Conference Call Transcript

GE - General Electric 4Q 2006 Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric fourth quarter 2006 earnings conference call. [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, Mr. Dan Janki, Vice President of Investor Communications. Please proceed.

Dan Janki *- GE - VP of Investor Communications*

Thank you, Candice. Welcome, everybody. Joann and I are pleased to host today's conference call. Our press release went out today at 6:30. That along with today's presentation material is available at our investor website at www.GE.com/investor. You can download and print the information or follow along online. The presentation material does contain forward-looking statements, based on the environment as we see it today and that is subject to change.

Today we've got a full agenda. We're going to run a little bit longer than we traditionally do. We'll go through the earnings and also our recent acquisitions. To cover that today we have our chairman and CEO Jeff Immelt, Senior Vice President and CFO Keith Sherin, and we also have Joe

Hogan, our CEO of GE Healthcare, and Scott Donnelly, our CEO of GE Aviation with us today. So why don't I kick it over to Jeff to get us started.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Great, Dan. Thanks. Good morning everybody. As Dan said we've got a lot to cover today. Just to go through the agenda, we're going to go through the fourth quarter of total year '06. We're going to go through the FAS 133 restatement and then we're going to switch gears and talk about the first quarter and total year '07. And lastly we'll go through all of the acquisitions in detail and give you a sense of how they impact the company going forward.

The 2007 environment is similar to what we saw in December. We still think global economic growth continues to be favorable. The global markets are strong. You know as we said earlier, we have seen an impact in housing and auto. But overall we're seeing underlying economic growth to be fairly solid. Margins have stabilized in a time period of higher inflation and higher interest rates. We still think we see a great risk environment, liquidity is high. This is something companies have to manage, and we think we're in good shape here. And the macro drivers continue robust. When you look at our order rates, particularly for our large infrastructure products, we continue to boom around the world. So we've always said winning in 2007 depended on a really strong position globally, pricing ahead of inflation, driving productivity, we've got a union negotiation in the summer that we need to manage our way through, and just stability and risk management. We see that today, as well.

To talk about the fourth quarter, you know, we believe we had a solid and high-quality quarter. If you look at the metrics that we go through consistently from a standpoint of reporting to our investors from a growth standpoint. Orders growth was 19%, revenue growth 11%, asset growth 21%, organic growth for the quarter was 8%. Earnings per share at $0.64 cents on consensus. Returns continue to expand per our guidance, returns are up 180 basis points to 18.4%. We're still on track to hit 20% by 2008. We had our best growth in margin rates in the last several years, saw 190 basis points of margin rate expansion. Cash flow grew 14% to $25 billion, roughly $25 billion. All of them on track for what we've committed, excellent financial performance.

And as we said in our third quarter call and again in December, all gains haven't been applied to restructuring and other charges. So we're making the investments in the company to improve future earnings and we'll continue that practice as we go into 2007 and beyond.

If you look at the long term strategy and what we've talked, investing in leadership businesses, you know, the core of infrastructure, health care, financial, GE Money, we're earning 17% of the quarter, NBCU is rebounding. We've announced the -- or concluded the exit of Advance Material Supply, Hydro, and GELife. We announced the strategic review of plastics this morning. And meanwhile, we're investing in businesses that we think are going to help us drive growth in the future. All consistent with strategy and all consistent with previous communication.

From an execution standpoint again, the segment profit was up 13%, up total year of 12%. Operating profit leverage as we've said on a total year up 40 basis points with good momentum going into next year. ROTC expansion. And the negative really has been plastics. As we signaled in December, this continues to be a tough market for us. From a growth standpoint again, we told you about some of the key details on order rates and organic growth up 8%. Services revenues continues to be very strong. And we continue to drive growth as a process throughout the company. And our expectation for 2007 is sustained 8% organic growth. And again that doesn't reflect any of the impact of the deals just on an organic growth basis, we're sustaining the 2 to 3 times GDP basis.

Looking at the key growth initiatives that again we report on every quarter. Services at $30 billion grew 12% for the year. CSA backlog continued to grow and the operating profit in our service businesses remain very strong. Our global growth at $78 billion was up 15%, again seeing very strong growth in the emerging markets as that continues to power our presence around the world. The growth platforms at $13 billion was up 7%. Again, we've talked about the growth platform since 2003 and continue to get great results there. The imagination breakthroughs on $20 billion of revenue in 2006, up 33%, with the technical and commercial innovation continue to drive growth. 8th straight quarter of organic growth at 2-3 times GDP, total year had 9% organic growth. So the key initiative we think is delivering for investors. And with that I'll turn it over to Keith to really go through the financials.

Keith Sherin - ***GE - Sr VP Finance and CFO***

Thanks, Jeff. Orders continued very strong in the fourth quarter. Great news on the left side. Major equipment at $10.5 billion was up 35%. That was really powered by aviation and energy. Aviation $2.2 billion, was up 2X over last year in the fourth quarter. Just tremendous growth with the GEnx orders, Emirates and Eastern China, Southern Shanghai. Energy at $3.3 billion was up 24%, just a terrific performance, energy thermal orders were up 32% to $1.2 billion. You saw the great order we had in Saudi Arabia. And we're building a backlog. The infrastructure orders at

57% up over in '06 in total and the backlog is up 37% at $32 billion. These order rates won't continue forever, but boy, that's a terrific performance for the year and a great backlog to work from. In the middle of services, $9.5 billion up 10%, so strong double digits.

You can see the Vs by business. Aviation, the commercial spares were up 15%, partially offset by lower military spares, given a 6% performance. Energy core services was up 18%, and that's compared in total, the energy V at 7% compared to a large nuclear reload in ‘05 for TEPCO. So good services orders, and the CSA backlog of $93 billion is up 7%. And then the right side, the flow businesses continued basically as we see them through the year. You can see the strong performance of C&I continued that was driven by industrial. The plastics had a tough quarter as Jeff said in the orders area, price was down 4, volume was up 2, effects is positive 1 so you were down 3 and security was basically flat. So overall, terrific orders. In the quarter $24.9 billion, up 19%, and for the year $90 billion, up 20%.

Next I'll look at the indicators, the core indicators for financial services. On the left side are our margins. The blue bars are the net revenue, which is contributed value as a percent of average assets, so we take out the impact of interest rates on this, from our total revenue. And then the green bars are the net revenue less the losses as a percent of average assets. So they're loss adjusted contributed value basically. You can see the adjusted margins are down slightly from last year and up slightly from the third quarter. I'd say the good news here is the margins are stabilizing and the losses continue to remain at historic lows. We do see continued liquidity pressure in the portfolio. But over on the right side, the 30 plus day delinquencies continue to be very stable. Basically they're flat to last year. And you look at the commercial finance delinquencies at 1.22% are very low. And on the bottom right, utilization remains strong. Led by Penske, and trailers and rail. So overall, economic indicators here still continue to be pretty good.

The next one is on margins and returns. And I'm happy to say at the third quarter call we committed to deliver 100 basis points of margin growth in Q4. We delivered 190 basis points of growth. We said that we'd get a 15% margin rate for the total year, and we got to 15.2%. And we signaled that in December that it would be a little better than it was. It was great to have this margin expansion and it's coming from strong-based cost productivity and coming from balanced growth. In the fourth quarter our services revenues were up 12%, our product revenues were up 10%.

Our services revenues were up 12%, our product revenues were up 10%. So we got that in line. It's still a great thing to continue to grow those equipment revenues at those double digit rates and build that installed base, but the balance of services helped us on a growth in margin. Our health care business had great volume and all of the businesses are getting benefits from simplification.

And the one drag was plastics. Price inflation dynamics there were a drag of about .2 of a point on the total year for us, and about .4 of a point in the fourth quarter. Over on the right side, return on total capital, we've got a strategic goal to get to 20% by 2008. We're on track to do that, we delivered 180 basis points of growth on total return on capital that's really driven by strong earnings growth. We continue to be disciplined on capital allocation and our whole portfolio is focused on investing in capital efficient businesses. Pretty good improvement. We feel great about the fourth quarter margins. What we said we're going to deliver, even despite the plastics head winds.

The next page is -- I wanted to update the page we had in the third quarter earnings call, on corporate items. For the year, on the left side we've increased the gains from our $0.04 estimate in the third quarter call to $0.06. You saw that in the fourth quarter we closed the sale of advanced materials to Apollo. Our total gain on that transaction was about $370 million, which included $200 million of benefits that showed up on taxes and that accounts for almost all of the decline in our tax rate in the fourth quarter year-over-year. On the right side, you can see because the gain was better, we're able to accelerate some restructuring. $0.02 restructuring and other charges that we talked about increased to $0.04. And during the quarter in total, we had about $390 million of after tax charges for restructuring and related charges including early retirements.

You read about the NBC cost out activity, we announced plant closings on C&I, we announced the exit of Hydro. We had more than 450 early retirements associated with structural reductions across the company. So our gains were great. We're happy to have it, and we're happy to fund restructuring and early retirement and improve the cost structure of this company.

Next, is the fourth quarter. And on the left side is a summary of operations. Revenues were very good. $44.6 billion, up 11%. You can see financial services revenue we're up 16%, the net revenue was up 11%. We're in line with our earnings growth. Earnings at $6.6 billion, up 12% and EPS at $0.64 up 14%.

And I've got a footnote here on the Vs. The growth variances are impacted by the restatement, which I'm going to cover in the next couple of pages. While there was a $2 million impact in the fourth quarter of '06, insignificant, there was an increase in fourth quarter '05 earnings and that lowers our fourth quarter '06 Vs by two points. So we hit what we said. The Vs are lower on a reported basis because we increased earnings last year as a result of our restatement. Cash flow at $24.6 billion, I'll cover it in a few pages. Up 14%, and industrial cash up 7%.

The tax rate for the year. GE tax rate in the fourth quarter was 16%, that's down 3 points from 2005 and that's more than driven by the tax favorability that I mentioned on the silicones gain. And the tax rate was flat year-over-year in the fourth quarter and stayed at 12% total year in line with the third quarter guidance.

On the right side, our segment results for the quarter. Infrastructure had a great quarter. Came in at the high-end of the guidance of 15-20%. Industrial had a tough quarter it was impacted by plastics and advance materials. It cost us about $100 million versus what we were expecting, and that's down 12%. Commercial finance and GE Money and health care all hit their guidance. And NBC Universal turned positive, which was great. It was a little light, versus what we were guiding. It was impacted by film performance in the fourth quarter, a little less than what we were expecting. But overall a very strong performance. We got infrastructure at the high-end of the range and we got to do more restructuring, which is terrific for the future.

Let me cover the restatement. I can tell you I'm disappointed that we're having another restatement. We take our commitment to meet the FAS 133 requirements extremely seriously. And let me explain what happened. Basically you're familiar with the background of FAS 133 effective 1/1/01, Accounting for Derivatives. Became effective to get hedge accounting, it's elective and they is very strict criteria to qualify. We've undertaken a substantial effort to comply with 133. Our implementation and our subsequent programs have been reviewed by our corporate audit staff and by our auditor KPMG. And this is a challenging standard. Many companies and auditors have had difficulty with the standard, as evidenced by 230 plus restatements since adoption. So this is something that others are also wrestling with.

And on the right side for GE in 2005 in May, we restated the corporate auditors had identified an error in swaps in fees and other terms that resulted in a $381 million positive cumulative impact on the restatement. You know, obviously as a part of this derivatives restatement we're reviewing, both GE, our auditors and our internal team at KPMG looked at our derivative activities including commercial paper hedging. Both GE and KPMG reconfirmed that our CP hedging met the objectives of 133 as a part of that review, 2005. We've also been fully cooperating with the SEC on the ongoing formal investigation. We've been working with them cooperatively for two years. And as part of that review the SEC staff referred accounting issues to the office of chief accountant. And after that review the office of chief accountant determined our hedging program does not meet the specificity requirements of FAS 133. And I'm going to take you through what the CP program is in the next page and show you what that means.

On the top is a simple diagram of our CP hedging program. Basically on the left side GE Capital Corp funds itself by borrowing commercial paper from investors in the marketplace. And the interest payments that we pay on those commercial paper instruments give us floating rate exposure because they turn over frequently, short duration. Our total commercial paper balance today is a little over $90 billion. So this is about a quarter of how we fund ourselves. On the right side, we make loans to customers. And a significant part of our loans to customers include fixed rate, payments of interest. And so to match fund our assets, to have fixed rate interest cost to go with the fixed rate interest income, we enter into a basic interest rate swap, we offset the floating interest rate exposure to the CP and we pay a fixed rate of interest to the swap counter party and that match funds our asset. Now the box on the right side shows the size of the hedging program over time. So we've been hedging a portion of our total commercial paper outstanding, and swapping that floating rate of interest to fixed to match fund assets. At adoption it was $22 billion was in the swap program. In the peak in 2002 it was $33 billion and as of 1/1 it's down to $12 billion. So it's a subset of our total commercial paper that we hedge.

Now our program is economically effective. We do completely match, fund, and take out the economic risk of interest rates on the asset versus the borrowing. But the accounting for the CP is not specifically covered in FAS 133. We have thousands of transactions every week in the commercial paper program, it's a constantly rolling pool of CP, and that's what makes this complicated. And the SEC view is that our program needs to identify which CP is hedged prior to issuance. And that's called specificity. Our view and KPMG's view was that a structure approach that we had met the FAS 133 specificity. And I've obviously oversimplified the issue here, but I can say we had strong technical and procedural arguments, we were backed by our auditors, but the SEC has the final say on the technical merits and we're moving forward. We agree with their view.

So what's the impact? This morning we restated our 2005 10-K and our 2006 first, second, and third quarters. We've refiled those statements, we know the impact and we've got new financial statements out there. Because we did not meet specificity back to 1/1/01 adoption, we have to remove the effects of hedge accounting from our financial statements. Basically we have to mark the hedges, those swaps that I showed you on the previous page, to market every period from 1/1/01 forward. Now you can see in the box on the top the impact was a reduction in reported earnings in '01 and '02, and an increase in earnings from 2003 through 2006. This is driven by interest rate moves during the time. After 9/11 interest rates came down, and then subsequently in 2003 and '04 and '05 interest rates went back up and that's why those fluctuations occur on those received low and pay fixed interest rate swaps. The cumulative impact to earnings since inception, so that $343 million reduction, doesn't affect retained earnings because this was already run through equity and other comprehensive income. The impact on 2006 is $130 million positive. The going forward impact is slightly positive on earnings over the next 10 years over 90% of the impact comes back into earnings by the next 10 years. And the life of the program impact is zero. This is a timing mark to market on these swaps. It'll show up as lower interest costs going forward slightly.

If we had known, obviously that there was a problem, we would have designed the program to meet the specificity as interpreted by the SEC and that would have reduced the interest rate volatility that I'm showing in the restated financials. The economic impacts are definitely hedged and these were effective interest rate swaps. And while those interest rates move, there was an offsetting impact on our assets. But you know in current accounting, the fair value changes related to the fixed rate assets are not recognized in earnings in the current period. So there was an offsetting economic impact that didn't get recognized in the financial statements now.

And finally, going forward, we've implemented a first-issued CP hedging program 1/1/07. We've designed it, and we've reviewed it with KPMG and experts, and we believe it meets the technical requirements. And I'll say we're committed to getting this accounting right. We've added technical resources, we've increased our audit oversight, we've invested in IT systems. And the SEC told us we need to fix this and we're fixing it and going forward. There's absolutely no change in GE fundamentals or liquidity. You saw the rating agencies have reviewed this and reaffirmed our ratings and let me go back to the financials.

Next is total year consolidated results. On the left side is our summary of our operations, the total year revenue is $163 billion up 10%, a great top line year, earnings at $20.7 billion, up 11%. You can see the restatement lowered our Vs here again by adding more income to 2005 in total. And EPS at $1.99, we added a penny to 2006 with the restatement in the first three quarters. The net impact was a penny. I'll show you that. And then industrial cash I'll cover on the next slide and tax rates I covered the rate impact on the fourth quarter, which are the same drivers for the total year, basically.

So on the right side as we summarize the full year segment results, we feel great about the year. You know, our businesses are right in line with the guidance that we gave and industrial was a little light. Ask that was because of plastics and I'll cover that when I get to the industrial page.

Next is total year cash flow. $24.6 billion, up 14%. The growth came from two areas. One it came from the GECS dividend, which includes the proceeds from our last sale of the Genworth shares and our insurance solutions cash that we got when we sold Insurance Solutions to Swiss Re. That's about $5.5 billion out of the $9.8. And the $14.8 billion industrial is the other part of the growth, up $1 billion driven by our net income performance and a little bit of working capital. We've repurchased $8.1 billion shares last year, $236 million shares.

And over on the right side, the cash balance walk, we started the year with $2 billion. We get the cash from operating activities on the left side, $24.6 billion. We paid out $10.4 billion of dividends, we bought back $8 billion of stock, we invested in our planned equipment for $3.5 billion. And the net of acquisitions and dispositions was about $900 million, that's because we had some more disposition activity in 2006 as you know, with silicones and GE Supply. At the end of the year we ended the year with $4.5 billion of cash, $2.5 billion more than we started, and that's part of what we're using for the acquisitions we've recently announced. So a strong cash performance and in line with our expectations.

Next is first quarter. And before I go through the individual businesses, I thought I'd show you the outlook for the quarter. On the left side, infrastructure, the outlook continues very strong. We've got a great top line and great segment profit growth. Industrial will continue to be impacted by both the dispositions of GE Supply and Advanced Materials on their variances, but also the continued pressure in plastic. So we expect a similar profile in Q4.

Commercial finance and GE Money and health care all continue strong outlook. At NBC Universal the turnaround continues. The revenue down 20% looks funny, but that doesn't have a comparable to the 2006 Winter Olympics, obviously. So NBC, X the Olympics, on revenue is basically flat. On the right side summary, this is the same as our expectation for December. If you look, revenues about $40 billion, up about 5% on a reported basis. 2 points impact on the total company, so up 7% on a organic basis. Earnings up $4.5-4.6 billion, up 10%, and EPS at $0.43 to $0.45 up 8-13%. Remember the Vs are slightly lower here and I apologize for this, but the restatement added $135 million of earnings to the first quarter of '06 so our outlook is the same as what we said. It's very strong, and the Vs just come down because we added income to 2006 on the comparison.

So let me take you through the businesses. First is infrastructure. Infrastructure had another great quarter. We feel great about the performance here. Revenues at $13.8 billion, up 15%, driven by those great orders around the world. Segment profit at $2.9 billion up 19%, we got the leverage. Orders up 26% and great equipment orders as I showed and great service orders and that's fueling the revenue growth. Aviation up 10%, good strong services, good strong commercial units. Energy up 16%. Thermal had a good quarter with total delivery of 40 gas turbines,, which was up 6 from last year. Good services performance, great wind performance, oil and gas strong top line, and transportation strong top line. And at the end of the day, those revenues are getting solid operating leverage.

Our profit was up to 19.2%, up .6 of a point. Energy was a real star here, it was up almost 2 points of segment profit performance. Good pricing across the segment and good productivity. You can see the solid performances in the bottom left by the businesses and, you know, we just had a terrific year on infrastructure. And that should continue. You know, you look at the first quarter segment profit dynamics, revenue will be up 10-15%. Infrastructure businesses our profit should be up 15%. Really a great outlook here.

Commercial finance had another great quarter and capped off a great year. You can see revenues up 30%. That's pretty high. Net revenue was up 24%, more in line with the asset growth. Assets up 23%, just great strong originations. We are getting the benefit of our terrific front line. Around the world, global origination, risk management, you can see commercial financial services up 28, health care financial services up 27, cap solutions up 8.

Real estate just had a terrific quarter. The assets were up 52% for the year, the segment profit growth in the fourth quarter was driven by real estate, earnings are up 60%. We had great asset growth, $18 billion year-over-year of asset growth, so we've been able to really rebuild that portfolio and grow globally with great underwriting and strong property sales. Cap solutions in the quarter had revenue -- assets up 8, earnings were down 7 in the fourth quarter, that's driven by lower asset sales and higher reserves in the fourth quarter of '05. But a great year in total, total year results up 14%. Asset quality stable, delinquencies and losses near historic lows, and we continue to see good outlook here in commercial finance. First quarter segment profit dynamics driven by strong volume in asset growth. Segment profit up 10-15%.

Industrial, it had another mixed quarter. There's really three things I want to cover on this page. First, the segment is impacted by the dispositions of supply and advanced materials. You can see the adjusted Vs for organic growth here. Revenue would be up 2% and segment profit up 2%. So they did have a big impact, about $170 million just on the dispositions really in this segment. And you can see that in the supplemental schedules. Second, C&I and equipment services had another great quarter. You can see the organic revenue up 5%, and the op profit up 43% for C&I, a terrific performance in appliances and lighting and in industrial. Revenues were up 5%. On the retail side and appliances were winning in the high end. Global industrial had a great quarter. We're benefiting from our global product -- project management, large projects with great op profit performance in the quarter and good productivity.

And then finally the third point on the chart is that plastics had another tough quarter. Op profit you can see was down 49%. We had volume up slightly up 3% but price was down 5%. That's about $90 million. Inflation was about $80 million. Benzene at $3.64 is up 43% year over year. With oil where it is, benzene should be $1 a gallon lower and we're just getting really killed by this inflation. That's partially offset by the volume and productivity delivering the op profit of $114 million down 49%. So the first quarter dynamics look pretty similar to the fourth quarter. We're going to get a good performance in C&I and equipment services and continue to have a tough outlook for plastics and the segment profit in the first quarter will be down about 5-10% and revenue will be down about 5-10%.

Next is NBCU. I'm really pleased to report that NBCU delivered positive op profit growth in the fourth quarter. Revenues of $4.2 billion up 1% and segment profit up 5%. And the turn around is underway. You look at prime time, we're making real progress, the ratings are up 16%. We love Heroes, it's been really successful. It's doing great across all the media outlets. Number two in the November sweeps and that's a great performance by the team. The NFL is a key driver, ratings is up 6% over the 2005 Monday night performance. So we're delivering good ratings there. Entertainment cable had a great quarter, great year, op profit up 10%, USA's number one, Bravo's doing fantastic and news and info cable the momentum continues with Today and Nightly maintaining number one and CNBC really having a terrific quarter, ratings up 65%, all day parts up double digit.

Now on the film side, we had a very positive film dynamics in the fourth quarter. It's really favorable advertising and promotional comparisons versus fourth quarter. If you remember last year, the principal large one was King Kong with a heavy A&P spend. And this year we had just fewer films and as I said, they didn't give us as much as we wanted. They underperformed a little bit in the fourth quarter. And that was a little bit less than what we expected. Good progress in digital, we continued to really do a great job of maximizing our sale of our content throughout the properties and profitable growth coming from taking costs out -- you saw our restructuring and that's underway. So if you look at the first quarter, revenues X the Olympics about flat, segment profits 0-5%, great progress, we're seeing real operating improvements here and we're going to have a lot of less of one-time type of gains and things in this business and that's a great story.

Finally, Healthcare and GE Money. Healthcare had another strong quarter. And I'll tell you if you look the revenue's up 8% and the segment profit up 16%, it shows the strength of a diversified business like health care. And that's without shipping any OEC product. As you know we're under an FDA consent decree and we did not ship any OEC product, which had an impact on the quarter. And so terrific performance by this team. Orders were solid, up 8%, that was driven by X-ray, it was up 23%, CT was up 17%, MR was up 11%, and service was up 5%. You can see the revenue's up 8%, it's globally pretty good performance. Americas was strong, Europe was very strong. Asia was down, we continue to see softness in China. And that probably is going to continue for the first half of 2007. If you look at the segment by product, MR was up 17%, ultrasound was up 12%, monitoring was up 18%, CT was down 5% but we continue to get great performance in the VCT high end, and we have some tough comparisons there with the great growth we had last year. Services was up 16%, envirosciences up 12%.

So pretty good performance across the portfolio. And great leverage. The operating profit expanded 1.6 points to 23.7. And we expect to see continued performance in the first quarter. We got a great outlook for a strong top line growth and segment profit about 15% in the first quarter. Over on the right side, GE money had another strong performance. If you look at revenues, $5.8 billion up 19%. A little bit driven by interest rates again, net revenue up 11%. Assets up 20%, really good organic asset growth, that's 11%. A little bit of benefit from acquisitions, 3 points effect and was 6 points to get the 20% asset growth.. Global net income up 14$, very good in Americas up 19% from that core growth. Europe was up 33% driven by core growth. Central and Eastern Europe very strong, our Garanti investment very strong. And Japan was down $85 million year-over-year. That's really driven by reserves. If you look the Diet in Japan has passed the rate reduction law which will reduce the interest rates in 3 years down to 20%. We're dealing with it in our run rate. And, you know, we see the impact in 2006 and we see that's in our run rate for 2007 and the rest of Asia's continuing to grow and be able to offset that and give us profitable growth in total for GE Money. So asset growth 20%, portfolio quality stable, we look to have a similar profile in the first quarter.

Let me turn it over to Jeff to cover business development.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Great. Thanks, Keith.

And in business development, clearly we've got a lot to talk about. You know, you never pick to do three deals of this size within two weeks, but strategically these were deals that we've been working on for a long time and in the case of Vetco Gray we've been working on this deal for probably more than 4 years. The case of Abbott we've had discussions off and on for years but working on this specifically for about 9 months. In the case of Smiths we were part of a formal process. I think all three deals are right on strategy. They are very important for the company long-term and we think that they're businesses that we can do a lot significantly with. So I want to tell you about them and we've got Scott and Joe here to fill in some of the details.

First, just starting from the standpoint of what we've talked about in December, which was a desire to invest in leadership businesses. When we talked about the desire to continue to grow earnings 10% and make that consistent and not ever deviate from that. To increase our return on total capital with a long term target of 20% return on total capital, and we're well on the way to do that. And even doing these deals we'll have return on total capital trajectory to get to 20% by 2008 and positive growth in return on total capital in 2007. But all of them are based on building leadership positions and long-term dynamics allow us to capitalize in the demographic trends we talked about in December.

If you look at the right hand side of the page, we've made great progress since 2001. We've been very diligent and disciplined on reducing the low ROTC and volatile businesses and reinvesting back into the higher growth, higher margin leadership businesses. And we have dramatically transformed this company over the last 5 years while almost doubling earnings and bringing return on total capital up to close to 20%. So I just want to put on the backdrop. When you see us do or see me do $15 billion in two weeks, sometimes you say is he crazy? But this is all part of a 5-year disciplined, diligent, long-term focus on the company and I just want to give you a sense for that. And basically on strategy. You know, redeploy from slow growth into high growth and a real target on health care and infrastructure.

The next page just goes through the deal impacts in aggregate. And just, you know, to kind of see how they piece all together. The acquisition timing, we think we should close all three acquisitions in the first half of the year. So Vetco early and Abbott and Smiths by the end of the second quarter.

Plastics - we announced the disposition of the plastics business today. We've got a lot of interest in that business. It's a world class property. As Keith told you, look, people who know chemical assets know that there's a growth in that business in the future when the benzene corrects itself. There's a lot of sophisticated strategic and financial buyers for an asset like that. World class franchise with GE leaders and it will be better off, we believe, outside the GE umbrella.

With the buyback, we are still committed to do $5-7 million of buy back this year, but they will be back-end loaded. Once we do the disposition of plastics. And no change in the buyback strategy. All the acquisition charges will be offset with gains. Remember we talked about in December that we'll have $1.5 billion in gains that we're -- they're not going to fall through to the bottom line. They're going to be based on helping us restructure the company and offset charges like in-process R&D. And then all these actions are within our guidance of EPS growth and ROTC.

So while it seems like a lot, these for a company of our size and with our management team, we can execute on these deals, still hit our commitments to you and make them beyond strategy and accretive over time.

If you look at the right hand side, basically what this says is this year the impact of the puts and takes will be about flat. So 2007 we'll have roughly no impact of all these deals, that the three deals will be accretive about $0.04. You think about potentially the timing of the buyback that may take $0.02 away and when we sell plastics in the second half of the year, that takes $0.02 away. And so I would say conservatively it's flat on the year, maybe a little bit better than that, but we don't want to count on it. In '08, these should be at least $0.04 accretive. In '09, we're talking about growing, you know, 15% a year on an earnings basis as we drive synergy.

So again, I think if you think about the company long-term by taking these moves we are increasing the growth rate of the company and, you know, again one of the things we always go through with the board is are they accretive versus a buy back? And these are accretive versus a buyback by '09. So we like these deals and we like what they do for us. Kind of a conceptual chart on value enhancement. And Scott and Joe will go through this in more detail. Any time we buy companies that are strategically aligned with what our core strengths are, we expect to get both revenue and cost synergies. In all three of these deals they fit very well with our commercial processes. They fit very well with our ability to drive service, and they fit very well with our technical platform so that we feel like we can drive great technology fits right away and that's on the revenue side.

On the cost side, you know, we are all about operating profit expansion and operating profit leverage. Need to look all three of these deals carried to their GE counterpart and see hundreds of millions of dollars that we can create that creates long-term shareholder value in each one of these segments, and we think we can grow with that over time. So we like these deals, we've been successful investing in good platforms that fit very well with where our core strengths are.

The next page on health care just to put it in context since this is the most recent deal and then I'll turn it over to Joe. Is, you know, we like the health care market. We think this is an exceptionally good market for the company long-term. It's a market that you could be consistent in, grow over time, you have high visibility on. And what we've tried to do is build a big diversified health care franchise. And this just gives you a 10-year retrospective and shows you that over time we've done inorganic acquisitions, but then we've been able to take each one of those platforms and grow them organically 9% a year. Our organic growth rate has been very strong over this time period. At the same time, we've been able to do cost synergies, which has allowed us to grow margin rates, expand returns, generate cash over time. So, you know, this is a business that once we do the Abbott acquisition gets up to $20 billion in '07 with good growth into time.

And I think we've demonstrated to our investors over time that we've been able to create economic value by making these investments. Now the way we thought about Abbott, and again, Joe will go through this in more detail, is it's a market growing 6-8% a year. Similar to diagnostic imaging. It fits very well with the GE skill set. It's a great franchise that was under stress and is now coming out of that with good tail wind. As Joe would tell you their fourth quarter revenue growth is 9% as they've come out of this. And if we just hit on similar performance to diagnostic imaging, in other words high single digit, mid double digit earnings. Then we can take capital out of this business by both reducing investment and improving working capital turns. This is a 14% cash on cash return by year 5. It fits our investment criteria as well as being a great strategic fit we look at this investment.

With that I'll turn it over to Joe to give you some more details about Abbott.

Joe Hogan - ***GE - President and CEO of GE Healthcare***

We announced the deal yesterday with Abbott on their in vitro diagnostics business and I just want to explain to you why I feel such a strong strategic and operational fit for the business. And just right on target we're [inaudible] to go. As Jeff indicated we've been looking at this for like 5 years. And I feel strongly now with the integration of Amersham over the last 3 years we had a much more solid platform to bring this on. And I'll explain why the synergies I think are much in line with the business.

Overall this is the world's premier in vitro diagnostics business. It expands our diagnostic capability in large unserved segments, particularly in some global areas where we've gained scale in our diagnostic imaging business over the last several years. Has solid industry fundamentals again as Jeff indicated. This grows roughly in line with our in vivo, our imaging business of 6-8% a year. I think we can extend that, when we look at the emerging areas. And it increases the relevance of our customers. These are the same customers that are served by the Abbot diagnostics business, our customers that we have today, and we feel that we'll be able to enhance each side of the equation from a go to market standpoint, via the customer relationships that are out there.

I wanted to walk you through how this all fits together in a disease paradigm standpoint. If you start out with an IBD test, a blood test. Say you're thinking about a cardiology exam. Many of you out there, you draw blood, you take a look at the blood lipid profile, and you pull out the certain amount of cholesterol, your low level cholesterol might be bad might be over 130 or so. That will send you into a different sequence, you'll move into a stress test, which is GE Healthcare types of a system. From a stress test you might go to a volumetric CT to understand if there's a certain amount of blockage. From there you might go into a cath lab, again another GE piece of equipment that you'd have a therapeutic, a scan, or maybe a cardiac bypass or some way. And after that you're going to monitored from a therapeutic standpoint., again with IBD testing. The important thing is we're on a complete path of that disease paradigm. The information technology is around each one of those sequences in that paradigm both from an applications and information technology standpoint and also a systems standpoint and also services across that complete paradigm. There's a huge services component to the business that we just acquired. We have a core competency in that capability. And again we think we can add and enhance, not just the operational capability but the profitability of that sequence too.

Down below, this reinforces our early health strategy too. I think it's important to remember that IBD testing represents just about 1% of the spend out there in health care in the United States, but it trips off about two-thirds of the therapeutic activity. So it's really the front end of how you drive therapeutic in the United States. And with more and more clinical specificity as the test gets more specific, you're finding more things. And again that drives more therapeutics, it drives again more in vitro diagnostic testing. Both on initial phases and also on the end phases. And look, I want to emphasize here, this plays to GE skills whether it's high installed base or services, and significant revenue and cost synergies that we feel we'll be able to attain with this. So it's creating the world's best and broadest diagnostics company.

On the next page, I just wanted just to walk through the marketplace with so you understand it better. This is about a $24 billion market which mirrors the imaging market that we lead in now. And you can think of this almost the way we do the CT and MR marketplace as a very large installed base of about 70,000 units. And we have close to 100,000 units in our in vivo business. As you can see it's segmented around these different areas and where Abbot's an extremely strong and exciting areas of immuno assay. I'll talk to you about what that is and why it's good. And then look at the geographic split to this area it follows very closely to what our imaging is also with about a little less than half of the marketplace being in North America, 30% in Europe, and the rest in Japan and China and different parts of Asia.

Down below, the segmentation on immuno assays. These are big pieces of sophisticated equipment. Remember there's a lot of embedded technology in this equipment. So when you think about firmware and software and decision support capability and this is an amazing amount of technology. And that's why it fits so much better in the GE portfolio because we have that capability, we have 4,000 software engineers. We know how to write the system support software. This is something that necessarily if this business evolved within the Abbott portfolio, it wasn't in their core competency because they had more biochemistry and organic science capability.

And also logistics around this fits well too. So immunoassays, clinical chemistry, hematology. And then point of care is something where it's real time feedback, it's basically lab on a chip. Where if you are in a theater such as operation room or an intensive care unit, you need immediate feedback, you have a portable unit. You have a drop of blood that tells you immediately blood gas levels and those kinds of things. And it mirrors the clinical kind of near the patient thing that our portable ultrasound unit in our clinical systems business has. Again this is market $24 billion, grows 6-8% annually. You know, all we have to do is execute the way we do around our current imaging marketplace and then be able to gain a little more synergy from the standpoint of overseas and capturing back some U.S. share that's been affected by the consent decree. And we think we can grow at about this range.

The next page is some more specifics on the Abbott Diagnostic businesses. You know revenue this year will be about $2.7 billion. The growth rates we are projecting for '06 and '09 are in the 8-10% range. Down below, you can see the product mixes, very strong hematology business, very strong in hepatitis, that would be immunoassay kind of area. On the right hand side, it's interesting, you can see that the geographic splits for Abbott are 44% of their business is in Europe and only 26% in the United States. On the previous page, you saw the United States had 45% of the marketplace. You're seeing the effect of the consent decree here. And that -- so there's a big opportunity for us as Abbott's in conformity now with the consent decree to be able to focus on U.S. geography and gain that position back. Remember, these are all of our customers. We have a very strong position with these customers in the United States marketplace. I can give you specifics by region of where, you know, Abbott's had a difficult time because of the consent decree where we have strength in both hospital relationships and industry relationships that we think we'll be able to help them.

Down below, it's some more specifics on the different types of equipment. You know, immunoassays and hematology. And you know, I think it's important also when you think about these in '06 is the growth trend of the business is very strong too. Beginning in 2002, 2003 this business didn't grow at all. About 0-2% as they were under the consent decree in the United States. In 2004 and 2005, it grew about 2-3%. In 2005 the momentum was at about at 4%. And the second half of this year as Jeff indicated in the third and fourth quarters of this year, the business has grown 7-9% in each one of those quarters. So you can see the impact of coming out from underneath that consent decree, getting back in the United States marketplace, but continuing good global expansion at the same time. So we feel we're on the upper end on the growth curve.

On the next page is the deal economics. And so we paid $8.1 billion for this asset. You know we're projecting revenues next year about $2.9 billion. Down below are the multiples. We paid in line with industry multiples of EBITDA of about 15X. And if you look at 2007 projections of about 11X EBITDA range. Now what's important to remember too, we paid I feel an industry multiple around an asset that's really beginning to gain momentum now too. I feel we got the best asset in the marketplace, while at the same time this asset has an unusual opportunity to grow because of the impact of the decent decree over the last few years. On the right hand side you can see the revenue synergies in three years out of about $200 million. We'll be able to put this together both globally and domestically we feel.

Down below the cost. Remember, in key health care, we have about $13 billion of costs spread out between base and variable costs. You add Abbott, brings in another $1.5 billion of cost. We're looking to pull about 2%, 1.5% of costs out of this. We've shown you we know how to do this with Amersham, and subsequent deals that we have done. We feel very confident we've gone through due diligence. We'll be able to do that with this deal too. We think we can really leverage our capital position in this business. Remember these are big sophisticated pieces of equipment that are imbedded to customers. As we lease the kind of diagnostic imaging machines that we have today we'll be able to take that same core competency and apply it here, and we think we'll be able to expand ROTC about 2 points.

Look, in total here. You think about execution around this deal, we have to drive growth and we think we're seeing great momentum out of this business to combining with GE Health Care and our relationships with Capability. We feel strongly we'll be able to grow the business. Secondly, the services capability for synergies here is tremendous. You know, merging this with our services business and combining both install base offers a tremendous opportunity for growth. And also the point of care side of this business and the international opportunities for growth also excite us. So we're excited about the deal. We look to close this in the first half of '07 and we can't wait to get started on it.

Let’s look at GE Healthcare in total. So as Keith indicated we ended up the year at $16.6 billion with segment profit of $3.1 billion. For next year we'll be at about, an annualized basis about $20 billion business. Operating segment profit growing about 20%. And think of us as the leader in diagnostic imaging, information technology, and also life sciences throughout the industry. Really well-positioned for the 21st century. This is a 21st century health care company in the sense that we focus on whole idea of early health, of identifying disease early, with more and more sophisticated equipment and driving efficiency in the system but also efficacy from a patient standpoint. Multiple returns of recurring revenue about 40% and you're going to see on the revenue stream provided by services. So again the services part of this helps the predictability of earnings and I think it also helps to expand our capacity. And every year we're going to drive for about 100 points annual of expansion. And that's in our calculations as we go forward for this business. So, again, we're excited about this, I think we'll close here in the first half of '07. And we think it's a tremendous fit for GE Healthcare and for GE.

With that I'll turn it over to Scott. He's going to talk to you about aviation.

Scott Donnelly - ***GE - President & CEO GE Infrastructure, Aviation***

That's great, Joe. Thanks a lot.

First of all,let me give you a quick update on where the business is. First of all, we think we have a great business and a great industry right now. Demand for aircraft, revenue passenger miles is going all around the world. Emerging markets in China, India, the Middle East continue to be very strong. Low cost carriers around the world continue to add capacity and we're starting to see the big carriers in Europe and the Americas start to look at some pretty major refleeting that further generates opportunity.

Right now we think we've got great products at the right time. We've got great relationships with both the airframe and our airline end user customers and I think that's reflected when you look at the growth we're seeing in both our original equipment, new engine orders as well as our services backlog. And so it's a business that has been growing organically very strongly. It's one that delivers consistent reliable margin expansion and I think we have a great track record to build on.

So we've been looking for some time at expanding our position in this industry. As we look around, we look at Smiths Aerospace as a great opportunity. This is a company that also has a great reputation in the industry. It has a great footprint in a number of technologies where we really believe you can add value to the customer through technological differentiation. They've got a great footprint in digital systems, electric power, which is an increasingly growing part of the marketplace, mechanical actuation systems, as well as great technology and component supply areas. So we think it's a great company, they've got a lot of great technology and they've made some very smart investments on the next generation of aircraft platforms. We think they're well-positioned for growth and frankly looks like it's a great fit between what GE brings and what Smiths Aerospace has in their segment of the industry.

So if you look at the product lines that Smiths Aerospace brings, digital systems strength in the cockpit from displays to platform computing, flight management systems, particularly strong in the next generation of commercial platforms on the Boeing 787, the Airbus 380, and also great position on a number of military aircraft including the joint strike fighter in the U.S. Also very strong in mechanical systems, actuation, the controls landing gear, flight control surfaces and thrust reverser. Actuators again very well positioned on most of the important platforms going forward. Electrical power, this is a segment that we've been looking at for quite some time as more and more of the control and systems on the aircraft go electric. This is a big growth opportunity and Smiths has a great foothold in that position. Also these guys are a great supplier of engine components, in fact a very important part of our supply chain with some great process capabilities, important in our supply.

So if you look at what GE plus Smiths means in addition to our position as a propulsion supplier. The investments they've made, the product line that comes with Smiths Aerospace really are technologies and products that help differentiate and add value to the platform whether it's for the airframer or the end user airline. By reducing weight, improving maintenance capability, improving the -- and reducing the cycle time for the manufacturers. These are all technologies that like the propulsion system have a real value for both the airframer and the end user airline. So we think it fits very well. If you look at a platform like a 787 in addition to our propulsion offerings we now offer a very broad range of products that helps to differentiate and really add value to that product line. So it positions us I think very well going into the future.

If we look at the deal economics, this is a $4.8 billion cash deal. We believe this trade's really consistent with the fair market value of companies that are out there in this space. So we think it's an appropriately priced transaction. And we think frankly we're buying an asset that has a lot of top line opportunity because they're so well positioned and have made good investments on aircraft that are going to be growth in the future like the 787, the 380, 747-8 and joint strike fighters. We clearly see revenue opportunities, we've already had great customers with the airline customers that would love to see Smiths participating more in retrofit and upgrade opportunities out there in the marketplace. So I think we see great synergies with our distribution, our sales channels and our relationship with the end user airlines and clearly there's opportunity here for cost synergies. This is a strong company, one that's running in the low double digit op margins. And we can clearly see this is a mid to high teens margin business going into the future.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Well, thanks, Scott. So you can see from both Joe and Scott that we've really, I think bought good assets at the right time and are well positioned for growth.

Just to wrap up on infrastructure. If you include the impact of both Vetco Gray and Smiths in this segment, we should have revenue in infrastructure up at $55 billion and segment profit growing about 20% with a segment profit rate of 20%. So if you think about the infrastructure business, much the way Joe talked about, we've got technical leadership, we've got strong global leadership, we've got broad solutions for our customers and we've got real opportunity for margin expansion and a very strong return on total capital. So if you think about now infrastructure and health care now in '08 will be more than 50% of our company's earnings.

Just quickly on the detection joint venture. You know, I believe that joint ventures are a good way to extend our reach and our ability to be competitive. Hitachi, we did a joint venture with Hitachi in the fourth quarter announced it in nuclear business. I look at the Smiths-GE detection JV along the same lines, these businesses are very complementary. We basically put them together based on current valuations. I am very encouraged about about the ability for this business to create value over the long-term. And we think this makes us a stronger player in security. And we plan to be an active participant in security going forward. Again, we like this position as it pertains to where we go.

So just to -- just to wrap up a little bit on capital allocation and give you a look at the year. Turn it back to Keith.

Keith Sherin - ***GE - Sr VP Finance and CFO***

Thanks, Jeff. How do we pay for this?

Here's an update of the generation allocation page we showed in December. The great news is we've got a lot of financial flexibility. We've told you that. On the left side is our available capital. We have cash carryover from 2006 plus some other cash generation in the year that's $5 billion. We're planning on $23 billion in net income. We got dispositions, working capital for $12 billion. You can see the deals that have been announced on the right side. Give us those amounts, the GECS amount there represents the Swiss Re shares that over the year we plan on monetizing. So $40 billion of available capital, that's after we invest in R&D, that's after we invest in programming, that's after we spend our capital expenditures of more than $13 billion. So this is a tremendous amount of flexibility.

On the right side, we've said how we're going to use it. The dividends are going to grow in line with earnings. We increased the dividends, the board did in December to up 12%, we've still got about a 3% dividend yield. We're going to continue to reinvest in financial services with the earnings growth in financial services and GE Money and commercial finance. We'll leave about $7 billion of retained earnings in there that will fund growth. We're doing $15 billion of acquisitions, I'd say we've completed our acquisition plan for 2007 and we're committed to the buyback. The buy back will be in the second half of the year. It will be tied to the disposition proceeds. So, you know, we are, we are reinvesting in growth in the company, and we are returning capital to shareholders at the same time, and we are growing our return on total capital. Return on total capital, of 19% in '07 and on our way to 20% in '08, even with the reinvestments and the redeployments. So terrific financial flexibility page.

Jeff Immelt *- GE - Executive Chairman and CEO*

So on page 42, you know, just give you a sense of we're really making, we think a better GE. If you think about how we've redeployed capital and you look at the advanced materials sale, the plastics sale, and internally generated cash flow, with that we're investing in Vetco, we're investing in Abbott growing through Smiths. We've got a dividend and buy back underway. So again, very strong performance overall. With that performance, we think that the net, if you will of industrial acquisitions remains about $7 or 8 billion as we go through that. So pretty much consistent with what we're what we've committed and what we're doing outside as Keith said, the return on total capital remains at between 19% and 19.5% as we look at going out the year.

If you think about how the company looks in 2008 and beyond, 38% of our earnings will be in infrastructure. Where we've got great position and a fast growth strong market. 32% in commercial finance and GE Money, where we've got great position in a very strong market. 15% of our earnings in health care, we've got a great position and a strong and growing market. 9% of earnings in NBC universal where we got turned around on track and good progress towards our goals. 6% in industrial where we've got great brand high-tech performance, and importantly as a -- as an opportunity, we've got the ability to capitalize on all the big trends that we've talked about in December, our global infrastructure, emerging markets, demographics and things like that. So we really feel like we've positioned the company for long-term growth and we feel very strongly that this is a better GE.

When you look at 2007, on the total year outlook, just so you can update your models and get a sense for how we're positioned, we think the revenues will be slightly higher than what we talked about in December, earnings will be pretty much consistent with what we talked about before, again Keith talked about the restatement earlier, but earnings growth up 10-12%, industrial, CFOA again on plan with what we talked about in December, and return on total capital exceeding 19% as we look at 2007. In the segment guidance of three segments changed, infrastructure goes from 15-20% to about 20%. Health care goes from 15-20% to 20% plus, industrial goes from about 5% to even, and NBCU, GE Money, and commercial finance remain about the same. So the overall segment outlook, net net, is about the same as what we talked about before. Total year EPS we've taken kind of a penny off the low end so we've raised it to $2.18 to $2.23. That's 10-12% versus the restatement impact in 2006. Again very consistent with what we talked about in December.

Just want to summarize by saying, you know, we talked about throughout all of our strategic presentations a focus on invest and deliver. We feel like we've delivered a very strong 2006. The growth processes are delivering great results in orders and sales and asset growth. Operational performance is gaining momentum and we've got expansion in margins and returns. The NBCU turn around is on track, and we're really well-positioned for 2007 and beyond. We've got dramatically improved business portfolio, a high-quality consistent and sustainable double digit earnings growth capability, and tremendous financial flexibility with excellent cash flow and a solid AAA. As Keith said, the restatement's disappointing, but we've got a strong commitment to controllership, and we believe that all of our internal processes and the way that we run the company is very strong.

So we're executing on the strategy, we think we're making the company a better place, and again, invest and deliver, and we think the long-term outlook for the company in 2007 and beyond is just a safe and reliable growth company and one that's going to deliver expanding margin rates and expanding returns, consistent earnings growth over time. So Dan, let me turn it back over to you. Great.

Dan Janki *- GE - VP of Investor Communications*

Thank you, Jeff. Candice, we would now like to open it up for questions.

QUESTION AND ANSWER

Operator

[OPERATOR INSTRUCTIONS] Our first question will come from the line of Robert Cornell of Lehman Brothers.

Robert Cornell *- Lehman Brothers - Analyst*

Good morning, everybody.

Keith Sherin *- GE - Sr VP Finance and CFO*

Hey, Bob.

Jeff Immelt *- GE - Executive Chairman and CEO*

Morning, Bob.

Robert Cornell *- Lehman Brothers - Analyst*

Yeah, it does seem like a lot of action going on here. Actually, it raises the point, you say you've been talking about Smiths and Abbott for a while. Why have these businesses come together all of a sudden here just in a brief period of time? Was it anticipation of the plastics proceeds or something else at work?

Keith Sherin *- GE - Sr VP Finance and CFO*

You know, Bob, I think we've always got options around dispositions and things like that. I would just say in some ways it's just happenstance. Similar thing happened in 2003 around Vivendi and Amersham, and I would just say it's just the way the processes work. Vetco had been in the discussion for a while as had Abbott. Smiths was really their call from a standpoint of how the process worked. As we model our business development activity, we had always looked as these companies over time. And so, you know, again we consistently thought that if we ever had opportunities here that that would be, you know, kind of the types of companies that we'd want to invest in.

Robert Cornell *- Lehman Brothers - Analyst*

You know, you guys had talked historically before this year about targeting growth in the 10-15% area and this year with all of the puts and takes. You're talking 10-12%, but as you say, going forward, infrastructure health care, so much bigger part of the company. Is it too early to ask, what is the growth rate range look like for this reconfigured company?

Keith Sherin *- GE - Sr VP Finance and CFO*

You know, again, Bob, I think what we want to be is a safe and reliable growth company and, you know, the emphasis in 2007 is on high quality. So we really want to have a clearly outlined high quality number that everybody can depend on quarter after quarter after quarter. We took criticism for that in 2006, I understand that. And so, you know, I think it's important for us to deliver on that. Now, I think if you strip away and you think about what we've done over the last 5 years, you know, we had 40% of the portfolio 5 years ago that really wasn't capable of 10% earnings growth and 20% returns. Now that's approaching zero. So now now we have almost nothing holdings us back and we've got a lot of businesses, what Scott and Joe talked about was these two businesses that we've invested in have tremendous tail wind in terms of what we need to do and what we need to get done.

Robert Cornell *- Lehman Brothers - Analyst*

It does look good. Just a more provincial question to end up on my questions. How did the economy, your served markets both U.S. and abroad end '06 end with strength or with a whimper?

Keith Sherin - ***GE - Sr VP Finance and CFO***

I think our orders really speak for themselves, Bob. In the world that GE sees, clearly housing had a negative impact in Q4, clearly automotive had a negative impact in Q4, and plastics saw both of those. But the demand for, the demand for gas turbines, the demand for aircraft engines, the general health care spend things like that are still very robust.

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

Okay. Thanks very much.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Thank you, Bob.

Operator

Our next question will come from the line of Jeffrey Sprague. Please proceed.

Jeffrey Sprague - ***Citigroup - Analyst***

Good morning.

Keith Sherin - ***GE - Sr VP Finance and CFO***

Morning, Jeff.

Jeffrey Sprague - ***Citigroup - Analyst***

Just kind of back along the issue of pipeline, Jeff if I think about all this stuff coming to a head that you've maybe worked on for years. Obviously there's probably other things on the pipe -- in the pipeline that maybe you've worked on for years. How do you, how do you manage now maybe something opportunistically happening that you didn't expect. Would you by definition just push that out? Or maybe these are the bigger moves that you'd envisioned in this multi-year plan and the acquisitions in general maybe are just smaller from here going forward once we get into '08-'09.

Jeff Immelt - ***GE - Executive Chairman and CEO***

You know Jeff, what I would say, first of all what I'm committed to do is only using cash, expanding ROTC, consistent earnings growth, so no surprises on consistent earnings growth, and retaining the AAA. So as a backdrop, I've got those 4 things that are on my mind all the time. These deals fit within that. And like I said, it's almost happenstance that they happen when they did. You know. If something was totally compelling out there and happened, I would think about other dispositions to fund it and things like that. And what I said in December is there's infinite liquidity in terms of private equity out there in the market so we always make tradeoffs, but those four things are tattooed on my brain, it's the way the Board compensates me. And we're just not going to make decisions that veer from that.

Jeffrey Sprague - ***Citigroup - Analyst***

And I just, a specific question on Abbott. I don't know if you want to take it, Jeff or if Joe's still on the line. I wondering how quickly you can impact their product pipeline. And kind of thinking about growth separate and apart from the easy comp created by the consent decree, but actually impacting their product pipeline and how you recover share other than using price, I would think it would be a product-driven approach to recover that market share.

Joe Hogan - ***GE - President and CEO of GE Healthcare***

Hi, Jeff, it's Joe.

Jeffrey Sprague - ***Citigroup - Analyst***

Hey, Joe.

Joe Hogan - ***GE - President and CEO of GE Healthcare***

The great thing about Abbott is that even under the consent decree over the last three years they've invested heavily into R&D on new assays. So they have several assays like hepatitis C and a full slate of those just coming out. So what I like about it, it's not like we have to put a lot of focus of products coming in on these because Abbott's maintained that. We see a great platform of products coming out. And what's nice about that too these are unique. So it's not necessarily a price play. It's just a broader portfolio of assays they moved through. Also from a growth side to services too. The services has never been a big profit driver for them. And our service has been in the 30% range from a return standpoint. We feel we'll be able to drive more operational execution there and better pricing in that area to try to help drive some growth too. Those two dimensions, Jeff, I think will help us a lot.

Jeffrey Sprague - ***Citigroup - Analyst***

Is it service just wasn't concentrated on so others were doing it? Or is there actually a redefinition of what can, you know, be called service in this business as you try to reposition it?

Joe Hogan - ***GE - President and CEO of GE Healthcare***

I take one step back, first. To be effective in services, you need scale. To give an example, in our a diagnostic business, the logistics of shipping parts. We ship 6,000 parts a day, right? You have to have infrastructure in place, strong IT systems to be able to do those things. This business never had that kind of a scale capability. We'll be able to merge that with ours. And secondly is just how you position for value. A lot of our services contracts have to do with productivity. You know, driving productivity, you know, we have a performance solutions business where have lien experts that we send into customers around performance contracts that we get paid for. And you know, there's a reagent stream in this whole thing too. It's a constant reagent flow, Jeff -- you know what a reagent is, it's a fancy name for just a chemical composition to identify certain antibodies and those kind of things and that's a constant flowthrough stream that exists from a services standpoint also.

Jeffrey Sprague - ***Citigroup - Analyst***

Right. And then maybe if I could just flip it back to Keith or Jeff for one last one. Interesting the strength on the real estate. And obviously things are getting bid up, a bidding war for equity office properties right now. Are you guys more inclined to be sellers or buyers in that market? You've done a little bit of both. But I just wonder what your take is on the whole commercial property market today.

Keith Sherin - ***GE - Sr VP Finance and CFO***

You know, Jeff, we are both. I think the strength of our team is the underwriting process. We look at the dynamics of the markets that we're investing in for capacity, supply, and demand. We look at the future rent growth appreciation that we expect to see, we look at the economic activity in the regions that we're in. And so we're - what we look for is opportunities where we think we can underwrite a transaction that has an opportunity for rents up or a change in the portfolio by reinvesting and then changing the nature of the investment in the region that you're putting the real estate in. So you may be able to go higher scale, you may be able to put a different set of office tenants in the property. And then over time, drive that rental growth and the net operating income improvement, and then resell those properties. So we've got a strategic plan that looks at investing and equity where we think we can get rental growth and we're doing a lot of that. You saw the assets up 52%, so we are continuing to invest globally. We see a lot of opportunities outside the U.S. Japan has been a terrific market for us. And we also see market opportunities inside the U.S. Cap rates have been very favorable and the liquidity out there is just tremendous as you know with all these investment pools we need to get some good returns. So we've been able to invest smartly where we think we've got good supply/demand characteristics, and we've been able to take advantage of the liquidity and realize benefits from the properties we've invested in previously and we're able to realize the underwriting case that we had. So we're doing both.

Jeffrey Sprague - ***Citigroup - Analyst***

Thanks a lot.

Operator

Our next question will come from the line of Nicole Parent of Credit Suisse. Please proceed.

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

Good morning.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Hi, Nicole.

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

I guess just first big picture. Two organizational structure questions. The first one would be for Joe. When we think about the organization, you've now integrated Amersham, you're going to have Abbott, you have a broader portfolio of products, it looks like you had some changes in the organization. You have new heads of surgery and different things. Can you talk about the organization's capacity and as you look at kind the direction that GE's going forward, how does that change how the business is run?

Joe Hogan - ***GE - President and CEO of GE Healthcare***

Hi, Nicole. I missed you at RSNA. Just, on this question on the organizational structure side, we try to organize around discrete P&Ls. So as you saw as we brought Amersham in, and we built that business up into two areas, one is the diagnostic pharmaceutical side that's done extremely well and reports directly in to me, and then also on the life sciences side under Peter Ehrenheim with $1.5 billion. If I interpret your question correctly, I'll do the same thing here with Abbott, we'll bring Abbott in as an in vitro diagnostics P&L that reports to me. The most important, when you get underneath that, Nicole is how we run the services business verses the reagent business day in and day out. We'll probably have to break those up in the sense of making sure that we get good visibility as we try to drive the efficiencies that exist there. Think about, Nicole, you think about the organizational capability to do this kind of thing. We've been through the Amersham acquisition for the last 3 years. We have a very battle-hardened integration crew that knows what to do and how to go in and drive an integration like this. And so we take a number of those resources and redeploy them on these assets. I'm very much aware of what my organizational capability is, to do something like this, this is a big deal. But since we are through the Amersham piece and we are, what's great is we have a lot of experience through that. We can take a lot of that experience and apply it through here. I hope that addresses what you asked.

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

Absolutely, thanks, Joe. And I guess, Jeff, with part of the security detection business going with the Smith JV and you're going to be out of plastics and advanced materials by year end, do we see a reorganization or the remainder of C&I folded into another platform? Or how should we think about that from an organizational perspective?

Jeff Immelt - ***GE - Executive Chairman and CEO***

I'm not changing the organization again.

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

Excellent. Glad to hear it.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Believe me, I learned my lesson last time.

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

Okay. And I guess one last one. Maybe with Scott on the call. Within aviation, you had service revenues up 22% in the quarter. Could you just talk about how we should think about these margins on you next in the quarter and then also as you look ahead to R&D investment, when we think about the next gen narrow bodies, in the longer term, how do we think about the R&D investment in the business?

Scott Donnelly - ***GE - President & CEO GE Infrastructure, Aviation***

Well, you know, I think we've had, to talk about the R&D side a huge commitment on R&D, we're continuing to have a run rate in excess of $1 billion as we've been investing in this generation of engines, particularly into the wide body market. And I expect we'll have to continue that little commitment to R&D as we go into the future for the next generation wide body. In fact, we're already spending a good deal of money last year, we've got a good deal of money this year looking at the technologies that are going to be required to be on the replacement products for the 737, the A320 family. I think for us the deal has been that regardless of the cycles going up and down, we just make the continued investment to ensure we've got the right products for all of those new aircraft platforms. I think we're just going to stay with that. It's absolutely been working for us. You're right we had big Vs in our service business in the fourth quarter, which delivered great margin for us. We also continue to see strong revenue on the original equipment, as we're shipping record numbers of new engines. We did have some dilution in the fourth quarter and frankly what happened was we had a deal that goes back to the late 90s with a troubled airline in Brazil. We had an outstanding receivable, which at the time was done by them compensating with some tax credits, there's been 5 or 6 years of litigation around that thing and what happened in the fourth quarter was the window opened up for a tax amnesty with the Brazilian government, and we felt it was prudent to bring some consistency and frankly cap our exposure and we took the write-off on that. And that created a little bit of dilution. Had we not had that we would have seen about 14% on the bottom line expansion.

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

Great, thanks very much.

Operator

Our next question will come from the line of Dean Dray of Goldman Sachs. Please proceed.

Dean Dray - ***Goldman Sachs - Analyst***

Thank you, good morning. As we go back to Joe for a moment please and we can hear your enthusiasm about starting off with an operating margin at 10%. And it does sound as though that has been depressed because of the consent decree. Just give us a sense of how much you think, what the normalized operating margin might be. And then what sort of step function would we see in terms of margin improvement?

Joe Hogan - ***GE - President and CEO of GE Healthcare***

Yes. Hi, Dean. It is 10% op for any margin. I think it's important to look back before the consent decree to four years ago. This is a 19% operating margin business. And that's not an uncommon operating margin percent in the future diagnostics business on that end. So it's my expectation that we'll drive the business back to that area. I think, you know, Dean, it's reasonable to expect to a point to point and a half a year of incremental improvement. That's what I'm going to have to drive for, that's what we're going to do to reach the numbers that we need to hit in this business. You know, the way I understand this piece, It's you in the sense that this is not just about just cost attainment here. With the point of care business within this unit, Dean, grows between 20 and 30% a year also. We think we can enhance that with increased distribution we have throughout our business. And the global component will allow us to expand that growth. Dean, the last piece here is, the asset to this business, which you know are capital intensive, we're only running at about 40% of capacity. And by running the, you know, more revenue over top that in those three dimensions over top of that, we'll be able to drive that kind of operational leverage too.

Dean Dray - ***Goldman Sachs - Analyst***

How does the business mix look today as we touched on services? Just rough split of equipment, consumables, service.

Joe Hogan - ***GE - President and CEO of GE Healthcare***

The way this is sold, it's hard to break it out that way. But think about the reagent stream is about 75%, Dean, of reoccuring revenue. These -- the large lab machines are embedded, you know within these facilities, often the contracts are written around the reagent stream that flows through there, but I think you can safely say that about 25% of this would be equipment and 75% is reoccuring kind of revenue stream.

Dean Dray - ***Goldman Sachs - Analyst***

Terrific. And then if I can have a question for Keith. If we go back to the slide on deal impacts, we can see the assumed accretion from the 3 deals of $0.04 for '07. Take us through the assumptions on the buy back timing and interest rate costs impact. So what are the financing assumptions for the 3 deals? What should we see in terms of financing. I'm glad the rating agencies reaffirm the AAA. Could you sell some of the Swiss Re position sooner? and how might that $0.02 actually be less?

Keith Sherin - ***GE - Sr VP Finance and CFO***

Well, basically what we're doing is we're going to do these deals for cash. Jeff showed you the timing of when we think we'll close them. We can do all those deals and we anticipate doing all those deals before the disposition of plastics. And so we're prepared to have our borrowings go up in the first half. You saw we have cash carryover. We'll have the borrowings go up and we'll pay that down as we do the disposition of plastics and generate cash flow from operations. So basically what we're saying there in $0.02 is that the cash borrowing cost in the interim until we get the debt levels back down by the end of the year. And the timing of the buyback being pushed kind of into the second half create what we think will be the equivalent of $0.02. It's close enough, Dean, in terms of how we estimated that. We'll obviously try to optimize that.

Dean Dray - ***Goldman Sachs - Analyst***

And the potential tax leakage on the plastics transaction?

Keith Sherin - ***GE - Sr VP Finance and CFO***

Well, we've anticipated what the tax impact will be and what we think the gross price and the net proceeds that we need are. So we'll have to work our way through that.

Dean Dray - ***Goldman Sachs - Analyst***

Okay. Thank you.

Keith Sherin - ***GE - Sr VP Finance and CFO***

Great.

Operator

Our next question will come from the line of Scott Davis of Morgan Stanley. Please proceed.

Scott Davis - ***Morgan Stanley - Analyst***

Hi, guys. Good morning, thank you.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Hi, Scott.

Scott Davis - ***Morgan Stanley - Analyst***

Guys, how do you think about the 3 transactions that you did? There's certainly -- in figuring kind of a day 1 cash and cash return is a little challenging for us given the limited information and also that Vetco is private. But how do you think about 2008? I mean, I understand your long-term goals to get these businesses up into the mid teens returns, but how should we think about 2008 and where your returns on capital in those 3 businesses will be? Just to get a sense of really what the economics of these transactions are.

Keith Sherin - ***GE - Sr VP Finance and CFO***

You know, we're on a path. I think if you look at our -- first of all in 2008, you're only going to have the, it'll be the first full year and they'll be comparing to a partial year in 2007. And what we've said is that we're going to get our weighted average cost of capital return by a run rate by the end of year 2. We're going to get as Jeff said on the Abbott deal we'll be at 14%, cash on cash return by year 5 and we're higher than that in the other two transactions. And what you've got to remember is you know we've got a core company that has great returns on capital that is growing earnings and is very capital efficient. And that is allowing us to make these investments in new product lines while still growing total capital return on total capital for the whole company. So we're able to make these investments, grow them over time, and get the returns up in line with making a good return on investment for incremental cash use. And put it into a portfolio that has fantastic returns on capital, cash generating capability, and cash efficiency. So you know I think that we think through this the same way we thought through all of the transactions that we've done over the last 5 years and these look terrific for us. On strategy and very financially accretive.

Scott Davis - ***Morgan Stanley - Analyst***

Well. Let me ask the question a slightly different way, then. I mean I think GE's historically been extremely successful in taking out cost synergies and maybe not quite as successful in achieving revenue synergies. And that's why I chose 2008 because you're probably going to have a chance, you'll have a couple quarters to really start to take costs out. But it'll be a little bit early to really achieve a lot in revenue synergies. Am I just asking for the wrong time frame? I'm trying to get a feel for are these 6% return acquisitions, are they 10? You know, when you take cost synergies out and not really need revenue synergies to make the deal work?

Keith Sherin - ***GE - Sr VP Finance and CFO***

You're talking about year 1?

Scott Davis - ***Morgan Stanley - Analyst***

Yeah, really the first full year.

Jeff Immelt - ***GE - Executive Chairman and CEO***

I mean, look. I think the way we try to model these, and they don't all do it, is to at least hit our weighted average cost of capital by year 2. So that's 9% or 10% by year 2. And my belief is that even though the synergies will take some time, we've get a good pop in year 1 from that.

Keith Sherin - ***GE - Sr VP Finance and CFO***

We showed you $0.08, $0.08 accretion after tax in '08.

Scott Davis - ***Morgan Stanley - Analyst***

Yes, no. And I can't get there with my numbers and that's why I asked the question just trying to get a feel for, are you assuming revenue synergies above and beyond kind of what I'm assuming. I'm struggling with just taking cost synergies out. I'm struggling to get there.

Keith Sherin - ***GE - Sr VP Finance and CFO***

We can help you with that.

Scott Davis - ***Morgan Stanley - Analyst***

Okay. Moving on and I hate to be a curmudgeon, I know year-over-year margin improvements were substantial, but margins did come in below our forecast for the quarter. I'm guessing that's because some of the restructuring, the pay as you go stuff that you put through the P&L. Can you talk to us a little bit about where the restructuring took place? And so maybe I can get a better feel for really where the margin, the true apples-to-apples margins were for the quarter?

Jeff Immelt - ***GE - Executive Chairman and CEO***

Sure. First, I think first of all what I would say is what we were expecting we hit. So, you know, I think the delivery was what was in line with what we both said. It was better than what we said when we did the margin meeting last year and it was in line with our what we committed to in December when we said the margins were going to be a little better than our third quarter guidance.

So I feel pretty good about it. Now in terms of where the restructuring shows up. I would say the majority of it is in corporate, probably about $260 of the $390 million is in corporate, and about $130 of it is in the segments, principally infrastructure. If you look, there were restructuring activities in aviation, in Brazil as Scott said there were some inventory adjustments, there was some oil and gas downsizing, there was some water downsizing, and then there was some GCAS activity where we exited some product lines. So I think that would be the one place that had segment. And the rest of it for things like the NBC and the closing of the plants in the industrial and the hydro we took that in corporate and you can see that in the other income line.

Scott Davis - ***Morgan Stanley - Analyst***

Okay. Good. That's helpful. And just lastly for Joe, I guess I'll be the moron on the call. I'm not as familiar with the consent decree and the history with Abbott. But maybe Joe can give us a little bit of a history and background of kind of what caused the consent decree, what the outlook and timing is of really being able to get back on track without the FDA supervision.

Joe Hogan - ***GE - President and CEO of GE Healthcare***

Sure, Scott. The consent decree came down in 1999. A consent decree has to do with, when you operate a health care business like this, you're underneath FDA guidelines. And this is a case where the product -- there weren't any quality product problems in the field -- but their quality processes in the plant. And it's things, Scott, like design controls, which is how you design your product or incoming raw materials and how you inspect those things. There's very detailed processes on how those things are supposed to occur based on what the FDA thinks. The FDA on an audit had found that Abbott was deficient. Gave them a warning letter probably in early '98, '99. They didn't feel they made enough progress, they put them under the consent decree.

Consent decree basically means the FDA can oversee your plant. There are going to be standard audits on it. And they're going to control your new product introduction until you are actually able to ship. And watching how you ship your current product in this case with Abbott. So what happened is over those years 2000, 2001, 2003, Abbott worked very diligently on their quality processes. And beginning in 2003, the FDA began to let them qualify new product. But it takes a while to get those products again through the pipeline. And you saw some of those begin to come out in '05, second half of '05, beginning in '06, and then we see that really coming up.

But picture is, Scott, almost like a throttle as the FDA gains more confidence that your quality control processes are in line with what their expectations are. They'll give you more degrees of freedom. You have to think in terms of consent decrees that they last for 5 years and after that you have to petition to have them removed when you're more comfortable with that. So as we move forward with this we understand what our obligations are in that consent decree. We'll work very closely with the FDA. But we feel good about the progress that Abbott's made in the relationship they've developed with the FDA over this time period. Hope that helps, Scott.

Scott Davis - ***Morgan Stanley - Analyst***

No, it does. And just to comment there, Keith and Jeff, it's really helpful to have guys like Joe and Scott on the call too. If we could do that in the future, that'd be just super.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Yep.

Scott Davis - ***Morgan Stanley - Analyst***

Thanks, guys.

Operator

Our next question will come from the line of Robert McCarthy of Banc of America Securities. Please proceed.

Robert McCarthy - ***Banc of America - Analyst***

Good morning, everyone.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Hey, Rob.

Robert McCarthy - ***Banc of America - Analyst***

First, just a question for Jeff, I mean the 5% of businesses left, I think we know what those candidates are that are lower ROTC and volatile. So perhaps you could talk about the prospects for divesting those, there might be some structural issues with respect to those. And then also, can you just talk through, I mean what the decision thought process, which made you finally kind of capitulate on your plastics and put it up for divestiture?

Jeff Immelt - ***GE - Executive Chairman and CEO***

Yeah, Rob I -- I'll start with the second one first. I'd say kind of as the philosophy that we've got here and then I'd say the Board shares is that when we're convinced that a business might be better run outside GE than inside GE, we divest. That's how we thought about insurance and others. When I look at plastics today, I think it's a world class franchise. I don't think it has to be AAA. I think it can be put together, you know, there's real consolidation opportunities that we didn't want to be a consolidator in that they can now utilize. I think there's people that are basic in feedstock, middle eastern companies, Russian companies that are basic in feedstock, to whom plastics will be very attractive. Since we didn't want to backward integrate, we think somebody else can forward integrate. And so when you look at all the strategic considerations, we just couldn't add enough value to be successful. And we can put up with cyclical businesses inside the company, but it's hard to put up with volatile businesses inside the company. I would say unpredictable businesses. And so in some ways plastics took on the same characteristics as reinsurance did, over time.

Now you know the other obvious candidate, Rob, is consumer industrial. Now the way I think about consumer industrial, it's driven by the brand. It's a 40% return on total capital business. It's a strong cash flow business. It's one you can innovate around. You know, clearly we can do something with that at any point in time we wanted to. But I don't see that in the same way that I see plastics. Long term, we're going to continue though to redeploy capital from slower growth into higher growth, and you know build a stronger company.

Robert McCarthy *- Banc of America - Analyst*

I guess one thing your acquisition of Smiths would seem to indicate is a confirmatory data point about the durability of the aerospace cycle. Could you maybe talk about where you see the cycle over the next 3 to 5 years and then how long you think it'll be and what you think is the biggest risk at this point?

Jeff Immelt *- GE - Executive Chairman and CEO*

Well I think obviously the cycle continues to be strong. We see that continuing at least through the next few years. The order book reflects that. A huge backlog in both wide body and narrow body aircraft. If you look around the world you know the strong part about this I think is that it is very broad strength. It's in emerging markets and developing countries. It's still a great opportunity for refleeting of older fleets and European and US fleets that we think are going to happen. There's everything about economics and the number of people now that can afford to fly continues to blossom. So the revenue passenger miles continue to grow and that's obviously going to be dictating the new equipment as well as utilization, which fuels our service business. So it is a cyclical business. I don't think anybody questions that in terms of what causes the thing to flatten out or turn down is at this point hard to figure out other than something that would be a shock to the whole system. We just don't see something from a demographic standpoint or economic standpoint, because of the broad strength around the world that would slow it down inside the next 3 to 5 years.

Robert Cornell *- Lehman Brothers - Analyst*

All right. And then one final one. Just in terms of the broad economic overlay, could Jeff, could you discuss just the impact of this broad retrenchment in oil. Kind of hovering around $50 right now. And if that trend continues, or flattens, what's the kind of near term impacts to the portfolio on operating performance?

Jeff Immelt *- GE - Executive Chairman and CEO*

You know, what I would say is that oil at $50 is still 3 times higher than it was for the 20 years preceding 2003. Though it's still, there's still a lot of capital being invested and new finds. There's still a real premium placed on the industry to continue to drive more growth. And so I don't think it's hit a -- I don't think it's hit a cross section point Scott. Fundamentally in terms of the long term impact, in terms of how people see an elevated oil price. Even though it's not quite as high as it was 2 months ago.

Robert Cornell *- Lehman Brothers - Analyst*

Thank you for your time.

Jeff Immelt *- GE - Executive Chairman and CEO*

Thanks.

Operator

Our next question will come from the line of Ann Duignan of Bear, Stearns. Please proceed.

Ann Duignan - ***Bear, Stearns - Analyst***

Hi. Good morning, everybody.

Jeff Immelt - ***GE - Executive Chairman and CEO***

Good morning, Ann.

Ann Duignan - ***Bear, Stearns - Analyst***

A question on the acquisitions. If you look at the geographic mix at the newly acquired businesses versus the geographic mix of the plastics business, net net is there any likelihood that there'll be a change in your tax rate going forward?

Keith Sherin - ***GE - Sr VP Finance and CFO***

I -- I think we'll --

Jeff Immelt - ***GE - Executive Chairman and CEO***

We'll have to see. I think it's probably, I would say it's probably going to be a little higher on these deals than what we have in plastics. But we'll have to see.

Keith Sherin - ***GE - Sr VP Finance and CFO***

Yes. I mean, it's roughly probably 50-50 when you look at it. I think, Ann, it's something we'll have to get back to you on.

Ann Duignan - ***Bear, Stearns - Analyst***

Okay. Because it does appear like if you look at the Abbott and look at Smiths, they're a little bit more European focused, or non-US focused than the plastics business perhaps, which might suggest a lower tax rate in the long term.

Jeff Immelt - ***GE - Executive Chairman and CEO***

I don't think it's going to do that, I think if I look at the current global plastics tax rate, and I think about the two deals that we've just talked about, and I've looked at them. I think you're not going to have an impact that will lower the tax rate. I'm pretty sure of that.

Ann Duignan - ***Bear, Stearns - Analyst***

Okay. And on the Abbott business, do you expect that longer term you might start to move into some more segments in the industry. Such as clinical chemistry or hematology?

Joe Hogan - ***GE - President and CEO of GE Healthcare***

Ann, it's Joe. We have a great hematology business through this acquisition, in both blood screening and in blood analysis. It's been, it's about $300 million a year when you combine those two together. So if you look at the blood bank, United States, Abbott is -- the American Red Cross and those agencies that really bring that together -- Abbott has about 67% to 70% of that market share. So it's very strong. On the molecular diagnostics piece I think is your second question, it's kind of a branch out. We'll project through our Life Sciences business. Because they have a little bit of that right now and we thought it was better to build it off on that platform than to try to acquire that or piece that together with this deal.

Ann Duignan *- Bear, Stearns - Analyst*

Okay. And then I'd be remiss if I didn't ask my usual question about renewable energy. Could you just give us an update on the wind business, how that finished the year in terms of revenues and profits and units shipped? And what you're seeing out there for '07? Is there any relief on the supply side?

Jeff Immelt *- GE - Executive Chairman and CEO*

You know wind had a pretty good quarter. We had 670 units in the fourth quarter. That was versus 730 last year, but if you look at it the price on those units actually gave us an increase in revenue. We are continuing to see very strong orders. The PTC got extended, as you know. In the first quarter we think we'll probably have around 350 units. For the total year of 2006 we did 2100 units, and last year we did 1570 units. So this business has really got a great backlog. It's got good technology. We've really got a product here that is winning in the marketplace and the team has done a terrific job. So that continues to be very strong, Ann.

Scott Donnelly *- GE - President & CEO GE Infrastructure, Aviation*

The interest in renewables, Ann, is only accelerating.

Ann Duignan *- Bear, Stearns - Analyst*

Yes, we expect President Bush to address that next week at the State of the Union. I think Peter has a follow-up on the financial services side.

Peter Nesvold *- Bear, Stearns - Analyst*

Actually, I'm going to join Scott as the second moron on the call. Question for you, Keith. GE went through a FAS 133 restatement just a short while ago, and less than a year and a half later we're going through it again. Given that you had put new controls into place, financial controls into place, how is it that this is an issue that recurs? Granted that it's enormously complex, but why isn't this an issue that comes up again?

Keith Sherin *- GE - Sr VP Finance and CFO*

I think the issue for us is that this is an issue that goes back to adoption of FAS 133. I mean, we designed a program for our commercial paper hedging back at adoption. So you're back in 2001. We reviewed it with our technical people here, our corporate audit staff, and our auditor, KPMG. And they said this meets what we need to do for FAS 133. Now, we've run that program since then and in 2006 the SEC has asked us to look at the specificity requirement according to FAS 133. Our auditor has reconfirmed that our program met FAS 133 and the SEC has determined that it didn't. So, you know, this is a difficult one for me from a control perspective, when I have our internal team and experts and I tell you it's related to the complexity of 133 and the precision you have to have to apply 133. So I, you know, we have increased our effort to make sure we comply with the controllership requirements of 133, and I'm going to get it right. But this is a one where we have a technical call where we have experts who think we did it right, and they have experts who think we have to change it, and we're going to change it. But I don't't think it's systemic in any way. But I will say that around hedging and 133 it is very challenging.

Dan Janki *- GE - VP of Investor Communications*

Okay, I think we're all done with questions. At this point I'll turn it over to Jeff.

Jeff Immelt *- GE - Executive Chairman and CEO*

Great. Thanks, Dan. I know we had a lot to give you. One of the things that I want to just make sure is clear as we leave here, because I think it is very important. And that is the notion of gains being offset by restructuring. And I just want to reiterate that one more time. To say, look, we had an advanced materials business that we sold. The impact of that was a lower tax rate as we got the gain. And those gains were applied to do restructuring and other charges inside the company.

We're going to, you know, as we go into 2007 we've got gains that are going to drive restructuring in 2007, and so this is going to be, you know, what we did in the fourth quarter is going to be very consistent with what we do as we go into 2007 and beyond. We now have the opportunity to reapply, in a way that we couldn't while we had reinsurance, back into the long term cost position and growth of the company.

So I know that that is a tough thing to trace through the segments and things like that, but I just want to keep pounding home that point. Because I think it's important in terms of how you view the quarter, which we view as a high quality quarter. And as we go into next year the commitment to 10% to 12% earnings growth, with the gains not following through, but the gains being applied to restructuring of the company as we look forward at the future. So, a lot going on. We think we've made the company dramatically stronger in the last few weeks. And we feel very strongly that 2007 is going to be a high quality, low risk, double digit earnings growth year. And 2008 and 2009 -- this is a much better company with the opportunity for faster growth and high returns and real benefits for investors. But Dan --

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Dan Janki ***- GE - VP of Investor Communications***

Great. Thanks, Jeff. We want to thank everybody for hanging in there with us past 10 o'clock. The webcast replay will be available on our website along with transcripts. And Joann and I are around all day to answer questions. So thank you very much.

Operator

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