Conference Call Transcript

GE - General Electric 1Q 2007 Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric first-quarter 2007 earnings conference call. At this time, all participants are in a listen-only mode. My name is Carol and I will be your conference coordinator today. (OPERATOR INSTRUCTIONS) As a reminder, this conference is being recorded. I would now like to turn the program over to your host for today's conference, Mr. Dan Janki, Vice President of Investor Communications. Sir, please proceed.

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

Thank you, Carol. I would like to welcome everyone to today's first-quarter earnings call. Hopefully, you have been able to get through our press release that went out at 6.30 this morning with our financial information. That along with today's presentation is available at our investor website at www.GE.com/investor.

Today's presentation does contain forward-looking statements. It is based in the environment as we see it today, and that is subject to change. Today, we will go through first-quarter operations and earnings and second-quarter outlook. To do that, we have our Chairman and CEO, Jeff Immelt; our Senior Vice President and CFO, Keith Sherin. We also have with us John Rice, who is Vice Chairman and CEO of GE Infrastructure; and Mark Begor, who is Senior Vice President and CEO of GE Money-Americas. So I would like to turn it over to Jeff to get us started.

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

Great, Dan. Thanks. Good morning, everyone. Before we get started, I wanted to make just four broad points about the Company. The first one is just the broad strength of GE, led by our Infrastructure business. I think if you look at our Infrastructure business today, we are in the very early phase of, I think, a long-term secular time period where we have high visibility, broad technologies, great global positioning, increasing margins in backlog and equipment, and long-term service agreements that can span over the next 10 or 15 years. I think we are in the first inning of a nine-inning game here in Infrastructure. What you saw in this quarter, I think, is going to be very repeatable. It is broader and deeper than the way we think of the gas turbine situation in the US in the late '90s.

Second, we had in the quarter a couple speed bumps. We had WMC that Mark will talk about. We had a shutdown of one of our facilities in the Healthcare business of OEC. Our goal in the first quarter was to get those behind us and to drive forward through the rest of the year.

Despite those bumps, we delivered a high-quality 10% growth in earnings per share. We had segment profit growth of 13%. We had organic revenue growth of 8%. We had at least a 100 basis point expansion in return on total capital on margin rates. We had a gain that was offset by restructuring, and the tax rate was in line with expectations.

So I think the last point I would make is if you think about GE in 2007, we are a safe and reliable growth company that is going to deliver 10% to 12% earnings growth with high visibility, just really based on the strength of the operating model.

So with that, just to look at the environment, you know, the environment that we see today is similar to the one we saw at the beginning of the year in our December meeting. Global growth continues. We think the global markets are pretty strong. Service growth is still good. CapEx is leveling in the low single digits. Housing continues to be a challenge. So when we think about global growth, it is more or less, with puts and takes, what we thought we were going to see at the beginning of the year.

The macro drivers, if you will, are even more robust. Emerging markets are very strong. Infrastructure investment continues. Higher energy prices drive customer reinvestment. Our environmental programs are excellent. So we see real strength there.

The margin environment is really as we expected. Material prices are high, but we factored that in. We are driving pricing in many of our long-cycle businesses. Liquidity is high. We are dealing with our competition there, but it's all within expectation.

So I think when you think about 2007, we are well positioned globally. Our pricing movement is ahead of inflation. We are driving productivity and margin rates. We just feel like generally the environment is in line with expectations.

If you look at the key performance metrics that we talk about each quarter, and we will go into orders in more detail, but the orders were up 3% but we had significant backlog build, particularly in our Major Equipment segment. We had 8% organic growth, 6% revenue growth, and 22% asset growth. Earnings per share up 10% were on plan.

Our return on total capital expanded 100 basis points in line with our expectations. Operating profit, Industrial operating profit rate expanded 130 basis points on a segment op profit basis. Our earnings quality was high. The cash flow growth was 10%. Again, we are off to a good start on cash flow for the year.

The four points we frequently talk about with our long-term strategy is to first invest in leadership businesses. Like I said, Infrastructure, Commercial Finance, strong; NBC rebounding. We announced some acquisitions in Commercial Finance that we think will strengthen our business, PHH and Sanyo.

The redeployment that we talked about early in the year is on track. I will talk more about this later in the presentation with Vetco Gray, Abbott, Smiths, and the Plastics disposition.

The execution was solid. Segment profit up 13%. As I said earlier, strong operating profit and ROTC and cash flow expansion. Again, when you think about some of the headwinds we saw in Healthcare, GE Money, and Plastics, all of these things we were addressing in the first quarter; and we will get behind us as we go through the year. We still expect to have an excellent year in GE Money and Healthcare.

Growth as a process is working. Our organic growth rate remained strong. Service revenues were up 10%. CSAs are now at $94 billion. Developing country growth was 14%. So all the things we talked about as growth as a process really are working for us right now in this environment.

Lastly, for the team, we are proud of the GE team. Won again Fortune Most Admired, so we feel like we have got a strong team. We have got strong initiatives. The economy is what we expected, and we feel really good about how the Company is positioned.

With that, I will turn it over to John Rice just to give you a few highlights of the Infrastructure business.

John Rice - ***General Electric Company - Vice Chairman, President & CEO GE Infrastructure***

Jeff touched on the macro context. But if you look at equipment orders in backlog, we had a great quarter, contributing significantly to our backlog. Orders exceeding shipments by 50%; backlog up 32% in the quarter, which as you can see for the last five quarters is a very significant pop.

If you look under the covers, we saw strength really across all of our businesses. Our Energy business booked orders for 33 gas turbines in the quarter. 80% of those were international, including more units to Saudi, complementing the big order that we booked in the fourth quarter of last year in Egypt. Really breadth across the board.

Aeroderivative products were ordered a number of different countries. In Aviation, we saw business from Lufthansa, Emirates, Qatar, Korea. Our Oil & Gas business booked $1 billion of equipment orders, which is up 12% from the first quarter of '06; about $800 million of that was in the Middle East and Africa. So again, good global growth across the board.

Interestingly, we are starting to see more action in Energy in the United States in terms of inquiries. So that is manifesting itself in the Aeroderivative product first, which is usually a pretty good indicator that there will be more strength coming. So all in all, the business is very strong and we had a great quarter. Now I will turn it over to Keith and he will touch on orders.

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

John, thanks. That is a great lead-in for total orders. The headline number for the first quarter, we had total orders of $23.6 billion, up 3%. That headline number is lower than last year in terms of the growth rate. However, there's a couple things I want to point out as I take you through the numbers.

First, the absolute level of orders continues to be extremely strong. You can see that with what John showed you on the backlog, and I will give you some examples of that. The second point is the future outlook is really also very strong. So I think the orders picture is a very solid indicator for GE, and I will take you through the pieces.

On the left side, Major Equipment. The orders were $10.8 billion in the first quarter. You can see on a V-% that is down 2%. Every quarter I mention that these Major Equipment orders are lumpy. Last year in the first quarter we had $11 billion of Major Equipment orders, and that was up 67%. So the absolute level of orders that we are dealing with here is terrific.

If you look at Aviation and Transportation, they both had tough comparisons. Just one order from Boeing last year for the GE90 was $1.8 billion; that was a catch-up, sort of, from '05, so that didn't repeat. In Transportation, we had an order for 300 locos in China, and the Transportation outlook for the year is fantastic.

John covered the backlog strength in Infrastructure, especially. The backlog, we added $5 billion since the fourth quarter, so it is up over 30% from a year ago. I think a way to take out the lumpiness of the nature of these orders is if you look at the rolling four-quarter average for Major Equipment, it is up 18%.

Last point on Major Equipment, when we look forward at our second-quarter order forecast, the current outlook is for greater than 20% growth here in Major Equipment.

In the middle, Service orders of $8.1 billion, up 11%. Strong double-digit, again driven by Aviation. You can see the spares rate was very strong, up 36%.

Oil & Gas had a tremendous quarter. They are just winning in equipment, and that is building an installed base and it is growing our Service opportunities everywhere. CSAs are really performing very well. Our total long-term contractual Customized Service Agreement portfolio with customers is $94 billion now; it is up 9% over a year ago.

Energy was down 4% in the quarter. That was really driven by a nonrepeat of a large nuclear fuel reload order that we got last year in the first quarter. So Services up double-digit is a very good indicator for us.

On the right side, the average daily order rate for our Flow business you can see was up 2%. C&I had very solid orders. Lighting and Industrial up double-digit. Appliances was basically flat in the quarter.

Plastics down 5%. We not only had the announcement of the disposition, we have also done some restructuring. I think that may have impacted us a little bit there. But both price and volume have pressured us in Plastics in the quarter.

Then Security had a little softness in residential housing. But as you see, the percent that comes out of the Flow relative to the Major Equipment and Services continues to decline here, with things like the disposition of Advanced Materials and GE Supply and, eventually, Plastics.

So overall, total orders up 3% against pretty tough comps. The absolute level of orders extremely strong. The future looks great. The second-quarter estimate, even with the continued Major Equipment strength, total orders are expected to be up over 15% in the second quarter. So feel pretty good about the outlook here.

Next is a review of margins and delinquencies for our Financial Services business. On the left side is margin. We show you this every quarter. The blue bars are net revenue; that is basically our revenue less interest. So it is our contributed value as a percent of our average assets. The green bars adjust that for losses.

So if you look, you can see the margins are down about 14 basis points year-over-year. It is really -- we are seeing continued great liquidity in the marketplace, which does compress margins somewhat. We are able to offset that -- more than offset that -- with continued asset growth. The continuation machine in Financial Services is very strong. I will show you the asset growth in the businesses.

We've got great productivity. A real focus on restructuring and simplification driving continued profitability.

On the right side you can see the 30-plus day delinquencies. The blue bars are GE Money. You can see that in the first quarter, 5.48% 30-plus delinquency in GE Money is up year-over-year. It is entirely explained -- more than all of it is explained -- by the delinquencies in the WMC business. Mark is going to cover that, our US mortgage business. Ex the WMC, delinquencies are down year-over-year.

It is not on the chart, but if you even look at the US business, Mark's business ex-WMC, delinquencies are basically flat at 4.72% versus 4.69% last year. So we are not seeing any change in the credit quality of the portfolio globally from a delinquency perspective.

Then on the Commercial Finance side on equipment financing, you can see our delinquencies remain near historical lows. I mean, at 1.26%, this is a fantastic indicator of the quality of the portfolio.

Next is Industrial margins. Feel great about the performance in the quarter here. On the left side is our historical margin reporting. Total Industrial margin including everything went from 11.5% to 11.3%. However, as you know, we had a gain in the quarter from our disposition of our Swiss Re shares; and we used that gain to fund restructuring and other items. The issue on margins is that the gain from the Swiss Re shares is reported in our Financial Services businesses, and the charges are mostly in the Industrial business. So the adjusted bar there at 12.9% takes the impact of restructuring and other items out of the margin rate.

I am going to show you on the next page the details of our restructuring activity; but without that, our margins are up 40 basis points in total.

On the right side, I think it is just a straightforward look at margins. Write-off our reported segment results the way you look at it. You can see that there is 130 basis points of margin growth. No impact from corporate items.

I think down at the bottom, just to give you all the pieces of how we performed on margin, we have given you by business what last year's margin rates were, what this year's margin rates were, and some of the drivers. So you can see Infrastructure had a great quarter, taking margins from 15.2% to up 16%, up 8/10 of a point. They had a great quarter on price and productivity. They grew their margin 80 basis points despite the fact that we continued to have that phenomenon where equipment shipments are more than two times the growth rate of service shipments. So margins obviously lower on equipment than services, dragging down the margin. But even with that, the price and productivity and the great performance in that business, we were able to grow them 80 basis points, which is tremendous. And that is a great indicator for the future, obviously, as we build that installed base and we will have the ability to grow our services off of it.

Industrial was down. It was all explained by Plastics. I will cover that in a few pages.

Healthcare had good productivity, driving margin rates up.

NBCU also shows very favorable. Again, last year in the first quarter, we had the Torino Winter Olympics, and there was a lot of revenue without a lot of margin, so that is an adjustment gives you a favorable. Then you can see the corporate impact tied to the total.

So we are focused on productivity and simplification. We are on track for the 100 basis points plus for the total year. And we are investing in restructuring, which is going to be good for the future profitability growth. So I feel very good about the margin performance in the quarter.

Next is restructuring. We told you we were going to give you more information about the restructuring that we did, because we are going to have large gains this year. They will be offset -- they will fund restructuring and other items. So here are the details.

As you know, we had the $558 million pre-tax gain on Swiss Re. We had the impact of the asbestos excess insurance case in the first quarter, which goes against the funding from the gain.

We also have $354 million of restructuring and other charges; and that is what is detailed here on this page. On the left side you can see the amounts related to each business. Again, this is in our reporting in corporate items and eliminations; it is not in the businesses. But these are the businesses that these benefits will relate to in the future.

Then on the right side you can see the different categories. I thought I would just go through a couple of them. Footprint reductions. The first one there, industrial incandescent, we have really worked on restructuring and reducing our footprint in the Americas around incandescent and going to low-cost countries. We had about $12 million of restructuring in the quarter, about 600 headcount impact.

GE Money, you are familiar with our discussions about downsizing in Japan, and Mark in his business, WMC, downsizing in the US. About $44 million impact in the quarter, about 875 headcount impact.

Down in cost structure improvements, industrial rightsizing the back office. There is a lot of rightsizing of back office throughout the Company in our simplification efforts. $16 million in the quarter, 260 headcount.

You are familiar with NBCU, the network 2.0, the cost-out actions that we have been taking to reduce our cost structure there. We had some of that activity in the fourth quarter. We had some more in the first quarter to continue business exits. We have an agreement to exit our Hydro business; that will cost us and did in the quarter about $40 million and that will have about a 1,500 headcount impact when we get the deal done, hopefully in the second quarter.

Then other items. We also wrote off the purchase accounting associated with the Vetco Gray close. So we have accelerated our restructuring. Just in the quarter the impact here of the funded items average about a two-year payback and about 3,900 headcount reduction all in-process or completed. So in total we have invested $350 million, and we are going to give you this every quarter as we have restructuring. Give you the details, show you where it is, and what we expect are the benefits.

Next is the first-quarter consolidated results. The left side is a summary of continuing operations. Reported revenues of $40.2 billion, up 6%. If you adjust for the divestitures of GE Supply and Advanced Materials and the Olympics impact, which does have an impact on reported revenue, revenues would have been up 11%. The biggest impact, obviously, is in the Industrial sales, [22 9]; be up 7% adjusting for those items.

Earnings at $4.5 billion up 8%. Earnings per share, $0.44 a share, up 10% on a continuing ops basis. One point on these growth Vs is that our 2006 restatement added $135 million net to the first quarter of '06. So that impact is a positive last year; it doesn't repeat this year. That reduces these Vs by 3 points. So earnings would have been up 11% and EPS up 13% had we not had that.

Cash flow off to a great start, I will cover on the next page.

Taxes, I know you are all looking for more detailed guidance on taxes. You can see our first-quarter rates here for the Industrial and the Financial Services and the consolidated. Basically, as you know, there's new accounting guidance on tax rates. It is called FIN48, accounting for uncertain tax positions. In the past, I was able to tell you that the quarter to date rates reflected our best estimates of the total year rate. With FIN48, that has changed. So with FIN48 we cannot include any prior period adjustments in our projected total year rate.

For example, if we have any tax settlements reached with the IRS on prior periods, we would have to include that only in the period the settlement occurred. So our quarterly tax rates are going to fluctuate more. An example of that, in the second quarter or third quarter if we have -- you can see the Industrial rate was 28 % in the first quarter. If we have a settlement with the IRS -- and we're actively working with them on both 2000 to 2002 audit period and 2003 to 2005 audit period. If you had a settlement with them, we could have a tax rate on the Industrial side, could fluctuate even below 20% depending upon what the prior period item impacts are.

So even with that, I think the important point here for us is our guidance is that our total year consolidated rate is expected to be 16% to 17%, about the same as last year.

So now on the right side you can see the business results. Infrastructure had a fabulous quarter. Commercial Finance also had a very strong quarter, both above guidance. Industrial slightly below guidance, impacted by Plastics. GE Money was impacted by the WMC business that Mark is going to cover. Healthcare had a good quarter, but was impacted by both OEC and the reimbursement reductions from the Deficit Reduction Act; and I will cover that. Then NBC exceeded our guidance.

So overall, we had some mixed business performances, as Jeff said. But the strengths more than offset the weaknesses; and it really demonstrates the power of the GE portfolio.

Cash is next. We are off to nice start for the year. On the left side you can see that we delivered $7.4 billion of cash flow from operating activities. It is up 10%. The GECS dividend is up from both their net income growth, with a 40% regular dividend, and also from the proceeds of the sale of both Swiss Re stock and GE Life that we completed in the first quarter.

The Industrial rate cash flow was up to $3.5 billion, up 6% and in line with our expectations for the quarter.

On the right side is the cash balance walk. We started the year with a little extra cash ,which was basically the prefunding for Vetco, $4.5 billion. The cash flow from the left side we add in. We paid our dividends. We bought back a little bit of stock. We bought some plant and equipment. And we had the Vetco acquisition close in the quarter; a few of the minor acquisitions, dispositions.

Then we have a change in debt. We had debt go up. As you know, we need to raise enough money to fund both the Smiths and Abbott acquisitions. We ended the quarter with $9 billion of cash. We're going to need a total of $13 billion to close both those deals.

So we are off to a solid start. We are on track for the $24 billion of CFOA for the year. And we are prepared to fund the acquisitions in a meaningful manner.

So now before I get to the specific businesses, here is the outlook for the second quarter. Overall, it is a pretty similar profile to Q1. We have continued strength in Infrastructure, up 20% plus. Continued strength in Commercial Finance. Industrial a similar profile to Q1, should be a little better; I will show you that. GE Money up double digits. Healthcare up 5% to 10%. NBC Universal continues the turnaround.

So on the right side you can see the total Company estimates, $43 billion of revenue, up about 7%. Earnings and earnings per share ranges consistent with our total year guidance. We have reaffirmed the total year on track for $2.18 to $2.23 EPS.

Now let me jump through the businesses and I will start off with Infrastructure. John and his team had an outstanding quarter. You can see the revenues at $11.9 billion, $12 million, up 18%. Segment profit up 28%, ex the verticals. So if you took out the Financial Services impact, the operating profit is up 24% on the Industrial segment. Just a terrific performance.

If you look at the key business results down on the left, you can most of the businesses had just a tremendous performance here. Orders, we talked about; the backlog grew 35%. Services were up 12%. Equipment was down a little bit, but that is really timing; and the second-quarter estimates for orders is very strong.

I thought what I would do is I would make a couple of comments about Aviation and Energy to give you a feel for how strong this segment is. So for Aviation, start with orders. Commercial engine orders of $3.3 billion are down 7%, but that is compared to the first quarter last year, which was up 300%. So the absolute level of orders here are phenomenal. $1.1 billion of GE90 orders. Qatar and Korea. $1.2 billion of GEnx orders. Lufthansa, Qantas, Atlantis, Emirates. We have got a 66% win rate on the 787. We are exclusive on the new 747.

The backlog is growing. It is $12.8 billion. It was up 48% in one year. Just a tremendous outlook here.

Revenues were up 16%. We shipped 509 commercial engines; that is up 20%. So 85 more commercial engines went out this year in the first quarter than last year. Again, building that installed base. Service revenues were up 22%. Commercial was up 31%. Just strong CSA performance. They delivered operating profit up 17%. They got volume, they got price, they got productivity; and it was partially offset by some inflation we are dealing with. But this business is really well positioned. Second-quarter outlook is very strong.

Energy also had a great quarter. Revenue up 15%, segment profit up 41%. Orders were up 6% in the quarter, again a similar story. Equipment orders were up 17%. Order price on equipment was up 3.5%. Thermal business was up 37%. Aero was up 205%; so we are seeing great activity out there, as John said.

Wind business was down 14% in the quarter. But this business is sold out through 2008, and the backlog is up [4 cent] year-over-year with pricing up.

So revenues in the business in the quarter up 15%, driven by a good thermal performance. It was up 37%. We shipped 28 gas turbines versus last year. Wind was up 12%. Services was strong. The operating profit at up 41% was driven by a great performance in thermal; that was up 70%.

Wind business grew its margin by about $60 million in the quarter. We had no repeat of Baglan Bay. Last year you may remember we had some Baglan Bay issues, about $40 million, so that helped to get this V up to the high level it was. But the outlook for the second quarter and the rest of the year for the Energy business is also very strong.

So Infrastructure is a great shape. Our outlook for the second quarter is revenue 15% plus and segment profit to continue at 20% plus.

Next up is GE Money. They had a tough quarter. On the left side you can see revenues of 5.8 were up 14%. That is driven by the asset growth, $190 billion up 20%. Segment profit at $850 million was up only 2%.

Let me start with the asset growth, which was really very good and does give a good indicator for continued future performance. Organic asset growth was up 11%. It was strong globally. The European business was up 13%; the Americas were up 13%; Asia was up 5%.

On global net income, up 2%, we had broadbased growth, except for WMC in Japan. Europe had an absolutely great quarter; they were up 35%. The Americas, ex the WMC, partially offset by securitization I will show in a minute, was up strong double-digit. Japan came in as expected; it was a drag on Asia, as we thought.

In the Americas, one of the activities that the team undertook that partially offset the WMC impact was increased securitization, delivered an increase in income about $197 million.

So I showed you the delinquencies. The portfolio was absolutely in great shape. We thought it would be helpful to have Mark here today; he is the President and CEO of GE Money-Americas, and it is great to have him give you a little update on WMC on the right side. So, Mark?

Mark Begor *- GE Money-Americas - President, CEO*

Thanks, Keith. As Keith said, it was a very difficult quarter at WMC. As many of you recall, we bought the business a little less than three years ago. We bought it because we liked the large mortgage business here in the US, which is over $2 trillion. We have very strong mortgage businesses outside the US. It fit our focused consumer finance model, to originate through brokers. It had a unique model in that we would originate the mortgages and then sell them to Wall Street.

We are originating Alt-A and subprime mortgages, and that worked for many, many years for us, until really the fourth quarter when the capital markets in essence shut down. The capital markets stopped buying these mortgages because of home price appreciation declines, as well as an increase in delinquencies.

Our underwriting model was really to originate mortgages that would meet Wall Street specifications. Those were the kinds of loans that we originated for the time period we owned the business, and it was done before we purchased it.

Go through some of the numbers, you can see our assets $4.8 billion in the fourth quarter, down to $4.5 billion in the first quarter. We curtailed production dramatically during the first quarter and started that in the fourth quarter. During fourth quarter, we originated a little over $9 billion of mortgages. In the first quarter it was about $3.4 billion. As you go through the quarter, March was only $500 million. So I will talk about how we have tightened up a lot of our guidelines and really curtailed a lot of the business activities.

If you look at the numbers on the right-hand side, Keith mentioned the $373 million loss that we incurred in the first quarter. $43 million of that is really the cost structure of the business, the resources that we have with virtually no revenue. I will talk in a minute, but we are taking actions to bring that number down.

The biggest hit we had was the $330 million from reserves that we had to put up on our balance sheet. That is on an after-tax basis. On a pre-tax basis, we increased our reserves a little bit over $500 million. Those are reserves for the loans, the $4.5 billion that we have, as well as for potential future repurchases that may come from investors, from loans that we have sold in the past.

The challenging thing for the quarter was that, because there is no market, the accounting convention requires you to go out and get a market price and mark your assets to market. Because there was no market we really had to go out and get what we would characterize as a liquidity mark, a price that we wouldn't sell at but we were required to use for the accounting side. That gives us some confidence that we have got this situation boxed going forward with the $330 million or $500 million pre-tax that we put up.

We remain committed to the business. We put in a new leadership team. We started changing the leadership team really in November. We put a new CEO in, who I have known very well, is really a turnaround expert, a lot of consumer finance experience. We have got a new CFO in there who is an audit staff alum and worked closely with me personally. We have got a new risk leader that worked in our mortgage business in the UK and Mexico. So we have got a great new team in there.

We fixed underwriting. We are no longer underwriting to Wall Street guidelines. We are underwriting to our guidelines. So no LTVs greater than 85; no stated income. So we have really tightened that up.

We also increased price. As I said earlier, we think we have got the balance sheet risk covered. We now have $700 million of reserves on our balance sheet to protect us going forward.

We are also rightsizing the organization. Keith mentioned the restructuring that we have taken. We are down 1,000 resources or about 40% of the organization since year-end. We are going to be taking additional action in the second quarter. We really think we have a more focused business model going forward.

When we think about how we are going to move forward, we do feel like we have a fence around the issue with the first-quarter reserves. We are committed to the big market and the big business that we have. There's less competitors out there now, which we think is going to be helpful to us going forward. You have all read about that.

Also as Keith mentioned some of the strength of GE Money globally really helped us cover a large portion of this WMC challenge both in my business and the Americas, where our card business and sales finance business are very strong, up strong double-digits in the first quarter. Then Europe in particular was also very strong.

As we look forward to the second quarter, we think this'll be something like a $50 million drag for us. We think we can manage that inside of my business, GE Money-Americas, and still deliver our plan of being up around 15% in the second quarter.

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

Thanks, Mark. Next, I am going to move onto Industrial. Industrial had a quarter similar to fourth quarter. Really three points to make about the quarter.

First, segment results are impacted by last year's dispositions of GE Supply and Advanced Materials. You can see that on revenue, the reported revenues are down 9; there was quite a bit of business activity that has been disposed. Ex that, it is up 5.

On segment profit, the quarter was down 20. The impact of the dispositions is still a loss, down about 11.

The second point I would make is the C&I and equipment services just continue to deliver excellent results. You can see down on the bottom left the segment results. C&I, excluding the disposition of GE Supply, the revenues were up 5% organically. Retail appliances is mixed. You know, the retail appliances revenues were up 5%; the contract channel, as Jeff said, is down 6%. It is impacted, obviously, by housing.

Lighting had a very strong quarter, up 10%. The business continues to drive price and productivity. That has been able to give them that great profit lift.

The third point I would make is Plastics. Consistent with the fourth quarter, Plastics had another tough quarter. Price and volume contributed to a revenue drag. We continue to see pressure in auto, and we have continued to see some pressure in business equipment.

Probably the biggest thing that we have just been wrestling with, and I know you're tired of hearing it, is benzene. Inflation continued; it was up 32% in the quarter. The Q1 average was about $3.50 a gallon. If you look, our operating profit for Plastics was down about $120 million, driven by inflation and price, partially offset by the productivity that that team is delivering.

So I think if you look at the second quarter for this segment, Plastics price and volume, inflation continues to be challenging, but you have better comparison periods that we are going into. So I think that is going to be a little better. April benzene was high. But we added backlog in the first quarter. The orders were stronger at the end of the quarter than the beginning of the quarter. As I said, we had some disruption that probably contributed to some of that.

Then the dispositions impact continues in the second quarter. So segment profit outlook probably down 10% to 15% and consistent with what we are seeing today.

Next is NBC. I'm really happy to report the second quarter in a row of positive earnings growth in NBC. On the numbers on the top left, you can see revenues of $3.5 billion; reported down 22. I think there's really two issues here. First, last year, we had the Olympics, about $700 million of revenue. Even adjusting for the Olympics, as you can see here, though, the revenue would be down 8%.

That is all explained -- more than all explained -- by timing in the film business. Film in the quarter for us was down 26%. It is really driven by one thing. Last year we had in the first quarter King Kong DVD revenues. We sold about 15 million units of King Kong DVDs last year. This year across the entire business, with the slates that we had in the fourth quarter, we only had about half of that volume in DVDs. So ex the film timing, this had slightly positive revenue on an ongoing business basis without that film timing.

Then if you look at segment profit up 6%, this is a turnaround story. The network and stations and TV production were up 1%. So that is a really good story for us. News, entertainment and info cable is very solid. We are really performing very well. That was up 8%. The film and parks and all other was up about 2%. So overall, from a financial perspective above what we had been expecting here and in line with what we expect for the total year.

I thought on the bottom, we would just take you through some of the pieces, the four key areas that we're talking about as we monitor and work with the team on the turnaround.

At the network, season to date prime ratings are flat. We would like to have that be a little better than it is, but we have got some positive signals there. Obviously, Heroes, the number one hit of the season, number seven show.

Restructuring, the team has done a very good job with the cost activity to get a more effective cost structure. We have a terrific business model going on here. We have got a lot of content ownership of the existing schedule, and we are looking at the fall pilots, and we have got even more content ownership of that, which gives us a great multiple revenue stream opportunity. Today and Nightly are both number one, so the network, while not the ratings breakout we would like, definitely a solid improvement and well positioned as we look forward.

Entertainment and info cable is really performing tremendously well. USA is number one in basic cable. It has got a 27% lead against the nearest competitor. Four of the five top shows. Bravo is doing extremely well. CNBC is doing extremely well.

The film business, I mentioned the tough comps on DVD, but we are pretty excited about the theatrical releases that are coming up, and the outlook for the second half of the year, and what that means for this year's second half and next year. We have got a couple of films in the second quarter, Evan Almighty and Knocked Up. We have got a pretty good DVD outlook based on the first-quarter releases and the relative comparison to last year.

Then finally, digital. We continue to make good progress in digital. You have seen the announcement that we made with News Corp. on the venture to expand digital capability. We expect that to be operational in the third quarter. It has got a lot of great activity going on around it. We continue to launch other digital platforms including digital to go on mobile.

So on the top right, you can see the second-quarter outlook. Revenue will be more normal, obviously without the Olympics and the big DVD change from King Kong. So zero to 5 in segment profit, zero to 5, and we feel about the progress. The turnaround is on track, and the team is performing really well.

Next is Healthcare. Healthcare came in with flat revenue and 5% operating profit. We had good growth in a lot of our product lines. If you look at from a revenue perspective, our medical diagnostics business was up 10%. Life sciences was up 9%. International diagnostic imaging was up 7%. Diagnostic imaging services was up 7%.

But as you know, and we have covered it previously in the fourth quarter in other meetings, we have a consent decree at OEC which is our surgery business, as Jeff mentioned, and that impacted our revenue, about $100 million in the quarter.

The second item that has impacted us that we have talked about is the Deficit Reduction Act, which lowers reimbursement for non hospitals in the U.S. It took effect January 1, and that impacted our revenue by about $150 million.

It was more than we expected and it was more severe in terms of timing as we got into the nonhospital business in the first quarter, and both those items basically had an impact on op profit. If you look, op profit was up 5%. We had good productivity in the business. The team is doing a good job focusing on the costs, but both the DRA and the OEC had about a 10-point impact on segment profit growth. We would have been up about 15 without the impact of those two items.

So finally, reported orders were up 3%. Again, the OEC and the DRA had about a 7-point impact. Another way to say that is all other DI plus medical diagnostics plus services, everything else in the business was up 10% in the quarter on orders.

If you look at the right side, here is another way to look at it. For our global Healthcare business, OEC and DI clinics that are impacted by the DRA were about 10% of our revenue. That was down about -- OEC we are not shipping. DI clinics was down about 60% in the quarter, about twice as big an impact as what we had expected.

Then you look at the balance of business, 90% was up 5 to 10. That drives that revenue growth flat.

Then, what are the dynamics as you go forward? Basically the OEC team has done a great job with customers. We have got a full-year backlog that we retained. That will rebound in the second half. We think the DRA comps improve. We have seen this cycle when reimbursements change. We feel pretty good about how that should play out as you get through the second half of this year.

The overall demographics around Healthcare continue to be just terrific. The demographics, aging populations, rising standards of living, and the technology capability to do more, and the procedure growth associated with all of that continue to be positive. We have got great global growth. Services is very strong, and we are on track for a good year in Healthcare.

So you know, it is another example. A diverse portfolio gives us the opportunity to manage through an individual issue.

Next, the final business to cover is Commercial Finance. They had an absolutely great quarter. You look, revenues of $6.2 billion, up 15%. Segment profit $1.4 billion, up 21%.

Great asset growth. Assets were up 26%. The last 12 months have been great for originations. You can see the Vs over in the top right for the different businesses. We really continue to do a good job with origination.

Then revenues were up 15%. It is driven by very strong asset growth, as I said. Segment profit up 21%, and just a couple of pieces.

Real Estate had another great quarter; their net income was up 28%. They had absolutely great asset growth. Our assets are up $59 billion, they are up 58%, they are up to $59 billion. We have had great asset growth and origination globally. Better sales performance.

The portfolio quality in Real Estate is fantastic. On that $59 billion of assets, we have $39 million of nonearning. So it is just a tremendously high-quality portfolio that is performing very well.

Cap Solutions also had a strong quarter. You look at their net income of $380 million, up 12%. Also driven by good asset growth. Assets are over $100 billion, $103 billion, up 16%.

Then if you look other Commercial Finance we also had a strong quarter in Corporate Finance. Earnings are up 21% including the benefit from SES. So here the portfolio growth is great, the asset quality is very strong. Delinquencies are at a historical low. The second-quarter outlook is for another strong performance; segment profit up 10% to 15%.

So with that look at the businesses, let me turn it back to Jeff.

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

Great, Keith. Thanks. Just reviewing briefly the business development activities, remember in the last call we had at the end of the fourth quarter, it was filled with the announcements on the deals. I just want to give you an update on them.

First, Vetco Gray closed, as John said. They are off to a strong start in beating their deal case already, so we feel good about that one.

Smiths, we have received US regulatory approval. We are still working in a constructive way in the EU. We're targeting a second-quarter close. We have had a chance to do diligence over the last couple months, and we feel like this is a very solid fit. We like the way this business looks and feel good about the future.

Abbott, we have received US regulatory approval. The EU process is underway. This is a complex asset transaction. We are working very closely with Abbott through diligence and regulatory issues. We expect to close this deal. We think it could take longer than we originally had forecast. But we like this business and continue to think it is a good fit in our Healthcare portfolio.

The Plastics transaction is on track. I think great progress, lots of interest in this business. We expect the first round of bids soon. We really are targeting an announcement of a definitive agreement in the second quarter, a close in the third quarter. I'm pretty optimistic about how this process is going and the outlook for our Plastics business overall in terms of doing this disposition.

So the deals are all more or less on track. We like the strategy of all of them and feel great about the positioning.

So just to wrap up, a solid first quarter despite a few headwinds, and really delivered, I think, good results. The Infrastructure Equipment and Service backlog just kind of ending the way I started. Again, I think this is -- we're at the very beginning of a long-term run of highly-visible growth and expanding margins and returns.

The Finance markets look good, both commercial and consumer finance. We think Healthcare will strengthen during the year.

Our operating targets of getting 100 basis point improvement in both operating profit rates and ROTC are in sight and on track. The deals look good and are on track. We are reconfirming a 10% to 12% total-year EPS growth, up to $2.18 to $2.23. So Dan, with that, let me turn it back over to you and now let's take some questions.

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

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

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Nicole Parent of Credit Suisse.

Nicole Parent - *Credit Suisse - Analyst*

Good morning. I guess, just the first question on Healthcare. With the weaker revenues, I think in the guidance you had given us you had factored in the Deficit Reduction Act. Could you talk a little bit about why, I guess, it is weaker?

When we think about the forecast in that business for the full year, given the first-half issues in OEC and just the impact on the clinics, how does that change the forecast for the full year?

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

You know, what I would say, Nicole, fashion on operating profit, the way I would think about it is we missed about $50 million. I would say that the cost to remediate OEC is about half of that; and the other half is the Deficit Reduction Act being a little bit worse than we thought.

On the revenue side, it is pretty much contained to the clinic business. The drop as Keith said, was down about 60%. We had forecast maybe half that.

We have seen that twice before, once in the early '90s, once in the late '90s, where we had reimbursement hits. Typically, the bounce-back is about six months.

Procedure growth -- if you look at our diagnostic pharmaceutical business, that is up 10%, so that says procedure growth is still solid. That ultimately is what drives this market.

The way I would think about the year -- and again, I will take Abbott out of it -- is that I would still expect Joe and the team to do revenues in the mid single digits and operating profit up 15%.

We have had almost no cancellations in OEC. So basically what's that means is once that business starts up again, we will do a year's worth of shipments in however many months are left in '07. So again, I think the business model is strong and the DRA is, I think, a little bit worse than what we thought. But I think the business for the year is going to do fine.

Nicole Parent - *Credit Suisse - Analyst*

Organizationally, when you think about once you're on the FDA's radar screen, it is tough to get off. How should we think about timing and are other businesses at risk in Healthcare?

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

You know what I would say, Nicole, is the FDA controls when you get out of a consent decree and things like that. My view is these are things we know how to do. The person who is leading this effort is somebody from the aircraft engines business who is used to the FAA. We are kind of using this as an opportunity to build a competitive advantage around the FDA.

At the end of the day, I think a stricter FDA is good for us, not bad for us. It is a competitive advantage and a barrier to entry. So what I would say is that we feel good about the overall positioning of GE Healthcare. We think it is going to be a core competency. The best part about OEC is we have had maybe something like $10 million of cancellations. Almost nothing. So I think that franchise will remain intact.

Nicole Parent *- Credit Suisse - Analyst*

Great. Just one big-picture question for you, Jeff. When you think about the recent attempts of companies to create value like Blackstone, American Standard, and Tyco, does that cause you to reevaluate your options with respect to the portfolio at all?

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

You know, Nicole, I have always been of the mind that if somebody can run a business better than we can we will sell it. We did that with Insurance, we did it with Motors, we did it with Global Exchange, we're doing it with Plastics.

But when I look at the portfolio today, there is great strength in the diversity of the business model and best practices that are shared across the board. I think if you look at Infrastructure, the totality of who we are in Infrastructure, from the Global Research Center to the way we approach global markets, is what drives this Company.

I took a trip in the last part of January. In Algeria, we will do $1.2 billion as a Company. In Saudi Arabia, Dubai, and Abu Dhabi, $5 billion as a Company. Pakistan, $1 billion as a Company. Turkey, $1 billion as a Company. That is the value that we create, and so we are not like these other guys. We play the totality of the Company I think as a great strength.

Nicole Parent *- Credit Suisse - Analyst*

That's great. Thank you.

Operator

Bob Cornell of Lehman Brothers.

Bob Cornell *- Lehman Brothers - Analyst*

Thanks. I've got a couple of questions. First of all, either Jeff or Keith, could you flesh out the comment about orders being up 15% in the upcoming second quarter? Is that all on the strength of long cycle, or are you looking at decent flow orders? Maybe you can just give us some visibility around what you see there, how that mix would break down.

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

I think the change from the first quarter is going to be driven by Major Equipment. We expect Major Equipment, as I said, to be up 20% plus. Services should continue to be strong. And Flow -- Flow, I would say in the zero to 5% range, similar to what we are seeing, probably. We have to see how that comes out.

So I think the big change, Bob, is that we do see some large equipment orders continuing and great growth there in John Rice's business.

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

We have had some big orders just in the first couple weeks of April, Bob.

Bob Cornell *- Lehman Brothers - Analyst*

That will help.

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

Major Equipment.

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

We have got Mark Begor on the phone here. Let's -- you know, I'm surprised, frankly, that with the $500 million pre-tax provision that you're still looking at a $5- million drag in the second quarter. Maybe you could give us some idea of why you're still seeing a drag on the second quarter, if you took a $500 million provision in the current quarter.

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

Sure, Bob. The bulk of that, Bob, is really from the cost structure of the business. We are still expecting the capital markets to be difficult in the second quarter. Even as we take the business structure down, probably two-thirds of that $50 million will be from just running the business and having the resources that we have there, again, with virtually no revenue. We are not counting on a marketplace that is going to come back.

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

A final question there. How comfortable are you that you have got all the visibility in the blowback on the early payment default loans that were out there in '05 and '06? Are there still loans that are potentially going to get put back? Do you have any measure, way of quantifying that?

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

We spent a lot of time, looking at that, as you might imagine, Bob, really starting in the fourth quarter. What we have seen is investors have put the loans back to us quicker. It used to take nine months or so for them to come back, when you go back to kind of early '06. That accelerated in the fourth quarter. We are now seeing the put-backs really in the first three-month mark.

Second, as I mentioned earlier, we also put up as a part of our reserves in the first quarter reserves for potential future repurchases. So there's about $150 million of the reserves that will cover us for future loans coming back. So we think we have got a pretty good handle on it.

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

What were the changes in the auditing standards that you put in place that will insulate yourself [going forward]?

Mark Begor - ***GE Money-Americas - President, CEO***

There's a couple things that we did. Historically there was not a time limit on those loans to come to us. In October we put a clock on, that they have to come back within 180 days. So that was one thing we did.

Second is we really didn't have a rigorous enough review of those repurchases when they did come back to us. Now we have a very focused team there with ex-auditors and we're really scrutinizing those loans to make sure that they really should be coming back to us. That is also helping in our economics.

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

But you know, Bob, you have seen us over a long time in our financial service businesses. We are good at workouts. We are good at making lemonade out of lemons. I think that is what Mark and his team are going to do here.

Operator

Jeffrey Sprague of Citigroup.

Jeffrey Sprague - *Citigroup - Analyst*

Thanks. Good morning, everyone. Jeff, or maybe since we have got John Rice there, Jeff, you made the comment about first inning here as it relates to Infrastructure. Then there were some comments also about pricing and margin in the backlog.

I was wondering if somebody could kind of tie all of that together for us, what you see developing in the U.S. with the recent Supreme Court ruling. You've got Europe deregulating. There certainly is a lot of stuff that would seem to play to your strengths. But how should we really expect this to kind of manifest itself in your orders and revenues over the intermediate term?

John Rice - *General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

Hey, Jeff. Listen, I think it is some of what Keith and Jeff and I talked about in terms of the breadth of activity that we see everywhere. The Supreme Court ruling certainly encourages people to think about alternative energy technologies, and we think we are very well positioned in things like coal gasification, wind obviously. Solar coming but a little further out. Nuclear is going to take a while, as you know.

But frankly, that is all good news because short-term, we still see very, very good strength in our traditional gas business in Energy, if you want to look at that. Transportation, we didn't mention that earlier, but the Transportation business shipped more locomotives in the first quarter this year than ever before, up about 40 from last year, and added 5% to their backlog on top of that. So we are seen Transportation, interest in rail in countries like Saudi Arabia, which traditionally have never talked to us about heavy haul freight.

So you know, it is a very long answer to your question. We see 15% to 20% growth, for sure, and higher in some quarters as we have talked about in the second quarter, and tremendous breadth and strength.

In the US, as I mentioned, there's been a lot of inquiries in Energy, particularly. We are seeing -- we think we are going to see a pickup there. We have done -- the team has done a great job balancing price, productivity, and inflation; and you are seeing that in the positive margin expansion and we expect that to continue.

Jeffrey Sprague - *Citigroup - Analyst*

There was a comment about 3.5% price; I don't recall if that was turbines or Infrastructure in total. Just give us a little more color on what is going on in pricing in the backlog.

John Rice - *General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

It was -- the comment I think related to power gen orders were up; price was up 3.5%. We are seeing there is a lot of demand out there. Capacity is relatively tight in some areas. A piece of that, obviously, is being fueled by wind. But over the next 12 to 18 months, we see that our ability to get price is going to continue.

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

You know, Jeff, if you think back to late '90s, that was one product in the US, gas turbines in the US. Now it is every product everywhere. So you've got rail, Oil & Gas, aircraft engines, Energy, for the first time -- I don't know -- in 50 years, that are secularly all expanding at the same time.

We are very well positioned to take advantage of it, both from a revenue standpoint, but more importantly from a supply chain standpoint, which is one of our strengths. So you know, if the US comes back in, from a standpoint of gas turbines and wind, that is just icing on the cake. That is going to play to our ability both to price and to do a better job on supply chain.

Jeffrey Sprague *- Citigroup - Analyst*

I just wondered, do you think we will have to see much more gas turbine activity in the US as kind of a bridge to IGCC and nuke maybe five to 10 years from now, that --?

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

Absolutely, no question.

John Rice *- General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

There is just no question. No question, and you're already seeing that with spike in demand for Aero. That usually portends, as I mentioned before, growth in the frame stuff. We have seen this in the past and we will see it again.

As Jeff pointed out at the beginning, the good news here is that we have a broader, deeper play, quite frankly. We don't anticipate another US bubble and that is a good thing, because we are going to see more breadth and more depth.

Jeffrey Sprague *- Citigroup - Analyst*

And just -- I'm sorry, one follow-up. That was one long question, if you will allow me. Just on the tax rates, Keith, just so we all have this straight. So your guidance of 16% to 17% for the year, that would not assume one of these settlements comes in? And therefore, if we get a settlement, how do we think about that? A settlement is upside to EPS, or a settlement results in additional restructuring?

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

No, what I said, and I will try and clear it up. Settlements will cause more volatility within the quarters on either the Industrial or GECS rate. But everything all in, our estimate for the consolidated rate for the total year is expected to be 16% to 17%. Everything I know and anticipate. I just can't book it that way yet, but that is what I would give you as guidance.

Jeffrey Sprague *- Citigroup - Analyst*

Okay, thank you.

Operator

Deane Dray of Goldman Sachs.

Deane Dray *- Goldman Sachs - Analyst*

Good morning. A couple quick follow-ups. First from Mark, the securitizations that you took in the first quarter, the timing on this is a little unusual. You see more securitizations in the back end of the year. Was this a conscious decision to offset some of the WMC losses? What are the securitization expectations for the balance of the year?

Mark Begor *- GE Money-Americas - President, CEO*

Yes, Deane, it was a conscious decision to try to accelerate some securitizations to cover a portion of the WMC issue that we talked about. We don't see anything outside of the normal process for the rest of the year.

Deane Dray *- Goldman Sachs - Analyst*

Any difference in pricing on any securitizations?

Mark Begor *- GE Money-Americas - President, CEO*

No, actually there was a very strong demand for what we did in the first quarter. But no change in pricing.

Deane Dray *- Goldman Sachs - Analyst*

Good, and then swing over to the OEC and the consent decree. Is there any -- I may have missed this. Did you comment on when you think that you will resume shipping? Is it a second quarter or is it a second half?

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

You know, I think this is one that we can't predict. We are working hard to do all the things that we know we have to do with the facility. My hunch is that it is second half.

Deane Dray *- Goldman Sachs - Analyst*

Okay. It was very helpful to say that the backlog really hasn't seen much in the way of cancellations. I'm sorry, is there any issue with the FDA giving you approvals on any other requests away from the OEC business?

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

You know, I do believe so. No, I think this is -- we have FDA reviews of our facilities all the time and have typically passed with flying colors. This is a unique case, and we are kind of treating it that way.

Deane Dray *- Goldman Sachs - Analyst*

Great, and last question. Bigger picture regarding expectations for organic growth rate. You continue to hit right down the middle of the fairway on 2 to 3 times world GDP. If you segment out what organic growth looked like this quarter between Industrial and GE Capital, what was the contribution from emerging markets? What are you thinking about the balance of the year for organic growth?

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

You know what I would say, Deane, is that the Industrial -- Financial was higher. Financial was like 10% to 12% in Q1. Industrial was like 5%. My sense is that Industrial get stronger during the rest of the year and Financial Services will probably stay in the high single digit, maybe 10, something like that.

Again, we should have organic growth respond as OEC starts up and from NBCU that we haven't had. John will have -- John is a big part of our Industrial segment, and John will have organic growth in the midteens for a while. So I think that is how we think about it.

Then I would say the business outside the United States is going to continue to grow faster than the business inside the United States.

Deane Dray *- Goldman Sachs - Analyst*

Do you have a sense of contribution from emerging markets, imagination breakthroughs?

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

Emerging markets were up. Our forecast for the year is -- the growth was 14% in the quarter. I think forecast for the year is $32 billion, something like that, $30 billion plus for -- so, you know, mid to high teens of growth. Imagination breakthroughs ought to deliver I would say between 15 and $20 billion. They delivered $5 billion in Q1.

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

Great, thank you.

Operator

Steve Tusa of JPMorgan.

Steve Tusa - ***JPMorgan - Analyst***

Hi, good morning. Thanks for all the detail on restructuring. It's very helpful. It is more than most companies do and a lot of them are serial restructures, so we appreciate that. Just a question on the annual guidance. So Healthcare looks like it's coming in a little bit light. Where is the offset to that given you are reaffirming the number?

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

You know what I would say is that -- John Rice is sitting right next to me here. So John has the ability to continue to execute and deliver very strong.

But I would go back, Steve. Look I -- again, we're not sure when Abbott is going to close. But I still believe Healthcare has got a reasonable chance to get to 15% op profit V.

Look, I would say -- I would take the blame, personally, to say that I think our guidance was probably too bullish in Q1. But if you just [step] back, OEC from an op profit standpoint probably cost us $50 million just on itself in the quarter. So when that is up going again, it is going to generate a lot of money for us.

Steve Tusa - ***JPMorgan - Analyst***

Yes. Then I am not quite clear on the second quarter. You know everybody is kind of focused on puts and takes every quarter. Are you factoring in that tax benefit in the second quarter? Or how do you come to an EPS number? What kind of tax rate are you assuming there for the second quarter?

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

I didn't -- I said we are working with the IRS on settlements. I am not sure of the timing of when those are going to occur. All I said was when they occur they will create some volatility. So we are talking about a 16% to 17% consolidated rate for the year.

Steve Tusa - ***JPMorgan - Analyst***

Okay, so that is how we should think about that, factoring in that EPS number in the second quarter. Then one last quick one. Provisions in GE Capital were up quite a bit; obviously, some of that is WMC. Up 40-plus-%. Does that comp, obviously get -- go down over the next couple quarters?

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

Sure, I think, first that provision increase doesn't really have an impact from WMC. That is really -- those loans are held for sale; and those would have been mark-to-market writedowns.

So the provision increase is really a couple of things. Number one, if you remember the US bankruptcies, it is in the consumer, in the GE Money business, the US bankruptcy law changed at the end of '05; and there was a real acceleration of bankruptcies at the fourth quarter of '05. Then as a result, the normal bankruptcy provisions that you put as part of your ongoing volume were very low in the first quarter of '06. So we have got kind of more normal provision for bankruptcies in the first quarter. That is about $170 million of this growth.

Then we had some timing in Commercial Finance. Last year we have recoveries in the first quarter that didn't repeat. We were up about 0.2% of Average Net Assets in Commercial Finance, which is probably a more normal run rate level.

So I think the normalization for bankruptcies is what is driving it, as opposed to any particular change in our view of the quality of the portfolio.

Steve Tusa - ***JPMorgan - Analyst***

So about $1.1 billion going forward here, or should that go down a little bit sequentially? Tough to call?

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

I think from a run rate you're going to be somewhere between 80% and 100%, 100 basis points to ANIE. So it is going to depend upon our asset growth as well, Steve.

Steve Tusa - ***JPMorgan - Analyst***

Okay, perfect. Thanks a lot.

Operator

Scott Davis of Morgan Stanley.

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

Good morning. Thanks. Since we have Mark on the line, maybe we can dig into private-label credit cards a little bit, particularly in the US. Mark, are you seeing any risk that maybe this mortgage subprime disaster could leak out over to credit cards?

Mark Begor - ***GE Money-Americas - President, CEO***

Scott, we are watching closely, as you might imagine. We actually started back last fall in September and October. We moved at that stage to start adding collectors just to get in front of potential impact from home price appreciation and what we are seeing. We have actually added 700 collectors in the last few months to make calls earlier and more reminder calls.

The net result, though, is we haven't seen really any kind of measurable change in our delinquencies. We continue to watch it. As I said, we are trying to get in front of it. It really has been fairly stable.

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

Just maybe a comment and a question. Historically, I think, GE Capital has always done a great job of being the buyer of last resort when you have disasters like this. It seems like you're kind of exiting the business or at least slowing origination at a time when maybe historically GE would be stepping up and buying some nonperforming loans or doing things like this.

Is there a change of strategy? Is that something that I just don't think it is time yet? Just talk a little bit about strategy there.

Mark Begor - ***GE Money-Americas - President, CEO***

Yes, I would say that it really probably is not the right time for us. We have got our hands full right now getting the business resized to where we want to take it. That said, you are right; we are always opportunistic and we are very close to the market. We are watching what is going on. If we see something, we will certainly look at it. But we have got a lot to do right now in getting the business resized.

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

You know, Scott, we have asked the Commercial Finance team to work with Mark's team and take a look at where do you see the opportunities here in this market? There is an awful lot of turmoil; and as you said, we are always looking at the right opportunity.

So we are going to be careful about it, but we do have some people who are looking at it to say, where are places here where it may be the right place to put some capital?

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

Fair enough. Since we also have John on the line, little bit of a big picture question. But now you have had GECAS and Energy Financial Services under your management for long enough to probably make a conclusion. Is this -- having these businesses are you seeing any real benefit to helping pull through your core business? Is this kind of worth -- I guess another way to say it, is it worth the hassle that it basically brings upon us in analyzing it together? Or are you seen some tangible advantages?

John Rice - ***General Electric Company - Vice Chairman, President & CEO GE Infrastructure***

Well, we are definitely seeing tangible advantages. We will book an order in the second quarter in the Middle East that we are negotiating on an exclusive basis in our Water business, because we can work with Energy Financial Services on the same deal.

So that is just one example, but it comes up regularly, whether it is the domain expertise that Henry Hubschman and his team bring to the party, or the financial expertise that Alex Urquhart and his team brain to the party. We see benefits everywhere we look. I would never want to go back to the way it was.

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

Okay, fair enough. Thanks, guys.

Operator

David Bleustein of UBS.

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

Good morning. Mark, quick question. Are the returns getting even close to the level where you might want to keep some US mortgages on balance sheet?

Mark Begor - ***GE Money-Americas - President, CEO***

Well, that is one of the things we are evaluating is keeping mortgages and then using securitization for returns. It is really not driven by what I would call the returns of mortgages or repurchases. It is really driven by the change in the capital markets. This idea of whole loan sales in this market to Wall Street just doesn't work.

We have very strong mortgage businesses outside the US in UK and Australia where that is our model, and we're really taking that back here to the US.

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

Fair enough. Let me just shift over to John. John, you mentioned or at least confirmed a comment on a bridge to getting to IGCC technology. Obviously, there's some plants up and running, but how long do you think it takes before we start to see significant numbers of IGCC plants being built here in the US?

John Rice - ***General Electric Company - Vice Chairman, President & CEO GE Infrastructure***

Well, David, it depends on how you define significant numbers. But certainly, we are three to four years away from the first one with the new technology, the way we are thinking about it. I would say, probably another three to five years away from significant numbers.

There is no question in my mind and I don't think there is any question in our customers' minds that this is going to be important technology in this country and in other countries that rely on coal. It has got to be cost right. The cost has to be right. Consumers have to be ready to pay, and utilities have to be ready to invest. When all that comes together, and it will, this is going to be significant technology.

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

And compared to an ordinary combined cycle plant, how much more expensive is the construction cost and how much more do you think it costs to operate?

John Rice - ***General Electric Company - Vice Chairman, President & CEO GE Infrastructure***

Well, it is really tied to the capital cost. Right now, it is in the 20% to 25% higher range. We think we need to cut that in half; and we will over time. It won't be cut in half for plant number one, but it should be by plant number five or number six. So that is the glide slope that we are thinking about. I think that is consistent with the way our customers are thinking about it.

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

Then switching gears over to steam turbines, can you talk a little bit about your initiatives in India and the rest of Asia on the steam turbine side?

John Rice - ***General Electric Company - Vice Chairman, President & CEO GE Infrastructure***

Well, it is interesting, because right now we are seeing a fair amount of steam volume, but it is tied to combined cycle gas turbine. So I was walking through the plant in Schenectady just a few weeks ago, and 75% of the stuff on the floor is for outside the United States, tied to combined cycle gas turbine.

So while we still find markets like India, the Middle East, China, interesting from a pure steam play, we are very satisfied right now with the amount of steam business that we are getting associated with combined cycle gas turbines.

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

Terrific. Thanks a bunch. Keith, just one; sorry to come back to tax rates for the third or fourth time, but 16% to 17% is what you have got built into the guidance for Q2?

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

On a consolidated basis, yes.

David Bleustein *- UBS - Analyst*

Thanks a bunch.

Operator

Ann Duignan of Bear Stearns.

Ann Duignan *- Bear Stearns - Analyst*

Hi, it's Ann Duignan, Bear Stearns. Good morning. Just a couple of quick follow-up questions. 8% organic growth is calculated at constant currency. What impact did currency have on revenues and/or earnings this quarter?

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

Currency was about 1.5 points on revenue and insignificant on currency.

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

Or on earnings.

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

On earnings, excuse me. Sorry.

Ann Duignan *- Bear Stearns - Analyst*

Okay. Thank you. Just in your press release, you noted that you would use the gains on the sales of assets primarily for restructuring. That is a slight change in wording. Where else do you see the uses of the gains on the dispositions?

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

I think that is maybe a fine line on accounting. For example, for us, it is things like the asbestos lawsuit wouldn't technically be restructuring. So we do plan on using any gain to reinvest in the strength of the Company, Ann.

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

(multiple speakers) We have got things like IP R&D, stuff like that, Ann. So I think it is just a fine point. But basically, what we're saying is the gains aren't going to fall through.

Ann Duignan *- Bear Stearns - Analyst*

Okay, so no big change in --?

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

None at all.

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

Zero.

Ann Duignan *- Bear Stearns - Analyst*

Okay, thank you. One final question on inflation. You noted in Aviation that you were seeing some inflation. Can you just talk about inflation in general across your different businesses? Are there any surprises out there that you have noted during the first quarter, either positive or negative?

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

You know, we have seen inflation, principally in precious metals, and in other metals commodities. Our overall approach for the Company has been it has been relatively contained. Our pricing activity has more than offset inflation across the portfolio.

So you know, we do see some of the inflation in precious metals. We go out and we do everything on long-term contracts and collaborative investments with suppliers to make sure that we can mitigate the impact of that. Then we work like crazy with our commercial teams to make sure that we can recover that in the marketplace. If you look across this portfolio, we were able to do that in the quarter.

I think on the other side, though, if you look at pricing in the quarter, to a point that goes with inflation, Aviation pricing was up 2.5%, Energy pricing was up 2%, Transportation pricing was up 1%, Oil & Gas pricing was up 2%. We are working to make sure we recover that in the marketplace. As John mentioned and Jeff mentioned, with the supply-demand equation that we have got going on, Ann, that has been very effective for us.

Ann Duignan *- Bear Stearns - Analyst*

That begs the final question, are you seeing any glimmer of component supply constraint beyond, let's say, wind, which is well documented? Do you worry about any other supply constraints as you ramp up some of these late-cycle businesses?

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

Well, in a sense, we are paid to worry about all of them. But we're not seeing anything that impacts our business. Our supply chain teams are doing a terrific job. That is one thing we learned very well during the US power bubble, is how to manage these situations.

So whether it is the Aviation team, the Transportation team, the Energy wind team, they are doing terrific jobs dealing with us. We don't see any, any, anything that will impact our ability to deliver for our customers.

Ann Duignan *- Bear Stearns - Analyst*

Okay, I think Peter has a follow-up question on Financial Services.

Peter Nesvold *- Bear Stearns - Analyst*

Yes, Mark, just one quick question. I guess the conventional view is that a lot of these subprime headwinds in mortgages won't expand into Alt-A market. I guess, why that level of conviction in the market, given that a lot of loan characteristics are shared, whether it is ARMs or low documentation or high loan to value?

Mark Begor *- GE Money-Americas - President, CEO*

Actually, we wouldn't agree with that convention that there is not going to be pressure on Alt-A because we are seeing some of it.

Peter Nesvold *- Bear Stearns - Analyst*

How would you characterize delinquencies, 60-day plus delinquencies in subprime versus Alt-A right now?

Mark Begor *- GE Money-Americas - President, CEO*

Subprime is probably 50% higher from a delinquency standpoint. But we are clearly seeing some of the Alt-A consumers come under pressure, too.

Peter Nesvold *- Bear Stearns - Analyst*

Great. Then last follow-up there, did the Alt-A sort of follow the issues you saw in subprime? So did subprime lead? Or did you see them coincident?

Mark Begor *- GE Money-Americas - President, CEO*

No, subprime definitely led. We started seeing the subprime delinquencies tick up kind of in the summer last year; and Alt-A started really later in the fall.

Peter Nesvold *- Bear Stearns - Analyst*

Great, thank you.

Operator

Robert McCarthy of Banc of America Securities.

Robert McCarthy *- Banc of America Securities - Analyst*

Good morning, everyone. Maybe you could talk about the low single digit CapEx obviously everybody is seeing in the broad industrial economy in the US. What kind of trends do you see prospectively? Do you see that further declining, decelerating? Do you expect back half snap-back? What is your expectation there?

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

You know, Rob, on the kind of the US short-cycle business, I don't see it getting worse. I think the one wildcard is housing; and I guess we don't see housing in its totality. The appliances tends to see completions.

But we are not building in our forecast any kind of a big snap-back in the second half. We are kind of thinking the economy stays at the level it is at right now.

Robert McCarthy *- Banc of America Securities - Analyst*

Okay. Then, I guess one thing that caught my eye was lighting was up 10% in the quarter. Does that speak to the strength in US commercial construction? Does that speak to global strength? What does that speak to, given the fact that it was roughly double, I think, your organic growth rate for the overall business?

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

I wasn't sure while I was CEO I would ever talk about lighting on one of these calls; so Rob, thanks.

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

We had a great performance in lighting in retail. It's all the retail channels, and I am sure you are familiar. It is driven by the compact fluorescent activity across this country and around the world. But that incandescent was also very strong.

So retail strength, Wal-Mart, Home Depot, Lowes, very good.

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

I think, Rob, to Keith's point, Ecomagination has been a great demand generation process for the Company. Even things like CFLs I think it has made a big difference from the standpoint of how we have even thought about the lighting business.

Robert McCarthy *- Banc of America Securities - Analyst*

Okay, fair enough. Then I guess, obviously, it looks like alternative energy generation, very high visibility and great prospects going forward. On the transmission and distribution side of the house, obviously, you have some fair amount of exposure there I think as well. But not a huge amount, but some.

Could you talk about those markets? Would that be an area where you could maybe -- obviously not this year, given the fact that you have announced several large acquisitions. But down the road, would that be a place for maybe investment or further expansion into transmission and distribution?

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

Frankly, Rob, we like the size of our business. As you know, we are not the biggest player out there, but we are in some very good, solidly profitable segments, and I don't anticipate a huge expansion.

The team that is ready that business is doing a great job. We are in -- we have got a pretty good cost base; we are working to improve it; and we kind of like where we are right now.

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

You know, Rob, all of our Industrial deals basically have recurring revenue that go with them, have service franchises. T&D really doesn't have a big service franchise that goes with it.

Robert McCarthy *- Banc of America Securities - Analyst*

You don't see that changing prospectively?

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

Not really.

Robert McCarthy *- Banc of America Securities - Analyst*

Okay, all right. Well, thanks for your time.

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

Carol, can we take one more question?

Operator

Absolutely. Chris Kotowicz of A.G. Edwards.

Chris Kotowicz *- A.G. Edwards - Analyst*

Good morning, everybody. On power gen, you talked about strength in steam turbine sales. Is that on the international side? Is that really being driven by Power Island sales, or are those stand-alone units?

John Rice *- General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

No, that is -- when I refer to combined cycle gas turbines, that is probably your definition of Power Island. They are not stand-alone.

Chris Kotowicz *- A.G. Edwards - Analyst*

I'm talking about the steam turbines.

John Rice *- General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

Yes, there is a steam turbine that goes with every two gas turbines. So -- but we are not seeing a lot of stand-alone steam business and certainly not in countries like India or China.

Chris Kotowicz *- A.G. Edwards - Analyst*

Okay. Then you talked about the supply chain kind of broadly not being a constraint for you guys. Is that also true on ancillary equipment, and maybe specifically on the Energy side or power gen side? The guys around you that maybe you don't actually make their products but that you would need for a Power Island, do you have any concerns there?

John Rice *- General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

Well, we work as closely with them as we do with our direct suppliers. So when we are involved in a plant construction project, we manage them almost the same way.

So again, we always -- we want to be a little bit concerned, just because we don't want to be complacent. But we don't see anything which is going to limit our or our customers' abilities to complete these projects.

Chris Kotowicz *- A.G. Edwards - Analyst*

Okay. On the coal side, obviously, there has been a lot of momentum. The headlines now and talking to folks, it sure sounds like the reality is that maybe that momentum in coal is slowing. Do you guys have any comments on kind of your view on that right now?

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

Look, I think the world needs coal. So I think there is going to have to be at some point some confluence between the environmental standards and the need for coal. That is why John and his team have invested in coal gasification and other technologies around it. So I don't know, John, what would you say to that?

John Rice *- General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

I totally agree. Coal is a big part of the action in the United States and in many countries, and IGCC will become an important technology. Short-term there is going to have to be new coal plants.

Chris Kotowicz *- A.G. Edwards - Analyst*

Do you see to accelerate -- you talked about, what, four to 10 years kind of initial IGCC plant to more proliferation. Do you see any possibility of a government subsidy there, kind of like you have got on the wind side?

John Rice *- General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

Sure, sure. No question, things like production tax credits can work, and that will help. But these are large, sophisticated chemical facilities that will take three plus years to build under any circumstances. So there is only so much you can accelerate that.

Chris Kotowicz *- A.G. Edwards - Analyst*

Are you guys going to have to provide the wrap on that, you think?

John Rice *- General Electric Company - Vice Chairman, President & CEO GE Infrastructure*

We are looking at all sorts of options; and that depends on the customer and what their needs are.

Chris Kotowicz *- A.G. Edwards - Analyst*

Okay.

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

Great, we would like to thank everyone for participating. JoAnna and I will be available all day to answer your question. Replays and transcripts will be available at our website. Thank you very much.

Operator

Ladies and gentlemen, this concludes your conference call. Thank you very much for your participation today and you may now disconnect.