FINAL TRANSCRIPT

Thomson StreetEvents℠

Conference Call Transcript

GE - GE Outlook Meeting

Event Date/Time: Dec. 12. 2006 / 3:00PM ET

CORPORATE PARTICIPANTS

Jeff Immelt
GE - Chairman and CEO

PRESENTATION

Unidentified Speaker

Good afternoon, everybody. I would like to welcome you to our Annual Outlook Meeting. It is great to have you here at NBC. I would also like to take this opportunity to welcome everybody that is on the webcast, and remind you that the slides are available at our investor website, www.ge.com/investors. There is part of this presentation that does contain forward-looking statements based on the environment as we see it today, that is subject to change. And it is our pleasure to have Jeff Immelt here to give you an update on the company strategy, business performance and '07 outlook. So welcome Jeff.

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

Thanks [Dan], good afternoon, welcome. Welcome back. I would like to just go through an update on the company and talk about how we're finishing '06, a little bit about '07, [inaudible] about strategy and then happy to take questions. So just some of the headlines to kick off, we are going to finish a strong 2006 earnings per share between $1.97 and $1.99. We continue to execute the same strategy that we have been talking about, that is to develop a safe and reliable growth company based on investing in leadership businesses, growth as a process, financial discipline and great people and that we think that strategy is intact, and I'll give you an update on some of those activities.

We'll deliver a solid high-visibility, low-risk 2007 with earnings per share up 10 to 13%, high-quality broad-based, and at the same time, continue to reinvest in the future. And we just have a great team, and I'll update kind of the status of the leadership team and how we feel about it going forward. So first, delivering on 2006, what I would say, we've got almost to the end of the year. Orders remain solid, really led by the major equipment segment, continues to have tremendous long-term growth. Revenue is on track.

Our margins we think will be better than we expected, so we -- a lot of the margin enhancement we have been talking about seems to be coming true in the fourth quarter. Infrastructure remains very strong and Industrial will probably be at the low end of the range primarily due to plastics, as we look at the year and just the combination of inflation and pricing environment we think that's where it pegged plastics. But other than that, a strong quarter 44 billion in revenue, up 10%. Earnings in line with what we talked about after the third quarter as is EPS.

The gain we had in the Silicones transaction will be a little bit higher than what we estimated in the third quarter conference call. That's going to be offset with restructuring in the quarter, so no net benefit overall. On the year, if you look across the year, taxes were about flat in 2006 versus 2005. We still have the charges for pension and early retirements throughout the year. So this is kind of the one-offs, if you will, the corporate items as you look at GE in 2006. So basically using the gains at this point to fund ongoing restructuring as we look at 2006 and 2007.

The year is going to be a good year. Revenue will be $163 billion, up 10%. Earnings will be $20.5 billion, up 12%. Earnings per share up 15 or 16%. Cash flow at 25 billion, up 15%. Two-point expansion and return on total capital and a pretty attractive segment profile. If you look across the company, really the only business that is in turnaround mode is NBC Universal.

The other businesses is performing extremely well and we think that bodes well for the future. And just before leaving 2006, I just wanted to recap. I think management viewed that we had two primary jobs, if you look back over five years. The first one is to improve the quality of earnings. If you go back to 2001, about 35% of the company's earnings were -- came from places that we thought were non-recurring or unsustainable. And that was the US power bubble, it was pension earnings and it was insurance earnings. And the last five years, those earnings have gone to zero and the rest of the company has grown by 2.5 times over the last five years. So solving this earnings quality issue is something we really did over the last five years.

And the second thing we felt like we had to do was sustain our performance during that time is to continue to grow revenue, continue to grow earnings, continue to grow cash. So while we were doing that, we grew revenue 9%, we grew earnings 10% a year and we grew cash flow 13% a year. So when you sit here today, you have got a company that is solid AAA, great set of businesses, tremendous growth prospects, expanding return on total capital and I am proud of the team for what they have done over the last five years, from where we started to where we are today.

Now, I think there is even better news ahead, when you look at what we are executing on, the strategy that we are executing on and how I think it plays in this environment. This is a similar chart. I think what we've tried to build and what we are building is a reliable growth company in the short term, driven by investing in leadership businesses, financial discipline and reliable execution, a solid growth initiative and tremendous people and team. So it is a company that can perform in the short term but is also built to perform in the long term. And so the company's investments, the company position is in place to take advantage of long-term infrastructure trends.

We're the definitive leader in emerging markets, digitization trends, demographic trends, fit into the world of liquidity and can take advantage of environmental -- the economics of scarcity, what I would say. So you've invested in a company that is good not just in the short term, to deliver in the short term, but is very well-positioned in some of the major themes of the next five or ten years. And we like the way that looks.

So investing in leadership businesses, what does it mean? I would say we have four overall boundary conditions as we think about investing. The first one is, we want to sustain reliable 10% earnings growth. Not only do we want to sustain -- invest to sustain that growth, but when we do divestitures, we don't want to slip below that growth. So we use this consistent 10% earnings growth as one of the boundary conditions. The second one is, we want to invest to create economic value. GE's weighted average cost of capital is about 9%.

Our company target for ROTC is 20% and when we make investments, we want to achieve our return on total capital, our weighted average cost of capital within two years. So we want to get at least 9% in two years, build outside over time and have a return on total capital of 20. We want to invest in leadership businesses, so we very much want number one market share and invest to sustain that. And again, we want to invest in some of the big themes and make sure we are well-positioned for long-term growth.

Then again, if you do a portfolio check over the last five years, about 60% of our earnings in 2001 fit those criteria and today 95% of our earnings fit that criteria. And our ability to reinvest, expand ROTC is very strong and so when you look at 2007, we have gotten a lot of strategic options from the standpoint of where we go. We have the opportunity to reinvest in businesses we like. We have got the opportunity to tap into some liquidity in the marketplace to continue to divest of the businesses that don't fit that model.

And so we have got lots of strategic options. But we like the portfolio. We like where it stands. We like our ability to make it even better by reinvesting in businesses like infrastructure and healthcare. We generate a lot of cash and so I think the perspective on both investing and delivering, which is really what I am going to talk about today, is something that you can think about which in we are very well positioned.

Now, I think the growth platforms, which is something I have talked about every year since 2003, are pretty symbolic of that. These are businesses that we weren't in in 2000, 2001. In 2006, there will be $13 billion in revenue. In 2007, they will grow another 15 or 20%. We have got a great healthcare information technology business. We have got expanding security water business. We have got a great Hispanic media business. We have grown our oil and gas business and so these franchises continue expanding all the time.

Now, they don't all grow on a straight line. If you go back in 2000, 2001 the oil and gas business wasn't that strong. In 2005, 2006 and '07, very strong. It took us a long time to get Telemundo where we wanted to take it. It took us two or three years to get it there. Now we are gaining share each and every month with Telemundo. Water is a tough challenge to assemble those acquisitions and get them performing. But when we look at our sequential performance and how we are positioned going into 2007, we like our position. So investing in the long term growth of the company is something that we truly believe in.

Meanwhile, strategic initiatives have always been important at GE. Launching initiatives and driving them across the company has always been critical to the company. We have launched a growth initiative three or four years ago. The results are very strong. We have taken a company that grew organic 4% for 15 years, grew 8% in 2005. Organic growth will be 9% in 2006 and we'll be at two to three times GDP in 2007. At the same time, the initiatives that drive financial discipline and good execution are also very strong. We should get steady expanding operating profit growth and when we look out over the next few years, we ought to get about 100 basis points a year.

We have got steadily expanding ROTC growth. We'll get more than 100 basis points in 2007. So these initiatives have always been important at GE and what I'd like you to think of is that we haven't taken away from the operating initiatives. We've added to that with the growth initiatives in the company as you look at it going forward in the future. And we just are well-positioned for the future. I'd say GE is pretty close to the best preeminent infrastructure player in the world. When you look at a $4 trillion global spend, big and growing backlogs of equipment and services, big asset pool, we know how to play this game and play it better than anybody in the world.

We have a great interconnected approach to emerging markets. Emerging markets will be $27 billion this year, will be $40 billion by '09. We have one of the best strategies, we earn good money, good returns and a very solid position looking forward in the future. GE was early to recognize the economics of scarcity, launching the ecoimagination initiative about 18 months ago. It has beaten every internal target that we've put forth. We'll do $12 billion in revenue this year. We'll double the revenue of these products in two years. We are on track to beat the $20 billion goal in ecoimagination.

We have great demographic plays. We have a wonderful healthcare business position in a $4 trillion global market. We have a great consumer finance business positioned in a $40 trillion global market. Both markets growing at two to three times GDP. So we positioned ourselves well there. We know how to play with the impact of digitization, and I would say NBC is not the only place where it is going to have an impact. It has an impact on our services businesses, industrially as well. So we see good growth as digitization continues to expand our ability to work with our customers and broaden distribution and that's going to be positive going forward.

And lastly in a world with liquidity, we know how to play that from a GE standpoint as well. We have about a $50 billion originate to sell -- we have got a great origination capability in Mike Neil's commercial finance business. We can tap into liquidity with high returns in that capability. And in 2006, we've been able to sell about $6 billion of industrial assets, tapping into the liquidity of private equity and other places in the marketplace. So the company really is well-positioned and a lot of the big themes as you look at it going forward in the future.

Now, I thought I'd just bring it to life a little bit. Because I think I could talk about any one of our businesses, I will take the biggest one, infrastructure. And I used to do a 12-year look back and say if you can play the right themes, if you got the right initiatives, if you are driving the right ideas, you get sustained long-term performance. And so if you go from 1995 through 2007, we've got a business that grows top line 10% plus, earnings between 15 and 20% with a return on total capital in excess of 30%. I mean, those decisions over time, those long-term decisions over time and the ability to perform is what really creates the company and what allows us to continue to grow.

But this is never as easy as drawing this chart. In other words, I like this business. So do you. We wish it was that easy. It isn't. You know, running these businesses over time, I just picked up ten critical investment decisions or initiative decisions that we made. 1995, we went from primarily a product business to a service business and entered into a long term theme to drive that. 1996, we started Six Sigma as ways to improve capacity and drive long term performance.

1998, we had the US power bubble. Boy, that was great. We had the ability to service it. In the late '90s, we decided to reinvest the earnings from the power bubble back into the company. That's how we ended up with Nuovo Pignone. That's how we ended up diversifying our revenue mix. 2001, I sat here almost five years ago, stood here. Nobody in the room liked the commercial aviation business in 2001, let me tell you. But we had the financial strength to double down, continue to grow. We made investments in technology after 9/11 that none of our competitors made, which put us in good stead going forward in the future.

In a dip of the recession, we kept investing in the GEnx and the Evolution locomotive. Both have entered into share growth campaigns. We built out the water platform. We were the first company that invested in ecoimagination and environmental technology. Over the last five or ten years, we've expanded to developing markets. I'd just say we are in this to invest and deliver. We are in this to continue to grow. Sustainable, long-term, high-visibility earnings growth is what you get when you invest in GE.

Let's talk about 2007, take a deeper dive into what that means and take you through 2007. And I would say, when we think about 2007, I think we have got to do five things. We have got to do five things on behalf of our investors. The first one is high-quality earnings growth that is equal to or greater than the S&P 500 earnings growth, number one. Number two, generate cash and reinvest it wisely for long-term growth. Number three, expand margin rates and get substantial expansion of margin rates not only in '07, but a good visibility in driving those forward in the future.

Four, another year of two to three times GDP growth in terms of organic revenue. And five, continue to improve investor communications. And I am going to take you through each one of these give points when you think about the company looking at 2007. First, the environment. And I would say read the Fed minutes, and I am going to sound a little bit like the Fed minutes. What I would say is, the global economic growth continues. Our orders outside the United States are very strong. Europe is particularly strong right now. Housing and auto have definitely been impacted by interest rate increases, and we've seen that in the GE businesses that are around those environments.

We are watching the US consumer. We don't see anything negative today about the US consumer. Employment levels are still very high. But we are watching the US consumer. And services and CapEx are still pretty strong when you look at both the US economy and the global economy, are still pretty strong. We think the margin environment is stabilizing. The risk environment is still pretty good. We don't see anything that works against us there.

Material prices are high, but they've stabilized. And so, when we look at inflation and things like that, we feel pretty good about where we are and what we can contain for 2007. Liquidity is still high, which puts pressure on margins in financial services. You see that with cap rates on real estate deals and things like that. And interest rates have increased, but have largely been absorbed into our businesses as we look at 2007.

What is still booming are the macro drivers. What's still booming are the emerging market growth, infrastructure investment, investment around energy and environmental technology and markets around demographics. Those are still very strong. So when we think about winning in 2007, we think about a couple things. The first one is being very well-positioned, not just in the US but around the world. So we feel good about how we're positioned there. The second one is what I call valuable growth, being able to price ahead of inflation and our price inflation delta positive ought to be in the range of a couple hundred million bucks. $300 million plus, I would say, our pricing versus inflation for 2007. Drive costs out to protect the downside.

So again, we are saying look, if the market slows, we are going to already have a cost position and be well-positioned for that. Stability and risk management, we want to continue and sustain the great risk levels we have today. And 2007 is a contract year for us, so we're always vigilant in a contract year in terms of what impact that might have and managing our way through that. So when we think about our business plan, we try to incorporate these factors in terms of where we stand. Here's just a high-level and high-quality earnings growth in equal to or greater than the S&P.

We think -- and these are the same metrics that we show you on the quarterly conference calls. So the same key metrics. We think revenue will be up organically about 8% and 8% in total at about $175 billion. We think our earnings will be up 10 to 13%, high-quality and broad-based. Cash will be 24 billion. That's 10% growth in industrial cash flow, 10% in the financial service dividend. But there is no offset to some of the special dividends from the insurance sales in 2006. Margin rates will be up at least 100 basis points to 16.2, so we've got very good momentum in terms of how we are looking at that. Return on total capital should be about 19.5%, up 120 basis points.

Again, we are going to achieve that while still investing in growth. So these are the critical metrics and when you think about the targets we've set of 10% EPS growth, 8% plus organic growth, expansion in ROTC and operating profit rate, we feel pretty good about how this is positioned in the environment we see today and the potential for just another excellent year. I am going to go just a little bit deeper by segment, and then I am going to go through each one of the segments as we look at it.

The biggest segment in GE is our infrastructure business, and it is about 35% of the company and it will grow earnings about 16% in 2006. And we think that earnings growth in 2007 will be up between 15 and 20%. And basically almost everything here is good. We have got a great product backlog, we've got a great service backlog. Our margins are expanding.

We are very well globally positioned and on the right-hand side of the chart, what I basically say is, what would create a downside case in infrastructure? And the answer is, it is going to have to be something cataclysmic that happens to the global economy. In other words, if you just looking at shipping out of backlog, something substantive would have to happen vis-Ã -vis the global economy to have a downside case here.

Second, financial services. It is about 32% and this is GE money and GE commercial finance. It is about 32% of our overall earnings. We guided last year to 10 to 15. We did 17. We are going to guide again this year to 10 to 15. We are seeing good asset growth. We are seeing great risk management. We think margins will be tighter. Risk-adjusted CV is still positive on a sequential basis. But we are going to watch margins very hard, and we just think the conservative thing to do is guide in the 10 to 15 range when we look at financial services going into 2007. And what could cause a downside case here, there is going to have to be some change in liquidity, interest rates, something like that to drive a downside case in financial services.

The third one is healthcare. That is 13% of our earnings. We will do 18% earnings growth this year in healthcare. Next year will be 15 to 20. We see another year, another solid year in our healthcare business. What would cause the downside case there? Something in this diverse business model would have to break down. In other words, we factored in the US deficit reduction act. We have got good new products, we have got a good service backlog, we have got a diversified business. We feel very good about visibility and where we stand in the healthcare business.

Turnaround NBCU, very important for us and our investors. That is 10% of our earnings. We'll be down about 4% this year. We will be up between 0 and 5% next year. We see good growth in cable. We see good growth in ratings. We see opportunities globally. We've taken cost out of the business. Our ratings are improving so we feel good about that. What would cause a downside case at NBC is if all the progress we've made in the first half of the year somehow dissipate in the second half of the year and again, I don't see that happening. But that is the downside.

And then lastly, 10% in industrial. We'll grow about 10% this year. We will grow about 5 to 10% next year. Good new product pipeline, very good cost position globally. We've divested the Silicones business, the courts business, the GE supply business so those create some headwinds looking at next year. What would cause a downside case there? If plastics, which is in a terrible position now, it got even worse. In other words, if benzene went from 350 to 450 or something like that. Something we don't foresee right now, that's what would cause the downside case.

So when you think about 2006, we got about 14% earnings growth out of the businesses. Then when I talk about corporate [arms], I talk about the impact of the buyback versus pension earnings and things like that. We had a big buyback, front-end loaded. It was offset by pension, negative pension earnings, things like that. That added about a point of growth for 15% on the year. When I think about 2007, I would say the operations are largely the same in 2007 and we're being conservative in financial services, guiding to 10 to 15. Could it be better? Maybe, but we are thinking about it in the 10 to 15 range.

We are still going to have a buyback in 2007 of 5 to $7 billion, what we've talked about. And then we still have pension headwinds and things like that from a corporate standpoint. So that is how you get to 10 to 13% earnings growth, that I would say is very visible and high-quality when you think about all the segments. Now, in addition to the $23 billion that we are going to earn, that gives you the 10 to 13% earnings growth, we've got -- deals have been announced but not closed yet, another billion to $1.5 billion in gains. Another billion to another $1.5 billion after tax. And in this plan, we take those gains and use them for funding restructuring.

So in other words, this 10 to 13 case doesn't have those going through. It has them going into funding restructuring. And we are going to invest to reduce high-cost locations, accelerate simplification. We are going to invest to allow us to exit and redeploy from slow-growth businesses to faster-growth businesses, to attack legacy costs and things like that. So basically we were out of the restructuring game for about five years, as we had to continue to fund reinsurance reserves and things like that. We started it again in 2006. It is going to be accelerated in 2007. So high-quality, 10 to 13. Gains of 1 billion to 1.5 billion above that, used to fund restructuring. Again, above that used to fund restructuring.

Just to go through the segments. Infrastructure, we are in good shape in infrastructure. Big backlogs. We think revenue is going to grow 10 to 15%. Operating profit is going to grow 15 to 20%. We'll expand operating profit rate. Operating profit rate is about 20%. This formula you've heard John talk about before, John Rice. It is about investing in technology. It is about globalizing rapidly. It is about building a big installed base, continuing to invest new platforms both organically and inorganically and driving margins. And I would say the one thing we are going to have to manage in the infrastructure business is inflation. Things like titanium, nickel, some of those things that we've had to offset using other cost-out activities. So that is the way to think about the infrastructure business.

Now we are winning. This is a business where we gain market share almost across the board when you look at 2006. Our orders are exploding. We'll have orders up about 30% this year and our backlog has continued to grow. So we've got very high visibility on both equipment sales and services when you think about 2007. And if I just took you down each one of the segments. Energy, good market, good position, good service backlog. My sense is we'll go from shipping probably 135 to 140 gas turbines this year, to maybe 165 to 170 next year. So we'll have another 30 turbines year-over-year coming into backlog and coming into shipment for next year.

Aviation is still a very good market. Our position is better. Our market share is up this year. We're on the right planes. The 777 has been great. The backlog of 737s and things like that has been substantial. Our service revenue is strong. We never thought we could beat last year's orders in 2006 and we will and have. So the aviation business continues to look very strong across the board.

Rail, a good North American market where our market share has increased. A great service backlog and a global market that is growing in a very strong way, which puts us in good stead in the rail business. Oil and gas, a great industry. We're competitively very well-positioned. The service business has just exploded from the standpoint of potential and where we are. We are with the right customers, with the right technology and we think very well-positioned in oil and gas.

Water has been a turnaround year. Again, we still like the market. We've improved our position, particularly in some of the big desalination projects. We are still working on the service model in that business. But we think 2007 versus 2006 is going to be an excellent year. And then the verticals, the markets are still very strong. Our position is very good. There is no really one on one competitive comparison in the verticals but very strong. So this is a long-term trend. We are very well-positioned, and I like how the business and company looks here.

Healthcare, most of you were just at the RNSA or listened to the webcast, so I don't need to take you through this story. Again, revenue up 10%. We think segment profit will be up 15 to 20%. The segment profitability rate is about 20%. This about technology, you saw a lot of the offerings we have in molecular medicine. We're developing performance technologies in the emerging markets. We have got opportunities to build out life sciences.

The service business is very rich and high margin. We have got opportunities to continue to build out diagnostics, both organic and inorganic. And the thing we have got to manage through in 2007 is the Deficit Reduction Act in the United States which again, we have planned for. We think it will have an impact in the clinic business. I was running this business ten years ago with the Balanced Budget Act of 1997, and I would say it slowed the market momentarily. And then demographics and procedure growth tended to just surpass that. And so it just long term continues to be a great business for us in terms of how we are positioned.

And financial services, we just have a very valuable financial service business and we think the proof statement is the long term earnings performance for this business. I mean, we've grown earnings over 12, 15 years at about 20%. The green line is just a comparison against the basket of good competitors like Wachovia, Citi, Amex, people like that. So our comparative performance has been good. Our ROEs are very strong. Commercial finance has great origination, great risk management, great spread of risk, strong domain expertise.

Our consume finance business, GE Money, has a strong brand, good marketing capability, good risk management. So we think these businesses continue to be very well-managed and very well-positioned in the global markets. We think the asset profile for 2006 and 2007 is very good in commercial finance. We will have assets up 15%. Again, we are guiding to the same place we guided last year at 10 to 15%. We are not counting on the ROEs to be quite as high as they were in 2006. The way you win in this business is by having great origination, which we have.

We think we are competitively advantaged, particularly in the industry verticals. Globalization has been key as we've grown commercial finance business. We've been able to tap into liquidity, market liquidity very aggressively in this space. And again, what we are going to manage through is just in a high liquidity environment, tight margins, making sure that we do a great job of risk management. But we like the positioning here. This business had a great year in 2006 and that momentum will continue in 2007.

At GE Money, we'll have another year of 15% asset growth. We are counting on the earnings being up 10 to 15%. This is about again driving great consumer excellence in marketing, strong retail banking in the emerging markets. The positions we have in Central America, Turkey, Korea have really added incrementally to our growth rate. Simplification and productivity that drive growth and very segmented pricing activities that are underway right now.

And here's a place where, again we are going to manage margins in a higher interest rate environment that we're managing through a situation that I think [inaudible] went through in Japan. But that's incorporated in this earnings picture that we are giving you for this business going into next year. Financial services risk environment, this kind of shows you our credit loss rate, which remains in great shape. And risk management is a core competency and something we think is very important for our financial service business. And the principles of risk are things that we adhere to in a very aggressive way.

Diversification, which is a big part of what we do, having well [collateralled], well-structured deals. A very deep and experienced and I would say seasoned risk team, lots of collectors, lots of risk managers have been through lots of different cycles. Well-positioned there. And just excellent capital markets capability which allows us to offload risk and be smart about the ways in which we are growing the business. So we think these strengths serve us very well in 2006, 2007 and beyond.

For NBC, this is a turnaround year. I mean, for NBC this is very important to us. Our revenue will be up about 5% ex-Olympics. The Olympics bring in 900 million or $1 billion of revenue every year. Operating profit, we are counting on it being up 0 to 5%. This is all about investing in branded content. It is all about migrating the business to a more digital model. It is improving our approach to customers, breaking down some of the barriers inside the company, building an international presence, redeploying cost and managing through an amortizing market that is clearly going to be a slower growth in the future than what it's been in the past and making those transitions while improving our performance.

I like what the team's done in content this year. I mean, this has been job one for this business going into 2006 and I think if you look back over the last 12 months, there has been a lot of excellent progress in the development of content. Prime time has improved, the job is not done yet but we were not tied for second in sweeps. We have got the biggest new hit of the year in Heroes. Sunday Night Football has done everything we thought it was going to do and then some. We have got good ongoing shows like The Office, My Name is Earl. ER is having a great year.

Again, we are not done yet. We have got more work to do. But I like the progress that the team has made so far. Meanwhile, if you look around the horn, news and information, we had a killer year. We had a phenomenal year. Nightly News has been excellent. The Today Show transition has been superb. We are winning big in CNBC. MSNBC will make a lot of money this year from years where it was at best a breakeven proposition. These businesses are very strong, very translatable to the Web with lots of activity and lots of strength going in them.

Telemundo, 13 straight months of ratings growth. Very attractive to advertisers, very high-margin, very well-positioned for the future. We like the way Telemundo is positioned and think that is going to continue to drive growth into the future. Cable, we just have the best assets in the world in cable. USA, number one. Very strong performance by Bravo, very strong performance by Sci-Fi. Look, if you just look at USA and Sci-Fi, just those two parts of the Universal transaction, they have fundamentally paid for the whole deal. I mean, these two assets have been so strong that this has been tremendous. The movie business I think had a lackluster 2006 but we are well positioned in 2007 with some big movies and we've launched great Internet sites that we think are going to drive growth over the long term.

Now from a digital standpoint, we will do about $400 million of revenue this year. We think that will be about $1 billion in 2007. We think it will grow to be about 1.6 billion by 2009 and we're really looking at it in four different ways. The first one is just the growth in dedicated sites. This is iVillage, CNBC.com, NB BBC, which is our affiliate related site and we think we are going to get good growth there. It is the analog to digital growth that is being able to take current advertisers, get advertising current platforms like Sci-Fi and drag them over to scifi.com.

It is new distribution, which we'll get in Video on Demand and activities like that. And it is NBC 360, where we are able to create new growth opportunities and new ways for advertisers to go, people like P&G and K-Mart -- or a Target and Wal-Mart, people like that, new ways to stretch their dollars over various formats inside the company. So again we think digital will be a good growth arm of NBCU just as it's been for the rest of the industry.

And lastly, the job here is to restore profitable growth. This is something that we now how to do and we feel good about where the progress is going to be. Networks and station, operating profit ought to be up about 20% next year; with better ratings with the impact of the things we are doing. Cable, because the pricing deals we've got through '09, ought to have good 10% operating profit growth looking at next year.

Films and [parts] ought to be up about 5% with the strength of the slate we've got, DVDs and parts improvement next year. This business is valuable and very strong. I'd say the operations will be up in excess of 10%. There will be no repeat of the station sale in 2007. So we like the performance and the last one I'd make is look, as we increase the earnings and the visibility at NBC, that is good for investors. These are -- content is very highly valued. This shows some of the transactions that have been done and what the multiples that have been paid. It shows you the PE on Viacom and Disney. We are going to improve the earnings of this asset on behalf of investors and as we do that, this is still a very valuable asset for the company going forward.

Now industrial, revenue will be about flat next year. That reflects the impact of getting rid of GE Supply, courts and silicones. If you look at organic, revenue will be up between 5 and 10%. We've got 8% in here. And operating profit we are counting on growing between 5 and 10%. And I think if you look at the major segments and again, I took a look at it in terms of the market and the returns and our position.

Consumer Industrial, I would say the contract market has slowed. But retail is still pretty decent and the industrial business is actually very strong, not only US but around the world. Our position is good, our return on total capital is high. We ought to have another good '07 just as we've had in '06 in those businesses. What I call high-tech industrial, which I'll talk about a little bit in a second. This is businesses like security, sensors, non-destructive testing. They had a great year in 2006, will continue to have a good year in 2007. We are very well-positioned in those businesses.

Equipment services, these are things like trailer leasing, utilization is still very high. Pricing is still very good. We haven't seen any issues from a standpoint of asset quality in those businesses and so we think we are going to have another decent year in 2007. Plastics, the market has just been very tough. The combination of high benzene, volume growth has been decent, pricing hasn't been great. Our position from a market share standpoint is still pretty good and so we've got products, we've got costs we are working on. It is still more volatile than we'd like it to be when we look at those segments. So on balance, we are going to be pretty good. We are not going to count on a plastics rebound next year. We are going to get earnings in this segment from these other segments.

What I thought I'd do is just talk about inside of the industrial business, we've really built a very fast growth, very high margin set of high-tech industrial capabilities that is about $4 billion in revenue right now, growing 10 to 15% a year with operating profit growth about 20% a year. And it is businesses like security, sensing, embedded technology, testing software, businesses like that that we are going to talk more about as we get through 2007.

I mean, basically when we used to talk about Lloyd's old business, the industrial business, this is a much better business than what we gave Lloyd to run over a long period of time. I mean, these are 55% plus contribution margin, good return on total capital, and we are starting to build great capability that we think going really fits more the model of the company going forward long term. High CM rates, good competitive position and building a strong set of businesses.

So, if you think about job one which is to have high-quality earnings growth equal to or greater than the S&P, we are going to deliver for you 10 to 13% earnings growth. I don't know where S&P earnings will be next year. We just took off what's been published and talked about of 8%. And we are going to be able to hit it even if the economy slows, okay, because of the strength we've got in businesses like infrastructure. We are going to hit it while using gains to fund restructuring. We can hit this even assuming that we do some portfolio actions, okay, as you go through the year. We can hit it with the high-visibility businesses leading the way.

So in other words, if you looked at infrastructure, financial services, healthcare. Those four businesses which are roughly 80% of the company, they really can drive and provide this kind of earnings growth. And I think if you look at it over time, in good years and bad, this company ought to be able to hit 10 to 13% earnings growth and then we are going to beat it occasionally. We are going to beat it in some quarters. We are going to beat it in some years. But the company has got a good construct in a high-visibility reliable way to drive this kind of performance.

Now point two is we generate cash. I mean, we generate cash. We generate a lot of cash. And the goal is to generate this cash and reinvest it to drive long term growth. And what we've done today is give you maybe a different cut, if you will, at how you might think about cash and redeployment. And on the left-hand side, the chart is kind of '07. We have got kind of 5 billion of just available cash as we leave this year and next year. Then we earned $23 billion and we've got cash equal to or greater than earnings.

And then if you think about what we do with working capital reductions, plus we've already talked about doing the GE Hitachi nuclear joint venture, so we'll get some cash from that. As we move through this list, we stock and maybe monetize that, that gives us some cash. And let's assume we do the same amount of industrial divestitures next year that we did this year. You've got another 7 to $12 billion of available capital, so the total available capital for us, for investors is 35 to $40 billion, and this is after we've invested in R&D. It's after we've invested in programming. It's after we've invested in capital expenditures. 35 to $40 billion.

So, how do we use it? Dividends are going to grow in line with earnings. That's $12 billion and it's a 50% payoff. We think that is the appropriate level and so that's 12 billion. Reinvestment, if it's a 60% of GE capital earnings retained, it's a reinvestment growing that business. When I look at -- we've talked about industrial acquisitions between three and five. We did fewer than that this year. If you say, well we'll carry that over to next year, that is $7 billion in industrial acquisitions next year.

And then, available for reinvestment, either in a buyback or other industrial acquisitions, is 9 to 14 billion. We have talked about having a buyback of 5 to 7. So more capital, if you will, that could be invested in either industrial acquisitions or buyback or things that are going to expand shareholder returns. So the good news is we got cash and we want to invest it wisely for our investors and this is a company that is able to generate lots of free cash flow.

Now the point I also want to make in talking about this is we can take cash, take capital, reinvest back into the company and still grow ROTC by 100 basis points a year. So if you think about the company again, I'd go back to weighted average cost of capital of 9%, our return on total capital this year is 18 plus, 18 three, okay? Roughly 18%. And if you look at it over two years, so let's look at over to 2008, let's say. And then you see over that time period, if you look at our earnings plus available cash that's sitting around on the balance sheet, that is probably in excess of $50 billion over those two years. We take that $50 billion, we give it back to our investors in terms of buyback and dividend.

That is 37 billion. We can still invest 15 billion back into the company in industrial and service acquisitions. We can still redeploy probably 15 billion if you look at redeployment opportunities inside the company and we could still grow two to three times GDP with organic growth. And grow ROTC 100 basis points a year. So lots of capital opportunities inside the company for reinvestment, for share repurchase, for dividends and one of the things that makes it happen is when we take a dollar and we invest it in businesses like healthcare, infrastructure, commercial finance, consumer finance, we hit our weighted average cost of capital within two years. We achieve 9% return within two years, because they are just very capital efficient businesses.

So the point I want to make is we are going to generate a lot of cash. We are going to reinvest it in an investor-friendly way. We've got lots of alternatives and options from the standpoint of how we invest it. We've got buyback, we've got industrial acquisitions, we've got a series of things like that. We are counting on a 5 to $7 billion buyback for next year. We are counting on that level of industrial acquisitions that I talked about. But we just have lots of opportunities for continued investment back in the company.

Point three, criticized this year for the lack of margin enhancement. And in many cases, rightfully so, in many cases rightfully so. This shows you the progression over time of where we started in '04, '04, '05. This year we'll get 40 basis points. Next year, we'll get 100 basis points of margin expansion. And this just kind of tells you the story, if you will, of where the margin expansion came from. I would say infrastructure, we got headwind because our equipment sales were so strong versus the service sales. NBC had a negative impact on our margin rate and that basically held us back, I'd say to only 40 basis points in 2006.

When you look at 2007, we ought to get 100 basis points in infrastructure. We ought to get sustained margin expansion in industrial. We ought to get another 150-ish type of performance out of healthcare and we'll get steady improvement out of NBC as they work through some of their toughest comparisons and look out into 2007 and beyond. And the three levers we have to pull are services and service mix, product innovation, which we think is going to allow us to continue to drive contribution margin rates, and simplification. We continue to take cost out of overhead in a very aggressive way and use that to help fund growth.

If you look at services, we have a massive increase in the installed base, a massive increase in the installed base. If you look at the upper right, sometimes I feel like we talk in too general terms about our installed base and service revenue. So what I did is I put up here the 737 CFM 56-type engine and showed you the installed base as it's moving towards the first overhaul, which is where you get lots of parts, lots of services, lots of overhaul. And say that's basically 2,000 planes in that group, about 4,000 engines and from '07 and '09, just as that moves through the first overhaul, that's built in 35% growth in '07, '08, '09.

So there is nothing general about installed base. This is real. I mean, this is a tremendous opportunity to continue to get operating profit expansion as we continue to drive service growth. Service as a percentage of our revenue continues to grow and the operating profit rate in our services continues to expand. So if you look at 2006, our equipment grew 15%, our service grew 10%. That was a headwind as we -- again, we are not going to turn down equipment revenues because it builds the backlog. But that was a headwind. If you look at 2007, equipment ought to grow by 10%. Service ought to grow by 10%. That's accretive to the operating profit rate to the company.

The second big initiative we've got inside the company is to really work on contribution margin rates and this is really kind of revenue minus direct material. And over the last couple of years, we have had a big reinvestment in new products. At the same time, we've had inflation. So our contribution margin rates of our industrial business has been stubbornly flat, I'd say over the last two years. And we think if you look out over the next couple of years, we ought to be able to get 25 to 50 basis points out of this activity.

We now have initiative led by Gary Reiner and Lloyd that really takes our top 30 product managers inside the company, which is about 70% of our earnings, and has them sharing ideas on pricing, variable cost productivity, target cost, quality, so that we really have a bright light on these 30 individuals in terms of what we expect from them in the future. And we're already getting some dividends when you look at our contribution margin rate improvement. And these are the levers that people can pull on pricing, on variable cost productivity, on sourcing, on quality.

Wind, big improvement in 2006 versus 2005. Sustained improvement into 2007 from a margin rate standpoint. Locomotive, 3 points of improvement in 2006, another 6-point improvement in 2007. This is getting the EVO locomotive down the learning curve, using lean and activities like that to drive growth. Appliances, one point last year, two points this year. This is more high end mix, better VCP, better sourcing.

Clinical systems, this is Omar Ishrak that you probably saw in Chicago. This is sustained pricing, VCP, new product introduction. CF34, this is the regional jet engine. Eight points of CM rate last year, another six points this year. This is price improvement plus long term variable cost sourcing. Oil and gas, big improvements in pricing, big improvements in VCP. So this kind of activity is going on product after product after product inside the company to drive margin rate improvement. And we get the standard GE toolkit to help us. Lean is rippling throughout the company.

This shows you one of the projects we've got going in rail to get down to a ten-day cycle time in our rail business that improves both capacity and lowers cost and low-cost country sourcing continues to accelerate inside the company. It's $11 billion, this has got good pricing improvement, good availability, good quality and we think these two levers will continue to drive us into the future.

And lastly G&A. When we started focusing on G&A, it was about 12% of revenue. Into 2007, it will be about 9% of revenue. We'll take out an absolute 7 or $800 million of cost. It's always been our approach that overhead reduction is what funds growth. In other words, we never said, look, we're going to spend an incremental amount and not be funded. We've increased our funding in R&D. We've increased our funding in selling and marketing but we paid for it by lowering overhead inside the company and this is a very consistent program and one that we're driving across all the platforms in GE and we think there's more juice here.

I mean, I'd say four or five years ago when we started it, we set a long term goal of 8%. I think we can probably do better than 8% when you look out over the next few years in terms of what we can do on overhead as a percentage of revenue. And this is going on throughout the company. Commercial finance, we're getting great asset growth, great origination growth. At the same time taking absolute dollars of G&A down. So even in a tremendous growth business like commercial finance, we are going to have $300 million of productivity year by overhead reduction and this is by streamlining processes. It's by having more front ends with common back ends. It's by investing in IT to get costs down. Lots of different activities that we're doing to drive that kind of growth.

And in infrastructure, again we'll take another 50 to 70 basis points out of the cost base in infrastructure next year. $350 million of synergy that we said we'd get when we put these organizations together and the right-hand side of the page just takes a look at a repair center of excellence and shows you how John and the team are pulling together the kinds of assets that we've got inside of infrastructure that have great commonality, great capability to drive long-term synergy inside the company.

So, 100 basis points. Going from fifteen two to sixteen two. Like I said, the fourth quarter is looking like a good down payment on that activity. This is something that is very important for us. The drivers are just the sheer arithmetic of service and the growth that that creates. Long term commitment to simplification and reducing cost, product management which we think is going to take on consistent contribution margin rate improvement and up to $1.5 billion of restructuring that we can apply to lower the long term cost base of the company. So we feel good about this initiative and where it stands.

Fourth point that we made. So I've talked about consistent and high visibility performance. Investing cash, redeploying cash for the benefit of investors. Third point was expanding operating profit rate. Fourth point is having another year of two to three times GDP organic growth. So we talked about growth as a process, historical rate 4%, 8% in '05, 9% in '06, two to three times GDP in '07. We've got pretty decent backlogs and pretty good momentum that we think can help us deliver on this activity and again we think this is just a meaningful initiative inside the company and one that continues to drive performance.

Technology is always the way that we start talking about this. We invest, if you look across what we invest in products, what we invest in marketing and information technology and what we invest in programming, it is about $15 billion across the company. I kind of call this the intellect of the company, if you will. And here we want to lead in future growth areas. That's where we apply it. We leverage the global research center to help us spread ideas across the company. We can invest to focus on margins and customer value. We can drive enhancement around the installed base. We can do it globally. So this is a pretty consistent investment pattern and what we've got built inside the company. Now it doesn't do any good to talk about it, unless it turns into products that drive revenues.

So when I look out over the next three years, we ought to launch about 40 products that have at least $1 billion of revenue over the next three years. And when I look out beyond 2009, because a lot of the things we do have long term ramifications, we've got probably 25 game-changing technologies that ought to drive long term growth over the coming years in our pipeline. So products are what set the installed base. It's what sets your long term margin rates and it's what we've got to be committed to to continue to invest in.

Now, I could show you anything but there is no place where technology has a more linear impact in the performance of the company than in the aircraft engines business. And this just shows you our sustained commitment to investing in technology has driven kind of an unprecedented turnaround in share. And this is not a two-year thing. This is a 50-year thing that has to do with making smart investments, executing well, doing it on a sustained basis that shifts dramatically the long term performance of a business and the capability over time.

So I could talk about a lot of different things. But the thing about technology and GE is, in the end we do things that very few people can do. I mean, there is only two or three people that are in the jet engine business. There is only a couple people that are in the gas turbine business. There is only a couple people that are in the locomotives business, the MR business. And this gives us great capability for margin enhancement and growth over time.

Now, here's what it brings. It brings a huge visible installed base of services that cross $30 billion this year, growing 10% a year, with operating profit rates that expand 100 basis points a year maybe, something like that in services. And so if you look from energy to aviation to rail, oil and gas and healthcare, our installed base continues to grow and the revenue continues to grow 10% and this is visible. It's locked in. It's high technology that we have an ownership stake in by and large.

And the fact is, is that the most important part of install base technology is what you are reinvesting in in your new technology that can blow back into the installed base. That's where all the power is. That's where all the profit is and that's where all the long term growth is. So again, I think the prognosis for services continues to be very strong and growing. Now it gets boring if all we do is grow 10% a year in services and it's all in backlog. So how do you get it to grow faster than 10% is what we are spending time thinking about right now.

And I think that has a lot to do with what I call decision support, which is about $5 billion let's say in the company today. That's healthcare IT, it's non-destructive testing, it's process optimization in the energy business, it's some of the rail support tools. And this is how you take the installed base and you combine the installed base with how customers use the product and you use that as ways to embed yourself more fully and you use that as a way to drive even incremental growth. Because while the installed base grows 10%, these businesses have the opportunity to grow 15 or 20%.

In the risk business and healthcare IT, the electronic medical record and healthcare IT again, you all were in Chicago. This is business that could grow 10, 15% a year for a long period of time. Just a little tools in the rail business. I mean, we now have a GPS system that we're implementing in some of the big railroads that can save 8% on fuel and other simple IT tools that have the opportunity above and beyond the installed base, the overhauls and things we normally do that can drive long term growth in the services. So the point I want to make to you is that services, we can continue to reinvent. When you own the installed base and you own the technology around the installed base, you can just continue to drive growth.

We talked about process and customer success. About ten years ago, we did Six Sigma and I would say the most important part of Six Sigma was the design for Six Sigma, was applying it in technology to make better products. And around 2003, 2004, we added to it Net Promoters Four and Lean. And so what Net Promoters Four and Lean have allowed us to do is be closer to our customers, use outward-facing processes to improve our customer performance and take all the great products that we developed using Six Sigma and do a better job of presenting them to our customers.

Now, what I try to do inside the company is use edge, in other words one of the great GE cultural aspects of being tough-minded, which has typically been applied inside the company, and apply that same tough-minded attitude outside the company in terms of how we interface with customers, in terms of making sure that the sales force is as accountable as the manufacturing teams and continue to drive the culture along those lines. And I think we're pretty far along the way vis-Ã -vis how we're performing and what we can do.

Just a couple of examples, this is Net Promoters Score retail finance business. This has been a business that's growing 20 to 30% a year. It basically does financing for dealers, spectacularly profitable, high ROE. We've been able to incorporate a lot of the activities we've gotten from customers. We've improved the Net Promoters Score by about eight points by reducing cycle time, growing our share. We've got almost 30% return on equity. Great business and great performance.

We've applied it in our energy service business, which is a big visible high-tech service business growing 10% a year, taking Lean and working on outages and parts repairs. Again listening to what we've heard our customers say, improving Net Promoters Score five points and turning into great revenue and profit growth. In other words, what we try to do is connect how we perform with customers to how we drive long-term growth, profitability and stickiness as it pertains to the company long term.

[Inaudible] for excellence, the next step along the growth wheel. 45,000 salespeople, one of the most valuable brands in the world. A $50 billion brand and what we've tried to drive commercially is the oneness of the company where it makes sense. Eco-imagination is a great example of a companywide theme that is improved our ability to attract partners and drive long term growth. Enterprise selling, where we are selling multiple products to the same customer. Company initiatives like the Olympics, the NFL, the pull through and I would say in developing markets the whole approach on country to company where we use -- we are able to connect the dots of GE to drive long term growth.

Two examples I want to show you, one in commercial finance, where Mike has picked maybe the top 1,500 to 2,000 customers, and basically the GE account team that calls one of those customers now represents all of commercial finance. So whereas we typically would have very product-focused salespeople, they now are able to sell the totality of the business. When we started it was 1.2 products per customer. Now it is more than two products per customer at these accounts.

We've been at it for about two years. Among those 2,000 accounts, we've got a 44% growth each year and establishing incremental growth we wouldn't have had otherwise and we think this is something we can continue to drive throughout the company $5 billion of incremental revenue. Mike is rolling that out, and I would say over time that will be by and large the way we go to market in commercial finance because we think we've got tremendous opportunities. When you are only selling 1.2 products per customer, you have a lot of upside.

And another place where I think commercial excellence is very important is at NBC Universal. I would say there's differences between NBC and the base of GE in some ways. In other words, if I told you that we used the exact same process to develop the GE GEnx engine as we did to develop Heroes on TV, I'd have a hard time with that one with you. Everything else is the same. Everything else is the same. Now what I would say to you is in the digital world, one of the things that's critically important in the entertainment business is commercial excellence, being able to approach customers, be able to do it effectively and efficiently every day, to be able to be creative, connect the dots of what you do is extremely important.

And as this world goes from analog to more combo analog and digital, as we have to sit down with P&G and plot out their strategy, taking a clean piece of paper, this is going to be extremely important when you look at where you go and we are good at this. We are good at this. And so what have we done? We've infused the company's best talent into NBC Universal. We are changing the way we go to market in terms of breaking down the barriers to an NBC 360. We've been able to do windowing. I just throw in here two roughly similar shows in their first year, West Wing and Heroes.

The fact is that you can accelerate in the digital world and when you have good content, you have got more ways to monetize it today than you ever had before. Customer outreach programs, product placement, ideas like the one we did with Brian Williams having Philips do the entire 30 minutes, lots of activities there and expanded partnerships. But the point I'd make to you is, we can focus on the differences but there is a lot the same and I think as this business goes through whatever changes it goes through, there is a lot of advantages GE can bring to continue to improve this format.

Globalization, half the company is outside the United States in 2007. Our business outside the United States is going to grow faster than our business in the United States. The business outside the United States is growing about 10% a year. The developing worlds are kind of fueling that growth with revenue growth of about 15% plus next year over time and about 20% plus in '07. And this is about 20% of the company.

I always tell people that $27 billion in developing markets, this is bigger than all of GE was when I joined the company in 1982. It just shows you just the transformational change as it goes on. One of the concerns that we hear a lot about our customers is that there is lower margin in developing world and we just kind of go business by business. Aviation is actually slightly better in the developing world. Energy is about the same. GE Money is about the same returns. Oil and gas is actually slightly better. Healthcare slightly worse and [Real] is slightly better.

So on balance as we grow in the developing world, we don't see this as a negative on the operating profit rate as we look for it and I just think this is changing the company. It's something that we do exceptionally well. I'll just give you two cases of what it means. This rejuvenates sometimes an old-line business. This is the Evolution locomotive. Launched the Evolution locomotive in 2004. We now are launching it in China. We are now launching it in Kazakhstan. We've got deals going in South America, India and other places.

And if you look at business that was pretty lumpy over its history, where we still have a great North American market, don't get me wrong, this shows you the orders in 2006 and 2007 between North America and the rest of the world. And so we can look at a business that can continue to grow unit shipments. We still have very high market share in the United States and always want to grow that market share. But look, our market share in the United States is 75, 80%, right? So being able to go to Kazakhstan, India, other places makes this into a real growth company. A real growth business when you look out into the future.

And then in GE Money, this is just a business we can grow from organic partnerships, a whole series of things like that. If you just look at emerging markets, it's $650 million of earnings in 2006 so it'll grow 15 to 20%, it will grow above the base business in 2007 and it just gives us a tremendous pool to invest in and to grow in and continue to see progress in in the future. So good strength in an old industrial business. Good strength in GE Money. Globalization we just think is a big driver, a big catalyst for the company.

And lastly, imagination breakthroughs. We've got about 200 in the funnel, about 100 that we're actively working on. About 20 that we kind of don't call them imagination breakthroughs any more because they are already driving revenue. I'd say we probably terminated 25 or 30 of them because they didn't fit a market design or didn't fit a customer need or didn't fit the right economics. We've got 40 in the market right now. We think these are giving us 2 to $3 billion of incremental growth every year across the company.

They range from big technology bets like coal gasification and portable ultrasounds to big commercial swings like industry verticals, to big global swings like investments in performance technologies. Things like one of the imagination breakthroughs we have right now is a 1.5 test MR scanner that could be sold for $500,000 that we're doing the engineering work for in China -- the initial market research for in China. It's ways that we can drive these bets across the company.

I'll just show you healthcare example. The way our marketing and sales and management teams work is we embed this into the long term revenue growth of the company. So in the case of healthcare, this is generating about $400 million of incremental growth in '07. We've got a pipeline of ones that have already matured or are in revenue and on the right-hand side, we've got a good pipeline that you have to come in for '08, '09, 2010. So a long term commitment to innovation and change and growth.

And the last point I'd make on imagination breakthroughs, this is compact ultrasound. And this is a story of $40 million versus $400 million. A story of 40 million versus 400 million. 40 million is what we invested in this product over the course of four years to become number one. 400 million is what we would have spent to acquire this business, which is what the team wanted to do in '03. So, organic growth is a good thing. Having a few swings turns out to be reasonably economical. Turns out to be a pretty good way to invest and we'll still do acquisitions. But we like doing organic growth at the same time to drive good long term capability.

The fifth thing we talked about, so we talked about having a good high-quality earnings growth year. Effectively redeploying capital. Expanding margin rates, sustaining good organic growth rate. I think the fifth thing is, look, we've spent a lot of time this year surveying, talking to investors, saying really how can we do a better job of presenting the company? It's a big company, it's a complicated company and so this just reflects a lot of the inputs we've received from a lot of people in this room over the last 12 months.

First thing, balanced communication and what we try to do is talk about things we've done well, things we've done poorly. Of course we always talk a little bit more about the things we've done well than the things we've done poorly, probably always will. But I think we try to do a better job of pointing out some of the hot spots inside the company. Consistent reporting and metrics, we've tried to hone in on the same five metrics we talked about on the quarterly conference call, the same metrics I've talked about in the presentation. Too much reorganization, I'd say more importantly that the residue of the reinsurance divestiture last year as it pertains to just how to think about the company, build models around the company over the long term.

But what we try to do is set clear boundary conditions of how we run the company. We run the company, when I talk about 2007, 10 to 13% earnings growth, that has in it anything I can envision from a business development standpoint right now. So there is no shoe to drop, there is nothing in that. There is nothing hidden in that. That is what I can envision about the company. When I talk about 20%, expanding operating profit rates, when I talk about 20% return on total capital, these are the way managers get paid. These are some of the boundary conditions that we think about vis-Ã -vis the company.

Quality of earnings, look, we are talking about gains funding restructuring. That's what's built into the 2007 plan. That's what we want to respond to and just ongoing business and leadership transparency. We are going to continue the same transparency that you've had this year. We've got 250 meetings with investors and the GE management team. We'll continue to report actuals on a 17-subsegment basis. You'll continue to get all the same data you get today. As it pertains to guidance, we are going to simplify guidance.

We are going to give guidance on a six-business basis. We are going to give guidance on the total company for the year and each quarter as we get into it, as we go into the next quarter. So we think we had both a transparency and a simplification opportunity and that's we tried to do and incorporate this feedback into how we present the company over time.

So just to wrap up this section on 2007, why believe, okay, what do you have to think about when you deliver a solid and low-risk 2007 for investors? Revenue, okay. $175 billion in revenue, I'd say growth is a process. 2006 orders grow 19%. This will be our third year of organic growth of two to three times GDP. That one looks okay to me, okay? That's a pretty good momentum. Good orders, good backlogs, things like that. Operating rate at 16.2%.

Simplification been underway for four or five years. Product management ought to get us 50 basis points. The service mix, things like that plus funded restructuring that ought to make you feel pretty good about that. EPS, 10 to 13%. Pretty high visibility. We've incorporated things we can think about. I think if you look at healthcare, financial services, infrastructure, pretty solid plan that we think and we kind of laughed ourselves once with insurance. As you think about this year, we kind of -- we ground through insurance in 2005. We've now had one chance not to have flush out continuing ops versus discontinued ops and all that stuff. It's a -- it's easy for people to see and touch and feel and you don't have to read two headlines in the newspaper the day after earnings reports and things like that.

Cash at 24 billion, again good cash principles. Cash is growing equal to or greater than net income. Solid growth in industrial cash flow. Solid growth in financial services dividend. No repeat, let's say, of all the special dividends in insurance. ROTC at 19.5, up 120 basis points. We've expanded three points in the last couple years. We've come up a bottom and we are making that good progress back up to our 20% goal. Cash is greater than earnings and disciplined capital allocations.

So section one was about strategy and what we are doing. Section two really has been about running the company in 2007, some of the economic assumptions and the way to think about 2007. Just a quick update on the team. We love the GE team, we continue to reinvest back into the people in the company. We spend about $1 billion a year in training. This just shows you maybe the top 4,500 to 5,000 people in the country, executives and senior executives. We have officers and senior officers inside the company and we continue to have a deep pipeline. The unforced turnover in this group is less than 5%.

We coach, recruit, train, develop, we look for people to have different skills at different points in their careers and we continue to have a deep bench and a good pipeline and we continue to think that people is a core competency and something that we care a lot about and want to continue to grow. It's a different team.

In other words, I would say that in the five years I have been here, of about 180 officers, about 110 are new in the last five years. And I would say that is natural in some ways. People retire, things like that. People leave. And some of that is by design. I think the board and I wanted a slightly different team. We wanted to keep all the same things we always had about GE, but we wanted a team that was more global and we've made big improvements in globalization. We wanted a team that was more diverse. We made big improvements in diversity. We wanted a team that was more technical. We have more people from technology and the engineering ranks that are officers of the company and leading businesses today.

And we wanted a team that was more committed. The team has always been committed, don't get me wrong. But basically when you look at our most successful businesses inside the company, they are filled with growth leaders and not people that have changed jobs every 18 months or two years. And so even while we continue to have careers that are broad, we are insisting that people have more depth. I mean, when you looked at that infrastructure chart over 12 years, think about aircraft engines. Think about aircraft engines after 9/11 -- after 9/11.

We could never have survived that unless we had a deep team of people that had knew that enterprise. They knew the domain. They knew the technology. They knew the customers. We were able to make smart decisions, both G-cast and aircraft engines. That's how you grow companies. That's how you invest and deliver and that's what some of the changes we wanted to make inside the company.

Now, we are teaching people to be growth leaders. In other words, operational skills are always going to be important. But we have to take this aspect of growth and continue to embed that in the company. What we are doing for the first time in a long time is having team-based training. So in other words, we are taking 50 P&Ls inside the company and they go to Crotonville for a week and we have a combination of business school professors plus internal GE trainers and basically what they take is they take their growth playbook and they operationalize it from a capability and a cultural standpoint during that week.

And so, it's what action workout was 15 years ago inside the company. We are doing it today on the front end of the business. Action workout 15 years ago was about plants and factories and things like that. Now it is not only about that, but it's about customers and markets and how we become faster in terms of where we go in the future. And it's always been my premise about GE is that if you could take this great operating company that we've had for decades and not lose that, but build on that a great set of people that knew growth as a process, you've just got an unstoppable combination and that's what the most valuable companies of the 21st century are going to be all about. So that's what we're driving and that's what we've driven inside the company.

And in compensation, okay, we still have great compensation plans for the company in terms of salary. We still have annual incentive compensation that continues to be a great way to motivate the best performers. We still have a three-year long term incentive plan that pays out based on the four metrics I show about return on total capital: cash, earnings per share growth and revenue. So they are very much aligned with the same metrics we've talked to investors about. We still have strong equity programs, both restricted stock and stock options throughout the company. And again, the metrics are aligned with you, our investors. They are both strategic and operational and we just think we've got a great team well-positioned for the future and people remain key to the future of the company.

So that's people and just wrap up in terms of where the company is. Look, this is a better company. This has got a better set of businesses than it's ever had. I think when you think about where the healthcare business is, when you think about the infrastructure business, when you think about financial services, when you think about the entertainment asset with Universal combined with NBC, when you think about some of the high tech industrial businesses, this is a company that is built to perform over the long term.

And we've taken this great company and we've improved its capability. We built a growth capability. We've sustained an operating capability. We've got a great team. We've got a disciplined way to allocate capital and we're performing. When you look at next year, we are going to get revenue growth of 8%. Strong margin enhancement, strong return enhancement, very strong performance in cash flow, good performance in earnings. So a better company with better capabilities and one that is performing both in the short and the long term.

And I think for investors the best days are ahead. If you think about the stock at 35, that embeds -- and use a discounted cash flow model, that embeds a long term growth rate of 4% with no margin enhancement. Now everybody is going to build their own models but my model is a little bit higher than that, I'd have to say. And I think that's primarily good news. I mean, I'm not here -- it is what it is. I am not here to complain. But I think that is good news for us, when you think about where the company is positioned long term with I think a lot of catalysts.

I look at a very solid, low-risk 2007. You pick what you think the economy's going to be, but I think our performance looks pretty darn good. Sustained strategic execution from a standpoint of what you look at, the ability to generate a lot of incremental capital and deploy it in a shareholder-friendly way, both by investing back in the company and also by giving dividends and buyback back to our investors and very well-positioned for the future growth of the company. And just restating the future, you know?

Take a company that's got our position and global infrastructure markets. Market share, market presence, technology, install base. If you like emerging markets, we are a great emerging market company. The unique connectedness of having a turbine business with an aircraft engines business with a GE Money capability with a healthcare business is good in the United States. In a place like Saudi Arabia, China, India, that is a tremendous competitive advantage for the company both today and in the future.

Eco-imagination is a winner. Look, I mean it's just the right place at the right time with tremendous tailwind for the company and the right positioning both in the market standpoint and from a technical standpoint. Demographics, both healthcare and financial services. Big global markets that just can't be stopped. I mean, the healthcare market growing 8% a year for a long time, it is hard to slow that down. And just the wealth creation among consumers, it is just hard to slow those things down when you look at how to position for the future.

Digital connections, I think this is a big theme. I think what we see going on in entertainment is going to happen in a lot of different industries, where the impact of the Internet is really driving new distribution channels and allows you to foster really customer productivity. So whether that's a hospital, a utility or a railroad or an airline or somebody buying entertainment, this is going to be a big factor. GE has got to be well-positioned and we will be well-positioned in the future. And lastly, liquidity. We just live in a world with lots of liquidity. That allows Mike to play different the ways from an origination standpoint. It also allows us to find ways to sell assets if that's what we choose to do into a high-liquidity environment.

So this is the company. It is a company that is built to perform for you in the short term by being a safe and reliable growth company and we do that by investing in great businesses, by having growth as a process, by having financial discipline and a great team. And it is well-positioned in these big themes to perform for you in the future. So that's GE. I think we've got time, Dan, to take some questions and we'd be happy to do so. Mike's coming around and [Jeff], go right from the middle.

QUESTION AND ANSWER

Unidentified Audience Member

Thank you. Just a question, I guess there is a little element of a theme about maybe the stock's a hair undervalued. So I just want to kind of think about philosophically how you might think about that and certain levers you might pull, first kind of on the NBC Universal, you know the way the put and call works, there is the potential if you don't want to take Vivendi out to let them IPO that piece. Just separate and apart from what that might mean for your ultimate ownership, how do you philosophically think about maybe letting that piece float and what it might imply for the valuation of the company?

Jeff Immelt *- GE - Chairman and CEO*

You know, Jeff, what I would say first of all is that I don't anticipate really any change in the short term in Vivendi's ownership. I just don't. I think they've been a good partner. I think they like the business. I think they want to continue to accrete value in the business as do we. The second thing is I would let the company -- in other words, here is my decision or my read on the entertainment business. I think the business model is fine.

I don't think we've done as well as we should do. If I thought the business model was inherently flawed or that somebody could run it better than we could, I'd let it go. But I don't see that. What I see is good earnings growth, high returns, big market, opportunity for continued growth in that business.

Unidentified Audience Member

And then just a separate follow-up. It sounds like maybe there is a slightly larger bias towards acquisitions from this point forward. Maybe I read that wrong, but can you just give us a sense of your view of share repurchase from here versus acquisitions, particularly against the notion that maybe the stock is on the inexpensive side?

Jeff Immelt *- GE - Chairman and CEO*

What I would say, Jeff, is the biases that we've got, we've got lots of capital efficiency inside the company. We are going to generate additional capital. And we've got choices. We can buy back or we can opt to buy back if that's the direction we want to choose. But we like reinvesting back in the company as well and I would say there is nothing more specific than that right now. But just, we want to keep both doors open.

I think investors have every right to see us redeploy capital back to the buyback. We think we've done that and we'll continue to do that. By the same token, Jeff, I think, look, we can reinvest money with a 9% cost of capital and hit 20 in a fairly straightforward way. And so what I would say is that we want to keep both doors open for investors because I think we do both well and have the capability to do both. Yes, [Scott]?

Unidentified Audience Member

Jeff, following up on that comment, how do you think about your balance sheet and leverage? Is it time -- has the AAA become antiquated? With the cash that you are generating, are you really at risk here that you are underlevered and just leaving something on the table?

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

You know, Scott, I have never felt like the AAA was a burden. In other words, I think the disciplines of running an AAA-rated company and the things that -- the decisions that it makes you make vis-Ã -vis on smart investments and not bad investments I think is a good discipline for the company. Now, I think when you sit at a moment like this and I think it's a great question. It's actually one, Scott, that we review with the board every year and we tend to bring in outsiders and so I say look, management has a point of view but I think this is something the board ought to sit and think about.

When you sit at a moment today of just dripping with liquidity, AAA doesn't seem like something you absolutely have to have. But I like the discipline it brings to the company. I don't think it -- we don't turn down what I would consider to be great growth opportunities because of it. And so it is not something I would see us giving up in the short term.

Unidentified Audience Member

But to play devil's advocate with you, if somebody brought you an acquisition candidate that was implying a 4% terminal growth rate at your multiple, it seems to be a fairly low-risk way to create value for shareholders. And given that you could arguably be substantially underlevered, would this not potentially be an opportunity to really stretch out of your comfort zone?

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

Look, what I would say is if there was a totally unique opportunity, we would always think about different things. But what I would say to investors is look, I've got a company that I can grow revenue two to three times GDP. I can grow earnings and expand margins and can achieve expanding return on total capital and stay AAA and with that discipline, I think that's a better deal right now. If I didn't -- if I was sitting here, look, when I was at 2003, we didn't have the cards, right?

And so we made the decision at that moment in time to use stock and not lose the AAA because look, we had just come out of 2002. We had all flown right next to the sun, right? So I said I had no juice really in the company. I had to make some big plays. We used stock to do it and we've now bought all that stock back. I am not in that position today. I've got a set of industrial businesses that can grow equal to or faster than our financial service businesses and I don't think we're in that same position.

Unidentified Audience Member

Okay. Lastly, you talked a lot about improving your earnings quality and one thing that certainly has impacted your earnings quality this year is your tax rate. And maybe I am asking the wrong person, we should bring Keith up, but why has it been so difficult to forecast your tax rate and can you maybe explain to the audience a little bit of why it is that you are able to sustain such a low tax rate or even lower at year in and year out?

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

What I would say is the tax rate is more of a look back than look forward item and that it really does follow which businesses grow the fastest and where they are growing the fastest. So I would say when you think about 2007, our tax rate is going to be largely equivalent to 2006. I mean, that's how I do our planning. And I think the tax rate is really a function of the businesses we're in. We're a big exporter. We're big in commercial finance. When we exited insurance over the last five years, insurance was taxed in the mid-30s. So as we've exited insurance, there was a natural mix change that went on during that. And we've got high visibility on a tax rate, I'd say out to 2009, 2010.

So I don't know, I mean -- we certainly don't want to make tax rate create all this chop around the stock. And Scott, we are going to do the best we can. But it is a little bit more of a look backwards metric in terms of what you did in the quarter than a totally look forward. I mean, we wish we could plan where every revenue dollar was generated during the quarter or the year. We are not that good in terms of forecasting to that level of detail. Third question, yes, Dean? Why don't we do [Bob] first, then we'll do [Dean]. So Bob's got the mike. Bob sits in that same seat every year.

Unidentified Audience Member

Life in the back of the class. The -- well, I'll ask the easy question. You talked about the margins in the fourth quarter looking pretty good. Maybe you could explain what it is that is driving that, if there is one business, a bunch of business, a couple of initiatives? Give us an idea of what you're driving at there?

Jeff Immelt *- GE - Chairman and CEO*

I am sorry Bob, I couldn't hear that.

Unidentified Audience Member

The operating margin in the fourth quarter I think you said was looking good. I am just wondering if you could flesh out that thought for us. Is it--?

Jeff Immelt *- GE - Chairman and CEO*

I think the -- if you look at the industrial operating rate, we are going to get a better quarter out of NBC. So if you think about NBC, we've had a lot of revenue and not as much operating profit growth, so NBC is going to show some nice leverage. Infrastructure and healthcare are also going to show very good leverage in Q4. And I'd say, look, industrial -- every part of industrial is having a great year except for plastics and plastics ahs been tough. But I'd say, Bob, it will be pretty broad-based but driven by those three businesses. Dean?

Unidentified Audience Member

Thank you. Jeff, the topic is the five strategic platforms, growth platforms for GE. These were set up back in 2002. It's been a performance metric most every quarter, most every year and they've been successful by and large. At what point does this list get refreshed? I know it's not a flavor of the month but at what point does the company grow, where five maybe isn't the right number and when do you declare victory on some of these? Joe Hogan and healthcare IT is doing a terrific job. At what point might there be something else, perhaps in his group, whether it is life science instrumentation or something that, how do you look at that so far?

Jeff Immelt *- GE - Chairman and CEO*

You know, what I would say, Dean, is I think it's again been a good discipline, not just inside the company but also outside the company when we make calls to talk about them year after year after year. And so I would say it is a list that will continue to be refreshed. I think the one caveat I would make is that all of the reinvestment is going to be back into I would say platforms we're already in. So I would say when you look at the extent to which we are going to do industrial acquisitions, they are going to be in healthcare and in infrastructure. There will be maybe new platforms but broadly within that space.

Unidentified Audience Member

And then just a clarification on a point on organic growth. You made reference to two to three times GDP. In the past, you referred to it as world GDP. Just want to make sure that that's the same definition that we've used in the past?

Jeff Immelt *- GE - Chairman and CEO*

Same definition, yes, yes.

Unidentified Audience Member

Great, thank you.

Unidentified Audience Member

50% of sales now in the industrial sector, I guess in the whole company coming from overseas. And I think the slide said 19% of your sourcing is low-cost country. Could you just kind of -- I know that the 50% that's of sales is coming overseas or profits that are coming from overseas is not all in low-cost countries. But how do you think about the mix, matching your costs where you make and where you sell and where are you in that process? How much further is that 19% targeted to go?

Jeff Immelt *- GE - Chairman and CEO*

When you look at our what I would say is the 50% is both financial services and industrial. About half our people outside the United States and I would say about half of our production and assets are outside the United States. I would say a weak dollar [stead] of on the margins helps us a little bit. But we are pretty balanced when you think globally about the way we look, the way we source, the way we sell.

And we outlined low-cost country just because the cost position is so much better when we do products in China, India, places like that. The cost position is better. So what I would say is, there might be even more opportunities to locate production closer to our customers around the world. It's not going to move the needle in any appreciable way but we are certainly looking to do that.

Unidentified Audience Member

And how much higher do you think the 19% low-cost sourcing -- low-cost country sourcing?

Jeff Immelt *- GE - Chairman and CEO*

You know, I think it is going to be at least double that over the next, I don't know, five years, something like that. There is some products like aircraft engines where you have export controls, where you are always going to make big components for the United States. But there is other products that we can move substantially outside the United States. Look, I'm a big believer. We talk about inside the company four stages of globalization.

You start with exporting, you start by kind of downgrading your products to make them available for global markets. And then you might transfer some components in the global markets. And then phase three, you might develop local products using local people, kind of emerging market for emerging market. And I think phase four that's going to be transformative is going to be emerging market products that get sold with the rest of the world. I think that's going to be and a lot of business that's going to be in the healthcare business, it's going to be transformative. It's going to be portable ultrasound.

It is going to be low-cost MR scanners. It is going to be small desalination products. It is going to be renewable technologies. I mean, we acquired John, when John was running the energy business, we acquired this business [inaudible] that was basically a diesel-based energy product bio-fuel product. It was 100, $150 million five years ago. It is going to be 6 or $700 million, a lot of it driven by emerging markets in the future. So I just think that is going to be transformative and we want to be positioned to be able to do that kind of class four type work. Yes, [Nick]?

Unidentified Audience Member

Listening to your description of the businesses, they all sound pretty good. There was two that kind of jumped out at me as seemed to be a little conservative. We were just down at PowerGen and all your suppliers talked about how are you probably thinking closer to 200 gas turbines as business really steps up outside the US. And I didn't know if there was any just degree of conservatism from the past experience, that roller coaster ride there?

The second was NBCU, now where you've announced the $750 million cost reduction effort. Clearly your ratings are on the move so that hopefully pricing, even in the face of the soft market, will be flat. 0 to 5% seemed to be kind of conservative. I didn't know if that was a reflection of the upcoming transition in management or the shift to changing how you distribute your content?

Jeff Immelt *- GE - Chairman and CEO*

You know, Nick, I'd say on the first one I'd say you sound like me talking to John Krenicki on the 200 gas turbines. Look, I think energy market is going to be very good. And there's places like, there's places like Saudi Arabia that have power outages every day and just say, we'll take 15, you know? We'll take 10. We'll do this. And the advantage is that we still have the surge capacity because of the bubble.

In other words, we've downsized appreciably after the bubble but as you guys know, we're making 270 a year. So we still going from 170 to 200 is no sweat. And I would say that's a business that we'll have good volume next year and I would say we're being pretty aggressive on pricing at the same time on that one, Nick.

I would say on NBCU, quite honestly it is really about the operations will be 10 to 15. And it's just covering, there will be no repeat of the station sales this year. So I think the team's going to have a good year at NBC next year. And we show 0 to 5 and look, if we got a really good upfront, that number could be better next year. And I would say the other thing is that everything about the network is better. The movie business was sub par this year and some of that drags into next year as well. So I would say it's those two things at NBC. [John]?

Unidentified Audience Member

Thanks. A couple questions. Jeff, what's the expected financial impact of divestitures this year as part of the numbers? Is it meaningful?

Jeff Immelt *- GE - Chairman and CEO*

The expected income --

Unidentified Audience Member

The financial impact of divestitures.

Jeff Immelt *- GE - Chairman and CEO*

In '06?

Unidentified Audience Member

In '07.

Jeff Immelt *- GE - Chairman and CEO*

You know, John, I hate to talk about it because what I'd rather say is anything we do is going to be in that 10 to 13% range.

Unidentified Audience Member

Okay. The share repurchase--?

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

And that does include -- that does include gains. In other words, the gains would go into that top box. So if we sold something and got the gain, it would go back into that billion to $1.5 billion box. And we would still be able to offset any earnings impact in the strength of the rest of the company.

Unidentified Audience Member

No, I think you mentioned divestitures were going to be about the same magnitude next year as this year? I just wasn't -- neutralish to net income?

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

What's that?

Unidentified Audience Member

Neutralish to net income?

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

Yes, that is what I would say.

Unidentified Audience Member

Okay. And then just share repo, we are getting a little bit. You've obviously communicated a view of tremendous cash flow strength. Any thought of possibly raising the 5 to 7 that you articulated?

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

I think what we'd like to do there, John, is compare the opportunity to increase buyback with industrial acquisitions and trade off which we think is going to have the best return for investors.

Unidentified Audience Member

Okay.

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

Yes?

Unidentified Audience Member

Obviously you're focused on hitting the guidance and the stock price. But if you just set that aside for a second and think as a manager, what are the one or two top things on your to-do list for next year? Really important things inside the company that you want to get done as a manager?

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

You know, what I would say is when I think of the long term strategic positioning of the company, that only the CEO can help drive, it is getting us position in these developing markets. In other words, this American company, it's roots is in the United States. Even though half our people are out the United States, we still snap back to the United States as a point of default. When I joined the company, it was maybe 85% US, 15% outside the United States. And a big trip was going to France or Tokyo, something like that. Now a big trip is going to Moscow or Bangalore or Shanghai and that takes the CEO of the company to say, this is where we are going. This is what we are going to do. This is how we get there.

And I would say the second thing is, what do we acquire, what do we divest, how do we allocate capital? So I would say allocation of capital, number one and getting the center of gravity moved, number two. But you know what I would say and again, I think you ask a great question. We think like managers here, you know. You don't get that infrastructure chart unless you are willing to walk in the desert every now and then to say look, this is a business we are going to lead in. This is a business we are going to grow in. This is a business we are committed to and we are going to reinvest and we are going to do what it takes to lead in it. So most times I do think like a manager, believe me. [Nicole]?

Unidentified Audience Member

Could you just talk philosophically how you think about the diversification of the portfolio? When I think about the operating margin leverage in 2006 and we look at energy or oil and gas and wind and the impact kind of of the scale up of those businesses as you roll forward, can you just talk about kind of the imagination breakthroughs and how you think about the cost of doing business to diversify the portfolio?

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

The cost of doing business to diversify the portfolio. What I would say is that there's probably two ways to think about it, Nicole, and tell me if I am not answering your question the right way. The company has spent both internal development and external acquisitions. A lot of both R&D and capital to broadly diversify our strength inside big markets we want to win in.

If you go back five years, we earned great margins selling one product to one region: gas turbines to the United States in the middle of a bubble. The CM rates were great. The operating profit was great. We're still going to sell gas turbines to the United States. That's going to be -- if you go to 2008/2009, that might be 5% of that business and that get replaced by gas turbines everyplace else; wind, which is going to be a big business; diesel power generation, things like that. And those businesses all entered the system at lower profit rates in terms of where we go.

Now we've had two or three years of that. So not only have we kind of had the first thing if you will, but we've had all the -- look, we had to fix every turbine Enron sold in the wind business. We had to invest money to get that through the system, you know? So I would say, Nicole, one coming down, the other will come. Now, I like where we are. I'd say a lot of that heavy lifting is behind us in that phase.

So that's one way to think about it. I think another way to think about it maybe if you look at healthcare, most things we've added in healthcare have been accretive to the CM rate. So sometimes you find spaces that are accretive to the CM rate but you could make them better. But I would say a lot of the heavy lifting around oil and gas, energy, locomotives and all that stuff has been taken lower operating profit rate businesses and getting them back up to the GE standard. And when we look at one of those acquisitions, that is something we like to see.

In other words, we like acquiring businesses that have 9% operating profit rate in a space we know we can take to 20 in two or three years. So I think a lot of that is through our system and when you look at John Rice, particularly with 200 gas turbines, John has got operating profit leverage, I'd say, in the infrastructure business. Does that answer your question? Yes.

You know, the gas turbine bubble is great. It just distorted some of our metrics historically. We did about 19 -- at our peak, we did about 19% operating profit rate. I'd be really disappointed if we couldn't get back to that level. In other words, and I am stripping out pension earnings in there. But if you look at where we are today, I'd be really disappointed if we couldn't get back to that level. I think we can't. Yes?

Unidentified Audience Member

First of all, on behalf of all of us who went to the Middle East, I am sure your internal team have told you what a great event that was. But just on our behalf, thanks to the Italian, the Middle Eastern and the Investor Relations guys who worked very hard to -- we appreciate that. One of the key takeaways from my perspective was to see that the Middle East is almost as large in terms of revenues as China is for GE at this point.

Could you talk a little bit about what are some of the competitive forces that you are facing in China? We see a lot of government contracts that are being issued to local suppliers, maybe not the most efficient suppliers, etcetera, etcetera. Could you just talk about what are some of the competitive headwinds that you are facing in China that?

Jeff Immelt *- GE - Chairman and CEO*

My view of China, and we'll be about $6 billion this year in China and again, my expectation we continue to get 15% growth in China but in last year committed to localizing in some important way. Unless you're committed to being part of the fabric of China with joint ventures or your own operations or being a part of the -- for instance, doing a rail joint venture, doing service shop activity, having local suppliers, you're just not going to get all the long term growth you want out of China.

It's a -- I've been around it now for almost 20 years and five years as CEO and I always -- the teams will go over and say, God, we think we can sell 1,000 locomotives. And we are going to export them all from the United States. And I say, well, I'll let you go for 30 days maybe thinking that and then well let's get down to business and talk about what we're really going to do, which is form a joint venture, get components.

So I think if you understand that about China, my expectation is that this company is big in China over the long term and that we do it by having GE-owned factories, by having joint ventures but I think my own read is that if you're part of the local fabric, the government will let you win vis-Ã -vis local competitors if you are there. But you are not going to export your way to success in China. And that's true for us, UTX, John Deere, Caterpillar, anybody you could look at has the same scenario we've got.

Unidentified Speaker

Just as a quick follow-up, how do you reconcile the strategy to have people with depth of industry experience in [queue rolls] with the recent appointment of a commercial finance person inside of sales and marketing at NBC? And will we see more of that at NBC?

Jeff Immelt *- GE - Chairman and CEO*

No, I think it gives -- it makes my point, really, in that I think it's definitely a breadth that we want to have. But my own belief is that content is hard. You would never see a GE Capital guy go run programming on the West Coast of our franchise. But selling is selling. Marketing is marketing, selling is selling and I went to our best single best commercial leader in the entire company, in my belief is [Mike Pyler].

Single best in terms of intelligence, customer orientation, process excellence, process focus. He had run our IT business. He had run our old-line industrial business. He had run GE Capital. Single best guy went to that NBC job. And I think that's symbolic. I think that's got as much symbolism as almost anything else we can do. Beth, same way. Great marketing person, great salesperson. So I think you can transfer events. I still believe that you can do that across the company. But Mike now is in NBC to make it work.

Unidentified Speaker

Could you please speak about the competitive alignment in each of your five segments that our people perhaps are doing what you are doing, they want to be in [the moment], that's all?

Jeff Immelt *- GE - Chairman and CEO*

In each one of the segments, talk about the competitive environment?

Unidentified Audience Member

Yes.

Jeff Immelt - *GE - Chairman and CEO*

Look, I would say infrastructure. We've got a lot of competitors and they are probably doing a lot of the same things we're doing in terms of where they go. We just do it better than they did, usually in infrastructure. But I got to be more balanced, let's see. I think we've got good competitors in infrastructure and I would say everybody's basically chasing developing markets, technology, install base. And it's just a battle of I'd say staying power and will in infrastructure, by and large.

In the case of healthcare, I would say the story is more or less the same thing. In the case of healthcare, I've always wanted to build or we've always wanted to build a broad diagnostics company. I've always viewed our company as a diagnostics player, not a therapy player. So we've always believed in imaging, information technology, life sciences, in vitro diagnostics, a suite of technologies that would array us in the diagnostic space as being the right strategy there and in that regard, we look like Siemens, we look a little bit like Philips and maybe Roche around the edges, other people. But that's in -- so I would say again there's some commonality of strategy.

In the case of commercial finance, I'd say we were somewhat unique. In other words, the business that Mike Neil runs is a little bit different profile than almost any other financial service company out there and basically the way we built that business is we have almost 10,000 originators who we try to have smarter than anybody else about the domain they are in and then great risk management. And that's taken us into real estate in Japan or trucking verticals or things like that. And I'd say CIT does a little bit, but really no bank, no finance company fundamentally does what we do.

If you think about our GE Money business, what I would describe this is, we don't compete with them but the company I've always admired is American Express because they are a focused competitor. And I think what's key in consumer finance business is focus and so we are a global consumer finance company in an emerging market retail bank. And we do those two things and we try to do them better than anybody else does. And so we compete with Citi a little bit. We compete with HSBC a little bit. But we really don't see a broad competitor.

I think if you look at the entertainment space, my belief is that we've got good assets in all the Universal and NBC assets and basically other people like CBS and others are kind of trying to do a lot of the same things we're doing. And then industrial's kind of a, kind of a hodgepodge of different competitors and I'd say by and large we've got tough competitors. UTX is a good company. Siemens is a good company and we've got to execute well to beat them. Yes, Nick?

Unidentified Speaker

Would you think about monetizing or parting ways with some of your old-line industrials as you go through this next year? Would you feel better spinning those out to shareholders to be able to let them directly participate and perhaps unlocking some of the upside? Or will you take and monetize them internally?

Jeff Immelt - *GE - Chairman and CEO*

Nick, just to give you the way I think about divestitures, in other words, when I wake up in the morning or when I'd say we wake up in the morning, we always think about running every business like we are going to be in forever. So we're reducing cost, we're trying to make investments. I always say you're in a business until you're not, in other words, and you want to make that change quickly when you decide, because not being committed is a terrible thing. So I run them all that way. And then what I try to gauge is, I try to go through a thought process to say, is the industry changing away from the GE business model, number one.

Number two, are we performing well? In other words, is most of our pain felt because we've underperformed and can we fix that? And then number three, I look externally and say could somebody run it better or is there capital available to run it better? I think if you think about the world today, there is infinite capital. That wasn't true five years ago, wasn't true ten years ago, may not be true five years from now. But you can literally today sell any business you have at the drop of the hat and so that liquidity is out there to be had.

Now, once we decide to sell a business, I'd say we do it in the best, the most shareholder-friendly way we can. In other words, once we've gone down that pathway, whether it's a tax-free split, whether it's an IPO, whether it's a sell to private equity, whether it is a sell to strategic, we'll do whatever's in the best interest of investors on each one of those.

And the advantage today is that you have got all the -- the capital markets are broad and deep and you've got any of those things at your fingertips that you can do. And I'd say we just try to be as shareholder-friendly and employee-friendly as we can as we go through that process. If you looked at Advanced Materials, we got almost 10 times EBITDA and what I did there is I looked at those businesses and I said, in my heart, was I really totally committed to beating Dow Corning one day? And at the same time, did I like the volatility around raw materials, stuff like that, and said when I couldn't answer those things, we said now it's time to exit. And we did it in a, I think in an effective way and a financially attractive way. But you know, there is just money everywhere today. So you've got lots of options. Yes?

Unidentified Audience Member

Maybe as a follow-up to Nick's question. The chart you showed twice where 5% of the businesses are low return and volatile, number one, is it inevitable that 5% of your portfolio is always going to be there given how large the business is? And number two, I'm assuming plastics is in there. What's the business case for keeping that going forward?

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

What I would say is that I think it's always got to be the goal to make that zero. That's always got to be what you are working towards. But you've got to be realistic about the world changing. In other words, business models change and you have to adapt to business model changes. What I would say is that if we only did -- if you go back ten years when I went to the healthcare business, medical business, and if we only did today what we did ten years ago, if we were just a US diagnostic imaging business, it'd be a more volatile business.

In other words, you have got to have a gut, you've got to have an appetite to continue to drive change so you keep yourself above that line. So I think the goal should be zero. I really do. Is it realistic that it's ever perfectly zero? Probably not, but we ought to keep working towards that. Look, I think the case for keeping plastics is you're in a one in 100 case for benzene right now. You're in a -- benzene sips a couple hundred million dollars off the line for oil and gas that's existed for since somebody discovered oil.

So look, am I committed to waiting for that to right itself? Not necessarily. But I will say that the business is unusually having in a difficult spot right now and a spot that almost nobody would have forecast vis-Ã -vis where we've been. Our market shares are still good, we still run the business well but that's just an extraordinary case that we're in. But look, we're going to evaluate stuff like that. Any more questions? Yes.

Unidentified Audience Member

When I think about GE from a high level, I think about industrial and financial. And no matter how much you keep on chopping financial back, because of the high returns and the high capital generation and reinvestment availability, it keeps on growing to be a more significant piece. So in the context of the strategic thought and related to how some investors view the stock as a financial piece and an industrial piece with two different valuations, how should we think of the, I guess the reinvestment ability in financial versus the ability to get a higher valuation for the overall corporation stock?

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

Well, what I would say is a couple things. First of all, we still believe that one of the reasons why we performed so well both industrially and financially is because we are in both. So we still very much believe that the ideas, the risk management, the asset management, the workout, the [gcast] capability, energy and finance capability, healthcare financial capability fits well within those two pieces.

The second thing I would say is that our basic strategic issue over the last, I'd say 20 years, but most profound over the last five years, is our industrial businesses weren't going fast enough. In other words, for almost 15 years, our industrial earnings growth was 8% and if you take out the power bubble, it was not 8%. Now we got healthcare, we've got infrastructure, we've got -- we now have a set of industrial businesses that can grow faster or equal to financial services. We didn't do that for 20 years. So reinvestment back and building the portfolio and stuff like that in industrial that we've been doing over the last five years, I think makes it a better overall blend, let's say, for investors.

Now look, today I can't do it. Someday I come back and say with a WAC of nine and returns of 20, cheerfully to grow financial and industrial if it works. Now it is harder today than it was in the late '90s, when everything was together and that's going to go through cycles and I understand that. So I think I am cognizant of the financial service split of the total company. But what I would say is we don't starve our financial services businesses. We can grow those and I believe that we've got a set of industrial businesses that can grow equal to or faster than financial services. Yes?

Unidentified Audience Member

Jeff, a question on acquisitions. We understand that by the second year, you want the return on capital in that acquired business to be more than your cost of capital. But when does it reach your company average for the equity of the business? Does it take several years or--?

Jeff Immelt *- GE - Chairman and CEO*

It depends on the different businesses, but I would say by the fifth or seventh year depending on what the asset is and where we've gotten to.

Unidentified Audience Member

Does that replace any change compared to prior targets or does this--?

Jeff Immelt *- GE - Chairman and CEO*

I think it's always been -- I think we've always used 20% as a goal. We've always used a hurdle rate in our calculations of net present value of about 14%. And our weighted average cost of capital is somewhere between 8 and 10%. So we've used those disciplines over time and most of the deals we approve are above 20. Occasionally, we'll approve a deal -- when we go to the board or when it comes to me, occasionally we'll prove a deal that's less that 20.

Because again, I think it's a -- you want to reserve the right to do a strategic deal that you think earns your cost of capital. But you don't want -- what you want is managers to give you numbers that you're accountable for and not to juice it just -- you want to have that transparency about how you evaluate deals and acquisitions. Yes?

Unidentified Audience Member

For the past five years, you spent a lot of time focusing on the reinvigoration of growth within the overall enterprise. Where are you? Where do you think you need to get to or where you want to be? And also could you sort of give us on a quantitative basis maybe headwind, tailwind in terms of investment and are we near some type of an inflection point in terms of where growth picks up versus where reinvestment sort of grows at a slower rate?

Jeff Immelt *- GE - Chairman and CEO*

What I would say is that when I look around the growth capabilities that we've tried to build, I feel great about the pipeline of technology that we've got inside the company today is I think about 80% of what I want it to be. And there's room for improvement but we've become pretty good and better. When it comes to the approach to customers, I'd say we're 50% of where I'd like us to be, in terms of really linking what customers see to how we manage and measure people inside the company. When I look at commercial excellence, I think we are maybe 60 or 70%. I think there is more room for us to do a better job of linking the enterprise of GE and doing a better job.

When it comes to developing markets, the opportunity is just beginning and I think a lot of that growth is yet ahead of us. I think relative to everybody else, we're 9 or 10. But relative to what I think it can mean for the company, we're a 5 or a 6 in there. And then I think imagination breakthroughs, we just get better at those all the time in terms of where they go and how they go there. I think when you look at what we've got in the running rate of the company to drive growth and where we've taken G&A, basically we've got a running rate embedded in the company that I think can sustain two to three times GDP growth.

In other words, I don't need to go from 5% of revenue in R&D to 7% to move the needle. I think we've got embedded a fairly good ongoing growth rate and well supported from the standpoint of what the investments we've already made inside the company will be. Does that answer your question? Yes?

Unidentified Audience Member

[inaudible] any acceleration? We talked two to three times, I don't know whether that's -- in any given year, I guess what I am wondering is, you spent a lot of money, a lot of capital, a lot of R&D both expense and capital over the past five years. There is a cost to that that got absorbed over the past five years. That is going to generate some type of return over the next couple of years, which would theoretically suggest almost a bit more of an acceleration in terms of overall sales and earnings growth relative to what we've seen over the past five years. Yes, no, maybe, conceptually correct, conceptually incorrect?

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

What I would say is that the revenue line is sustainable. The operating profit I think is in the very beginning of where it can be. There is -- I could talk about mix and other things. But there is no doubt that as we've gone from a transition of gas turbines to wind or things like that we've had a mix down that I think we're very well positioned to an expansion. So I would say no more revenue. I think revenue at 8 or 9% is pretty good organically for the company. But an operating profit rate that goes from 15.2 to 16.2 back up to where I think it's been historically, I think that is in the cards. And that is what you are seeing.

And look, return on total capital is what we want to make it. I would say I've done all the investments, a lot of investments and I'm back to 18.3 on my way to 19.5. So the good news is, it could be a lot higher or I could keep reinvesting to be only back at 19 with a WAC of 9. So that's all good news to me and I think from an investor standpoint, those are good options to have. We're lucky that we have a company that's got lots of ideas that we can invest and that their capital efficient, so that we can get back to 20% ROTC and never either be above it or never be far from it at any given point in time.

We -- in 2003, I just didn't have any choice. I had to use equity. I am not going to use equity to do deals. I am going to use cash. And we've got cash to do it and that's all good. Great. Any --? Right here, right in front, yes?

Unidentified Audience Member

[inaudible] level as I look at this year, you're on target to generate 15% return -- 15% earnings growth with admittedly lower than expected contribution margins. As we look into '07, now your guidance is 11 to 13. Now I know this year on a segment basis maybe a 14% kind of growth rate. What are the headwinds, why if we are successful in generating the margin improvement that you've talked about should we see lower earnings growth?

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

What I would say is infrastructure ought to be the same. Healthcare is going to be the same, both in good shape. NBC is going to be a little bit better. Industrial is going to be maybe a little bit worse. And the business that we guided financial services to 10 to 15 last year and we did 17. And we're going to guide to ten to 15 next year because we got positive, that great asset growth and stuff like that. And then we're watching margins in financial services.

So I would say that's the one difference. In all likelihood, industrial earnings are going to grow faster than financial service earnings last year, that's at least how we booked the plan. So I think that's really what explains it on the business level. And then if you looked at kind of the corporate items and buyback, we had a big front end loaded buyback this year and that was offset by pension and things like that. That was one.

Next year we are counting on a 5 to $7 billion buyback throughout the year and that's going to be offset by pension and other corporate items. And so that's how you get the earnings guidance. So I would say the businesses are substantially equal to what was this year, and the difference is really in the corporate items in terms of what makes the difference between 15, and 10 to 13 next year. So great questions, thanks, and we'll be around for a while. Dan, I'll turn it back over to you.

Unidentified Speaker

Yes, great. Thank you very much. Thank you, Jeff. Thank you all for being here, we have a reception now. Both Jeff, Keith and the Vice Chairmans are available. So please join us.