveries. And the business team is doing very well.

And last but not least, I'm pleased to report that after ten quarters of declining earnings, the Energy business has made it through the power bubble. Not only positive but up double digits, so congratulations to John Rice and his team. We are thrilled about the performance here. Revenue up 10, op profit up 10. Profitability continues to be a services story, the power gen business was slightly above breakeven. They made about 35 million in the quarter.

Market activity is very strong. Energy orders at $4.8 billion were up 29%. It's driven by power generation. We sold 21 gas turbines versus 17 last year. Most of those are global orders. All of those are outside of the U.S. Wind orders were up 300% over $500 million over 300 units so that continues to perform very well. In the second quarter we actually sold 27 versus 29 gas turbines, so a couple down. And we had great services growth. Power generation services revenue was up 16. Op profit was up 35. We continue to get the benefits of building that installed base. The units from the late '90s and early 2000s are going into service and we will be getting the benefits of that.

On oil and gas, we had another great quarter of orders at $1 billion, up 33% and the third consecutive billion dollar plus orders quarter. And a nice strong performance; revenue up 7 and op profit up 21. And the wind business had a great revenue quarter of 427 million, three times last year's rate and three times the unit rate with over 300 units shipped and we expect that to continue. We've got a nice backlog in wind that is going to deliver in the third and fourth quarter. And the third-quarter dynamics look like we're going to be able to continue this, 10 to 15% operating profit broad-based business frame.

So that is the look at the businesses. I'm going to ask Jeff to have a discussion about the reorg and then I will come back and look at the third quarter on the new basis.

Jeff Immelt *- GE - Chairman and CEO*

Thanks, Keith. Again, this is a page that we showed everybody at the end of June. This is now effective. So we've got the teams in place, the people in place, we're off and running. These six business units and then what we've broken down is all the reporting segments that you are going to see as we move forward into the future. And again, just to reemphasize why we did it, we think it is going to help the front end of the business and enhance growth capability particularly in the infrastructure markets.

We think it puts in place not only these six leaders at the top but an additional set of leaders that are in the position underneath these six leaders. So we really have done I think a good transition of leadership and in a pretty seamless way. So we really have all the transitions done, the new teams in place and really working forward.

We sustain all the strong risk disciplines we've had over the years in GE Capital. Again a great pipeline and now we've got teams in place that are going to generate $300 million of cost savings as we look at 2006 and beyond. So it is a simple organization. We think it's got a more effective front end and we think it does a great job of leveraging our deep bench across the Company. And I think from an investor standpoint it is in place. It is one that we did in a very seamless way and in a very swift way and now we have everybody out driving growth and lowering cost.

So then just taking us back to the financial, Keith.

Keith Sherin *- GE - CFO*

Sure, next is a summary of third quarter on a new basis. As Jeff said, for financial reporting when you look at the previous page and with the information that Bill sent out we are going to report more detail, more businesses than we previously had. So you're going to see all the detail that Jeff showed you on the previous page.

In terms of guidance, this is a preliminary view for you on the new basis. We're going to be giving you an historical financials for the recast during the third quarter and Bill and JoAnna are obviously available to help with the models when we go through that.

As Jeff described up front, we've increased the low-end of our total year range from $1.78 to $1.83 to $1.80 to $1.83, and this is the first time we're giving you guidance breaking out the third quarter. On the right side in the box, revenue of 41 to 42 billion, up 8 to 10%; earnings 4.6 to 4.7 billion, up 12 to 15%; and earnings per share 43 to 44%, up 13 to 16%. No real impact from the -- before FAS 133 corrections in the third quarter was minimal.

So we're going to increase our transparency with a simplified organization. I think this is going to be something we will be able to do with you in a way to give you the information you want so you can understand the Company and we're going to provide as we said, more information at a detailed level below this six business structure as we break out things like oil and gas and water going forward for you.

So we're going to file the recasted financials in mid September and we will be giving you be code ring so that you can get from the 11 business basis to this basis and we'll help you work through it when we get to that point. We feel great about the outlook for the third quarter. Jeff?

Jeff Immelt *- GE - Chairman and CEO*

I'm sorry, just to recap for the morning. Our outlook started the year at $1.76 to $1.83. We are now today at $1.80 to $1.83. That is up 12 to 14% for the year. Just to take you through the businesses, we've got advanced materials where we've managed a lot of volatility but we've been able to recover inflation and that business looks like it has got good momentum from a cost volume, inflation, price standpoint.

Aircraft engines and rail on a very good part of the cycle and I think with lots of momentum for the second half of the year. Consumer and commercial finance continue to be well-managed through the cycle, a great position from a balance sheet standpoint. And we think going to be a real growth engine in the second half year of the and into the next. I think consumer industrial are very well managed and executed on a clear strategy.

Energy is as forecasted. Kind of have gone through a couple of years of volatility but now I think with lots of momentum looking at the future. Healthcare again I think in a slightly stronger market but with real technology pipeline coming through. And insurance, you know, again, I think improved both operations and also from a standpoint of what we've done with Genworth and opportunities to continue to execute the strategy.

I think we're going to face into some entertainment issues at NBC Universal but we do that with massive strength across the totality of the Company. And we think we've got an improved business model at NBC Universal which again, dampens the volatility that that business would have historically had.

So again when you look at the second half of the year and you look into 2006, we've got to love the infrastructure order rate as being very strong. That leads to better services growth that we think is very positive. The operating profit expansion we think is just beginning and will continue.

From an insurance standpoint, again, we think that we've got good momentum to the upside and the Genworth gain again is something that is a positive as we've gone through that IPO over the last 12 or 15 months. Good asset quality, very strong cash flow growth leading to you know incremental return on total capital growing in excess of 30%. You know, again, our outlook is really very strong and we believe that the economy is going to give us all of the momentum we need to execute on this plan.

So just to summarize, a strong outlook for '05, 8% organic revenue growth, double-digit earnings, EPS cash flow growth, EPS estimate at the high end of the range. But again I think if you think about the Company in context and in its totality, you know I think the power bowl is behind us, the portfolio we think in good shape. We're always looking to do acquisitions and always looking to strengthen but we think we've got a pretty good hand as we looked at the economy we are in right now.

The industries we've talked about, services, growth platforms, globalization, all as advertised in driving the top-line and really accelerating cash flow. With the GECS dividend no less than 40%, good industrial cash flow. So lots of financial flexibility. And just think about the Company. You know it is broad and deep. The power diversity gives us I think good momentum right now, a very strong balance sheet both with a solid AAA and a very -- I think what you have seen -- a very capital efficient business model. And I think with the Next Generation organization and leadership in place we feel free good both about our execution in the second quarter but also how we look at the second half of the year and into 2006.

So, Bill, with that, let's turn it back over to you and take some questions.

Bill Cary *- GE - VP of Investor Communications*

Great, Jeff. Thanks. Rachel, I think we'd like to go ahead and open the Q&A line now if you would please.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Nicole Parent, Credit Suisse First Boston.

Nicole Parent *- Credit Suisse First Boston - Analyst*

Good morning, guys. I guess first, Jeff, can you give us kind of a backdrop of global economic environment, what he saw in North America? Did you think you saw a slowdown and then a reacceleration in June? And then I guess Europe it looks like PMIs picked up in June. Did you guys see that? And I guess lastly, just what you are seeing in terms of growth slowing in China?

Jeff Immelt *- GE - Chairman and CEO*

You know, Nicole, I would say that we saw -- June was definitely stronger than May. But I would say that even May fit in to kind of the tapestry of what we have seen in the global economy over the last 12 to 18 months. Which I would say is good solid growth. Our businesses in Europe remained I think pretty strong. And like I said, June was better than May. But on balance none of the activities I think throughout the quarter surprised us.

And in the case of China, we continue to see good advanced materials order rates in China. We continue to see good interest in infrastructure orders. They can't get enough airplanes. You know fundamentally the demand for kind of 737s and A320s exceeds the supply right now. So we don't see really any appreciable slowdown.

The other thing I would say, Nicole, is really in the case of advanced materials and even consumer industrial to a certain extent, we probably lose some incremental market share during the quarter because we are driving price. And driving margin rates. I would say the general economy is -- has stayed pretty robust.

Nicole Parent *- Credit Suisse First Boston - Analyst*

Great, thanks. And one left follow-up on the infrastructure business. Could you give us the context of what organic revenue growth was in the quarter? And I think on the profitability line you had guided to 40% guidance in the second quarter -- in the first quarter. You did 25, still very solid. I guess is that largely just the investment in the water services business and how much was that in the quarter?

Jeff Immelt *- GE - Chairman and CEO*

Was that one question, Nicole?

Nicole Parent *- Credit Suisse First Boston - Analyst*

All related.

Jeff Immelt *- GE - Chairman and CEO*

If you look at the organic growth in the segment and the quarter, it is about 5% in water and 6% in security on the revenue side. Operating profit in security was about 15%. In the water segment it was down in total reported $14 million. That is about the magnitude of what you are talking about in terms of investments we made in the services infrastructure as we continue to build out long-term service agreement model going from selling chemicals on a transaction basis to selling them long-term with customers. And we feel good about the investments we've made and we're going to realize the benefit of those. But that is the magnitude of what we had.

Nicole Parent *- Credit Suisse First Boston - Analyst*

Thank you.

Operator

Jeff Sprague, Smith Barney.

Jeff Sprague *- Smith Barney - Analyst*

Thanks. Good morning everyone. Could you perhaps address, Keith or Jeff, kind of around Greenspan's conundrum if you will, as we think about GE Capital. If the yield curve totally flattens out here is it just or possibly even inverts, is it just an issue of GE Capital kind of shifting where on the curve that funds its business and is there any other kind of macro implication for the Company that you would point to?

Jeff Immelt *- GE - Chairman and CEO*

The first thing that we think about, Jeff, is as you look at the interest rate changes that are going on is we are going to stick to the basic principle of match funding. And so we are pricing everyday with our customer so that we can be able to continue to make sure we optimize our profitability and our risk-adjusted spreads in the quarter expanded in both commercial and consumer. So even though you are seeing that short-term interest rate rise, we are continuing to manage it very carefully in the marketplace.

In terms of funding, we are continuing to look at -- with this interest rate environment can we do more longer-term funding? And we will continue to evaluate that to optimize the balance of funding to maximize profitability and lower our risk. And that gives us actually an opportunity, Jeff. And I think we are just kind of -- continue to watch with the Fed does. We don't have a real forecast on it. We are going to see what Greenspan and the Fed does as they look at the economy and they look at inflation and they look at global economic implications. So we really don't have a forecast on it. We are going to manage our businesses in the environment that they give us.

Jeff Sprague *- Smith Barney - Analyst*

Right and just a follow-up on your service comment. You kind of went through why the comp and why growth was a little bit slower. But could you give us some color on kind of what your service capture rate is on kind of the spurt in new equipment orders you are seeing? Is it up, down? Is there something new to glean from kind of the activity there?

Keith Sherin *- GE - CFO*

In terms of services we continue to do very well with new equipment that is out there. I think today if you look at CSA activity -- Energy, we have about 40% of the gas turbines covered by CSAs. Aircraft engine, 2o to 35% of the worldwide commercial engine fleet is covered by CSAs. Rail is about 55% covering under material service agreements. We continue to see customers come to us and want to have them run their operation and have us provide them with an ability to give them forecasted predictable costs and guaranteed productivity or uptime or profitability. And that is why they use them.

So we continue to see very good activity there. As I said, we grew the CSA backlog 15% and our service businesses are operating very well and we are on the same side as the customer. That is what's really important here. I think everything we see about it is positive. Jeff, you were (multiple speakers) services council --.

Jeff Immelt *- GE - Chairman and CEO*

Yes. We do a quarterly kind of council with the service leaders and I just did that last week. I would say if you really look at two things in the second quarter last year, military spares are lower and we had kind of the onetime lump of nuclear fuel. So if you take that out, you see really great capture rates globally. Our run rates in China are building sequentially every quarter from an energy standpoint. And the CSA backlog being up 15%.

Again, we love the business model and I think the great news is the big infrastructure orders are really a precursor to pulling through that service business and I think that business model is pretty robust.

Jeff Sprague *- Smith Barney - Analyst*

Thank you.

Operator

Deane Dray, Goldman Sachs.

Deane Dray *- Goldman Sachs - Analyst*

Thank you, good morning. I'd like to revisit the 8% core revenue target. Jeff, this is a number that you set back in December and we are now kind of halfway there. Just talk about the visibility for the balance of the year maybe what carries us into '06? And what might drive this number up or down in the second half?

Jeff Immelt *- GE - Chairman and CEO*

Again, Dean, the way we have kind of thought about it is you start with the GDP, global GDP that might be 2 to 3% that we believe that the portfolio enhancements we've driven give us maybe twice that. So maybe 6%, and then we get another two points plus based on executing around the service business model, the global business model, the growth platform business model, things like that. I think if you think about the businesses going forward assuming the GDP, which I believe is absolutely the case and consists with all of our planning; we still love the portfolio of businesses we are in. I think you see that in the growth platforms and healthcare.

Service revenue growth based on backlog and everything we see is going to be 10% plus. That is now roughly a third of the industrial business model. And if we think the Company is very well-positioned when you look at where we stand on a global revenue basis in China, Eastern Europe, places like that.

So I think if you think about the infrastructure businesses like transportation, energy, water, security, those businesses ought to be capable of 10% plus type organic revenue growth. Healthcare, consumer finance ought to be capable of that kind of range of revenue growth. And then even the businesses like advanced materials and C&I are going to be in the mid single digit range. Again this is another thing that we track very intently inside the Company as you can imagine. But I think the structure of it, to have in your mind is GDP of 3; portfolio gives you twice that; and then services, globalization, growth platforms, a whole series of other things that we've got going are what gets us above 8.

Deane Dray *- Goldman Sachs - Analyst*

Jeff, just related to that, on the second quarter, if I heard correctly, the growth platforms came in organically around 9%. I would have thought given the economic backdrop and the kind of expectations for infrastructure of closer to 10% growth. Is that considered a disappointment?

Jeff Immelt *- GE - Chairman and CEO*

Again, I think 10% is what we ought to expect. We may not get it every quarter but we like the dynamics around those businesses. I think if you look at -- this is a revenue number -- if you look at like oil and gas the orders are up 30 or 40%, the revenue is up 7. So that is embedded and it is going to come through over time.

Deane Dray *- Goldman Sachs - Analyst*

Thank you.

Operator

Scott Davis, Morgan Stanley.

Scott Davis *- Morgan Stanley - Analyst*

Good morning. I wanted just to go back to your share repurchase plan a little bit. It looks like you bought back about $700 million worth of shares in the quarter. Given basically how weak your stock was, I thought I might have seen a bigger number for share repurchase in the quarter. Can you talk just a little bit about your timing and strategy? Maybe how you are thinking about buying back the $15 billion of stock over the next three years?

Keith Sherin *- GE - CFO*

Sure. We're not really timers here. We're pretty consistent buyers in the marketplace every day. You know we are going to do in the second half 2.3 billion or so of repurchase. In the fourth quarter we will be at the 5 billion annual run rate on a quarterly basis. And we think the stock is a good investment. We're going to spend the $15 billion over that three-year period. And we've been ramping up the run rate to get to that level. We'll basically have flat outstanding shares by the end of the year and then next year we will get the benefits of the buyback above employee plans.

Scott Davis *- Morgan Stanley - Analyst*

Okay. Fair enough. Keith, it wasn't clear to me and maybe I just didn't hear it, why the tax rate was higher and also maybe how we should be thinking about the tax rate for the rest of the year and for next year?

Keith Sherin *- GE - CFO*

Sure, on the industrial side the tax rate was higher because last year in the second quarter we had some large settlements with the IRS and those settlements included benefits to us that accrued interest on those tax deficiencies that we didn't have to pay. And so the settlements to the IRS were about 10 points of the rate increase. So the rate is up 8 points this year driven by not having the repeat of that.

On the capital side, it's up because last year we had the loss on the Genworth IPO. And that didn't repeat. That had a huge impact on our tax rate last year. And then this year we have some of the benefits from moving the aircraft overseas in association with the American Jobs Creation Act. So the rate is up in total about 2 points. The IPO gives a big increase and then having the Jobs Creation Act brings it back down just a little bit. So in total up 2 points.

For the rest of the year you know we are basically required by accounting to have the tax rate in the quarter be the estimate at that time for the year. And right now we say around 25% for the industrial rate and around 18% for the capital rate.

Scott Davis *- Morgan Stanley - Analyst*

That is great. Thank you.

Operator

Steve Tusa, JP Morgan.

Steve Tusa *- JP Morgan - Analyst*

Good morning. I just had a question actually on the third-quarter guidance and maybe I missed this. You said that there were some catastrophe losses in insurance. Could you just maybe detail what the impact is going to be on that?

Keith Sherin *- GE - CFO*

Sure, if you remember last year we had the bad hurricanes that hit Florida in the third quarter -- I think there were five storms that hit. And the Insurance Solutions business itself last year in the third quarter reported a loss of $40 million about.

Steve Tusa *- JP Morgan - Analyst*

So I'm sorry, so there is nothing so far this year from the storms? This year?

Keith Sherin *- GE - CFO*

Right, that is exactly right. They are in the current planning for catastrophe contingency that the Insurance Solutions team had what we've seen so far this year.

Steve Tusa *- JP Morgan - Analyst*

And then lastly, if you look at the major industrial businesses, Energy in particular, you know Energy looks like a little bit more of a back-end loaded second half if you look at your initial guidance for the year given the third-quarter guidance. Is there any change to the annual targets in Energy, transportation or healthcare from a revenue or profit perspective?

Keith Sherin *- GE - CFO*

No, there haven't been. I think you are seeing, as we said, we kind of landed the ship here in Energy. We went from the final low point in the first quarter. We were able to get back to positive and up double-digit in the second quarter and that progression continues as we go forward. So there is really no change.

Steve Tusa *- JP Morgan - Analyst*

So 3.2 billion in op profit for energy this year still?

Keith Sherin *- GE - CFO*

That is our target, right.

Steve Tusa *- JP Morgan - Analyst*

Thanks.

Jeff Immelt *- GE - Chairman and CEO*

And I think in some cases, both healthcare and transportation will ramp up in the second half of the year based on some of the stuff Keith talked about earlier like getting the evolution engine costs in line and things like that. So you see, I think a decent ramp really in all the businesses in the second half.

Operator

Don MacDougall, Banc of America Securities.

Don MacDougall *- Banc of America Securities - Analyst*

Good morning everyone. I wanted to focus on Energy and margins in that business, I think it was 15 4 in the quarter. It's not that long ago that I think about this as a 20% plus margin business. Now I know that the models changed a little bit, you don't make as much on original equipment sales. But as we think about this business over the next couple of years, should we think about this as a mid-teens margin business or is there a path to get this back to that kind of high teens, 20% kind of profitability rate that we used to enjoy?

Keith Sherin *- GE - CFO*

I think the great profitability was really associated with the bubble and we're making -- margins we're making on the gas serving units in the late '90s, early 2000s. That was a great environment for us to have great profitability on the equipment end and also a services model coming in behind. I think today the way to think about it we've kind of structured it is that the power generation business, the big equipment business is probably going to be somewhere near breakeven to some profitability. The team is doing a good job of managing that.

And then the growth in this business in margins is going to continue to expand as we grow our services business. So we expect the margins here to expand. We think we will get about a point a year. I don't know what the cap out of that is, Don, as you look at the next couple of years. But we do expect the margins to expand. The services business is expanding and the oil and gas business is also continuing to grow with good profitability in both equipment and services level.

So we are in the same place you are. We expect it to be, as you said, it's about 15 4 in the quarter. It was flat with last year. We expect those to expand as you look at the next year 18 months -- two years.

Don MacDougall *- Banc of America Securities - Analyst*

So about a point a year is kind of the framework?

Keith Sherin *- GE - CFO*

That is about --

Jeff Immelt *- GE - Chairman and CEO*

I think low 20s you know, Don, I think is ultimately the way to think about it.

Don MacDougall *- Banc of America Securities - Analyst*

Okay. Shifting gears over to NBC. Jeff, in the presentation it was the one business that had a minus beside it. This year you are kind of locked and loaded because you did sell a lot of the -- in the up front from last year. You pretty much know this year -- what has to happen next year for NBCU to be a double-digit grower?

Jeff Immelt *- GE - Chairman and CEO*

What I would say, Don, is you are going to have to get in order to hit double digits next year, you are probably going to have to get an improvement in the prime time ratings. Again the way we look at it is you've got a very robust business model. We think the volatility has come way down. And we've just got to do a better job on the programming front. That is what we are all working on. So I would say that is what it would have to be to get at double digits in '06.

But beyond that, the way I would look at it, Don, again if you look at the totality of the Company, I wouldn't change a thing about the way any of you look at '06 because of the strength of the rest of the Company. I think we are counting on improvements at NBC Universal, but at the same time the rest of the Company is going to do even better.

Don MacDougall *- Banc of America Securities - Analyst*

Thank you.

Operator

John Inch, Merrill Lynch.

John Inch *- Merrill Lynch - Analyst*

Thank you. Good morning. Just a quick question on transportation. Obviously the environment for aircraft and rail is pretty strong. The business came in a little bit light of guidance. Were there mix issues as they pertained to OE versus aftermarket or perhaps timing of orders? Or how should we think about the results?

Keith Sherin *- GE - CFO*

I mentioned the engines business didn't have any issues. Revenue was up 7 and op profit was up 18. Really it is rail. Rail op profit was down in the quarter. As I said, it was mix as we ramped up those EVO locomotives. We got to the production run rate we wanted but we're dealing with early locomotives at a little higher cost. We've got to get down the cost curve as we ramp up our suppliers and get the supply chain more efficient and some inflation that we had in steel.

We are getting a price premium on the EVO locomotive and now we've got to get our supply chain together. So it really was rail is the story that really you are thinking about there, John.

John Inch *- Merrill Lynch - Analyst*

Right, and so were aircraft engines, Keith, were they in line with guidance or a little bit better than what you thought they were going to do?

Keith Sherin *- GE - CFO*

A little better. And what I'd say, John, is you probably got 30 or 40 million bucks that we should have gotten in the second quarter that we will get in the second half because again, we are executing on the cost plan on the EVO and so that gives us a little bit of juice for the second half.

John Inch *- Merrill Lynch - Analyst*

That makes sense. Jeff, just as a follow-up, I want to go back to the point about the 8% organic growth. I think you have articulated quite nicely how GE is going to grow at 8% plus over the cycle. I'm just wondering about next year as we lap some of these big run-ups in some of these businesses. At the margin is it going to be a little bit more difficult based on how you see the world to do the 8% in '06? And does that cause you to perhaps think a little bit differently about maybe doing a deal in '06 or something like that?

Jeff Immelt *- GE - Chairman and CEO*

You know, really two parts to the question, John. You know what I would say is if the given the continued economy that we see today into '06, which again is what we expect. We still think 8% is a good goal, again because we think we've got robustness and service globalization, infrastructure, great healthcare productline, things like that. So I feel good about that. And then the Company is generating a lot of free cash flow. As I have said to everybody again, we always have a list of things that we look at from an acquisition standpoint but we don't feel like there is anything we have to do at this juncture. And so we will continue to be disciplined about the way we look on the acquisition front.

I think what Keith talked about earlier is all the things we've talked about now that parent supported debt is down to zero, we just have the Company run rate on a go forward basis is probably in excess of $20 billion of CFOA. And so we just have a tremendous amount of financial flexibility.

John Inch *- Merrill Lynch - Analyst*

Thank you.

Bill Cary *- GE - VP of Investor Communications*

We probably have time for another question or two.

Operator

Tony Boase, A.G. Edwards.

Tony Boase *- A.G. Edwards - Analyst*

Thank you and good morning. Just a question on the guidance again. The third quarter EPS was a little bit shy of consensus. And of course you've bumped the bottom end of your full year number. Is it a case of some business shifting into the fourth quarter from the third quarter or I don't know maybe you could explain a little bit more on what is going on there?

Keith Sherin *- GE - CFO*

You know we have never broken out the second half guidance or third or fourth quarter until today. So for us if you look at the EPS Vs Tony, and you look at what we had in the first and second quarter and you look at the third quarter now with the guidance up 13 to 16, we are right on track. So there hasn't really been any change. It is the first time we broke out and we are right on track for the total year as you said we lowered the -- we raised the bottom end of the total year to reflect the strength that we have. It is pretty consistent when you look at the Vs quarter to quarter to quarter and it is the first time we've given third quarter at that level of detail.

Tony Boase *- A.G. Edwards - Analyst*

Just a question on commercial finance. It seems like the topline growth has slowed down in the past couple of quarters. Any comment there? Does that reaccelerate at some point?

Jeff Immelt *- GE - Chairman and CEO*

I think we are being very selective. We have a great origination and underwriting capability out there in the marketplace. We are seeing a lot of liquidity. We are looking at acquisitions. I think you will see some more of those as you go forward. We have, as I said, pruned the real estate portfolio a little bit with the liquidity and the cap rates that we are seeing on properties. And we are using our origination to go direct into syndication.

And so when we look at the volume opportunities that we are seeing, which have been pretty good, some of what you are seeing today is we are selling these right into the market place directly. It is an alternative way for us to fund ourselves and continue to generate income and fee income and also take advantage of our great origination. We don't have any warning signals going off for that. We feel great about where the business is and we feel good about the volumes that are out there and the global opportunities in the marketplace.

Jeff Immelt *- GE - Chairman and CEO*

Tony, I just want to echo what Keith said. Our origination is very strong and I would say from my seat down through the organization we are just being very selective about what we keep on book. I just think that is the right way about it. I think if you look at midmarket volume which is a pretty good indicator of economic activity; it is up 14% in the quarter. So I think it is -- it is there when we want it and we're just being selective about what we keep on book.

Tony Boase *- A.G. Edwards - Analyst*

Thanks for the comments.

Operator

Bob Cornell, Lehman Brothers.

Bob Cornell - ***Lehman Brothers - Analyst***

Thanks everybody. You know I think -- what is the outlook for the military spares business? I mean when we used to talk short cycle orders I think military spares is soft in April/May. How do they do in June and sort of what is the outlook for the balance of the year?

Keith Sherin - ***GE - CFO***

We have seen some timing on provisioning in military spares. The outlook in June I think it was down 11. So it was down a little bit. And we think that is timing. The transportation team feels pretty good about where they are. We expect a second half pick up when you look at -- (multiple speakers).

Bob Cornell - ***Lehman Brothers - Analyst***

When do they go back positive, Keith, do you think?

Keith Sherin - ***GE - CFO***

You've got to remember we've had some significant provisioning when you look at what is going on in the military over the last couple of years with the Middle East. I think if we can stay stable in the second half that is pretty good performance for the military business. They are at record levels of services and that will give us pretty good profitability, Bob.

Bob Cornell - ***Lehman Brothers - Analyst***

Yes. Another thought on the gas turbine business, you mentioned the business is making 35 million I think you mentioned in this quarter. How is the global outlook for demand, pricing and is the breakeven outlook maybe a little conservative in that business going forward?

Keith Sherin - ***GE - CFO***

I've tried to say that is power generation so that includes -- (multiple speakers).

Bob Cornell - ***Lehman Brothers - Analyst***

Steam and --.

Keith Sherin - ***GE - CFO***

No, it also includes the wind and the hydro. We have put it all together under Mark Little to take advantage of his strong infrastructure and his processes. In the quarter we had pretty good orders. We took orders for 21 gas turbines globally versus 17 last year. It is pretty competitive out there. Prices are down 8 to 10% on the new units but we continue to take our costs out. And now we've got to go back and look at the structure around energy as we go forward with the simplification of the new business model. And we think we can stay competitive with that type of order rate.

We are seeing demand in Europe. We are seeing demand in China. We are seeing demand in the Middle East. I think the turbine business, Bob, at the end of the day is going to be at a couple hundred million dollars of profit on gas turbines.

Operator

Thank you, sir. Gentlemen, do you have any further remarks?

Jeff Immelt *- GE - Chairman and CEO*

Again, just thanks everybody for the questions and for the attention this morning. We feel very strong about where the Company is positioned. I think our execution on what we have told you has been good and I'm proud of the team for what they had done. We again think about when you look at the company going forward with the breadth of our strength and again lots of strong initiatives around cash and organic growth. Again, we look at the second half in '06 as being a good time for GE.

So, Bill, thanks and I'll turn it back to you.

Bill Cary *- GE - VP of Investor Communications*

Great, Jeff, Keith, thank you very much. And thanks everybody who joined our call today. Remember all of the materials from today's call will remain on our website. As will a replay of today's web cast this afternoon will be available. We will post a transcript of the call as well so you can access that at your leisure.

JoAnna and I are both around through the balance of the day. If you have questions, please feel free to give us a call and thanks very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude your presentation and you may now disconnect. Have a wonderful day.