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Conference Call Transcript

GE - General Electric Q2 Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric second-quarter 2006 earnings conference call. At this time all participants are in a listen-only mode. My name is Michelle and I'll be your conference coordinator for today. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded. I would now like to turn the program over to your host for today's conference, Dan Janki, VP of Investor Communications. Please proceed.

Dan Janki *- General Electric - VP Investor Communications*

Michelle, thank you. We'd like to welcome everyone. JoAnna and I are pleased to host today's earnings conference call. Hopefully you saw our press release that went out at 6:30 this morning. That along with today's presentation supplemental information is available at our investor website, www.ge.com/investor. You can follow along online or you can download and print the information.

Do remember that this presentation does contain forward-looking information that's based on the world and economic environment as we see it today. That is subject to change, so please view the information in light of that. Today we'll cover 2Q earnings, we'll give you a third-quarter outlook and then we'll take your questions. So to do that we have our Chairman and CEO, Jeff Immelt, and our Senior Vice President and CFO, Keith Sherin. So at this time I'd like to turn it over to Jeff to get us started.

Jeff Immelt *- General Electric - Chairman, CEO*

Dan, thanks and good morning, everyone. I just want to start off -- again, I think we view this as a very good quarter for the Company. I'll start by talking a little bit about the environment. You know, in terms of tailwinds, our economy and the markets for our products remain very strong and we're seeing good activity across almost all of our segments in GE.

The changing energy landscape that we've dealing with the last two years or so has really been more of an opportunity for the Company; we can capitalize on some of the technical leadership we have in areas like rail and energy, aviation business and that's helped our major equipment businesses. And we're seeing good growth around the world, particularly in emerging markets where we grew 18%. Lots of liquidity in the Capital Markets, a good risk environment and, again, our assets and balance sheets remain very strong.

The headwind -- we've been dealing with inflation for the last two years, we continue to deal with that in terms of both interest rates and commodities. And in terms of specific business challenges, clearly plastics in a time like this is a much tougher environment and we've seen that in the last two quarters. And NBC, our expectations there are on plan and we see some good momentum as we enter the second half of the year at NBC Universal. And then from a corporate standpoint, we continue to fund a pension earnings decline and our increasing funding and restructuring as we look at the second half of the year and into 2007. So we think we're achieving a good solid excellent performance in this environment and feel good about how the Company is positioned for the second half of the year.

If you go to the next page, just some of the key performance metrics for the Company. From a growth standpoint 17% orders growth, 9% revenue growth, 12% asset growth. So pretty strong overall for GE across, again, most business segments. Earnings per share were up 15% which was in line with estimates and, again, very strong earnings growth for the Company. Our return on total capital was up 200 basis points to 17.6%. This is something we've spoken a lot with investors as being a priority for the Company and we're seeing great progress there.

Our margins were down slightly, 50 basis points, and a lot of good work inside the Company was offset by a drag at NBC Universal and plastics. But that's a big priority and we see some gains there in the second half of the year. And cash is very strong, up 78%, consistent with what our expectations were. So one of the key strategic priorities for the Company is to be able to sustain outperformance through the cycles. We think these metrics are in line with those -- with that strategic imperative.

If you go to the next page, just an update on some of the long-term strategies that the Company is executing on. Our focus, number one, is to continue to build great businesses. In the quarter we invested in our water business, are healthcare business and NBCU. Our growth platforms grew revenues 18% and we exited the insurance solutions business, which was something that we considered to be a big strategic priority for the Company, and announced the sale of GE supply as we continue to reposition our industrial assets.

Second is reliable execution. We had five of six businesses with segment profit growth at 10% plus. Infrastructure orders are booming. NBCU turnaround is on plan. We have solid financial service performance. And again, the one negative was operating profit leverage which turns in the second half and is a key focus for all of us. A third comment -- growth initiatives, we saw great organic growth which I'll go into a little bit more detail and our important service revenue grew 12% with long-term service agreements at almost $90 billion.

And from an organizational standpoint, we're on track for $400 million of synergy this year and we're seeing good improvements from enterprise selling in terms of having better market facing organization. So we continue to execute and build long-term value in the Company and we're happy with the performance and the update in the quarter.

The next page -- you know, the big strategic initiative that we've got going inside the Company right now is growth as process. We've hit our sixth straight quarter of 8% organic or 2 to 3 -- organic growth that's two to three times GDP. It was 8% in the second quarter. What we do is talk about the elements of this initiative led by great technology and services. We really have a strong pipeline of new products which we think positions us well for the second half of the year and onto 2007 and our backlog is at record highs. We've got equipment up 28% and CSAs again at a very strong level.

Our imagination breakthroughs will deliver about to 2 to $3 billion of internal revenue; I just picked off three of them. Today our Hispanic media share is up 11 points. Our Monogram appliance growth is up 13% and our hospital equipment financing asset growth is up 33%. On commercial excellence we continue to drive incremental growth there. Our ecomagination productline orders are up 20% in the second quarter and the Olympics are on track for $700 million of orders. This is above and beyond the performance of NBC. This is the industrial orders that we expect to get around the 2008 Olympics.

We continue to drive process improvements with our key customers and using that process to gain share. We have 30 lean showcase events delivering customer impact and this continues to be a big initiative inside the Company right now. Our global growth is very robust and developing country growth is 18% for the quarter and we continue to drill this inside our leadership team as we look at where we stand.

So the goal is to have sustainable and visible and valuable growth and we think that's what we're executing on. And again, we think six great quarters and we continue to have a pretty good view that that's going to continue in the future. So with that I'm going to turn it over to Keith to go through the financial details of the quarter and then I'll be back to wrap it up later.

Keith Sherin - ***General Electric - SVP, CFO***

Thanks. Let me start with growth. Second-quarter orders continued very strong, $22 billion across the Company, up 17%. It's a fantastic result for us, bodes well for the future. And if you look at the pieces on the left side -- major equipment, over $8 billion of orders, up 33% in the second quarter. We continue to remind investors this is lumpy as these orders come in in terms of timing, but this is another terrific quarter. If you look at the businesses, aviation for example is listed as favorable. The orders in aviation around the world are up three times.

So the second one is energy, up over 40%. Oil and gas up over 25%. Healthcare I'll cover when we get to the healthcare business, up 4%. And transportation -- it shows in the quarter it's down year-over-year, but even transportation year-to-date is up 21% and those guys -- I'll talk about the financial results -- they're just having a great year and they are sold out.

In the middle is services. $7.5 billion, up 13%. Having double-digit services growth is terrific for us in terms of profitability. You can see the business results, strong double-digits across all the segments. Aviation is up 5 and that's really got two elements to it. First, the commercial services business is up 10% and the military services business is down in the second quarter dragging that down to 5%. So year-to-date up 17% and overall in infrastructure close to $6 billion the services business up 13%.

And then on the right side flow business, close to $7 million of orders, up 8% in the quarter. Again, this is a good sign of broad global growth. You can see the numbers down around the different parts of the world. U.S. strong up 9, Europe up 4%, Asia up 6%. Good global economic activity. So when we see orders overall across the Company up 17%, this is just a terrific economic performance by our origination teams.

Next I'll jump into some of the core indicators for financial services. The left side of the chart is about margins for our financial services business. If you look at the blue bars, these are net revenue or contributed value -- so it's our total revenue less the interest cost as a percent of our average assets. So basically you can see that year-over-year we're down about 16 basis points across all our financing businesses and the right side bars, the green bars are risk adjusted.

So what we do is we take our net revenues less our losses and you can see that despite the fact that there is a lot of liquidity in the market our loss performance has just continued to decline. The quality of the portfolio is in great shape and as a result our risk adjusted margins are stable and then we're able to improve our profitability with both productivity and volume and we have a big focus on risk adjusted pricing.

On the right side you can see the quality of the portfolio. You look at 30 plus day delinquencies. They continue to show the great performance in our portfolios. The consumer finance delinquencies are up 7 basis points, that's basically flat with our global mix. Equipment financing delinquencies are down slightly, again basically flat. Just it's about as good a time as you can get for the quality of this portfolio based on our global markets. And on the bottom right utilization for the equipment services business also shows continued strength in the economy. If you look at utilization of 87% in the quarter, Penske, railcar, trailers -- they're all up slightly from Q1. So the portfolio here continues to be in great shape.

Now Jeff mentioned that we're not satisfied with our operating profit rate in the second quarter and I wanted give you a chart to show the details of that and more importantly the outlook for the rest of the year. So before I get into the percents I just want to be clear, we are growing our operating profit dollars. But for our own internal goals we also want to drive to improve the rate. So on the left side you see the rate went from 15.4% in the second quarter last year down to 14.9% this year. It's down 50 basis points and it's really four simple drivers for us.

On a year-over-year basis, with NBC down through the quarter -- through the half around 10%, that's a half a point drag on our margin rate. The second one is a good news/bad news story. First of all, in infrastructure our product revenues are growing at two times the rate of our service revenues. So the great news is we're getting tremendous orders, we're building a backlog and we're shipping a lot of that equipment to build the installed base which will deliver future service revenues. But right now obviously with the margin mix between equipment and services, that's been a two tenths of a point drag on the rate.

Jeff mentioned plastics. We are continuing to see tough trade-offs with price and volume and inflation. That's about four tents of a point on the rate. And then finally, the rest of the businesses and the productivity that we drive is a six-tenths increase. So it's down 50 basis points, but the right side is where we're growing and in the second half we're going to grow margin by about 80 basis points. It's the same four factors. The difference is three out of the four are positive and productivity continues, but we're going to continue to get good margin growth in our businesses by driving costs and working on pricing and offsetting inflation with activity.

Infrastructure services revenue equals the product revenue in the second half. So it's really about more normal comparisons rather than run rate slowing down. And the NBC, I'm going to show you that in the fourth quarter we go positive. And then finally, we're going to continue to wrestle with drastic price inflation throughout the year. So that will continue to be a pressure.

But another way to think about this is if you look at the second half our infrastructure business, our industrial business and our healthcare business are all going to grow our operating profit by about 1.5 points in the second half. So we've got broad-based focus on this in the Company and we have a good outlook for the up profit growth as we go into the rest of the year.

Now let me cover the second-quarter consolidated results. On the left side is the income statement for continuing operations. Revenues -- this is a really strong performance, $39.9 billion, up 9%. You can see its mix -- it's good strong revenue growth in both industrial and financial services. Earnings of $4.9 billion, up 11%. EPS at $0.47, at 15%. Great cash flow results. $14.3 billion at the half, up 78% and the industrial cash flow has grown in line with earnings, up 9%.

And then on the bottom left is the tax rate and these tax rates are right in line with previous guidance. If you look at the GE industrial rate ex GECS, the second quarter is at 24%, year-to-date we're at 24%, right in line with what we said. And the GE Capital services rate, we have booked to what we estimate the total year rate is. We estimate the total year rate at 13% with a higher rate a little bit in the first quarter the second quarter came in at 11; but again, it's right in line with what we said our guidance was for the total year.

So I look at the tax rate for the second quarter and basically the impact is neutral on our net income. If you look, the industrial rate is about 1.5 points lower than last year, so year-over-year, when we come in at 24 it's about 1.5 points lower. That equally offsets the fact that the capital rate is 1.9 points higher year-over-year. So really no impact on earnings quality year-over-year from tax rates here and straightly consistent with what we said we were going to do in terms of taxes.

So on the right side I want to summarize the second-quarter segment results. If you go business by business, the revenues and the segment profit were in line with guidance. I'm going to take you through the pieces of that. And before I do that there's one other point on the income statement. I saw some of the preannouncement notes about the impact of foreign exchange on the Company and I thought I'd just clear that up. Quarter-over-quarter, year-over-year we had foreign exchange be about a 1 point drag on our revenue. So without the impact of foreign exchange revenues would've been higher by 1 point. And it had about a $54 million net income drag on our earnings from the average stronger dollar during the quarter year-over-year. So we did have an impact of foreign exchange and it was a drag.

Next is cash flow. $14.3 billion for the half, that's up 78%. You can really see the pieces here on the left side, the GECS dividend going from 1.8 to $7.6 billion. Down in the bottom that's really driven by the regular dividend from GE Capital at 40% of earnings, about 1.9 billion, and then the special dividends from insurance. We have -- in the first quarter we had the final tranche at Genworth, it was about $2.5 billion. And in the second quarter, as Jeff mentioned, we're really pleased to gather the proceeds from the GE insurance solution sale, $3.2 billion, and that closed June 9th, as we said.

We also had a terrific quarter in industrial. When you look at CFOA through the half it's at $6.7 billion, it's up 9%. And with all this cash flow we were able to repurchase $6 billion of stock through the first half. So we're well on our way for our stated 7 to $9 billion goal this year of buyback.

On the right side is just the cash balance walk we always give you. You know you start with a beginning balance of cash from the beginning of the year; we add the CFOA of 14.3 from the left side of the chart. We paid $5.2 billion of dividends. We bought back $6 billion of stock. We had about $1.5 billion of plant and equipment expenditures. We had $2.8 billion year-to-date of acquisitions. The biggest one of those is -- IDX was about $1.4 billion. ZENON was about $700 million. And then changing debt and other to end the quarter with $1.8 billion of cash. So strong delivery through the first half and on track for the total year. Our estimate of $25 billion of CFOA up 15% is in good shape.

Before I go to the businesses I thought I'd show you the outlook for third quarter. We continue to see strong top line. You can see that with the Vs here, on the revenue Vs across the portfolio. And a pretty similar segment profit outlook profile to Q2 across the Company. And I'll take you through, as I said, business by business.

But on the right side of the overall GE guidance is revenues of $40 billion plus, up 10%; another strong topline quarter as growth as a process just continues to deliver quarter after quarter. Our earnings 5 to $5.2 billion, up 8 to 14% and earnings per share 48 to 50 up 12 to 16%. So we are continuing with our existing guidance; we haven't changed it for the third quarter $0.48 to $0.50, up 12 to 16%, another great quarter.

With that let me take you through the businesses. I'll start with infrastructure and I've got the summary of infrastructure on this page and then the next page I do a little more detail on energy and aviation just to continue to give you information about those two important businesses in this section in Dave Calhoun's world. Overall, revenues were up 11%, $11.3 billion. Segment profit at $2.1 billion, up 10%.

On the bottom left -- we've got a lot of businesses in this segment and I thought I'd give you a few comments for each one of them. Let me start with aviation. Revenues were up 11, op profit was up 6. The revenues were really driven by higher commercial engine sales -- commercial engine revenues were up 20%. Service revenue was up 10% and that's partially offset by lower military revenue which was down a little over 25%.

Now the op profit was impacted by the mix of basically two things. Number one, we had more engines versus services. Now the commercial engines go out with low single-digit margins versus the service and military revenues that I just mentioned, you know, 30 to 40% margins. And number two, we accelerated some NBI spending on the GEnx into the first half. And I think if you look, really just a little bit of timing because if you do the whole business for the first half op profit is up 13% and, as I said, I'll go into more detail about aviation on the next page so we feel pretty good about where we are there.

Aviation financial services just had a great quarter. The driver of growth here was core growth and basically no repeat of a $50 million plus after-tax provision for USAir from last year in the second quarter, so they've got a terrific performance. Energy rebounded just like we outlined in the first quarter. We had stronger revenue driven by wind. Wind revenue was up 69% -- 427 wind units in the second quarter which was up over 106 units. The service revenues were up 10% and the op profit growth was up 10%. We're happy to have it being back to double-digit growth in the energy business just like we outlined. It's driven by both services and wind improvement and we're still working on improving leverage.

We're dealing with gas turbine mix margin compression versus 2005. But I'll tell you, we feel great about the progress the team has made and, as I said, I'll cover a little more detail on energy on the next page. Energy financial services was down year-over-year. The team had good core growth, but basically that was offset by a nonrepeat of a big cash settlement we had last year in a U.S. gen bankruptcy and that just didn't have a comparable in 2006.

And then finally, oil and gas and transportation, they're just having tremendous quarters. If you look oil and gas, the equipment revenues are up 62%. Service revenues were up 23% and these guys are really doing a great job delivering op profit. Transportation is having a tremendous year. We delivered 215 EVO locomotives. That was up 11%. We have 1,500 locomotives on the backlog. We're getting great leverage as we improve our cost position on the product. And when you look at the whole package of infrastructure for the third quarter we see broad-based strength continue and we're forecasting the overall segment profit to be up 15 to 20% for the third quarter.

So let me show you additional detail on energy and aviation. For both businesses what we wanted to do here was layout the first half and the second half dynamics. And let me start on the left side with energy. Revenues up 6 and op profit down 6 in the first half. We showed you it was down in the first quarter, it was up double-digit in the second quarter. We just see continued dramatic improvement as you get into the second half -- 20 to 25% revenue growth, 25 to 30% op profit and the biggest driver is wind momentum.

Wind just continues to grow. It gets stronger in the second half. The units will be up over 30%. We'll have closed to 1,300 units in the second half versus about 950 last year in the second half. That's around $700 million of revenue increase. We are making margin on these units. We've had double-digit price increases and in total for the second half the op profit performance improvement in wind is going to be about $260 million. So wind has been profitable all year. And it really ramps up in the second half in the fourth quarter specifically.

The second driver is just continued performance in service. The service orders in the second quarter, as you saw, were up double-digit, up 16%. That momentum will continue and the second half revenue should be strong double-digit in the energy business. And the third driver is just a better performance in units in gas turbines. We have 89 units in the backlog for the second half of this year versus 66 last year, so we've got an over 20 unit expansion. And we will see margin expansion in the energy business by the fourth quarter and we feel great about the progress and the outlook.

On the right side aviation has had a good first half, 14% revenue, 13% op profit. We continue to have a solid performance in this business in the second half with somewhat -- I think most of the driver here is easier comparisons. The first half leverage was impacted by the higher R&D, as I mentioned on the GEnx, the R&D was up 13%. But the second half R&D compares to higher spending the last year in the second half. We're not cutting the run rates here; what we're talking about is that we've already built that into the previous year base.

Commercial service orders, the same as energy, will continue to be strong. The first half military revenue was flat and the second half should be up. If you remember, last year we had a lot of push out from the delays of the military budget process and hopefully that will give us some pretty easy comparisons.

And then finally, the first half commercial engine revenues, as I said, they were just booming. They were up 30%. The good run rates continue; but again, back to comparisons, the run rates -- even with those deliveries the commercial engines continue to be very strong that will only be up 7% versus the second half last year. So overall the mix will improve. So on track for the total year op profit and we're talking about up 15% for the year.

Now, you know, before I move on I just want to step back on infrastructure. I think if you look the total orders for infrastructure 46% year-to-date, the revenue so far is up 10%. We are continuing to build a backlog, we are shipping a lot of equipment and growing the installed base and that's going to lead to a great future service business and future margin expansion.

Let me shift to commercial finance. The team had just another great quarter. You can see that in the numbers -- the revenues were up 12; the segment profit was up 21%. The earnings growth was really led by strong performances in both capital solutions with earnings up 33% and real estate with earnings up 39%. The asset growth here in this business was up 11% over the second quarter 2005. This is the strongest result we've had in eight quarters. It's mainly the result of just terrific originations in both the real estate and capital solutions business.

But we did have some acquisitions -- for example, we closed the $3.3 billion acquisition of assets from the Arden transaction. So acquisitions have helped us a little bit as well. But we have had great core growth and you can see that in the top right; the volume has been very strong and broad-based. You can see the numbers across the different businesses. We've got terrific diversification and our origination teams out there are really doing a great job and we're seeing a lot of market activity that's delivering profitable growth.

Segment profit was pretty much driven by core growth. We did have about $20 million contribution from acquisitions in the quarter as total result but that was offset by $20 million lower securitization. So all the teams are really doing a good job delivering. And as I said earlier, the portfolio quality is very strong -- non earnings, delinquencies and write-offs are all down versus prior year and historical averages. And right now we see the third-quarter outlook to be pretty similar -- segment profit up 10 to 15%. The commercial finance team is really delivering.

Next is industrial. They had a very strong quarter. You look revenues at $8.8 billion, up 6%, and they've done a terrific job of getting leverage on the segment profit line, up 15%. Basically, if you look at it down the bottom left, C&I had a great quarter, $3.8 billion of revenue and $318 million of segment profit, up 40%. The price and productivity more than offset the material inflation and other inflation in this business and they're getting good volume. They're really doing a good job with their high-end strategy, mix up in appliances and they're seeing broad-based growth in the industrial segment.

Plastics had a tougher quarter. If you look revenues were up 3% and op profit was down 12%. We have very strong volume in plastics. Volume was up 10% pretty broad-based growth across a lot of different industry segments offset somewhat by automotive but the factor that really hurt us here was pricing. Pricing was 387 a [kg] in the second quarter this year versus over 411 last year a kg, so it is down 6% and the strong volume margin improvements of over $60 million were more than offset by that price decline of about $100 million.

Benzene in the quarter didn't have much of a factor for us. It was about $3 a gallon so that was flat but the op profit with that volume price mix was down 12% despite a lot of productivity and pretty good work by the team. So when you look forward to the third quarter we see pretty similar dynamics for this segment. We expect segment profit to be up 15% plus. C&I should continue. We're seeing a lot of good volume across the businesses. Price carryover will continue to offset inflation and we have to work on optimizing the plastics price volume and inflation equation. Third quarter benzene was something we have to watch here. If you look, benzene spiked to 387 for July and the third quarter outlook we have for plastics with that impact is about flat. So overall segment profit up 15% and we're going to be watching the plastics dynamics.

Next is NBCU. NBCU had a tough quarter but it came out exactly as we outlined it. Revenues were flat and segment profit was down about 10% and the profile was the way we thought it was going to happen. Prime, stations and TV production op profit was down about 45%, just as we said. You know, this is the final -- third quarter now will be the final quarter where we're dealing with the upfronts from last year so that is playing out as we expected but we're making progress. When you look at the balance of the business, op profit was up 5% and there's a lot of bright spots. The summer ratings have been up 10%. News cable op profit was up 28% in the quarter. CNBC is performing very well. MSNBC Prime is up. Entertainment cable is fantastic. USA is the number one cable network.

And then finally in the quarter we did have the station sales that we talked about in the first quarter and they offset the gain we had last year from IACI/Paxson both of about the same amount around $200 million.

So I think the most positive highlight for NBCU was with the third quarter being the last quarter where we're comparing to last year's upfront impact, we look at the profile going forward, third quarter is kind of similar to the first half, op profit down 5 to 10, but then we turn positive in the fourth quarter and that is just terrific news. We are committed to this business and we are making progress.

And if you look at the results on the right side, first the total upfront for the '06/'07 season ended at $3.85 billion. Now that includes prime, plus NFL, plus cable, plus all the other day parts -- but that's up a half a percent and the team has done a terrific job with that. We feel great about the early response to our new prime time lineup. We got a lot of good buzz about the shows -- Studio 60, Friday Night Lights, Heroes, Kidnapped, 30 Rock -- and we're getting tremendous feedback on the NFL. So we feel great about our position as we go into the fall here.

Second, outside of prime we are winning everywhere else. Telemundo is positive, cable is positive, everything around news and Today is positive. Local is winning. In Telemundo we receive two-thirds of every dollar of growth in the Hispanic upfront. The Today Show has a 20% lead in viewers and it's been stronger than ever in the last four weeks. So there's a lot of positive across this portfolio.

I think one of the things that you've got to -- we're going to have to continue to give you information on is as you look at the third- and fourth-quarter profile the film dynamics are very positive for us in the second half. First of all, in the third quarter we have nine releases which drive the revenue, that's why you're seeing such a strong top line in the third quarter. Including this weekend we have one, You, Me and Dupree, and at the end of the month we have Miami Vice. So there's quite a positive film release schedule in the third quarter which drives the top line.

And then finally, in the fourth quarter we have very favorable comparisons and that helps to improve our operating profit and one of the big drivers of why we go positive. I think you all remember, last year in the fourth quarter we had King Kong. We spent a significant amount of money with advertising and promotion. We don't have any blockbuster movies like that in the fourth quarter. And so the way the film accounting works we're going to have very positive comparisons in the fourth quarter in film.

And finally, we are accelerating digital distribution. You know, our digital strategy, the NBC 360 really worked in the upfront, it helped to bring in $300 million of revenue as part of that upfront and iVillage is off to a great start. So when you look forward at NBC we feel good about the progress; we are totally focused on making progress and the third quarter profile will be similar to the first half, but we're really looking forward to the fourth quarter.

Now finally, on the businesses healthcare and consumer finance, healthcare just had another great quarter. If you looked at the revenues, up 10; segment profit, we continue to have nice leverage in the business, up 18. It was very broad-based growth here in this business. The top line is driven by the technology business, it was up 11%. The biosciences were up 7. You can see the strength in services and MR and medical diagnostics and ultrasound. We had great operating profit growth in both technology and biosciences. The op profit margin in this business expended by 1.3 points. We got almost 4% total cost productivity and the business really is performing with both new product introductions and distribution and services.

But one area that we're watching is China. They have had a slowing of equipment additions. Our equipment reported orders on the front page of orders were up 4%. Ex China the equipment orders were grew at 7%. So this is good news here, it's a small part of our overall business and it will resume growth, but right now in the second quarter that was a little slow, probably continue for the next several months so it's something we are going to watch. But if you look at the third-quarter outlook, we continue to see just great strong topline growth equipment and services and we expect segment profit to be up 15 to 20%.

On the right side, consumer finance had another great quarter. Revenues up 7. That's been dampened about 3 points by foreign exchange. So on a global local revenue number that would be about 10. Segment profit up 20, really driven by core growth. I'll take you through the pieces of the segment. We had a very good strong spread of earnings. If you look, the Americas were up 34%. That's really driven by core growth in both our private label credit card and the sales finance and assets in the Americas were up 26%. Delinquencies are down, so we continue to have very good portfolio performance there.

Last year in the fourth quarter we had a spike in bankruptcies, as everyone knows. Everyone had it with the change in the law. That continues to give us benefits. The U.S. 30-day delinquencies down 15 basis points year-over-year, it's down 18 basis points in the first quarter and the lower bankruptcies have contributed to 20 basis points of lower write-offs. So the portfolio quality continues to be very strong; we don't see any signs of slowing there.

Europe up 22%, really driven by core growth in Central and Eastern Europe and core growth in the UK. And assets overall up 13% and the portfolio quality is very stable. So this is a good news story globally. The one place that we are watching here is Japan. Earnings are down 14% from both competitive and regulatory pressure. I know you're seeing some stories about rate caps in Japan and we are working on that with the government and with our business trying to be prepared but that probably won't impact us until the second half of '07 or '08. So we've got time to deal with that. But we still made $100 million in Japan with a 40% ROE. So pretty good performance there. When you look at the consumer business for the third quarter, we see segment profit growth up 10 to 15% based on continued good asset growth and good asset quality.

Now before I turn it back to Jeff I just want to talk about corporate items for the total year and the impact on guidance. A company of our size always has some items and with the industrial disposition activity that we've talked about recently in the press we thought it would be helpful to summarize the impact of that. So on the left side, for the total year 2006 we do expect some benefits from gains. For example, we sold 9% of Penske back to Penske in the second quarter, realized about a 1% gain. We also signed a deal to sell GE Supply to Rexel which should close in the third quarter, could result in another $0.01 gain and there could be more activity for the balance of the year.

And I think the great news here is that as we do redeployment out of industrial assets, the capital is coming with gains. And on the right side we had plenty of offsets. In the second quarter we had about $45 million of restructuring related charges. We plan to continue to look at other restructuring options and activity as we go through the rest of the year. And for the full year we also have higher non-cash pension expenses which we've already talked about. The $0.04 here also includes some restructuring for early retirement programs, so that's another way that we're continuing to reduce cost and improve future profitability.

So when you look at the year, we have gains and losses, but these are factored into our total year guidance. We have to deal with the pluses and minuses, but for us the real focus ought to be on the great business results we're delivering and with that I'll turn it back to Jeff.

Jeff Immelt - *General Electric - Chairman, CEO*

Thanks, Keith. And just to wrap up on 2006, what I want to do is just kind of recap and give you a sense of how we think about the Company going forward. If you just to down to businesses, infrastructure on track for 15% plus operating profit growth. Again, good momentum in the second half, as Keith outlined, with a lot of equipment backlog shipping and better service growth. If you look at commercial finance, consumer finance and healthcare, all just will continue to stay on track and all have good momentum.

In industrial we should be on track even with plastics being below the expectations we had a year ago, but other parts of the segment outperforming and doing quite well. And then as we talked about at NBCU, it's all been pretty much what we had forecast for the year and we see some positive signs in NBCU as we look the third and fourth quarter -- I think we should be on track.

So if you look at the total segments, the businesses should be up 15% for the year and we feel that the other pieces of the elements we gave you last year are all pretty consistent. And so if you look at the Company going forward, clearly all of us see what's going on in the broader macroeconomic sense and what's going on around the world, but we've really built the Company to be a diversified company that can deliver through the cycles.

And so we are feeling good about the Company's position in the world we see today. We're confident in the range that we've given you for the third quarter of $0.48 to $0.50 a share, up 12 to 16, and we also fell like we've got a pretty good visibility for Q4 that has earnings per share up 13 to 16%. So we're not going to change the total guidance for the year, but we've got a good sense that, based on the backlogs that we see, based on the way we run the Company, and consistent execution that we feel good about delivering on the commitments we've given you for the second half of the year.

So just to wrap up the summary from an environment standpoint, we think it's still solid for GE businesses. We haven't seen any declines in order rates and continue to see good momentum. Our financial performance is on plan and consistent with expectations. Our strategic execution, we continue to do what we say we're going to do around the portfolio. The growth initiatives we believe have great momentum when you look at six or eight quarters of two to three times GDP and I think a very good perspective on Q3 and Q4 as we look out in the year.

So good, solid quarter in 2Q of '06 and we think a very good view for the second half of '06 as we go forward. Dan, let me turn it back over to you.

Dan Janki - *General Electric - VP Investor Communications*

Great. Thanks, Jeff. Michelle, we'd like to now open it up for questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Deane Dray, Goldman Sachs.

Deane Dray - ***Goldman Sachs - Analyst***

A question on the '06 guidance, $1.94 to $2.02. What has to go right for you to achieve the high end of the guidance at this stage of the year? It sounds like NBC is playing out close to expectations, but plastics is a little bit worse. But what would it take to get you back to be upside of that range?

Jeff Immelt - ***General Electric - Chairman, CEO***

You know, Deane, I would say to be at the high end of the range we would have to see some improvement in plastics. And again, we just want to continue to see the way that the NBCU turnaround takes place through the rest of the year. So I think it's very consistent with what we talked about at EPG in terms of what drives the high end of the range.

But again, I want to go back to the -- kind of the way I want you to think about the Company is -- the way I want you to think about the Company is real confidence in delivering on what we said we're going to do. And so, I think when you look at the $0.48 to $0.50, the way we described the quarters in the beginning of the year, I think our confidence is very high that these are good numbers and that we can deliver on them.

Deane Dray - ***Goldman Sachs - Analyst***

Jeff, one of the comments you made at the EPG conference recently was that you felt as though NBC has turned the corner to where it could be a positive contributor to earnings in '07. Is that still a reasonable expectation?

Jeff Immelt - ***General Electric - Chairman, CEO***

Yes.

Deane Dray - ***Goldman Sachs - Analyst***

Very good. And just last quick question. On pension for '07, is it too early for your modeling expectations where that would be flat? In other words, that $0.04 headwind goes away?

Keith Sherin - ***General Electric - SVP, CFO***

You know, Deane, again, it is too early because those rates unfortunately aren't finalized until you see what the discount rates are going to be at the end of the year. Those are set actually at the end of December based on bond cash flows estimating our outflows in the pension fund. So a good proxy is the ten-year Double-A bond and if interest rates were frozen today at what they are for the end of the year that should level off. But again, we have to see where those interest rates go and what they look like at December 31st. But if they stayed where they are now that would level off for us.

Deane Dray - ***Goldman Sachs - Analyst***

Thank you.

Operator

Peter Nesvold, Bear Stearns.

Peter Nesvold - ***Bear Stearns - Analyst***

I guess first a question on behalf of Ann. What's your outlook on the restructuring actions in the back half of this year and which businesses are you focused on primarily? And are your expectations discounted into the business segment or are they at the corporate item line?

Keith Sherin - ***General Electric - SVP, CFO***

Basically when you look at restructuring, for the second half of the year we're going to be focused on things that give us the biggest payback. So we have some things in the industrial segment where we're able to get a good payback. We have some things in the infrastructure segment where we're able to get a good payback. Those would be the two places that you'll probably see that activity going on.

And we also have the early retirement programs that we run all the time which are pretty much based on wherever our union employees are in the U.S. So it's spread across the industrial and infrastructure principally, and those activities are both in the businesses and a little bit at the corporate segment. Hard to split it up for me today.

Peter Nesvold - ***Bear Stearns - Analyst***

But has your planning here -- has it accelerated since the beginning of the year?

Keith Sherin - ***General Electric - SVP, CFO***

There has been some additional thought about some restructuring. Certainly in the second quarter we did about $45 million, as I said. And as you look at the total year estimate we have here it could be as much as $0.02.

Peter Nesvold - ***Bear Stearns - Analyst***

Okay. For the full year?

Keith Sherin - ***General Electric - SVP, CFO***

For the full year. And again, that's related to the page here I talked about, the corporate benefits and uses.

Peter Nesvold - ***Bear Stearns - Analyst***

Okay, great. And if I could ask a quick follow-up question. It's a bit granular, but the timing of the Penske sale, the amount of it, it seemed a little -- not intuitive. I mean, a 9% sale, the leasing cycle seems to be pretty strong, it was a little late in the quarter. And what were the drivers behind the timing and the size of that sale?

Keith Sherin - ***General Electric - SVP, CFO***

You know, we've been working with obviously John Rice on the industrial segment and taking a look at where are opportunities to redeploy capital out of industrial. Strategically if we can invest in faster growth areas we would and we were approached by Penske who was looking to improve his ownership position in the asset and we came to an agreed solution.

And if you look at our press release, what we talked about is that ultimately over time we'd like to have that partnership kind of go to 50-50 based on both parties and we'll work to that over time. But really it's an ongoing program when you look at the industrial businesses and everything that John has to look at opportunities to redeploy capital into faster growth areas and we'll continue to do that.

Peter Nesvold - ***Bear Stearns - Analyst***

Okay, thanks.

Operator

David Bleustein, UBS.

David Bleustein - ***UBS - Analyst***

Keith, you touched on Japan rate caps. What would the impact be if Japan cut its rate cap down to call it 20%?

Keith Sherin - ***General Electric - SVP, CFO***

I don't have a specific number on that. I mean, as I said, the business made about $100 million in the quarter. It's got a good ROE. What we would have to look at is the impact today from somewhere in the high 20s down to whatever they put it. And in between here and there we're going have to continue to focus on productivity, we're going have to take costs out, we're going have to do more risk-based pricing. We're looking at other business development activity.

So there are a lot of options we have as you look forward over time. And as I said, that probably won't impact. I mean, there's a lot of negotiation going on with the government and the financial industry players over there that probably won't happen until the second half of 2007 or early 2008. So the good news is we have a lot of time to look at it, work on it and be able to proactively deal with it.

David Bleustein - ***UBS - Analyst***

What's the current asset base over there?

Keith Sherin - ***General Electric - SVP, CFO***

I'll have to get you a number on that, David.

David Bleustein - ***UBS - Analyst***

Okay. And then shifting gears to NBC. What was the total comparable pricing for the current upfront season? You mentioned the total upfront was up half a percent, but what was the -- if you had to use an apples-to-apples pricing number.

Keith Sherin - ***General Electric - SVP, CFO***

It's hard to split it. On prime it was down right around 5% I think on the CPMs. And on cable we had places that were up. So overall it was down a little bit, but again, a couple things that helped us there. Number one, we had the NFL. Number two, we had our digital strategy where we pulled a lot of programs in and that helped us to be able to get up slightly on the upfront in total. And number three, we had all the great performance across the cable and other dayparts and late-night. So prime was still a little pressured on CPM. I think we're probably right now at parity with other networks on CPMs and that's good news. As we look going forward we can deliver on our schedule.

David Bleustein - ***UBS - Analyst***

Okay, good. And just one follow-up --

Keith Sherin - ***General Electric - SVP, CFO***

Jeff, anything on the --

Jeff Immelt - ***General Electric - Chairman, CEO***

Yes. David, the only thing I was going to add to what Keith just said is we don't need be prime time network to be big-time positive next year for '07 earnings to be up at NBCU, based on what the business model is. And I think what Keith talked to which I think is encouraging is the rest of the -- NBC Universal is performing very well right now and so that gives us good momentum as we look at fourth quarter and '07.

David Bleustein - ***UBS - Analyst***

Okay. Two other little ones. The Nielsen ratings on commercial spots, do you think that's going to have any impact?

Jeff Immelt - ***General Electric - Chairman, CEO***

Too soon to say, but I think it's inevitable. So I think it's kind of the way we've done our own business planning. And it comes back to you've got to have good content and that's what our business model has always been about.

David Bleustein - ***UBS - Analyst***

Okay. And then finally, Keith, the GE and GECS expected tax rates in Q3, should those equal the full-year rates?

Keith Sherin - ***General Electric - SVP, CFO***

That's our current forecast, yes.

David Bleustein - ***UBS - Analyst***

Thanks a bunch.

Operator

Jeff Sprague, Citigroup.

Jeff Sprague - ***Citigroup - Analyst***

Can we just explore this operating leverage question a little bit in more detail? First, the comment that service and products come into parity, is that something in particular accelerating or decelerating to bring things into balance or is it just kind of now lapping the tough comparisons in the product side?

Keith Sherin - ***General Electric - SVP, CFO***

You know, I was talking about infrastructure. If you look in the second quarter, the infrastructure product revenue rates were up close to 20% and the services revenues were up around 8 to 9% in total across the infrastructure. So you know, you've got a 2X factor here on equipment delivery growth versus revenue on services. Now in the second half in infrastructure the equipment deliveries continue at this great pace.

The difference is that you had good equipment deliveries that make it a little more comparable in the second half of last year. So for us it's not a deceleration of continuing to build the installed base, it's just a different comparison in terms of service and equipment mix, Jeff.

Jeff Sprague *- Citigroup - Analyst*

And then just on the product side, are you starting to get operating margin leverage in the product piece of the portfolio or are you still working through some tough things out of backlog, etc., that are actually holding back product margins?

Keith Sherin *- General Electric - SVP, CFO*

No, it varies by business. I think if you look at a place like the transportation business you can see what we've done with the new product, you can see that in the leverage. I mean, we went out with a new product, we met the fuel specs, we won a tremendous amount of share, but we didn't have the product costs where we needed it to be for ultimate profitability. Now we're going down the learning curve as we deliver those locomotives and you can see the results.

I think if you look in energy, we're still dealing with some tough comparisons on gas turbines versus units that had a little more margin than we have today. Pricing and energy and gas service in the quarter was down about 3%. And so that creates some margin pressure for us in the energy business. Going forward, pricing on new orders was down about 2%, so that's going to continue to be competitive. On the other hand, you look at wind units, pricing was up 11% and you can see that wind revenue growth.

So it varies by business I think. You know, we have a companywide focus on it. Certainly all of us are together looking at the top 100 product managers who generate the most margin in the Company. We're looking at our new product introduction process and our margin process and we have a big focus on it.

Jeff Sprague *- Citigroup - Analyst*

And then just an unrelated follow-up. On the consumer -- I mean, the delinquencies look stable. Are there any other little warning signs like smaller average payments or anything like that that shows any early signs of stress out there?

Keith Sherin *- General Electric - SVP, CFO*

We really haven't seen it Jeff.

Jeff Immelt *- General Electric - Chairman, CEO*

And we're watching it obviously every day and right now the portfolio quality continues to be just terrific and it's globally consistent.

Jeff Sprague *- Citigroup - Analyst*

Great, thanks a lot.

Operator

Robert Cornell, Lehman Brothers.

Robert Cornell *- Lehman Brothers - Analyst*

I do want to follow-up a little bit on the op leverage issue that came up. You guys have been driving the growth strategy and getting the organic growth. You mentioned of course NBCU, plastics and the product mix Keith just mentioned. I was wondering though if in fact you're seeing that it's costing more in the aggregate to grow the Company maybe than you anticipated. You mentioned the R&D spend on GEnx. I mean maybe you could give a little perspective on that in terms of the total cost to get the growth at what are pretty attractive rates.

Jeff Immelt - ***General Electric - Chairman, CEO***

You know, Bob, I don't think so. I think as Keith went through it that there really are three specific factors that impacted op profit rates in Q2 which NBCU -- its plastics and there's product and service mix. I think if you look at G&A as a percentage of revenue it was going to be down probably 100 basis points this year. We'll still get probably 4% total cost per productivity for the Company. You know, clearly there's inflationary pressure -- places like plastics fuels it -- that is going to cost us a little bit this year. But I would say that there haven't been any surprises there and I think this gets unwound and becomes a tailwind in the second half of the year.

Robert Cornell - ***Lehman Brothers - Analyst***

Okay. Healthcare orders, you mentioned ex China they're up 7 which still seems a little light. Maybe you can give us a little more color around that.

Jeff Immelt - ***General Electric - Chairman, CEO***

If you look at healthcare orders overall total is up 6, equipment was up 4, ex China is up 7. A couple things going on. First of all, pretty broad strength. Ultrasound was up 18, medical diagnostics were up 13, digital x-ray was up 19. CT was down about 15% and the problem that we're comparing to is just remember the tremendous growth we had of VCT last year. We had a 29% growth in VCT, but we got tougher comps given that the CT orders were up 50% last year in the first half.

So we're comparing to some pretty tough orders periods in CT. We're still doing a great job, though. When you look at revenue on CT the sales were up 4%. Sold almost 200 VCT's in the second quarter, up 50% from last year and the backlog is still up 24%. So orders are down but we're going to work off this backlog for a little while and we're staying at the high end there.

MR was down about 4%. That was pretty much flat ex China and we are just doing a great job with HDMR. The backlog is up 50% and just about every MR that was ordered 1.5 and 3T had HD on it. So overall services orders up 15%; biosciences up 8% so we feel pretty good about it. I think we're doing tough comparisons on CT and MR a little bit, but we feel good about the technology and the position we have in the backlog. So it's something we're watching but there's pretty broad strength there I'd say, Bob.

Robert Cornell - ***Lehman Brothers - Analyst***

One follow-up question. I think I'm hearing that GECS NBCU up in earnings next year given the performance in up front and the outlook for cable and other things. Is that what I'm hearing in terms of operating earnings '07 relative to '06? Is that what I'm hearing?

Jeff Immelt - ***General Electric - Chairman, CEO***

From NBCU, Bob?

Robert Cornell - ***Lehman Brothers - Analyst***

Yes.

Jeff Immelt - ***General Electric - Chairman, CEO***

Yes, that's the -- kind of the feedback I gave you at EPG is still the sense on the drives that we've got for NBC Universal going into next year. Again, I think what Keith said; we're committed to the business. And if you look at the pieces, we feel that the up front and the buzz around the primetime is going to allow us to stabilize the network which is really all we really had to do given the other momentum we've got in the rest of NBC Universal. So that's how we're looking at it.

Robert Cornell *- Lehman Brothers - Analyst*

Okay. Thanks very much.

Operator

Nicole Parent, Credit Suisse.

Nicole Parent *- Credit Suisse - Analyst*

Good morning. Not to beat a dead horse on the leverage point, but I guess how should we think about the service by business, particularly in infrastructure ramping, as we look toward the end of the decade and how you think it will impact margins? I guess, given the strength of rail deliveries we'd expect service to continue to be very strong. Energy, you have had portfolio diversification. Can you remind us kind of what we would expect for service on oil and gas and when?

And then water -- you know, Dave has talked about the service model at water being a little bit different than the traditional infrastructure, but over the next couple of years we should see service get stronger, right?

Keith Sherin *- General Electric - SVP, CFO*

No, I'd stick to the core businesses, Nicole. You look at aviation, look at the installed base we built, you look at the energy business and the installed base we built. You look oil and gas the same way. Those are really high calorie service businesses. I think if you think about transportation, that's also got a terrific service business. The wind business doesn't have as much service with it quite honestly, and the water business is a little different model for us.

But take those core industrial infrastructure businesses, we've got revenue that's growing faster than the average for the Company, higher margins and lower capital and we expect to book $200 billion of services revenues between now and 2010 at 35 plus percent kind of margins.

Jeff Immelt *- General Electric - Chairman, CEO*

I would say, Nicole, if anything the sense for our service business model has only improved mainly because the installed base is going to be bigger. I think you've got to look at the service business as being close to $30 billion in revenue with close to 30% operating profit which now has because of the installed base great visibility, around 10% topline revenue growth, and then leverage on top of that because of productivity programs and pricing programs and [account service]. So this is only getting better.

Keith Sherin *- General Electric - SVP, CFO*

We tried to show at EPG the service chart and the impact on our margins. And if you look at the going forward we're estimating it somewhere between 50 and 80 basis points a year of operating profit improvement from that services mix that Jeff just talked about.

Jeff Immelt *- General Electric - Chairman, CEO*

But you know again, just go back on equipment. Not only have we had pretty good markets but we've also gained market share and we've had a great rail product. We've had unbelievable success in aircraft engines. We've had a wind business that's now at a run rate of close to $4 billion. And so we've got great success that is fueling our topline growth all of which is going to lead to a great service strategy as time goes on.

Nicole Parent - ***Credit Suisse - Analyst***

Great, that's helpful. With respect to the equipment services business, I just want to double-check. You had net income of 60 and does that include the $90 million Penske gain because --

Jeff Immelt - ***General Electric - Chairman, CEO***

No. That's all in corporate.

Keith Sherin - ***General Electric - SVP, CFO***

No. That's in corporate.

Nicole Parent - ***Credit Suisse - Analyst***

Okay, that's fair enough. And one last question on healthcare. How much was the biosciences? I think you said it was up 7. How should we think about protein separation and drug discovery in the quarter?

Keith Sherin - ***General Electric - SVP, CFO***

If you look at healthcare -- for orders biosciences were up 8, medical diagnostics were up 13 and life sciences was up 1.

Nicole Parent - ***Credit Suisse - Analyst***

The revenue numbers?

Keith Sherin - ***General Electric - SVP, CFO***

The revenue -- medical diagnostics were up 12.

Nicole Parent - ***Credit Suisse - Analyst***

And protein separation?

Keith Sherin - ***General Electric - SVP, CFO***

I'll have to get you protein separation (multiple speakers).

Jeff Immelt - ***General Electric - Chairman, CEO***

It was about 2 or 3% I think.

Keith Sherin - ***General Electric - SVP, CFO***

About flat?

Keith Sherin - ***General Electric - SVP, CFO***

Yes.

Nicole Parent - ***Credit Suisse - Analyst***

Okay, great. Thanks very much.

Operator

John Inch, Merrill Lynch.

John Inch - ***Merrill Lynch - Analyst***

Keith, what was GE industrial's organic revenue base or growth rate this quarter?

Keith Sherin - ***General Electric - SVP, CFO***

8% -- I think it was 8.

John Inch - ***Merrill Lynch - Analyst***

That was 8. And then how was pricing this quarter versus last quarter?

Keith Sherin - ***General Electric - SVP, CFO***

You know, if you look overall for the Company it was really a minimal impact. We had $28 million overall; in the price index for the Company it's down 1/10 of a point. So a lot of different mix in the businesses. Good, good pricing in industrial. Average pricing in infrastructure. Healthcare pricing was down slightly. (multiple speakers) down less than 2% and usually that's been down about 3%. So that improved actually.

John Inch - ***Merrill Lynch - Analyst***

I'm sorry, what improved? I'm just wondering if you had (multiple speakers) products?

Keith Sherin - ***General Electric - SVP, CFO***

Healthcare pricing.

John Inch - ***Merrill Lynch - Analyst***

Healthcare improved?

Keith Sherin - ***General Electric - SVP, CFO***

Healthcare improved from -- the pricing has been down on average 3% for the last couple years. It was down a little less than 2% in the quarter.

John Inch - ***Merrill Lynch - Analyst***

Okay. Any other businesses as you sort of look over the rest of the year where you think pricing may be trending a little bit better either because of your own initiatives or just trends in the marketplace?

Keith Sherin - ***General Electric - SVP, CFO***

I just think the service businesses are places where we continue to put a lot of focus, John, on pricing.

John Inch - ***Merrill Lynch - Analyst***

Okay, thanks.

Dan Janki - ***General Electric - VP Investor Communications***

Michelle, can we take one last question?

Operator

Tony Boase, AG Edwards.

Tony Boase - ***AG Edwards - Analyst***

Just wanted to clarify the product --

Dan Janki - ***General Electric - VP Investor Communications***

Sorry, Tony, we lost you.

Operator

Mr. Boase, may you please rekey star one on your telephone? Mr. Boase, your line is open, sir.

Tony Boase - ***AG Edwards - Analyst***

Great, thanks.

Keith Sherin - ***General Electric - SVP, CFO***

Tony, you want to try again?

Tony Boase - ***AG Edwards - Analyst***

Sure. I'll try again here. I just wanted to get a little clarification on the product service mix shift in the second half. Is it due to the fact that you're able to faster translate product sales into service or is it just a timing issue as far as when equipment has come on and now you're going to get better service? Or does it mean that some of the great equipment growth you've experienced slows down a bit in the second half?

Keith Sherin - ***General Electric - SVP, CFO***

I try to say that the run rates on equipment actually continue. In the second half if you look, for infrastructure -- I'll give you an example. You know, the infrastructure equipment is about 43% of revenue in the second half and that's pretty much flat with last year and the services are 57% of revenue in the second half.

So basically what's happening is our equipment, as the orders have grown and growth over the last 18 months the equipment delivery started to ramp up in the second half of last year. And so we end up with continued good volume of equipment going out; but again, it's against comparisons of pretty good volume last year and then the service and equipment mix kind of levels off in the second half which does improve profitability and margins.

Tony Boase *- AG Edwards - Analyst*

And Keith, I'm sorry if I missed it, but did you say what gas turbine sales were in the quarter? Or deliveries?

Keith Sherin *- General Electric - SVP, CFO*

Yes, we delivered 30 gas turbines in the second quarter.

Tony Boase *- AG Edwards - Analyst*

And are you still on track -- I didn't catch --

Keith Sherin *- General Electric - SVP, CFO*

Yes, on the energy page I tried to show in the second half that we're basically on track for what we said. We're going to grow the second half units from last year -- just one second. If you look we had 89 units in the plan this year for the second half versus 66 last year and those are in the backlog. So we feel pretty good about the plan for gas turbines. We've seen some pretty good order activity around the world in gas turbines.

Tony Boase *- AG Edwards - Analyst*

So if I --

Keith Sherin *- General Electric - SVP, CFO*

(multiple speakers) going to do close to 140 units this year. It's pretty good business. I mean, it's very competitive in terms of margins, but again, you're building that installed base and helping to grow the future service business.

Tony Boase *- AG Edwards - Analyst*

And maybe it's a little premature, but how's 2007 perhaps shaping up for gas turbine sales?

Keith Sherin *- General Electric - SVP, CFO*

They should be up slightly. I don't have any final numbers yet, but you look at the economic activity and the bids that we're seeing and the orders we're seeing, one of the drivers is the continued strength in the oil and gas business, they need some gas turbines. So we've got a pretty good business model there and we feel pretty good about the progress commercially around the world.

Jeff Immelt *- General Electric - Chairman, CEO*

I think investors should feel pretty good about the energy business in terms of getting tailwinds behind us and getting better comparisons as time goes on. I think we're in pretty good shape there. I just -- before we leave I just want to reiterate that even with the notion that I think given all the dynamics that are going on we're counting on plastics being slightly weaker than we thought earlier in the year, but we have great momentum in the rest of the Company.

And so I think we really are confident in the guidance we've given for the third quarter and for the year and it's why investors should like the Company. It's a strong set of initiatives, it's a good operating team and I think we're very well positioned in the world we're in today.

Tony Boase - ***AG Edwards - Analyst***

Great, thanks.

Dan Janki - ***General Electric - VP Investor Communications***

Thank you, Jeff. Thank you all for your time. The information from today's call, both the transcripts and replay, will be available at our website. And JoAnna and I will be available all day to take your calls. Thank you again.

Operator

This concludes your conference call. Thank you for your anticipation today. You may now disconnect.