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EDITED TRANSCRIPT

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PRESENTATION

Troy Lahr - *The Boeing Company - VP IR*

Good morning and welcome to Boeing's 2014 Investor Conference. I am Troy Lahr and it is our pleasure to be with you here in Seattle.

Jim McNerney will kick off the session this morning and then you will hear from Dennis Muilenburg, Greg Smith, Ray Conner, and Chris Chadwick. If you would like to ask a question at the end of the presentations please raise your hand. (Conference Instructions)

For the two breakout sessions later this morning we have Beverly Weiss and Larry Loftis from BCA and Chris Raymond and Leanne Caret from BDS. For the breakout sessions we have Group A and group B which is assigned on the back of your badges. And then we have them in the breakout rooms where Group A will be in the Spanish ballroom and Group B will be in the Metropole Room, which is located on the lower level.

Before we begin I need to remind you that throughout the presentation today there is information that is forward-looking. This information is subject to risk and uncertainty as detailed in our SEC filings. Now it is my pleasure to welcome Boeing's Chairman and Chief Executive Officer, Jim McNerney.

Jim McNerney - *The Boeing Company - Chairman, CEO*

Thank you. Good morning, everybody.

It was good to see you all last night. And thanks for spending a lot of time out on the floor yesterday. I think hopefully you saw some of the things you were looking for.

Look, and when you were out there, I know you saw a lot going on out in Everett. We are proud to show it to you.

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Ray, where is Ray? He is here somewhere. Ray, thanks for hosting it for everybody.

I hope you did recognize some of the progress we have made as you look at what you saw. It translates to higher quality, higher rates and significant improvements in productivity and it's all about the future for us in Everett. You will get a lot more from Ray and others on that subject.

I will touch on a number of things to set the themes and the tone. And then we will go as deep as you guys want to go and we'll each stop for some Q&A as we move along.

At this meeting last year, as many of you remember, we discussed our strategy to convert this huge backlog, unprecedented in our case, into significant cash flow through sustained, strong operating performance. We also stated as a priority the return of that cash to shareholders at levels in line with our increasing financial strength and our performance potential as a business.

In December, as many of you noticed and many of you had encouraged we began to deliver on that promise when we announced a $10 billion share repurchase authorization and a 50% dividend increase. These decisions reflected our strategic progress, as I said to many of you last night, lagging indicators, not leading indicators, a reflection of our confidence in our Company and our business, not something that precedes it and hopes for it. And an unwavering commitment to deliver innovation to customers and value to shareholders.

For 2013 we reported record revenue and earnings, improved operating margins, increased cash flow, a large portion of which was returned to shareholders and our highest ever backlog. Boeing Commercial Airplanes achieved record revenue of $53 billion on an industry record 648 total deliveries including the most ever for the 737, 777 and 787 programs. We successfully executed our planned production rate increases and expanded our market share leadership in deliveries that we had regained in 2012.

During the year BCA booked 1,355 net new orders, the second highest in our history. And when combined with the 235 more orders in the first quarter of 2014 our backlog stands at more than 5,100 airplanes worth a record $374 billion. That's an unprecedented foundation for strong and long-lasting growth.

Boeing Defense, Space & Security also achieved strong results in 2013. And BDS continued to benefit from our One Boeing global approach, our market-based affordability drive and our portfolio of proven, reliable and affordable systems and services. Despite continued domestic budget headwinds and tough global competition we are pretty clear eyed about all of that.

BDS reported revenue of $33 billion on increased deliveries of aircrafts and satellites, higher operating margins, significant program wins and productivity gains to further improve our competitive position. BDS captured orders totaling $28 billion in 2013 including key contract awards for 13 U.S. Navy P-8A Poseidon aircraft, an order from Satmex for a second 702SP satellite and an order for 36 Apache helicopters for South Korea.

BDS orders are off to a strong start again in 2014 with another $2 billion of U.S. Navy P-8A orders in hand and a commitment by the government of Qatar to purchase 24 Apaches and three 737-based AEW&C aircraft. Our Defense, Space & Security backlog at the end of the first quarter was $66 billion, approximately twice 2013 revenues and among the strongest order books in the defense industry.

Overall, our consistently strong and steadily improving performance from 2010 through the first quarter of 2014 has significantly strengthened the foundation of this Company. It's shaping up as a trend, real movement toward our aspiration to deliver sustained world-class business performance year-over-year for the benefit of our customers, our employees and our shareholders.

Now, before we move on what would the morning be, what could the morning be without an uplifting Boeing video? I know you are all on pins and needles.

To remind you of our mission and of the enduring spirit that fueled, over the years, our passion to come among other things break the sound barrier, introduce international air travel, launch the first satellites, usher in manned spaceflight, advance the technologies of air warfare and, quite frankly, much much more. Roll the tape, please. (video playing)

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Tom Downey, leading the applause, shameless as he is. Many themes in that video though do foreshadow our new advertising campaign that many of you have started to see. And will see significantly more of over the next couple of months.

Tying together the theme of the video with where I just left off, since I joined Boeing in this role nine years ago, we have worked to infuse our culture with an appreciation of the fact that building a better performing business is a prerequisite for sustaining our innovation and industry leadership. Not just a result, it's the foundation. In that regard the intensity of our focus on execution is now matched by our commitment to enterprise risk reduction and continuous productivity improvement.

For highlights of our recent progress and path forward in these areas let's turn to the next slide. Without recounting the lessons of the last decade, which are imprinted on many of us, we have made it an imperative to derisk over the next decade as most of you know.

The first visible manifestation of that was our decision in 2011 to maintain our product performance advantage and strong single-aisle market position with the 737 MAX rather than pursue a higher-risk, higher-cost new start program. Over this past year we meaningfully derisked the coming decade in the lucrative twin-aisle segment as well with key decisions on the 787 program and the 777 programs.

First and foremost we retired significant risk on the 787 by furniture maturing and stabilizing our production system. That's what you saw yesterday. A lot of work but a pretty clean looking result.

We achieved our planned 10-per-month production rate and smoothly and steadily progressed through flight testing on the 787-9, which is on track for a midyear delivery to air New Zealand. I think you saw a touch-and-go yesterday of the -9.

Second, with strong business cases underpinning the 787-10 and 777X, we launched both programs this year with record orders and commitments from a broad base of the world's leading global airlines and leasing companies. With these compelling additions to our product family we sought and have now achieved an advantage over the competition in every segment by tailoring our innovation to customer needs and replicating systems and technologies already proven and paid for on other programs to reduce both cost and risk.

For example, the 787-10 shares substantial parts commonality with the -9 to minimize risk and to lower development costs. That is not something that would've been a natural act for this Company a decade ago.

And the 777X wing will be our fourth iteration, if you can believe it, of the composite wing design of the 787. What is more, in locating 777X wing in final assembly here in Puget Sound with its existing 777 infrastructure and manufacturing talent base, we also reduced costs and execution risk for a high-demand new airplane.

As part of the 777X decision we secured a long-term contract with members of our machinist union in the Pacific Northwest. This landmark agreement runs through 2024 and it provides our customers, suppliers, employees and communities 10 years of production and delivery stability with substantially reduced business risk for all our commercial airplane programs.

We subsequently negotiated a similar extension to 2022 with our machinists in St. Louis. These agreements also addressed the cost and risk of our long-term pension liabilities by transitioning current employees and future new hires to more predictable defined contribution retirement plans from traditional defined benefit plans.

We've announced a similar transition for 65,000 non-union employees. All told we started 2013 with just 15% of our workforce on modern, defined contribution plans. After the transition in 2016, which is where all these announcements center, 80% of our workforce will now be covered by defined contribution plans.

Also at BCA with strong orders last year for current 737 models we have effectively built the production bridge to the 737 MAX, which reached firm configuration on schedule in July. Finally, at BDS we retired risk on several key programs including the P-8A Poseidon, which achieved initial operating capability and now the orders are beginning to flow; the Maritime Surveillance Aircraft that leverages proven P-8 technology which began flight testing; and the KC-46 Tanker reached firm configuration.

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We still have a lot more work to do on the tanker. It is a challenging program but we are pleased to have achieved all customer milestones to date. In summary, the decisions and achievements of the past 12 months are fundamental to the way we are structuring and running the Company to reduce strategic and business performance risks, ensure the health of our balance sheet and enhance our competitive position.

Let's turn now to our growth and productivity initiatives on slide 3. In light of this progress our job now is to execute, to harvest the growth of our record backlog, to deliver on our lower-risk development agenda and return cash to shareholders while investing wisely in our products, technologies and people to sustain our growth and competitiveness.

The growth we are experiencing and the performance we are demonstrating are a direct result of years of effort to weave continuous productivity improvement into the fabric of our Company. We've consistently captured 3% to 4% annual productivity gains companywide. This relentless focus on productivity both in-house and across our supply chain combined with successful execution of future production rate increases will enable the profitable buildout of our backlog.

Our team effectively and efficiently broke to higher production rates eight times over the past two years, no small task, thanks to our reliance on disciplined processes that enable us to assess and ensure readiness for rate increases in our factories and throughout our supply chain. Currently our plans include two increases on the 787 going to 12 per month in 2016 after a two-year period of stability at 10 and then 14 per month by the end of the decade. And increasing the 737's rate to 47 per month in 2017 from the 42 that we are transitioning to as we speak.

Greg Smith and Ray Conner will elaborate later on our approach to increasing BCA's operating margins over the long term including the vital role the 787 program plays in that effort. We have made great progress there as you have seen in our results. But we know we can and will do better.

The growth and productivity initiatives we have installed companywide are key enablers of higher profitability not only on the 787 program but across both of our businesses. These initiatives include our foundational Lean+ work, our enterprise Partnering for Success effort with our supply chain, our market-based affordability approach at BDS and our most recent areas of focus, to reduce the cost of development programs and capture the value of quality in all of the work that we do.

I have asked Dennis Muilenburg in his new role to spearhead our enterprise productivity initiatives to ensure we are leveraging a One Boeing approach to the greatest extent possible. Dennis will expand on these efforts in his segment this morning but let me say a few words about capturing the value of quality, which I see as part of the next horizon in productivity.

The costs associated with scrap, repair and rework on both new and established programs is significant. It's not just in the factory, or engineering redesign, or supply chain errors. It is also the cost to us and our customers when products don't perform as intended.

While there is a sense of back to the future here, we believe there is a huge opportunity for cost reduction and refocusing attention on first-time quality with zero rework required. We are just getting underway but the long-term savings potential is substantial and the horizon for this effort is long.

In this more-for-less world of increasing customer expectations and aggressive global competition, we must not leave any part of our work unexamined in the hunt for productivity. With our comprehensive inside-out One Boeing approach we believe we can harvest significant gains in many promising areas.

Now let's briefly discuss the strategy underway at the Commercial Airplanes business. Next slide please.

The single biggest priority for BCA, as I know you all know by now, is building out that record backlog of more than 5,000 airplanes quickly and profitably to make room for new orders and generate the cash and earnings to fund our new programs and reward investors. Commercial aviation remains a very attractive, near- and long-term growth market and our strategies to secure significant and sustained growth are working.

We expect this market to continue growing at a multiple of global GDP because the air transportation system is a fundamental enabler of economic expansion and our airplanes offer compelling returns on investment through significantly better operating economics and improved fuel efficiency.

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Our market opportunity is unprecedented over the next 20 years with more than 35,000 new planes to be purchased for both replacement and fleet growth.

The three planed rate increases I mentioned earlier are part of our strategy to capture the growth. In the breakout session Pat Shanahan will discuss how we are preparing for those increases and how we are driving 737 and 777 production efficiencies into the 787 program as part of the effort.

In addition to focusing on revenue growth, BCA continues to drive productivity through its factories and supply chain. There is no question that the rubber really meets the road on Partnering for Success at BCA.

But we are simply holding our suppliers to the same standard that we have required of ourselves for the last decade or two. With 60% to 70% of our costs in our supply chain, this effort is vital for us to improve profitability to be commensurate with the risk we take as a systems integrator. And the market opportunity we are providing suppliers as we develop sought-after new airplanes.

Case in point, our lunches of the 787-10 and 777X round out a twin-aisle portfolio that is superior in its size and range capabilities and that offers unparalleled operating economics. Having retained the lead in innovation and the first mover's advantage we intend to capture an increasing share of twin-aisle market growth.

Strong demand for the next-generation 737 and the superior fuel efficiency of the 737 MAX will allow us to strengthen our healthy single-aisle market position which is currently at about 50%. On track for entry into service in 2017, the 737 MAX is capturing premium value for its compelling economic advantages. With more than 2,000 orders to date including first-time 737 customers, the largest of which would be Air Canada.

These game changing new derivatives represent attractive investments that will dramatically increase customer and shareholder value. Executing them on time and on cost is crucial. And as mentioned, Dennis will cover our development program costs initiative in the next segment.

Now to Defense, Space & Security on slide 5. Our Defense, Space & Security business remains well positive relative to current and emerging competitors to weather the business environment while delivering continued profitability and long-term growth. The strength of our product and services mix, our One Boeing global reach and our persistent drive for affordability underpin our confidence and ability to maintain our competitive position in the US and abroad.

We are focused on capturing a disproportionate share of growing international markets by again leveraging Boeing's unique advantage of country-to-company relationships developed through the years of global engagement on both the sales side and the industrial cooperation side with BCA. This strategy has led BDS to transform its mix from 7% international sales in 2004 to 30% today.

The BDS portfolio of proven, reliable and affordable systems and services remains an advantage in meeting customer requirements in a lower budget but persistently high threat national security environment. Later Chris Chadwick will run through the domestic and international opportunities we see ahead and Chris Raymond will go into more detail on the international slide.

To compete and win we aim to lead our industry sector in efficiency and productivity by bringing to bear the improvements gained from our ongoing BDS market-based affordability effort and integrating that with Partnering for Success. The former has already produced more than $4 billion in cost savings through targeted facilities consolidation, reductions in executive and management ranks and other tough but necessary decisions.

This has been implemented the old-fashioned way. There's not a lot of smoke and mirrors in that effort.

And we now are targeting an additional $2 billion in annual savings in support of our customers and our competitiveness. These productivity efforts in BDS have secured new business as we have been able to take down our rates, grown margins and enabled increased investments in both core and growth areas including commercial derivatives; space; unmanned systems; intelligence, surveillance and reconnaissance; cyber security services; and large-scale priority future programs like long-range strike, UCLASS in the T-X Trainer.

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In summary, our Defense, Space & Security business is well positioned to grow internationally, drive further cost reductions and invest in strategic growth areas all of which should contribute to steady cash generation and strong shareholder value. Let me close on the next slide by briefly highlighting our strategic priorities for achieving significant and sustained growth and continued global aerospace leadership in the years ahead.

In pursuing these imperatives over the last several years we have made tremendous progress in improving our financial health and performance, defining and implementing winning business strategies, fueling innovation and growth, addressing customer needs and building a better team and company to take us forward into our second century. With a clear recognition that the dynamics of a more-for-less world are here to stay we are prepared for the test.

The realities of our business environment both require us and inspire us to regularly renew and refresh our focus on these strategic guideposts to ensure we continue to compete and win in our markets, drive productivity and increasing profitability, deliver innovation that counts to our customers and provide increasing value to our deserving shareholders, employees and other stakeholders. With that I appreciate the patience and I would be glad to take some questions here for a while. Thank you very much.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Jim, the comment you made about the additional $2 billion in savings at BDS, I wonder if you might give us some color on how much of that is more proactive leaning cost reduction and competitiveness sort of stuff versus reactive relative to your decision on the C-17 and just the overall market environment?

Jim McNerney - *The Boeing Company - Chairman, CEO*

Yes, I think the whole thrust of market-based affordability and the next $2 billion is more of the same, is to try to get ahead of a conservative view of the defense and space market. We are hoping for better but we are planning for a pretty tough go over the next five years or so.

And as I sort of extemporaneously remarked in my comments here, this is old-fashioned work. This is moving from big sites to lower-cost sites, this is closing sites, this is taking out 20% of our management team, this is getting new labor agreements done that position both the union and us for future success.

It's all of these things that drive year-over-year and sustained savings as opposed to the lumpy stuff they can come back because people, square footage and differences in labor rates aren't permanently addressed, so it's more of the same. And again, remember the role of BDS in the business portfolio here. It is one heck of a business but it's got a tough market and its role is to hold onto its business, get a couple of more big wins and to keep margins exactly where they are.

And hopefully all of this work we are doing will produce significantly increased margins if our view of the marketplace turns out to be a little conservative. But if our view of the marketplace ends up in a more, in a tougher place, we will be ready. So the answer to question, even though I gave you 10,000 words, proactive not reactive.

Doug Harned - *Sanford C. Bernstein & Company - Analyst*

It's been a year since you introduced Partnering for Success and I'm interested in if you look back on the last year, how your expectations have evolved for that initiative?

What has been harder than you may have thought? What has been easier? When are we going to see the returns from this?

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Jim McNerney - *The Boeing Company - Chairman, CEO*

Well, we are already beginning to get, we are already beginning to build into our EACs and into our plans some of the benefits. It is playing out, to be honest Doug, about like I thought it would. Not that I am a great prognosticator, but I knew some of these discussions would be difficult and some have proven to be difficult.

I knew that some would be easy at the front end because people are looking to increase share of Boeing business and these are the ones that are more likely to come to the table quickly. But I am pleased with the progress we have made, Doug.

A number of our biggest partners are working with us on a Partnering for Success basis. I'm really pleased to report that on the big partner side we are making very good progress.

And so and if we were in the second inning this time last year we are in the third inning now. This takes time because you've got to find a win-win.

You just can't go to people and say, hey I want 15% of your margin for me. Get back to me when you've got a plan. That's not the way it works.

You've got to find mutual success and mutual benefit. And even though the discussions on the front end tend to be difficult because everybody have their plans, everybody's made their promises to their investors and things have to be readjusted.

And so it takes time, it takes a year or two for these things to come together and we are beginning to harvest more of the big ones. So I'm feeling good.

Rob Spingarn - *Credit Suisse - Analyst*

Strategic question. So you talked about before taking a lower risk particularly on you talk about from the cost side we have seen what you have been doing but on the product side too.

So the MAX instead of a clean sheet, the fourth iteration of the wing on the 777 and so on. Does this happen to coincide with a flatter portion of the technology curve? Is there less to be gained now from taking that risk?

Jim McNerney - *The Boeing Company - Chairman, CEO*

Well, Rob, that's a very good question because, having fought through the 787 in the technologies associated with it, there is no question that we now have some technologies matured, not always the old-fashioned way, that are now available to us to deploy into our new platforms. So yes, we are at a place in our technology evolution, the engine guys have some ceramics they have been working hard on, the designs around an all-electric airplane have been difficult and are now handling the EME issues, our approaches have matured.

So we do have a suite of technologies that allow us to pursue this strategy and a way that still offers significant improvements to our customers. But having said that, I am committed in the future, and I think all of us have gotten religion, that every 25 years a big moonshot -- accumulate technologies, take risk on some additional ones and then produce a 707, or 787. That's the wrong way to pursue this business.

The more-for-less world will not let you pursue moonshots. What we've got to figure out how to do and we are learning now is how to maintain platforms over an extended period of time and spiral in technology. Which means we still need a very robust exploration of new technologies to mature so we can spiral them in.

But to take less risk in the integration of these technologies as opposed to taking apocryphal risk of trying to integrate them all at once in some brand-new platform. I think you're seeing the 737 -- you mentioned it, the 737 MAX decision versus the all-new airplane, the way we are approaching the 777X, there was a lot more we could have done to that airplane.

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There was a big debate between an all-new airplane versus what we are doing. I think the way we are building the -10, that would've been a more unique airplane in a prior Boeing iteration life. It is leveraging through reuse and common design the -9 for a totally different mission.

So we are trying to get used to -- we want to be more like Apple than the apocryphal every 25 years. And that's how you keep -- because the risk in this Company is in the integration, is in the doing.

That's where the risk happens and so you want to have the doing be manageable. And what doing means is designing and building airplanes.

Rob Spingarn - *Credit Suisse - Analyst*

So based on your answer there, I wanted to ask a specific product question that's going around these days. How do you address the demand, if it exists, for a 4,000- to 5,000-mile airplane? Maybe a large narrow body, a small wide body, because that would seem to be the next thing?

Jim McNerney - *The Boeing Company - Chairman, CEO*

Yes, listen, we are examining it seriously is the specific answer. We don't see a need for it immediately as compared to some other opportunities we've got. We've got a whole plate of opportunities that are going to drive this Company very successfully and profitably over the next 15 years.

But at some point I think we're going to have to address that and there will be some options. There will be to take the current 737 platform and figure out a way to expand it.

There is an all-new airplane option. There's an option with the -8, 787-8.

So we're looking at all of these things but our headset will be to avoid the moonshot unless we have to. The headset will be to reuse platforms and technologies that we've got and that we will have matured between now and then to address it. That will be the headset.

That's what new. And that's the point I'm trying to make, so we will be tested on that one.

Joe Nadol - *JPMorgan - Analyst*

Jim, I heard you mention something last night and then basically repeat it here this morning, which is that your suppliers often make more than you in terms of margins but they take less risk with the idea being you take more risk as the integrator you should make more returns. I respect that you don't want to set a margin target for BCA but how much more conceptually do you think, how high can you get to, in your dream where can margins go?

You've done a lot of things the last year in terms of the union contracts and Partnering for Success. What is the new next big thing along that road the next year or two?

Jim McNerney - *The Boeing Company - Chairman, CEO*

The relative margin thing, Joe, I think the way I think about it is that systems integration, which is what we do, is more complicated and has more risk associated with it today than it did 30 years ago. Much more complicated integration task, much higher level of technology integration, different kinds of technology, everything from in-flight entertainment to communications systems to all-electric airplane, to composites.

And therefore it is not because our suppliers are bad people, they are great people. It's just that I think the risk is altered a little bit. And therefore I think it is fair for us to ask the question, shouldn't we make margins that are commensurate with that risk?

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I didn't want to make it appear like I am attacking our good suppliers because it's not as if they are not taking risk either. In some cases they are taking significant risk.

That is the way we think about it. And discussions, as I've said, are more characterized today as I stand in front of you by successful discussions than unsuccessful discussions. And I think it is very hard to ignore Boeing.

We've got a product plan that is a winning product plan. We have growth that is transparent and understandable, I think, to our partners. And so they want to sign on.

Now if we didn't have growth, didn't have the product plan, didn't have the technological lead in many cases, I think this would be a lot tougher. It's not just because of our pretty faces that these guys come along, it's because we offer growth to them.

I think the next frontier is this area of the two things I mentioned. More efficient new product development and there are number of industries that have made this transition. We haven't yet.

The automotive industry has made it. I think the consumer electronics industry has made it.

Where through more reuse and more focus on first-time quality, more of this platform thinking rather than a new platform every 20 years, I think that kind of thinking is what is beginning to drive this new product development efficiency effort that we are focused on. And then this capturing the value of quality which simply, it's a fancy sounding phrase for if you do it right the first time things cost a lot less in the end.

And so I lot more discipline there are the two places that I think will be the next horizon. And we're just going, you got to have two or three of these initiatives going all the time across these big companies or you don't get people's attention to focus on it and we are determined to keep driving them. Do we have time for one more question?

Unidentified Audience Member

Thank you, Jim. You've been spending probably $1 billion a year for the last several years at Boeing Defense and Space and that is more than the amount that any of your competitors have been spending in dollars and in percentage terms, but we don't see a lot that you've gotten for it. Could you help me explain where the seeds are and when they might germinate?

Jim McNerney - *The Boeing Company - Chairman, CEO*

Well, you are beginning to see them and you will see a lot of this as we, as our bids on some of these new big programs become transparent. You will see underpinning a lot of our approach is there some of this investment.

Tends to be in unmanned systems, obviously. Tends to be in lighter, more efficient fuel systems.

I think we have published a lot of this stuff. You just haven't seen it, you have seen all of the demonstrators.

It's the WaveRider. The future of propulsion in many systems, weapon and otherwise. The hydrogen powered persistent.

You just haven't seen it yet on major platforms, or those demonstrators themselves turning into. But we are absolutely convinced that this prototyping is the best way to derisk these technologies and prepare them for whether it's UCLASS, or T-X, or whatever SLS turns out to be, we are very mindful of the technologies that we think those and a couple of the programs need and that is what is driving this investment.

Now, will everyone of them hit? No. But the ones that do hit will be ready.

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And that's why we are making the investment. And that's why we are fighting hard on productivity to retain the funds to have disproportionately more investment in these kinds of things than our competition does. We think it will pay off.

It is what a big company with a lot of financial leverage should do because it is one of our advantages and that's what we are doing. Thanks, thank you everybody.

PRESENTATION

Troy Lahr - *The Boeing Company - VP IR*

Thanks, Jim. Now we're going to move to the COO focus with Dennis. So please welcome Vice Chairman, President, Chief Operating Officer, Dennis Muilenburg.

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President, COO*

All right, good morning and Troy, thank you. Jim. It's a pleasure to be here with you this morning and good talking with many of you last night. I even saw a couple of you in the gym this morning, which was good.

Good to be here with you this morning. What I would like to do is build on some of the themes that Jim talked about specifically go a little deeper on what we are doing to drive this One Boeing culture and business benefit and then dive a little deeper on some of our specific productivity initiatives in particular as business and growth enablers.

And in this new role that Jim asked me to take on at the start of the year, really a privilege to work very closely with Jim and learn from him as part of this process. And then also being able to work very closely with Greg and Ray and Chris and you are going to hear more from them later this morning. But really a One Boeing team effort as we drive towards that strategy that Jim outlined.

So if we could go to my first chart, please. What I would like to do is start where Jim left off and we talk about the Boeing strategic imperatives. One Boeing and our productivity initiatives are key enablers across each of these initiatives.

And Ray is going to talk to you some more about what we are doing to ramp up BCA and do that profitably. Chris is going to talk about repositioning the BDS business. But our productivity initiatives are embedded in both of those strategic imperatives, driving profitability, driving our ability to grow and invest to driving our ability to reposition the business.

One Boeing has also been very key to expanding our international advantage. I can tell you there are markets that we are successful in today because we have taken a unique approach of bringing our commercial and defense sectors to the customer in an integrated fashion; integrated industrial packages is a good example there.

We have great opportunities to also leverage and grow our services business. Working across our Commercial Aviation Services business that Stan Deal is now running, our Global Services & Support business in the defense sector that Jim O'Neill is running, bringing those two together not only to take cost out internally but to grow top line in the services sector.

Jim talked about what we are doing in R&D Investment. And leveraging our R&D investment including the core investment through John Tracy's organization where we are not just investing individually in each of our sectors but we are investing in an integrated manner and sharing that technology.

Some of the advanced manufacturing investments that we are making now are being spread across our commercial and defense sectors. That's allowing us to drive profitability, enhance our financial strength, as Greg will walk you through and then finally investing in leaders.

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And we are very serious about developing our talent, sharing our talent across our Defense, Space & Commercial lines. That's a key way of the developing our future leaders. And one of the tasks that Jim has asked me to take on in my new role is also working at our Boeing Leadership Center and how we are investing in leadership development for the second century.

So these all tie together very tightly. And that One Boeing theme and productivity really weave into each of these strategic imperatives.

If we can go to the next chart. That One-Boeing advantage then feeds both our growth and productivity sides of our Boeing management model. You'll hear more about some of the specific growth initiatives from Ray and from Chris.

One I wanted to point out in particular is international market growth. So if you look at over the last five years while Boeing's overall top line we've grown about 30% in that five-year time period, our international business has grown even faster. As a percentage of total revenue it has grown from 42% five years ago to 57% today.

So clearly our one Boeing approach is advantaging us in the global marketplace. That is good business for us. It is creating both top and bottom line growth.

It is also accreting more diversification in our backlog. And as Jim said it is derisking our business for the future. So clearly that One Boeing effort is playing out well on the growth side.

On the productivity side where I'm going to concentrate a little more today, that One Boeing effort has allowed us to take some of the tough actions we have needed to take on market-based affordability in the defense sector. We have implemented a new safety program that we call Go for Zero. I won't talk too much about that today but it's building a culture of the only acceptable outcome on the safety side is zero injuries.

And as we drive toward zero injuries on the safety side it also improves quality, and improves cycle time, it reduces cost. Good business goes hand-in-hand with good safety.

That also drives first-time quality. It drive cycle time reductions and all of the other levers that are in our productivity machine. I'll talk in some more detail about those specific bullets that you see there on the right side.

But this One Boeing advantage it's really important that we think about it in an integrated fashion, across growth and productivity. Those two are tightly linked in our management model and they feed on each other.

If we could go to the next chart, please. So to make that a little more real. What are some specific accomplishments over the last year?

Jim mentioned some of the work in commercial derivatives, which I think is truly unique to the Boeing Company. Our ability to do in-line production of commercial derivatives.

The P-8 which reached initial operating capability and it is now operating for the U.S. Navy with additional sales to India and also an announcement from Australia intent to buy P-8s. That airplane entered initial operating capability within four days, within four days of the date that was set 10 years earlier as the target.

So our ability to execute and deliver on that One Boeing effort really key. And as Jim said, Tanker is producing well. We're a little over three years into the development program now.

We have hit every customer milestone. We're headed towards first flight of the first fill 'er up tanker first quarter of 2015 and we remain on track to deliver the first 18 tankers by 2017.

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Certainly a challenging program, is working through, driving through integration and systems installation now. But we've got four airplanes in the factory and truly unique ability to do in-line modification to produce that Tanker. That's going to be a big future franchise for us with a minimum 179 airplane production run and an opportunity to drive that up towards 400 aircraft total, we believe.

That's one good solid example of the reality of One Boeing. I'm going to talk more specifically about some of those productivity initiatives around Partnering for Success and our development program effort, clearly enabled by One Boeing.

Leadership transfer, over the last year we've been able to move people, move talent across the enterprise. As Ray has ramped up his operations including the ramp up of Charleston we have been able to flow some available BDS talent into Charleston, as a good example.

We have built integrated teams on the Tanker program where we've got best of class talent from BCA, BDS and John Tracy's core EO&T organization, all examples of where we are sharing leaders. The 777X work packages, as announced wing build in Seattle.

But in addition to that engineering support packages where we are going to be leveraging engineering talent in Philadelphia, St. Louis and Huntsville to help execute the 777X program. And then sharing technologies including advanced manufacturing in composites.

Global capability. Another good example over the last year is at the Dubai Air Show and the very successful 777X launch that you all saw in conjunction with that working with our customers in the UAE and our industrial partners we signed major agreements with Mubadala, with Tawazun and other industrial partners that are part of that successful launch. And so our ability to bring not only new products to the market but bring successful industrial partnerships to the market is a unique aspect of the global capability that I think One Boeing enables.

So the bottom line here is it is real, it's producing results, it's unique in the marketplace. And our unique combination of critical mass in commercial and defense sectors is producing shareholder value.

Next chart please. So with that what I like to do is dive a little deeper on three specific productivity initiatives that Jim mentioned earlier. Partnering for Success, our development program initiative and capturing the value of quality.

First of all on Partnering for Success. As you know we launched this effort in mid-2012 so we are about two years into it. We are making tremendous progress here.

This is clearly a One Boeing effort. The discussions we're having with our suppliers and partners, our discussions that include Jim and Greg, Ray and Chris and myself.

It's one integrated conversation, not dozens of conversations at the program level, one integrated conversation. We've expanded that throughout the supply chain. We started with our top 20 suppliers, we expanded it to 100, now we have touched more than 500 suppliers in our chain.

Significant expansion of activity. As Jim mentioned about 60% to 70% of our cost base is in our supply chain. So as we expand we are touching more of that cost base and this target of a double-digit 10% to 15% cost reduction in partnership with our partners as we expand into that supply chain creates great opportunity for us.

We are driving towards win-win solutions. It's really important that we have that headset. And as Jim noted some of these conversations have been tough.

We have had to take some tough actions to drive closure on some of our negotiations. But more and more we are seeing this win-win headset show up.

One of the key enablers here, or one of the motivators is that significant backlog that Jim talked about. And in many cases we have suppliers who are willing to work with us to gain volume advantage and offer us pricing advantage as an example.

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And one of the keys to success here I believe is our cost reduction initiatives where we now have suppliers coming to us providing ideas on how we can take costs out on the Boeing side that will also help them. And as you see here on the chart more than 1,000 ideas in the pipeline, now more than 200 have been incorporated and we see rapid expansion of that pipeline of ideas. That's a very encouraging sign for us.

So all of that is going to drive productivity. It is going to fuel our growth. It is going to fuel our bottom-line performance.

And as Jim noted, we are already starting to see some of those cost reductions show up in the numbers. You saw some of it in Q1 2014. You are going to see more of it in supplier step-down pricing in Q2 and over the next two, three years substantial portions of those cost savings will flow directly into our business results.

This is longer than the next two to three years. This is a long-term effort. We will be relentless on this effort.

It's a new way of doing business and it is one that we are going to put in place for the long run. And we think in the end it is going to be both for both Boeing and our suppliers and as a result good for our shareholders.

If you go to the next chart, just to give you one level down, to give you a sense of the reality of this effort. When we think about Partnering for Success we see it in three major categories of activity -- technology insertion, the overall value stream and the supply chain.

Just to give you a sense of that on the technology insertion side, this is where our cost reduction idea generation comes into play. Examples here include a supplier coming forward on the F-15 offering a software reuse idea that allowed us to take 40% of the cost out of our new electronic-warfare system on the F-15.

Another good example there is a supplier in our 777 supply chain in the wing came forward with an idea on our wing rib shear ties to move that from being a built-up structure to a single machined piece of structure that took about 50% out of the unit cost of that part. Each one of those is not a massive amount of money but when you add up hundreds of those kind of ideas we are gaining a lot of traction here.

And if you look at 2012 to 2013, we've seen a tenfold increase in the number of cost reduction ideas that are suppliers have offered. And our team has put in place the process for addressing those cost reduction ideas and have taken about 80% of the cycle time out of the response time to address and incorporate cost savings. So I believe this is a long-term productivity machine that is really just starting to gain traction and will produce tremendous value over the long run.

The second category of value stream, this is working end-to-end in our factory and office spaces. It is unique contracting and schedule approaches with our supply chain. We now have suppliers coming forward with ideas not only to improve their own products but to take leverage of our transportation system.

For example, the Dreamlifter as it is moving parts for the 787 we have had suppliers come forward with ideas on how they could use available volume in that Dreamlifter to reduce overall transportation cost looking across the supply chain. Just an example of the unique things we are doing there.

It is also key that Boeing continues to do our own part. We are not asking our suppliers to do something that we are not doing. And as Jim described that include some tough actions on market-based affordability, things like closing down the C-17 line, closing the Wichita site, taking 20% to 30% of our management and executive headcount out, long-term labor union agreements, changes to the pension structure.

These are all things that we've done that have been challenging. But we want to set the tone and example with our suppliers to say we are not going to ask you to do something that we are not willing to do ourselves. So we are sitting a high bar and doing it inside as well as outside.

And then finally on the supply chain, this is the next frontier of this effort where not only are we addressing our direct suppliers but also assisting them with their deeper supply chain. And these are cases now where we are able to combine volume in single contracts.

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Things like commodity pricing, for example is a great leverage point here with the deeper supply chain. And as we look across One Boeing, as well, we see opportunities here.

A good example is additional volume with some suppliers on 777X allowed us to get some price reductions on F-18, F-15 and Rotorcraft. We had examples of a composite supplier by looking at a combined work package of work on the 702SP small satellite and work on the 787 that combined volume, allowed us to get a price reduction.

We also did an example where we had the displays on the 737 MAX and new displays on the F-15 were negotiated in combination. That's truly unique to Boeing and its enabled by this Partnering for Success effort.

This is real. It is producing results. It is a long-term effort.

Let's go to the next chart, please. Second one I wanted to cover briefly was development program excellence. And as Jim said, this is about breaking the cost curve of what it requires to develop our next new products.

That graph that you see on the right-hand side here gives you a depiction of what is going on in the aerospace industry more broadly. And that is each new development program is costing more than the previous one. We are seeing a growth in complexity and a growth in cost commensurate with that.

Other industries have figured out how to break that cost curve. The auto industry, the consumer electronics industry are on a different curve. We are set to break this cost curve.

We are demonstrating it on some of the programs that you see in the upper right corner there and leveraging the new commercial developments in particular to drive out this process. We think there is huge opportunity space here. It gets into not only to our development process, it also gets into our innovation model.

As Jim talked about, this idea of incremental innovation, leveraging technology, significantly more reuse and it also gets into how we train our engineers. So that our engineers are motivated to not only develop the next new thing they are also motivated to find innovative reuse opportunities.

Let's go to the next chart. So to be specific on that when we think about this development program excellence we've captured it in what we call our Boeing Product Development System. It's got four major parts to it; think of this as taking our Lean applications in factory and applying it to our design efforts.

One of the key elements here you see on the left is optimizing value. This is the idea of delivering the right product that has value for the customer.

I think you see that reflected in the 777X. It's the right airplane for the customer. It is going to produce 10% to 12% better performance than the competition but it's the right technology, not all of the technology we could put into play, but the right set of technology that provides value to the customer.

You see the same thing in our 702SP small satellite as a good example of optimizing value. Controlling demand, this is where we drive modularity and reuse. Instead of creating a lot of new things when we could reuse an existing design or part, let's leverage reuse.

787-10, great example here, very high reuse compared, utilizing the 787-9. Similar things being done on T-X and UCLASS in Chris's business.

Accelerating flow. Think of this, the volume and controlled throughput that we like to see in our factories we'd like to see the same thing in our design programs in terms of how we design and develop hardware and software.

Great examples here on controlling our throughput on 737 MAX, operationalizing how we do development on 777X and also leveraging geographic diversity, leveraging talent where it is available to help us balance throughput in our design process. And then lastly preventing traveled risk.

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This is the idea of derisking development programs early, prototyping, system integration labs and a rigorous gated process. And I believe are 787-9, which is just coming into the marketplace now, as you saw yesterday, is a great example of the power of that disciplined gated review process that derisk programs early and allows us to deliver them on cost and schedule.

This combination of activities as we operationalize it, we believe will fundamentally break the development cost curve. That's not only a benefit in terms of R&D efficiency, it will also enhance our ability to bring new products to the market more quickly. It will take cycle time out of our development process.

Go to the next chart, please. The third and final area I will cover is capturing the value of quality. And really see this as the next frontier on our productivity efforts.

I'm very excited about how this is shaping up. Over the last 10 years our Lean+ initiative has produced extraordinary results. As Jim said, a sustained ability to drive 3% to 4% productivity improvements year-over-year, a lot of that enabled by our Lean+ initiative.

We are operating with a significantly increased volume today compared to 10 years ago in a footprint that is 25% smaller that is enabled by Lean. Across all of our production lines, commercial and defense, we have seen anywhere from 20% to 60% improvement in flow times over the last 10 years principally driven by Lean+.

So what we want to do now is leverage that foundation, that culture that we've built in the enterprise and wrap it more broadly with this idea of first-time quality. It is not only first-time quality in the factory, which we made a tremendous progress on, it's also first-time quality in the engineering, in the upfront requirements definition, in how we work with our customers, in how we work with our supply chain, the right requirements, first-time requirements to our supply chain so they have stability.

And then in the end it will pay off in the field because the airplanes will work as advertised, they will perform as advertised. So first-time quality in terms of supportability and operation in the field.

We think there is tremendous value to be unlocked here, measured in billions. It's across the lifecycle of our product lines. We are already seeing results of this in many of our factories as we drive this first-time quality headset.

And now as we expand it to the rest of the value chain including driving this into our Partnering for Success effort and driving it into our Development Program Excellence effort, we're going to see tremendous payoff. So more to come on this. We are ramping this up as we speak and I believe this will be another key long-term lever for us.

So we go to my last chart, you take that in total then and go back to where we started, we talked about the strategic imperatives and the overall vision and strategy that Jim described earlier. This work on Lean+, capturing the value of quality, development program excellence, Partnering for Success, market-based affordability, those big productivity levers are enterprise spanning.

We're not doing them at the program level, individual business level, we are doing them at the One Boeing level. That is creating unique horsepower. It is enabling those strategic imperatives that you see at the center of the chart here.

Our ability to grow and drive profitability in the BCA business, reposition the BDS business, gain that international advantage that I talked about, gain services synergy both top and bottom line, our ability to fuel our innovation. All of that will be enhanced by these productivity initiatives.

So we are confident that we will produce results that are going to increase shareholder value. And this is a long-term relentless effort, one that is now being built into our culture that will produce results not only for the Company and for our customers but also for our shareholders. So with that, I am happy to take any questions you might have.

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QUESTIONS AND ANSWERS

Unidentified Audience Member

Dennis, I heard both you and Jim mention that future development is going to be more evolutionary in nature as opposed to revolutionary in nature. But I also heard a parallel to Apple, which is a company that has proven itself to be a bit revolutionary and create new products that we all didn't know we would all use at some point.

So the question is, how do you go into this approach and protect yourself from a competitor that may do something revolutionary? Was there something that is different about this industry that won't ever allow for that? And do you have enough market intelligence to protect yourself against something like that?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President, COO*

That's a great question. The way we like to think about this, is we do have a long-term business. We do look out into the future of what those customer product needs, services need will be and use that to drive our technology investment and our innovation engine.

But this idea that we're going to accumulate that technology over time and build it up into this moonshot, as Jim describes, so that we have a singular technology launch as opposed to incremental technology implementation, that's the big change here. So they way I like to think about it is we are still going to deliver in many cases revolutionary capability for our customers.

You could argue the capability that we are going to bring to the market with the 777X is an astounding leap forward capability for those customers. 10%, 12%, 50% improvement in operating costs, fourth-generation composites wing. That will provide a capability to customers that from their viewpoint is transformational.

But the way we are delivering that capability is building on technology that we have and incrementally implementing it. I like a model that says we can get to the same endpoint 20 years from now but do 10 intermediate steps to get there that are well-managed, low-risk steps as opposed to one big, 20-year step.

And so that's what I think we are talking about here. It is not that we are going to ignore market forces or disruptive forces or new innovations or things that might change the business model, we are going to pay very close attention to that.

But we are not going to stand on the sidelines and invest in a singular leap forward in technology. We want to invest in technology and innovation that can be incrementally implemented to derisk integration.

That requires a different architecture, a different headset about what our products look like. Gets us to the same endpoint but I think a much better path to that end point.

Doug Harned - *Sanford C. Bernstein & Company - Analyst*

Boeing Military Airplanes is really undergoing a transition right now with the move to the Tanker, the P-8, the F-18, the length of that being uncertain, the C-17 coming down. So when you look at the footprint of the organization, what do you see as the future of St. Louis, of Long Beach both in terms of the footprint, the ability to have an industrial base in the future and the talent you've got.

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President, COO*

Doug, and you'll hear more from Chris on this later, but when you look at that overall defense portfolio there are more reasons to feel strong about it than worried about it. So when you take a look at C-17 rolling off, that's a reality and we are going to do that efficiently.

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But as P-8 and Tanker ramp up they are going to more than compensate for C-17 rolling off. Clearly we have pressure in the fighter lines. We are looking hard to extend the F-18 line in particular.

I think the Navy's recent analysis that shows the value of electronic attack as uniquely provided by the Growler gives us some new opportunities to extend that line. And when we think about industrial base in that sector using that to bridge to things like UCLASS, T-X, the new bomber program, LRS that's our industrial base strategy there.

Now those are the two worry areas that often come up, C-17 and F-18, but think about the new commercial derivative ramp up that I talked about, satellites continue to ramp up, Rotorcraft looks very strong. And our ability to flow and move talent around the enterprise, we don't think about our enterprise talent base as being site-specific.

There are some site-unique talents but our ability to work as an integrated network and to share packages across the enterprise is an important part of how we sustain the industrial base. I would offer what Ray has done a 777X engineering work packages in Philadelphia, St. Louis and Huntsville is a demonstration of that concept where we are looking at our industrial capability in a networked fashion in combination with what we're doing on specific defense programs.

Doug Harned - *Sanford C. Bernstein & Company - Analyst*

I appreciate that but when you look at how things have changed in terms of the amount of activity at different locations and you put that in the context of the whole cost effort that you and Jim have talked about, I'm just trying to understand you've got a very large footprint in St. Louis. How does that evolve in what may be a transition period if you go ahead and win Long-Range Strike or UCLASS in the future?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President, COO*

Yes, and frankly, Doug, the outcome there is dependent on some of those new franchise programs. It's why we are investing so heavily to win things like LRS, T-X and UCLASS.

If we win all of those we will grow in St. Louis. If we don't win any of those we would shrink in St. Louis. That's the reality.

Now what we're doing is we're preparing for all of those potential outcomes. That's why this market-based affordability effort, remaining proactive, is really important.

And we are going to try to stay out ahead of that so we have a cost structure that accommodates things like defense budget sequestration, potential outcomes on these big competitions. And if we are successful in winning that new business gives us upside to the plan. But we've got to proactively get to a cost structure that assumes a more severe outcome.

Joe Nadol - *JPMorgan - Analyst*

Dennis, I think it's easy for us all to understand Partnering for Success and you explained it well and what you are doing with suppliers in negotiating these 10% to 15% cost reductions. For development program excellence in capturing the value of quality, could you maybe walk us through on the ground what you are doing to get these rolling?

There's been some things in the press recently about the engineering work force and some of the things going on there. So what are you doing there? Risk reward to your approach there and what else are you doing on the ground to get these going?

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Dennis Muilenburg - *The Boeing Company - Vice Chairman, President, COO*

Well, it's actually, Joe, very similar to what we've done on Partnering for Success. In fact, when you look at Partnering for Success it spans, it's not just our production programs, it includes our development programs.

So we are working with our supply base on this Development Program Excellence initiative as well. So include them in that puzzle in terms of how we are implementing.

Some key examples there include decisions we are making on what's going to go into the 737 MAX, the 777X, the -9 and -10, 787 in terms of technology mix. I talked about optimizing value, this is making hard decisions we are saying.

We may have some technologies that are not really valued by the customer, let's not put them on the airplane. Let's only invest in the technologies that our customers value. So those show up in discrete decisions on firm configuration, as an example.

Reuse. 787-10 I think is a terrific example there where Mark Jenks and the team are very deliberately looking at all of the components of the 787-9 and striving to reuse them on the -10. We are hitting numbers that are north of 90% reuse as a result.

Tremendous result. Way beyond what we might have seen in the past. So those are the kind of examples.

This is getting down into the details of each development program, those four steps that I showed you in the development process system on my slide and implementing those at the day-to-day level. I think the gated review process is another one where now instead of taking long shots on our development programs and allowing risk to travel downstream, we have now implemented a culture that says that every step in our development process we are going to be very deliberate about that gated decision and we won't let the program proceed unless we have achieved the risk reduction required by that gate. That is a very different disciplined process and I think it is one of the reasons 787-9 has been successful as we have floated through development.

Joe Nadol - *JPMorgan - Analyst*

Is what you are doing with the engineering workforce part of these efforts, or is that something different?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President, COO*

Absolutely. It's implicit in this effort and as I said it's not only the process change and the innovation model change, it's also how we are utilizing our engineering workforce, how we incentivize them. In the past we may have said, our best engineers are working on the new thing, now we want our best engineers working on innovative reuse.

We are also looking at how we flow our engineering talent across these programs, geographic diversification, being able to leverage the best engineering talent wherever it is in the enterprise, not just at a single site is another way for us to take cost out of our development programs. Leverage rate structure that might be lower in a place like Oklahoma City or St. Louis compared to some other sites. That's another way for us to leverage geographic diversification.

Unidentified Audience Member

Dennis, it's kind of along the line of Joe's question but I wonder if you can talk a little bit more about the training side of this. You are changing cultures. Do you have any metrics on what you are doing with your engineers to get them to these new places?

Are you hiring people from the automotive and electronics industry? Talk about the people side of these changes.

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Dennis Muilenburg - *The Boeing Company - Vice Chairman, President, COO*

Yes, in fact my partner over here, John Tracy, is a core part of this effort as we look about our engineering workforce for the future. So as you know you have seen the demographics for the aerospace industry, the significant amount of retirements that are occurring, the pipeline that we are building.

And we are training our future engineering leaders now that are going to take the place of today's engineering workforce with the demographics. So all of that gives us an opportunity to not only implement a new process but to train new leaders for the future. And so as we think about development program excellence and the programs that we run at our Boeing Leadership Center, for example, where we train our future program managers we are now training them in this process.

We are creating new incentive models. So now our teams are being incentivized to reuse. Our teams are being incentivized to reduce flow time on development programs.

And as we implement this capture the value of quality, we are thinking about how do we create incentives where engineers are now driving towards delivering first-time quality, do the drawing once, deliver the software once. That is a different incentive structure for how we recognize and reward great engineering performance and it's also a change in culture in terms of how we build and incentivize our leaders.

And all of that is being done in parallel with these process rollouts. All right, looks like I'm getting the hook, Troy. Thank you very much.

PRESENTATION

Troy Lahr - *The Boeing Company - VP IR*

Thanks, Dennis. Next we are going to move to financial remarks from Greg. So please welcome Executive Vice President and Chief Financial Officer, Greg Smith.

Greg Smith - *The Boeing Company - EVP, CFO*

Thanks, Troy. Good morning, everybody. Good to see everybody.

Just to kind of reiterate what Jim said, I hope you enjoy the tour in Everett yesterday and really got a good sense of what Larry and Kim and the team have been focused on and the progress they've made there but also got a good opportunity to see the things we are focused on going forward. And this team has certainly got a good plan in place to capture additional productivity and improve flow time and so on going forward. So great job by Larry and Kim, so I want thank them for hosting that.

So, for today what I thought I would do is just focus on some key aspects of our business that we believe differentiate us and really provide a significant opportunity to build upon our financial strength of this Company. And what I will do is discuss how we are building on the momentum of 2013 and leveraging the strength of this unprecedented backlog that we have today to drive revenue growth, productivity, affordability and that will ultimately result in increased cash flow for continued investment in our business as well as continuing returning cash to shareholders.

So let's go to the next slide, please. Just to kind of reiterate some of the points that Jim made, think about where we were last year at this conference. And we have continued to make significant opportunities, or significant progress.

And some of these strategic initiatives that we put in place really focused on derisking the business, driving growth and productivity and increasing long-term shareholder value. And during the first quarter you saw we further addressed our pension liability, significantly improving our competitive

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position as well as ensuring production stability along this 10-year period and through these long-term labor agreements, at the same time transitioning over 100,000 people from a defined benefit plan to a defined contribution plan.

Big step for us and our employees. The strength of the market combined with the industry-leading value, the products we are bringing to a marketplace to our customers enable us to have a very successful launch of the 777X and the 787-10.

Furthermore, we successfully completed the first flight of the 787-9 which I know you had a chance to see yesterday and the transition to 10 per month. And just some perspective, I think what a lot of you here three years ago I think Larry was at about 1.5 a month. So it really gives you a good sense of what they have been able to do to ramp up to 10 and obviously get prepared to go beyond that.

And as well as on the 737, successfully transitioning to 42 a month. And all of these events obviously further strengthening our competitive position in the marketplace.

And then finally we made some changes to our management long-term compensation structure that more closely aligned to shareholder returns. And this change will reinforce the culture of innovation, productivity and customer satisfaction as we scale up in the further growth and enhance our competitiveness. Again all of this derisking the business while driving long-term competitiveness.

Let's move to the next slide, please. So our financial outlook. You can see obviously for the first quarter it was a good start to the year, strong operating performance, solid cash flow all driven by continued solid execution from both of our businesses with again a strong focus on productivity.

These results obviously they provide us with the confidence for our ability to achieve our 2014 outlook. And we expect that strong operational performance to continue through the balance of the year.

Remain focused on delivering on our backlog, increasing productivity and profitability across the business and increasing both cash flow and cash deployment. All of this provides increased value to all of our stakeholders.

Let's turn to slide 4, please. Starting with our backlog. A diverse backlog of $440 billion as a result of a strong marketplace combined with the strength of our portfolio and the value our products are bringing to our customers.

The unprecedented fuel efficiency and compelling economics of our airplanes combined with the significant replacement demand that now accounts for approximately 50% of our near-term deliveries and positions us as the preferred provider to support long-term market growth in this business. With a current backlog of over 5,100 airplanes and 35,000 new airplanes needed globally over the next 20 years, we have a very unique, unprecendented long-term growth opportunity in front of us.

Our defense business backlog remains solid driven by a portfolio of affordable, reliable and proven products. The President's FY15 budget request demonstrated strong support for major Boeing programs and we continue to focus on growing internationally with approximately 35% of BDS's backlog now coming from customers outside the United States.

This backlog clearly provides a great foundation for us and an opportunity to deliver significant value and growth to our shareholders going forward. So let me now talk more specifically about how we plan to execute and deliver on that backlog.

Next slide, please. Well we successfully achieved eight production rate increases over the past two years and averaged 12% revenue growth as we continued to deliver on this backlog. The planned production rate increase on the 737 and 787 combined with over seven years of backlog again provides a significant long-term revenue growth opportunity for us.

The One Boeing approach continues to pay off with international revenues growing to about 30% from our BDS business. As Jim mentioned, we continue to target organic growth driven investments in critical future programs like Long-Range Strike, UCLASS and the T-X trainer program. The strength of the backlog and the planned production rate increases provide unprecedented revenue visibility and financial opportunity moving forward.

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Let's now moved to slide 6 and I will discuss how we focus on leveraging this growth to further improve our financial strength. As our core operating margins continue to demonstrate we have made good progress in productivity across all areas of the business. This focus on productivity and continuous improvement is what we do day in and day out.

It's embedded into our culture and it's a key element of how we run the business today. As part of that process we've established aggressive productivity targets on an annual basis throughout the enterprise and hold individual employees personally accountable with our annual performance review process which ultimately drives employee incentive plans for both union and non-union employees.

On the defense side the team continues to execute market-based affordability strategy including targets at every program and every site. And again the team has achieved $4 billion and we have another $2 billion of plan going forward.

At the commercial airplanes we have detailed cost targets on all programs now. We have made significant progress again using Lean+ and driving improvements in first-time quality, cycle time, factory utilization and productivity.

And again I think you got to see some of that yesterday on the 777X and the 787 -- the 777 and the 787. And just further examples, 737, 55% reduction in flow time down to 10 days.

This is something that we clearly know how to do. You're going to hear more about this in the breakout session about how we are taking these efforts that we've had on these programs and applying them going forward.

But on the 777, 8,000 airplanes we have delivered to date and we are still finding productivity opportunities. We've delivered almost 3 times as many 777s this year as we did in 2004 and we are doing that in 20% less floorspace. Again, another great example of continuous focus on Lean and productivity.

And as Dennis discussed capturing the value of quality, first-time quality designed to further leverage Lean+. And we believe this is a significant opportunity for us.

We have over 5,000 experts enterprise-wide focused on Lean manufacturing and process efficiencies. And we continue to leverage that expertise within the supply chain to drive real savings for all parties across Partnering for Success.

Again, great example of taking what we have done in our facilities today, proving it out, bringing it into the supply chain. And that truly, I see, is a win-win for both of us.

And we have people that know how to do this, they have done it and now it's about taking it outside of our four walls and not just focusing on ours. And again I think that makes us better certainly, and makes our supply chain better.

And while we have seen continuous improvement on numerous programs, we do expect to see more tangible benefits to occur over the next few years. In addition, we are capturing significant savings by coring up resources and leveraging synergies to lower infrastructure cost in both of our businesses.

And again, another example 25% reduction in floorspace since 2004 although revenue is going up by 60%. So again I think it gives you a good sense of what is embedded in the culture, embedded into these targets where we are continuously focused on doing more for less.

As we continue to work to optimize our R&D investments, while aggressively managing our design and development process using the same discipline of continuous improvement that we have applied in our production systems. This includes again maximizing the reuse of the hard-fought technologies and lessons learned, reducing development risk using a disciplined gated process to retire risk early, drive first-time quality and tighten the managed work scope and schedule.

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We manage and measure the effectiveness of this progress in all activities to drive meaningful results. Focused on improving productivity, ultimately shareholder value, unmatched value to the customer.

While we have made good strides we have significant opportunities, as you can see, going forward. And I can assure you we are leaving no rock unturned.

Now let's discuss the progress on the 787 program. Next slide, please.

So as I said last year, achieving and maintaining a stable production rate of 10 per month is key to driving financial performance on this program and what we have seen on the historical programs. We are seeing the benefit of the continued progress in key operational performance indicators around unit costs and further implementing production efficiencies and stabilizing the overall production system.

As we indicated in April, unit cost in the 787-8 has improved by about 15% in the last year and final assembly flow times improving by 10% over the same period. We are seeing improvements on the 787-9 as well with a 30% reduction in both unit times and flow times. And as Jim said, we are on track for a midyear delivery of the 787, first 787-9 to Air New Zealand.

787 execution, profitability and cash remain the top priority. We continue to work opportunities to offset risk and increase profitability.

Some of those key areas include again leveraging Partnering for Success initiative, taking costs out through the supply chain, redefining the design and the fabrication and the assembly methods with a focus again on cost, flow times in our factory. You're going to hear more of that from Ray a little later.

We certainly have a lot of work left to do in front of us. And it is going to take some time but improving the overall financial performance in the 787 program clearly remains a top priority.

Let's move to slide 8 now and I will talk about the path forward and the imperatives driving operating margins. While driving productivity has been foundational for our Company this is an elevated focus on competitive environment and the objectives of improving operating margins going forward.

As you see on slide 8 we have steadily improved core operating margins in 2013 and we are on a path to expand them in 2014. In order to fully achieve our margin objective over this decade we must successfully execute on the $440 billion of backlog and the planned production rate increases going forward.

Maximize the productivity and affordability initiatives we just discussed including Lean+, capturing the value of quality, Partnering for Success and development costs. And then finally, as I mentioned, we must improve 787 margins and we are focused on doing that.

While we continue to invest in our business to enable long-term growth and increased value, driving affordability again in our development programs is imperative. As Dennis indicated, we are focused on airplane development more quickly, more efficiently, at lower cost.

The -8, the -10, The 737 MAX and the 777X are all examples of how we are working to break the historical cost curve and the design and development. And as you know we made an organizational change last year in putting all development under Scott Fancher. And this is how, we've talked about how is the stuff happening, that's another enabler of how it is happening, with all of that development under Scott and we are seeing progress in that area.

Let's move to the next slide, please. Cash flow. Same focus and drive we have on innovation and continuous productivity improvements is equally matched by the focus on cash flow.

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We expect to generate nearly $17 billion of operating cash before pension contributions in 2013 and 2014 time period, which is the right way to look at cash generation as timing of items can be a factor in any given year. This 22% increase in cash flow is largely driven by the production increases on the 737, the 777 and the 787 and productivity gains we've captured across our businesses.

The fundamental cash drivers are consistent with what we just discussed delivering on the backlog, successfully executing our planned production rates and maximizing productivity opportunities. In addition to capturing the full value of the investment on the 787 and accelerating unit cost improvement is a key driver of cash as we continue to ramp up production over the next several years.

Let's turn to the next slide on capital deployment. The meaningful dividend increase and our higher share repurchase activity combined with our previously announced $10 billion of share repurchase authorization demonstrates our commitment and a confidence in the business performance going forward. Our capital expenditures in 2014 and beyond enable long-term growth, an increased profitability and invest in higher production rates, new products and further productivity improvements in automation and strategic vertical integration.

Required pension contributions in 2014 are minimal and remain focused on proactively managing our overall pension liability as again as we significantly address the recent changes in the retirement benefit plans. Regarding our dividend, we want to continue to have a competitive dividend and will seek to grow that dividend as earnings grow over time. With the strong cash flows expected over the remaining of the decade and $12 billion of cash and marketable securities on the balance sheet, at the end of the first quarter we have the flexibility to how and when we deploy our capital with a returning cash to shareholders remaining as a top priority.

Next slide, please. Well, I would summarize and tell you this is a very exciting time for us. We are at a very good position; again, unprecedented opportunity for our Company and all of our stakeholders.

Going forward we're going to continue to do what we've been doing and more. Focused on growth, productivity, executing on this large diverse backlog, leveraging the lessons learned and key cost-reduction initiatives to drive performance.

And I think our One Boeing advantage is unique and it is coupled with affordable product development effort, solid program execution, disciplined cash management strategies will help fuel financial performance, enhance our competitive position and enable us to increase shareholder value. So with that, I am happy to take your questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

So, Greg you talked a lot about and everybody's talked about PfS. But I've noticed you haven't really moved the margins at least so far that we can see on the 787 as we have gone through the program.

Now when you did the block extension you had an offset from new costs, from the -10 and those costs associated with the higher deferred, etc. So how fluid are the margins relative to the improvement from PfS and when might we see a bigger move there?

Greg Smith - *The Boeing Company - EVP, CFO*

Yes, well, I mean we've certainly seen some of the benefit of the early stages of Partnering for Success on some of the other programs. Certainly as we went through the bridge on the 737 we have seen benefits on the 777, the 7777 as we came down in rate, managing through that, a lot of that being Partnering for Success.

I would say early stages on the 787. And really when you step back and you think about not a lot of units really have been built over this time. And so we are certainly active discussions with them but at the same time allowing them to get stable and come down their own learning curve and then at the right time engaging ourselves, how do you come down that learning curve even further.

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And that's what we are trying to leverage some of the stuff you saw with Larry yesterday where he is doing, or he has done some things and he has got more to do. How do you take that and get that back into the supply chain? And he and his team are doing some of that.

So I would say it's early stages but certainly 787 profitability is the priority here. And that's what we are going to continue to focus on but getting stable is key obviously for the us and also for the supply chain.

Again, if you think back between rate breaks every six months, the engineering changes that came through early combined with 787-9 coming on board, this is really the first window that we have seen stability in this production system. And again I think you saw some of the benefit of that yesterday. We're going to see the same benefit of that in the supply chain as well.

Unidentified Audience Member

Is there a particular unit block to look to when this really starts to drop through?

Greg Smith - *The Boeing Company - EVP, CFO*

Well, you've got some step down pricing that's already contracted and in the EAC today and that varies from supplier to supplier. You look at some suppliers and you do see a steady step down from block to block.

Others because of other negotiations we have had you will see flat pricing for a period of time. And then maybe a more dramatic step down and then more of a, I'll say traditional learning curve.

What we are trying to do is obviously help them get to those objectives and more, to drive profitability on the program. But I am encouraged to see what I've seen in Everett about getting stable and how you see how they are thinking about how they're are continuous to take efficiencies, what they've experienced on the 777 and bringing those over.

But again we have to get into the supply chain and help them do that and we have been doing that. So more of that to go.

Cai von Rumohr - *Cowen and Company - Analyst*

Greg, so very impressive tour yesterday. You paid the 8% bonus to the guys at Charleston, so everything sounds like it's going really well. Can you give us more specific color on your progress toward the 787 deferred?

You did $1.5 billion in the first quarter, you talk of $25 billion at the end of the year. Can you give us a profile of do we step down every quarter? Now that you don't face as big a risk when you step up to 12, is it going to be really as big a disruption? Give us some color on those issues.

Greg Smith - *The Boeing Company - EVP, CFO*

First and foremost, we are focused on unit cost improvement in over unit and that's what you saw yesterday and the cash flow of the program. That's what everybody is focused on inside the Company.

It certainly impacts deferred. You have seen the progress I talked about on unit cost that Larry and his team of experienced.

We are expecting him to continue to improve performance as we go forward, which obviously will impact deferred. We have some step-down pricing on the supply chain that will take place between now and the balance of the year that will impact deferred as well.

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Now I will also tell you that we are making decisions day in and day out on that program that in some cases have impacted deferred near term but benefit the program long term. So as an example, bringing in 787 inventory, -9 inventory early, to prove it out in the production system and get it tooled and allowing that supplier to get up in rate on the 787-9 is absolutely the right thing to do.

Does that impact near-term deferred? Yes, it does.

So we are making those decisions as they come forward but we are still on the path Cai, everybody's focused again on unit cost and that supplier step down and looking for opportunities to do further. That's what everybody is focused on.

Sam Pearlstein - *Wells Fargo Securities - Analyst*

Just want to ask you more on the cost of quality and Partnering for Success. Trying to understand how much of those billions of dollars of opportunity that Dennis mentioned are already assumed in the program accounting quantities in those blocks, how much could be additional and can that 3% to 4% productivity start to tick up as some of those savings come in?

Greg Smith - *The Boeing Company - EVP, CFO*

Yes, I think on the Partnering for Success, as I said, some of it we have already experienced and there is certainly more to go there. What we have in our EACs today are normal productivity improvements that we have seen historically coming down the learning curve, or specific projects that are driving costs down.

So the more success that we can have on the Partnering for Success will help margins. At the same time where we are in a competitive environment face any pricing pressure, which is certainly how we utilized it on the transition on the 737.

So more opportunity there. On the cost of quality what we have in our booking rates today is what we have experienced. So with some productivity improvement obviously on the 3% to 4%, the more of that that we can do the more upside on the margin front and pricing, where we have pricing pressure.

So that has been the big focus. I believe it is a big significant opportunity but I will tell you, Sam, we're just starting. We are at the infancy stage.

But when we look at what we are doing and look where we have had pilots of opportunities and what we've been able to do in flow time, in unit cost, it's been significant. So to Joe's question, how do you take that and take that through the organization? And it's really building on the success of Lean+ where we have that now embedded.

So how do you bring this element into it and the right metrics and the right performance indicators and the accountability down to the individual level that encourages everybody to focus that way. And I can tell you from my own experience of running a production line, going from an environment where quality it is obviously delivered at the highest rate of quality at the end but going back into that process and focusing on first-time quality in every single aspect of what you do whether it's engineering, drawings issued on time, on quality, or whether it's dispositioning, engineering disposition, whatever it might be, everybody focused on that effort it can be pretty significant.

So how do you take that and take it through the Company? That's really what Dennis is leading for us across the corporation. So everybody is focused on it and excited about it and I think it's a great opportunity again for us and the supply chain.

David Strauss - *UBS - Analyst*

Greg, obviously with cash flow a lot of the focus is on 787 but can you talk about the other big moving pieces over the next couple of years. Advances, cash taxes, CapEx and pension, how those look over the next couple of years?

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Greg Smith - *The Boeing Company - EVP, CFO*

Yes, I think you kind of go back to the production rates, let me start with BCA for a second, you go to the production rates and as you know we are going to 12 and eventually to 14 on the 787 and the 737 going up to 47. With that obviously higher deliveries and advances associated with that. A big driver obviously in the cash flow.

To your point, 787 making rate and coming down that learning curve, another key attribute into the cash flow generation. On the defense business, again typical defense business, conversion at about the same rate of earnings.

So if kind a step back that's what you would see for a cash flow profile for us. If you think about any headwinds going forward I think on CapEx next year you are probably going to see similar to what we have this year but again it's all focused on what you saw yesterday.

It's on growth, it's supporting the growth and at the same time supporting productivity. And the 777, 777X stuff you saw, that's investment there. So that's kind of what I see on the capital front.

On the pension we will make the discretionary contribution of $750 million this year. We will see where we end up next year. We certainly made a change in I will say the risk profile on the liability.

So we will kind of have to reset and see where we are there. Cash taxes will go up. As we improve on the 787 on a unit-cost basis we will pay more in cash taxes.

But you can think about it ultimately that is probably the biggest headwind beyond executing to the backlog. So again that's what gives us the confidence to continue to execute, do what we are doing and do more of it. And that's what is really going to generate that cash flow and allow us to deploy it appropriately.

Unidentified Audience Member

A couple of questions. First on the cash flow, last year you were saying you are going to return 80% of free cash to the shareholders. Is that still an accurate statement?

Greg Smith - *The Boeing Company - EVP, CFO*

Well, what I said was, that over time think of us returning about 80% over time. Clearly we are returning more than that and if we have an opportunity to do that we will do so.

With this authorization put in place it gives us that opportunity. And I think you saw in the first quarter where we I'll say took advantage of our stock price through that period and bought back $2.5 billion worth of stock. And we are going to continue on that trajectory while we continue to execute on the business.

Unidentified Audience Member

And then on the deferred, could you break out how much extra contributions you make roughly? Because what people are looking for is clearly what has happened to the 787 unit costs. So if you are buying more inventory for the -9 you are investing for 12 production, it's kind of distorting what we look at.

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Greg Smith - *The Boeing Company - EVP, CFO*

Yes, that's why I have been trying to give you a sense of how we are doing on unit cost on the quarterly calls, on the -8 and the -9 to give you a sense of again, what kind of productivity is coming just through those programs. But you are right, there's a lot of moving pieces in there and there's a lot of business decisions that get made day in and day out that impact deferred, near term but are much better.

Some of the reorganization that you saw yesterday that Larry has gone through and continuing to go through to put more efficiency into the production system impacts deferred. But is it the right thing to do for the program and the profitability for the program? Absolutely it is.

But it's not as easy as just moving a tool. You've got to build inventory. You got to build a buffer to be able to get out of that tool and move it to a new location, reconfigure it and then flow your product through there.

So folks sometimes kind of look at it and say well it's not a capital or tooling, it's not just that. You have to build up the inventory beforehand to have that smooth transition. So there's certainly some of that that is in there, George, and will continue be in the deferred going forward.

Ken Herbert - *Canccord Genuity - Analyst*

Just wanted to ask you, as the CFO, the earlier presentations it really sound like on the BCA side in particular the Company is driving towards a much more frequent product refresh, replacement cycle. As you deal with customers, specifically the leasing community, how do you balance that with the risk of maybe residual values being under increased pressure and the industry's ability to continue to attract external capital that has been clearly sort of the backdrop of a lot of the order book and everything else we have seen?

Greg Smith - *The Boeing Company - EVP, CFO*

Yes, I will let Ray answer in more detail and he will probably answer it much better than I will. But it will tell you, the demand in the marketplace is what drives our product strategy.

And I think when you look at what we're putting into the marketplace today whether it's the efficiency of a 737 MAX, a 787, 787-8, -9, or -10 and a 777X, these are very compelling economics. And that's what is driving about 50% of our deliveries here that are driven by replacement.

And if any of you are doing a business case and fuel is half of your cost you can see how compelling that is. And that is what is driving a lot of the demand. By no means do I see us over supplying into this environment.

And again a lot, first of all, the overall market is continuing to grow and grow in the right areas of the world that can be supported at the same time what we're bringing into the marketplace. So we feel pretty confident about our backlog and our ability to deliver on that backlog.

And I'm getting the hook. Thanks, Troy.

Troy Lahr - *The Boeing Company - VP IR*

Okay, thanks, Greg. We're going to take a quick 10-minute break and we'll get started at 9:30. Thank you.

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PRESENTATION

Troy Lahr - *The Boeing Company - VP IR*

Okay, if everybody could take their seat, we're going to go ahead and get started. We're going to turn to the businesses now. First up is the Commercial business. Please welcome Vice Chairman and President and CEO of Boeing Commercial Airplanes, Ray Conner.

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Okay, since everybody has already given my presentation, I've decided to -- I decided I brought the Super Bowl, this year's Super Bowl. I thought we'd play that.

How about that? Since you are in the home of the world champion Seattle Seahawks, right? Gosh, come on. (laughter) They're good. Okay.

Hey, welcome, everybody. Appreciate you all being here. I knew that you spent the day yesterday in the Everett factory, and there are certainly a lot of things going on at BCA.

But when you were out there in Everett, I know you saw a tremendous amount of activity. You saw our production at very high rates, and you saw thing starting to happen, getting ready for the new production programs: the 777X in particular.

But that kind of activity is really going on across all our sites, including our supply base as well. And they are working on, just like we are, increasing the rates, Leaning out the production system, increasing their productivity, and preparing for the new production programs.

A tremendous amount of work that is going in. If you went down to Renton you would see the exact same thing. In fact, you would even see more activity down there, because we're getting closer and closer to the MAX production.

Now when you walk the 787 line, I know a lot of you were here a couple years ago, but I think it's significantly different than what you saw two years ago. In just over -- a little over a year, the 87 has increased its production now 3 times, to 10 a month.

And for those of you that don't know, that is the highest production rate ever on a wide-body commercial airplane program. And to do that over the course of two and a half years is really pretty amazing.

Now, we have also delivered 143 airplanes to 18 customers. We only count the BBJ customers once, so it's actually more like 19 customers. I just want to give you a point of reference.

The 777 program, which may be the most successful wide-body we have ever had, at the same time in its production life the 87 has actually delivered 38% more airplanes. And we have delivered to nearly 90% more customers at the same time as the 777 was in its production life. So I think that is a tremendous commentary to Larry Loftis and his team and the entire BCA team for what they have done in terms of how they have progressed over the last two and a half years.

At the same time we were doing all that, we introduced into our production system a major derivative. And when I say a major derivative, the -9 was a major, major derivative. We have three airplanes through our production assembly line now that are going to be delivered here very shortly, and we have four airplanes in flight tests.

So we have seven that have been basically completed now through the course of the production system. So we're doing all that at the same time that we were increasing the rates: a very, very big step for the BCA team.

And it wasn't easy, but we got there, and now we are starting to stabilize. And I feel very, very good about where we are in the program.

And the -9 is on track to certify and deliver. We're working very closely with the FAA right now to deliver in the midyear.

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Looking across the broader BCA, we continue to focus on improving our market position by taking advantage of the momentum that we created over the last few years. And we really have created a tremendous amount of momentum.

In order to keep up and keep us moving forward and increase our profitability, we continue to pull on four main levers. And that is: execution of the rate increases; increasing our production system efficiency and productivity; and lowering our nonrecurring and recurring costs on our development programs. I can't stress that enough, is -- how important that is as we move forward into the future.

Then finally delivering world-class customer support and services. And we are continuing to grow our services business as we move forward.

As we've done always, when we have -- we work very closely with our customers. We work closely with them on requirements and we continue to monitor the market.

I know there's a lot of questions about: is the market slowing down or anything like that? But we still see tremendous growth opportunity.

I think BCA -- Jim showed our product lineup -- I think we are uniquely positioned to capture this growth with a comprehensive set of products and services. And I want to emphasize the services we bring as well.

2013 we generated a lot of momentum towards this growth. In the first quarter I think we kept that same pace. First-quarter results I think demonstrates how we are able to execute on both the sustaining and the development programs; we continue to drive increased efficiency and productivity throughout the production system, both internally and externally across the board; and we have been able to generate tremendous performance across-the-board.

Across -- on the very first quarter we were able to generate revenues for $12.7 billion in the first quarter and increased our operating margins to 11.8%. We delivered 161 airplanes. That is almost an 18% increase from last year.

And I'm going to be a little bit more specific about how many airplanes we have in the backlog, just because that is kind of important to me: 5,154. Not just 5,100, Jim. That's very important.

$374 billion, which when you step back and you think about it, that continues to validate I think the BCA product strategy, just to have that many airplanes at that much money. We launched the 787-10, the 777X last year; and we have now transitioned into the execution phase of our development program.

Airplane development, led by Scott Fancher; we talked about that last year, how we split programs, product development, and then CAS, three separate functions. Scott and his team are really focused on driving program management excellence and instilling that necessary discipline needed to efficiently manage the resources and lower not only our nonrecurring costs but our recurring costs as well.

What always frustrates me when we go through these development programs is having to go back and do redesigns to lower cost. We're going to do that right up front and get an airplane out here that is in the right cost structure right from the very beginning. And that goes back to what Dennis was talking about in terms of changing the cost curve.

Commercial Aviation Services is a business that's another critical element now of the BCA growth strategy. The market for demand for services and support expands the opportunity to us to provide more value, not only to our customers, but also to expand our margins.

Overall, every core business has experienced solid performance and is aligned now to deliver the highest value to our customers and continuing to position BCA to capture and sustain significant growth. I can't be more happy with where we are today in terms of being positioned for the future.

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The one thing, though -- I think, hopefully you got a sense of as you walked around -- our team is really the foundation for BCA. Our culture is built on a legacy of aviation leadership, innovation; and we continue to develop and evolve, ensuring that we have the right people and we have the right skills to execute.

Now I am going to show a video. It's not the Super Bowl, though; but it's -- I was going to do the highlight of that. But I really wanted to show this video because I think it does capture the excitement of our team and their commitment to meeting our customer expectations.

So let's play the video. (video playing)

Good quarter. A lot happened. Three things I want to point out. One, the SpiceJet that they were there, that was a flip; they are now a Boeing operator. They were an A320 operator, now a Boeing 737 operator.

Air Canada, with that MAX deal, Air Canada will be an all-Boeing customer. And frankly now Canada is an all-Boeing customer. So that was a big deal for us.

Third, Bev Weiss, I got to teach you how to use a sledgehammer. (laughter) That is just not going to work; you're not going to get there.

So a lot happened in the first quarter. But now let's take a quick turn to the business environment.

From an industry standpoint, airline profits, they're expected to increase by 44%, led by the US carriers, almost a near-record for profitability. This stems from the overall economic upturn that is driving more passenger traffic, coupled with fuel pricing that is more -- at least predictable at this particular point.

Still high, but still predictable. But more predictable, which really helps the airlines determine what they need to do from a pricing standpoint and some of that.

And better capacity discipline. I think any of you that have been flying on US carriers, every airplane is full. These guys are managing their capacity better than I think they ever have, and that is making a big deal in terms of profitability.

Some of that discipline probably will roll over into other places in the world. But the US is really leading the charge there.

And even as the performance is improving, customers are still making fleet decisions based on the need for more fuel-efficient airplanes and, frankly, beneficial operating costs in terms of what we're able to provide. They are also continuing to outsource engineering and maintenance in order to gain more flexibility in terms of their operating efficiencies and operating margins as we go forward.

Financing remains sufficient with capital markets evolving and now more global entrants into the market space are giving more liquidity. And overall I think aircraft-backed deals still remain attractive. We are not seeing any slowdown at all with respect to having enough financing available to take delivery of these airplanes.

From a cargo perspective, I think this is the one thing that for us is a very encouraging news. Volume has increased now a little over 4% since this time last year, and we anticipate it's going to continue to pick up as world trade growth continues to move forward. Big deal for our freighter market, particularly for the 747.

Overall, the dynamics in the business environment continue to increase the market opportunity for us. I feel some people are concerned, I know, about the emerging markets; and there are some things there. But overall, when you look at the entire globe, we still see a tremendous amount of market opportunity, which leads into market demand for both airplanes and services.

It is vast. It continues to grow. Jim talked about it earlier: 35,000 airplanes over the next 20 years, $4.8 trillion.

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And nearly half that demand, though, is replacement. That is driven by Europe, driven by the United States.

And we still see growth coming out of China, still significant growth in China, Middle East, Latin America, and then other places within Asia. I think also with the elections in India that things are going to start to pick up there as well.

Services and support requirements, they tend to grow in relationship to airplane deliveries. That is why it's no surprise that we still are seeing tremendous growth in the services and support side of the business sector. We estimate that is going to be $2.5 trillion market over the next 20 years.

Just to give you a little perspective, that's the same size as the twin-aisle market in that same 20-year period. So big opportunity for us going forward.

Now, the service sector is interesting. It is large, but it is fragmented.

Currently Boeing is number three behind Lufthansa Technik and GE. But when you think about the three of us combined, we make up less than a quarter of the market. So there is tremendous opportunity here for us to grow in the services market; and we have got a new leader that we will talk about later.

I am not sure. We will see what he can do. (laughter)

But when you look at the backlog, you see a balanced mix of size, breadth, geographic diversity, and quality. And that's both driven in the replacement, again, and for growth.

For quite some time we have followed a very disciplined process for managing our backlog. This has really served us well in terms of reducing our risk, in terms of volatility and potential market fluctuations.

We have -- since 2001, this is the one thing I think that we -- an area that probably doesn't get enough credit. We have done a very, very good job in managing our skylines.

And since -- similar to last year, we have not seen any slowdown in orders or any increases in cancellations or deferrals. Our cancellations are well below our historic average.

And if we are deferring airplanes, it's typically being done in connection with an airline in terms of helping us and maybe helping them, too. So we are actually trying to create win-win solutions for ourselves.

And we continue to utilize the skyline overbooking and some of these other kinds of things in terms of managing that so we're always in a pretty good place. Again, I think it's just validating our basic strategy and strategic approach to how we manage this thing.

From a strategic standpoint, our top level, our objective is to capture unprecedented airplane and services demand and continue doing what we have done so successfully for the last almost 100 years now, in the leader in the aviation industry. And that's to deliver the most efficient, comprehensive set of world-class products and services; and continue to pursue share in the single-aisle and twin-aisle markets, and in the services sector; and deliver these products with the most highly efficient production system that is flexible enough to move with the market demand.

You look at the moving lines that we have today and the things that you saw on the 87, on the 777, and on the 737. We are able to respond to up, demands to go up, and demands to then drop down much more efficiently today than we ever, ever have been.

That used to be just something that would flip us on our back; and we're able to do that now with so much more efficiency. And it's because of the way we've focused on our production system.

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And continue to foster growth and benefits of a defined development organization. Scott and his team have done a fabulous job of creating discipline around the vast knowledge that we have gained through our developments of the 787 and some of the other programs, and also the experience that others have seen as well.

This is very much a learning organization, and they are applying all those lessons learned just so we can go through these next five development programs much easier than what we have in the past. I think this is going to continue the legacy for us of delivering superior value to our customers while strengthening our underlying business.

Let's go to the next chart, please. The launch of the 787-10 and the 777 last year I think solidified our product strategy. And I'll tell you what, I would put our product strategy up against anything in the world.

It's got the most comprehensive market coverage, and it is a product line that is absolutely customer driven, customer focused, and customer generated. We worked so hard with our customers to come up with exactly what we wanted to have in every single market segment.

And we deliberately set this up to be 10% to 15% increments in size, with strong commonalities across the product lines, with the greatest operating efficiency in every single market segment. We have the most efficiency in every single market segment.

Long-term, the single-aisle market is going to be met by the 737 MAX, which is on track to deliver in third quarter of 2017. The MAX, which launched in 2011, today we have 40 customers; we just got another customer today announced in book.

2017 booked orders with commitments for another 300 airplanes. So the MAX is doing very well and it's basically -- we've split the market since the MAX has come into the game here.

As an example of the value that the MAX brings, I just wanted to point this out. It will have more range capability and be 14% more efficient than today's -- the airplane that we are delivering today from an NG perspective.

Now think about this: that's 20% better, 20% better than the airplane we delivered -- the NG we delivered in 1997. That wasn't that long ago; but we got a 20% fuel efficiency increment out of that, which is just fabulous.

Now the good news is, it's 8% better than the neo, so we're still the most efficient in the market segment. So just a little saying that we like to have: the NG is better today, and the 737 MAX will certainly be better tomorrow. Might want to say that to John Leahy here in a couple days; so looking forward to that.

We are meeting our current and future market twin-aisle demand with the 87, the 777-300ER, 777X and the 747-8. The 87, the -300ER, the 777, all those complement each other in terms of size, range, efficiency, economies, passenger appeal, very much, very similar. It provides the airlines a lot of flexibility in terms of meeting the market demand, in terms of seasonal demand and some of these things that can move up and down.

And you can use the same pilot pool. That is not really all that well known, but with mixed fleet flying that we have today you can take a 787 pilot and put him on 777-300ER; and you can certainly do that with a 777X as we move forward. That is one of the things that we wanted to put into that.

The 777X we have 300 orders and commitments from six customers worldwide, on track to hit the top-level design commitment in 2014. Firm configuration in 2015, and we're going to deliver 12% more fuel-efficient per seat and 10% better operating economics than our competition as we move forward.

In the meantime, now, a lot of people ask about this. The market is being served by the 777-300ER. It is still the best wide-body in that market segment, 350 seats plus, that there is.

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In the last five years we have added 20 new customers. Now that is a huge deal when you start to think about the future. Having a big customer base is very, very important as we move forward. And particularly when you start to think about the bridge; we have a firm backlog of 300 airplanes.

But another thing that is interesting to note: since the A350-1000 was launched, the -300ER has outsold them 2 to 1, 2 to 1. It's still the best airplane out there, by far.

And much like the way we did the bridge strategy on the 737NG, we're going to do a similar approach with the 777X in terms of pairing orders. And this is where the expanding customer base really takes hold.

We still see tremendous demand, just like we see on the 737NG. So from a bridge standpoint, with the things that we have in play, that expanded customer base, the demand, the commonality that we have with the 777X and the 87, I think we have a very good opportunity.

It's not to say that it's not going to be -- it's not easy. But I think we're in a very good position to fill the bridge as we move forward.

The 747X still recognized as a flagship carrier, has tremendous passenger and cargo appeal. And at the high range, right around that 500 seat, we knew that the 747-8 was going to be a niche airplane. The neat thing about it is we have both cargo and passenger; and we still see it as a very integral part of our product strategy as we move forward.

As we move to the programs, next chart please, year after year we have gotten better. If you look at what we have done on the 737, you look at what we have done on the 777, and now what we're doing on the 787, we have achieved sizable increases in both capacity, productivity across the board. Lean+, our rate ratings planning have been tremendous levers for us to allow the rate increases. Since 2011 we have done 14 rate increases across the programs.

737 all by itself this year will deliver more airplanes than we did with all programs combined in 2011. Amazing amount of output that's coming out of the 737 program in the same footprint that we did 21 a month about 10 years ago. So tremendous work being done by Bev Weiss and her team down there.

The 777 production line, that is the largest moving line in the world. We continue to decrease flows.

Again, 8.3 -- never thought we could get to 8.3. When I ran the program it was maxed at 7, and today we are doing 8.3. Larry Loftis was a much better program manager than I was, so there is by far -- far better than me.

But we have reduced the factory flow time by 27%. Lean+, all the quality initiatives are really starting to pay off. Reduced floorspace, and our rework is down very, very minimal as we move forward.

Another opportunity to drive our productivity across the program is the union agreement. Jim talk about that a little bit.

But within that union agreement, which goes out to 2024, we have significant productivity and quality and safety incentives in there for the individuals, but also for the Company too. We share in these benefits.

And we saw a tremendous increase in the productivity last year, and we anticipate that we will continue to see that year-over-year. This is something that we negotiate with the union in terms of where we want to be; we set the targets; and those targets are monitored on a weekly basis with the IAM across-the-board.

Everybody benefits from it, and I think it's a tremendous way for us to manage this business going forward. Another great way in terms of our partnership with the IAM, and hopefully we will continue to do that in the future.

On the 787, got a variety of initiatives. I think you saw them; I think you talked about them with Larry and you talked about it with Kim.

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This is a productivity journey. This is the place where we are focusing a tremendous, tremendous amount of effort.

We've had some very tough years. Start, stop; those are difficult to get the right kind of productivity. But now we're moving into a production stable environment, and I think we are going to start to see the learning curve come down substantially.

Frankly, it's come down better than -- when you think about doing all the rate increases and bringing the 787-9 in there, we have done pretty well. 15% improvement and such in unit cost; that is pretty significant when you think about it.

787 shortages, all-time low. Traveled work right where we would expect it to be at this kind of a production rate.

I was just in Charleston a couple weeks ago; Jim was down there as well. I think we feel very, very good about the progress we have made there and where we are in terms of the performance and the status.

They are doing fabulous, fabulous work down there. Jack Jones and his team, a really terrific job.

I mentioned that we had three rate increases on the 87 within the span of a year and a half. And across the entire production system, we have been able to decrease the flow times more than 25%, even as we have increased the rate 3 times across-the-board.

So that's pretty darn good work by the whole team. And we continue to work on continued flow reduction in a number of ways, and we have increased the factor efficiency across the value stream in ways that's going to allow us to not only continue to drive the learning curves down but also reduce the capital investment that is necessary when we go to 12 and to 14.

We would anticipate a reduction from what it would typically be to take the rates up again by about 25%. So a lot of good work going on here on the 787.

When you think about it, I think Larry talked about the electrical design changes we have made. This, just on the mid-body, and the way that we do the electrical on the mid-body, we didn't just save -- we went from days to minutes in terms of how we actually put the wire bundles in on the 787 mid-body.

So this is the kinds of things that we're learning and we're sharing across the programs as we move forward here. So there is so much opportunity too, in terms of reducing our unit cost as we move forward, because it's such a different airplane than what we have done in the past, and we're still learning so much about it.

But this not only flows in terms of our factories, but we're sharing all this with our supply chains through all the Partner for Success type of things.

Another example of reducing the flow times, we've reduced the joins on the 787, how we bring the airplane together. We've reduced that by 40% now, the flow time to do that. Again, that sets us up in terms of the next rate increases, helps us come down the learning curve even faster, and will limit the amount of capital investment that we have to make in terms of doing 12 and then 14.

Pat Shanahan, Larry Loftis, Kent Fisher, Mike Delaney, Stan Deal, everybody has done a fantastic job on hitting the objectives towards operating efficiencies within the 787 and frankly across the board, Bev Weiss and her team down on the 737 as well.

In-service performance, I know there's been a lot of things written about that over the course of the last couple years. But we are really starting to see the improvements starting to take hold across-the-board with the service reliability program we have in place.

We're now starting to get into that 98, 98.5, on our way to 99.2. Not where we want to be, but we continue to push forward. And I think the customers are very pleased with where we're going, at least with the improvement that we're making.

Overall I would say this program, the 87, is doing really well. I think getting stabilized at 10 a month is a big deal for us.

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Bringing the -9 into production at the same time was a challenge, but I am very pleased with where we are in terms of the curves both on the -8 and on the -9. And our guidance remains unchanged as we move forward here.

And with the -9 going to Air New Zealand in midyear, I think that is going to be a real boost not only to them but to the entire team. And then we will follow up with Continental or United shortly after that.

On the services side, Lou Mancini retired earlier this year and we replaced him with Stan Deal. Now Stan has a unique background. I think it's perfect for this.

He has been in sales. He was in supplier management. He has also run programs, and he has been a -- he's had some engineering roles as well. So I think he is perfect for leading this business and actually growing the business.

We see a significant opportunity, $2.5 trillion. And we have a set of products and services here that I think will allow us to capitalize on this marketplace and be able to bring real value to our customers as we go forward.

Customer support has always been a key differentiator for us in the marketplace, and it will continue to be a key differentiator for us as we go forward. Now in addition to our baseline customer support, CAS is going to market now with four basic business offerings: material, fleet, and in-flight and information services.

Material services, that's all about parts, okay? It's mostly Boeing proprietary parts, ensuring that customers have the right part at the right time at the right location.

We also have a subsidiary in Aviall that provides very cost-competitive structure for managing distribution. Now that is not just distribution of Boeing parts; it's distribution for other manufacturers' parts as well, components and those kinds of things. A very, very solid business with a lot of growth potential.

Fleet services provides maintenance and engineering to our customers. It also reconfigures interiors, upgrades avionics, does conversions of passengers to freighters, and is a little bit down right now because of the freighter market. But that may come back as we move forward.

And GoldCare, which is our long-term, performance-based offering for maintenance and engineering. We've started to really grow this business. It includes all functions required to maintain our customers' fleets.

Today we have more than 50 customers and 1,600 airplanes under some form of long-term contract with some element of the GoldCare offering. That includes fleet management, engineering services, and material management. So some form of that or a full-meal deal in terms of taking care of their airplane.

Flight service is about training and certification of pilots. Again, we have training centers all over the world, and with the growing fleet we're going to have to do a lot more of this. And then with the 0.5 million new pilots that are going to be required to support the fleet, I think this is going to be a nice little business for us as we move forward.

Information services, which goes under the name of digital airline, is an emerging markets segment, focused primarily on providing airlines with a suite of tools to improve efficiency in their operations. It has crew scheduling; it has real-time maintenance data with AHM, and so the airlines can work very quickly.

It's a very, very nice business as we move forward. I think the reason why we were into this, we're able to leverage our intellectual property, we're able to leverage our engineering, the technology and the detailed knowledge of the airplane, so we can start to generate some real revenue from the services side.

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Ultimately, we plan to increase our market share, hopefully get beyond being third place here, behind GE and Lufthansa Technik. But I think these offerings that we have are very, very solid, and the customers are excited about what we're able to bring to the marketplace.

From an imperatives standpoint, you can read the chart. But here is what I would like to leave you with.

We are in a very, very good position to capture the market opportunities. It's a huge market and there isn't anyone in the world that can offer what we do today.

Over the course of the last few years we have had to deal with a lot of challenges -- a lot -- and we will probably be faced with more as we move forward. We have a terrific plan that drives execution, that is focused on delivering superior products.

We have superior products, and we have great services as well. And we are also focused on driving profitability.

I can tell you that this -- we have a great team, a tremendous team. And one thing I do know is that they are battle-tested. They have been through more than any other team I think that The Boeing Company has had at least since I have been here, and that's 37 years. The only other time I think there was a team as tested as we were was when we developed the 747 way back when.

So these guys know what to do. They know how to do it, and we are performing at a level that we have never performed at. I have complete confidence in them, and I think you should, too.

So with that, I will take some questions. Okay, I will start -- okay, here. Go ahead.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Ray, could you discuss the 777 bridge a little bit more in terms of how you need to feather that in, in terms of when -- the order activity? Just given you have 300 aircraft, at current rates that takes you out through 2016; and obviously that could be spread out further. But what you are seeing in terms of some of the campaigns?

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

We have some orders that go out further than that.

Unidentified Audience Member

Right. Yes.

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

And we have a lot of things in play that will come home here relatively soon. I'm not going to say that it's not going to be a challenge; certainly it's going to be a challenge.

But I go back to that customer base; and then I go back to the 777X. We did a very good job on the NG in terms pairing orders. We did that just recently with ANA with their 777X order. That is kind of -- will be the primary strategy.

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When you think back on the initial 777-300ER, it delivered in 2003. Those airplanes are going to need to come out here very soon. And a lot of these airplanes that we will do with the bridge will be the replacement for those airplanes, and they will then be the last ones that come out once the 777X comes in.

The demand? We still have a tremendous amount of proposal activity. I still see demand as being there. Like I said, it is not a slam dunk, but I feel pretty confident we're going to get there.

Unidentified Audience Member

Just to follow on, on that. Is the -- many of the campaigns, though, the 777X is a much bigger aircraft, at least what you are bringing. And a lot of those carriers may not need that additional capacity (multiple speakers)

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Well, we also have the -8, which is basically the same size as the -300ER.

Unidentified Audience Member

Right.

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

So we have a family of 777Xs that could feather very well with the -300ER. Yes?

Unidentified Audience Member

I just wanted to ask a quick question on the services business. Can you remind us or update us on how big that business is today, either in absolute dollar terms or in percentage of Commercial Services?

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Yes, we don't break that down, but it's pretty significant and it drives very high margins for us. So high margins.

Unidentified Audience Member

As we look forward and you say you want to grow that business, what type of growth are you talking about? Will the margin profile of that business change over time as a result of that growth?

Then lastly, as part of that is: what kind of capital requirements are needed to grow that business? If it's parts and inventory related, are we going to see increases in working capital over time?

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

It shouldn't be that much. We may be looking at some M&A activity that would fit in very nicely over the course of time. We'll just have to watch and see what we do there.

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But from a margin perspective, I would expect it to remain the same. Similar to what we have today, maybe even a little bit more growth, particularly as we start to grow some of these engineering and maintenance services that we have.

Unidentified Audience Member

But the underlying growth there is the growth of overall traffic, and you're looking to go higher than that?

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Well, I think -- on the Services side? Well, more airplanes coming in; people wanting to get away from having to do the work themselves or some of the work; transferring that to us. We will take the responsibility for doing some of that.

As those fleets start to grow, that is just more opportunity for us. I think the digital airline is a very new offering that drives efficiency. This is all about giving efficiency to the airline so they can increase their margin; and then we get a piece of that as well.

So I think those two things are the big growth areas. But parts will always be a foundation for what we do going forward. So we're going to be looking to expand that business as well.

Yes, over here. Joe?

Joe Nadol - *JPMorgan - Analyst*

Ray, I wanted to give you the chance maybe to answer a question I asked Jim earlier, or a variant thereof, which is: where do you think margins can go in your business? The 11.8% in Q1 -- I mean, your guidance of 10% seems like frankly a very, very low bar. You guys are longer-run talking about --

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Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

I knew you were going to do this to me, you know that?

Joe Nadol - *JPMorgan - Analyst*

I know.

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

You were going to set me up for a new mark.

Joe Nadol - *JPMorgan - Analyst*

Well, maybe -- I know you don't want to all of a sudden give off-the-cuff long-run margin guidance, and that is not what I am asking. But conceptually, where do you think you can go? Do you think you can generate returns like your suppliers do?

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Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Yes. Ultimately, yes, I certainly do. I think a key piece of that will be the Services part and how quickly we can get the unit cost down on the 787.

That will really be the key for us, because that is going to become such a big piece of our deliveries as we move forward. And obviously, the 737 with its increased rate, we have just got to stay on that same kind of learning curve that we have got there.

Joe Nadol - *JPMorgan - Analyst*

In the past, in the years past, you've had uppers and downers; and the mix says always led you to margins where you are at or actually a little bit lower. When you look forward and you look at pricing competition perhaps on 777, not everything is going to go right. How do you think about what the downers might be the next three, four years?

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Well, certainly there is going to be pricing pressure always. But that is why we have got such a focus on driving efficiency throughout the whole production system, and not just with us but across the board.

Our cost-reduction programs are very, very intense, particularly on the 777 right now and obviously on the 787, because we want to anticipate anything that may -- the pressure that we may start to see with respect to pricing. Now we are not seeing anything today that is outside of what we provided for guidance, at this particular point in time.

But we want to be prepared. If we can expand our margin, keep our pricing in very good shape, we will see how it moves as we go forward here.

Yes, Howard?

Howard Rubel - *Jefferies & Company - Analyst*

Thanks, Ray. Maybe you could talk a little bit about the 777X; and there's two parts to the question. One is, can you provide us with an update on the timeline and where you are, and how that's going in?

Then second, talk about the advantages for a moment of staying in Everett, and what you have been able to accomplish, and how the workforce has responded to that initiative.

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Well, I talked about it. We will start to take buildings down here very, very soon. Everything kind of north of the manufacturing, final assembly buildings, all the little smaller buildings will come down. And that is where we will build the wing facility. And then we will take that, the wing, directly across and move it right into the final assembly as we go forward there.

So we will start to get top-level design next year. Then we will move into firm configuration the year after that.

But right now today we are already doing tests, testing in terms of test production down in our ADC facility, our Advanced Development Center, on the composite wing. The good news about that is we have already done a composite wing with Mitsubishi, and we were the ones that pretty much set up that production system there.

So we're very familiar with the things that you need to do, the areas that you need to focus on. But we're trying to innovate and do it much better as we move forward.

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The workforce has been fabulous. They are excited about it. They are going to have to do a -- we are bringing in a whole new technology for them, so they are very excited about the opportunity to do that in the future.

We've got the right people, some very good people going to run the wing program element of this. And I think that is going to be a real plus for us as we go forward.

But having it in Everett was a big advantage for us, and it significantly derisks the program. There is no question about that.

Troy Lahr - *The Boeing Company - VP IR*

Great. I think with that, we are going to --

Ray Conner - *The Boeing Company - Vice Chairman and President & CEO Boeing Commercial Airplanes*

Okay, got the hook, huh? (laughter) Okay, thank you.

PRESENTATION

Troy Lahr - *The Boeing Company - VP IR*

Okay, thank you, Ray. Next we are going to turn to the Defense business, so please welcome President and CEO of Boeing Defense, Space & Security, Chris Chadwick.

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

Thanks, Troy. Good morning, everyone. You've seen a lot this morning; heard a lot. It's all pretty exciting. We will keep that going through the conversation on BDS.

We'll start first with the numbers, and then I will walk you through how Boeing is positioned to grow smartly and profitably in the Defense, Space & Security business. Profitable growth is very realistic. After all, it is a $3 trillion market over the next 10 years.

No other aerospace and defense company brings the innovative capabilities and the breadth and depth of talent that Boeing does. And no other company can be better than us at providing the right capability, at the right time, at the right cost. That is the core of our competitive advantage, and that is the value proposition that we bring to customers.

Next chart, please. BDS is better positioned today than at any point in the past decade. Our portfolio is solid; we have a strong and proven culture of execution; and we have little downside risk going forward.

You see that in our financial results. We are a $33 billion business with a $66 billion backlog and more than $2 billion in earnings from operations for 2013. I would like to point out that 35% of that backlog was with customers outside the US, reflecting our success in international and domestic markets in a very challenging environment.

In 2013, Boeing Military Aircraft generated about half of our revenue -- $15.9 billion, to be precise -- and $1.5 billion in earnings from operations. BMA's portfolio also represents about half our backlog.

Global Services & Support generated $8.7 billion in revenue and about $1.1 billion in earnings from operations in 2013, with a backlog of nearly $16 billion.

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Network & Space Systems produced $8.5 billion of our revenue and $719 million in earnings from operations. Its backlog is also nearly $16 billion.

I am extremely proud of the BDS team. So let's take a look at what they accomplished. Please roll the video. (video playing)

I could not be prouder of this team. You can see they accomplish things every single day. Shelley, Jim, Roger, Darryl, Chris, Leanne, I have been blessed with a phenomenal leadership team.

Next chart, please. As I said, the global Defense, Space & Security market for the next decade is large and offers us many opportunities to grow our business. In order to grow, we need to understand how the environments that shape our opportunities are evolving and how our customers will likely respond to those challenges.

It may be a cliche, but we have to know our customers better than they do, not only in terms of how they are addressing today's challenges, but also how our customers are thinking about tomorrow's needs. A big part of that will be infusing our solutions with the true potential of the information age, because the demand for secure, actionable, real-time information is growing exponentially.

That certainly isn't surprising. Most of us make similar demands on our mobile phone providers each day. We expect to be able to open an app here in Seattle and instantly get information about dining, shopping, transportation, and entertainment options within blocks of where we are.

It's no surprise, then, that our customers expect the same sort of simple, immediate experience with their Big Data. I believe there is tremendous opportunity here to leverage information, to move beyond a platform- or system-oriented view to a customer's capability view.

Next chart, please. The strategic environments within which our customers are making their budgets are as daunting as ever, and our customers face an expanding number of threats that we will help them address. But there are also significant budgetary challenges.

Let's talk about the biggest. The Pentagon's fiscal-year 2015 budget request of $496 billion is at about the same level as FY13 and FY14. That is a reduction of about 9% from the previous FY15 plan, depicted as the gray line on the graph.

DoD also requested $26 billion through their proposed Opportunity, Growth & Security Initiative, which is the star on the graph; plus the Services sent Congress their unfunded priority lists. When we look at those, we are generally encouraged by what we see. In particular, we are encouraged by the increasing support to fund the Navy's requirement for additional Growler aircraft.

But we know the budget process is not over yet. Finding the proverbial silver lining in the cloud that is sequestration is difficult. It is challenging for our customers, because they are forced to think short-term in a time when they need to plan for the long term.

We will support them during these trying times by understanding their needs and embracing the fact that more for less is the new normal. That is our customers' reality, balancing affordability with needed capability.

Next slide, please. A few years ago we started reshaping how we operate to get ahead of this, through what we call market-based affordability. We challenged ourselves to find over $2 billion in cost reductions; and we did it.

Then we challenged ourselves again to find $1.6 billion more; and we did that. Now we have challenged ourselves once more to achieve another $2.1 billion in cost reduction; and we will find it.

The Partnering for Success effort that you have heard about this morning is a big part of that. It is as important for BDS as it is for BCA.

We have also been making tough but necessary decisions to rationalize our cost structure. Those include reducing executive and management populations, rationalizing our facilities, and even deciding to end C-17 production.

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For us, all of this is geared toward allowing Boeing to break the cost curve that is trending in the wrong direction for this industry. If there is to be a vibrant industry decades from now, we need to find more ways to move quickly and more affordably. That is essential to our future.

Next chart, please. Our ability to innovate and provide the right capability at the right cost at the right time determines our success around the world. A key part of our strategy, one that I believe sets us apart from our competitors, is our commitment to maintain our R&D investments amid the budget challenges we discussed earlier.

We are doing that to position ourselves to win the franchises we must have if we are to grow. Take UCLASS, for example. Its importance goes beyond the number that the Navy will purchase.

The winner of UCLASS will have an advantage because that platform will set a standard for an important segment of the unmanned systems market. We recognize that more for less is central to us winning.

So is thinking about UCLASS holistically, because it is more than the aircraft. It is also how UCLASS evolves to provide what the customer needs from day one throughout its service life.

It is about working with Ray's team to leverage advanced manufacturing techniques so we provide the Navy with the optimal, affordable solution. That is one example of how we think about investing for the future.

Next chart. That is a good way to start talking about the advantages of One Boeing. Jim's emphasis on operating as one Company is building a better Boeing. It is as simple as that.

That allows all of us to leverage technologies, manufacturing techniques, people, and investments to benefit our efforts. While we just talked about UCLASS, the Air Force Long-Range Strike program is another good example.

LRS is a crucial capability for this nation. Boeing has been part of the bomber community from the very beginning, and we are focused on continuing that well into the future.

For this program, we are bringing a robust focus on cost and capabilities across the entire program lifecycle. We can do that better than our competitors by reaching out across the Company and utilizing our expertise as well as that of our partner to meet this requirement.

Before I move on, let me touch on military derivatives of commercial airplanes. They are a uniquely Boeing solution.

The P-8 is a textbook example of that. That program has remained on cost in large part because we were leveraging the efficiencies of the 737 production system.

The 737's industry-leading reliability and operating costs help us deliver an affordable, supportable, highly capable solution. And we are migrating lessons learned from P-8 to the 767-based tanker.

And we will have more opportunities down the road as military aircraft based on the Boeing 707 are replaced worldwide. In this area and in so many others, our solutions remain unique.

Next chart. Speaking of tanker, it remains a franchise program for us with a total market opportunity of between 350 and 400 aircraft worth approximately $80 billion. That includes the current production contract for 179 aircraft along with potential additional domestic orders and international sales.

It's a program well worth the effort we put into winning it. It provides us a competitive advantage with global customers, and it will create significant, long-term shareholder value.

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To date, three and a half years into the EMD program, we have met all the KC-46 customer milestones. Our next major customer milestone is first flight of the boom-equipped KC-46 scheduled for the first quarter of 2015; and we're committed to achieving that milestone on schedule as well.

We now have four test airplanes in production in our factory, and we have entered the critical phase of first article integration and systems installation. Like other complex programs, there have been challenges along the way. Our team is addressing challenges as they arise and remains focused on moving into flight test.

We also are producing the tanker booms, which you see depicted on this slide, as we work to reduce risk methodically before tanker flight testing begins early next year. Overall, we remain on track to deliver 18 tankers in 2017, as we have committed to the Air Force.

This remains a challenging program, but we are making solid progress and we are working closely with our Air Force customer to ensure we meet our commitment to the war fighters. The KC-46 remains one of the Air Force's top priorities, which will begin to recapitalize a critical joint capability and set a new standard for aerial refueling.

We are also pursuing near-term opportunities in Korea and with the European Defense Agency, which is managing a competition on behalf of five EU countries.

Next chart. I would like to spend my remaining time explaining our strategy for Boeing's second century. It starts with having a right-to-left mindset with the end in mind to ensure customer satisfaction, and differentiating a path to success that cuts through complexity and provides elegance to our customers, because less is really more.

We will think and act differently. I have always liked the way Wayne Gretzky, probably the greatest hockey player of all time, described his approach to the game. Gretzky famously said: I skate to where the puck is going to be, not where it has been.

That is what we will do. That is our playbook.

Our game plan is based on relentlessly competing and winning in current markets and new markets, continuously innovating while we break the cost curve I spoke of earlier, and bringing together the best of industry as only Boeing can, reaching beyond what our customers know is possible and then walking side by side with them to their future, allowing them to iterate their ideas along the way as we exceed their expectations.

When we do those things well, we succeed. It is important to remember that our approach is about more than just delivering platforms. What we do after delivery is absolutely critical, not just here in the US but in other countries as well.

Like the United Kingdom. The UK relies on Boeing for lifecycle support of its Chinook and C-17 fleets; and we provide technical support and logistics for its Apaches.

It's a similar story in Australia, which is not only part of the global C-17 sustainment effort, but also relies on us to support their wedge tail and F/A-18 aircraft, and to help train army aviation units. Boeing has made significant commitments to those countries and many others, and that is how we develop relationships around the world that make us the preferred partners for our customers, not just today but for decades to come.

Next chart. So to wrap things up, let's run through what will drive our continued success.

It all comes down to these six words: right capability, right time, right cost. That is what we do. That is what we will do, and that will differentiate us.

To do that, we must have customer intimacy, strong leadership, innovation, and productivity. I truly believe that BDS is better positioned now than at any point in many, many years.

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We had a strong 2013. We are off to a good start in 2014. We are one team inside and out, building off of past achievements and delivering capability that redefines product categories. We are on our way to being a stronger Boeing in the next 100 years.

Thank you, and I would be happy to take any questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Chris, can you just walk through the F-18, EA-18G? just lay out for us the international opportunities.

And then the timing of the additional EA-18Gs. If you get some in Congress this year, can you get this in the FY16 POM? Or are you going to have to go through Congress again to get it on an unfunded list and get money that way?

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

There's currently 22 EA-18Gs on the CNO's -- the Navy's unfunded priority list. It's looking very promising in the committees; we are pretty bullish about that.

Will we get 22? I don't know if we will get 22, but we will get double digits. And that will extend the FA-18 production line into 2017.

It buys us time from a couple different perspectives. Number one, as we speak, the Navy is undergoing a physical and paper study on how the EA-18G brings more capability to its Navy. We think that will provide impetus as we move forward for the possibility of additional EA-18Gs. We think the requirement could be somewhere in the 60 to 80 aircraft range.

Additionally, there continues to be pent-up demand in the Middle East and the Asia-Pacific region for fighter airplanes, whether it is the FA/18 or the F-15, we remain in a good position. Yes, sir?

Unidentified Audience Member

In Boeing Military Aircraft, you've had -- your margins have not been as strong as they were some years ago, or as some of your competitors in similar businesses are. You look forward and you've got the transition to the P-8 and to the tanker. There's been a lot of discussion about cost today, but how do you look at the margin trajectory going forward?

Is this something where you can maintain margin if you get down cost? Could you even expand margin if you are successful? And what are some of the initiatives specifically you're looking at to get there?

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

It very much parallels with what Dennis talked about, what Greg and Jim talked about. It's really twofold.

Number 1, we think P-8 and KC-46 will easily replace the revenue stream that we lose with C-17. As we continue to focus on market-based affordability and Partnering for Success, we fully expect to get more cost out, and that will enable us from two perspectives.

One is it will make us more competitive internationally. And two, it will allow us to focus on what we need to do, continue to focus on pushing margins up.

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We will see how it plays out. Right now, we are investing strategically in those next-generation franchise programs: LRS, UCLASS, T-X. It makes a lot of sense, because those programs are on us right now and we need to win our fair share of those.

Then as we move forward we will have that opportunity to balance investment with margins and with a healthy business for the long term. Yes, sir?

Unidentified Audience Member

Thank you. Of the $2 billion that Dennis said that you're going to take out of the business, how much of that do you expect to keep and how much of that are you going to have to give back to your customer?

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

It depends on where it comes out. Typically we keep it for a short time, say about a third of it. If we have multiyear contracts, you keep all of it once you have achieved your savings to the customer.

So our balance is to continue to do that. It's become part of our lexicon, part of how we run our business on a daily basis. So we are pretty bullish about being able to keep a substantial amount of that.

Unidentified Audience Member

Okay. Then if I may, just one quick -- another one. On the F-15 Silent Eagle, can you walk through potentially any of the campaigns that are going on for that airplane? And how should we think about the F-15SE?

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

Yes, I would look at the Silent Eagle as another variant of the F-15, and there are quite a few. They are always driven by the customer needs, the customer requirements, and that is how we judge what variant we offer in the marketplace.

While I can't get into specifics, I can tell you there is interest across the Middle East in the F-15 platform.

Unidentified Audience Member

Thank you.

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

Yes, sir?

Unidentified Audience Member

Question for you on the KC-46. You are probably one of three people that say it's a challenging program; to us, that usually means it's a pregnant charge waiting to happen.

So just as you look out over the next few years, where are the milestones? You talked about first flight first quarter of 2015; final assembly, you're supposed to roll out in third quarter.

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If it doesn't happen, say, over the next 12 months, is it not going to happen? Is effectively that the window of risk?

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

I have got a long experience from a program management perspective. I would consider myself an optimistic pessimist.

That is how I look at programs. That way you keep the risks in front of you, as we have on the tanker program.

We fully intend to fly the KC-46 first quarter next year. That is the next contractual milestone with our customer. We are focused on that, and we are focused on delivering those 18 full-up KC-46s in 2017.

The reason you are hearing it's a challenges because we're at that stage in the program were you have systems installation, you are building the aircraft, you are moving toward flight test; and so everybody is really geared up to look for those risks and issues and just keep them in front of us as we move forward. Yes, sir?

Unidentified Audience Member

On the C-17, I think you still have 11 unsold slots; and the last one that you have sold, at least officially, delivers sometime early summer. Are you going to be building whitetails for a time? Or do you know with a certain level of certainty where those final 11 are going to go?

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

We are in discussions right now for about five of those airplanes, and we fully expect to sell all 11 aircraft in a very timely fashion. Yes?

Unidentified Audience Member

Yes. While you are optimistic or hopeful of getting funding for the FA/18, there certainly are -- it's probably as contentious an issue in terms of the overall budget as we have seen. Assuming Congress does not basically add those other planes in there, could you comment on what other international competitions you have that could come in, in time to keep the line open?

When do you have to get those orders? And how long are you willing to fund keeping the line warm to be able to continue it?

Chris Chadwick - *The Boeing Company - EVP and President & CEO Boeing Defense, Space & Security*

Yes, we will look at that on a quarterly basis to see how the market evolves. Frankly, we are very bullish on getting additional EA-18Gs from Congress or the United States Navy, so we fully expect that to extend the production line out through 2017.

We don't typically comment on specific campaigns. But there are a number of customers, Canada, Denmark, the Middle East, that continue to look at fighter capability and have active campaigns ongoing.

We have got an installed base and a capability that is in the sweet spot of capability and cost and low risk. And that is what has turned the heads of our international customers.

Perfect example: everyone in the Middle East saw what Saudi did when they procured 72 F-15s. And that has got a lot of customers thinking differently in terms of the capability they need moving forward. Thank you very much.

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Troy Lahr - *The Boeing Company - VP IR*

Okay. Thank you, Chris. I just want to mention a couple logistic items before we moved to the breakout sessions. First, I want to remind you that the breakout sessions will begin promptly in 10 minutes. Following the sessions, box lunches will be available in the foyer for you to take.

If you attended the tours yesterday, you will also be able to pick up a group photo at that time. If you are taking flights out this afternoon, there will be shuttles available to take you to the airport at 12:15, 12:45, and 1 o'clock.

Please follow your schedule corresponding group for the breakout sessions. Again, group A will be here; group B will be in the Metropole Room.

And again, thanks for your attention this morning. We will see you shortly after the breakout sessions. Thank you.

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