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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Joe Nadol *JPMorgan - Analyst*

PRESENTATION

Joe Nadol - *JPMorgan - Analyst*

Okay, we're going to get started here. If everyone could find a seat; I think there's some seats available around the room. Thanks for joining us. Hope you are enjoying the conference so far.

I am Joe Nadol of JPMorgan. We are thrilled here to have Boeing with us. Dennis Muilenburg is with us. He is the recently promoted Vice Chairman, President, and COO of Boeing. Troy Lahr from Investor Relations is also here in the front of the room in front of me.

I think there's a forward-looking statement that I'm supposed to mention that is now up on the screen, which is your typical forward-looking statement. And we are going to do a fireside chat here with Dennis this afternoon. So welcome, Dennis.

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

Thanks, Joe.

Joe Nadol - *JPMorgan - Analyst*

My first question is open-ended. Congratulations on your promotion. Maybe we could just start off with a few words just telling us about what you've been doing the last couple of months since you have been promoted.

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

Thanks, Joe. Again, appreciate the opportunity to be here with you today in the forum. I have had the privilege of stepping into my new role at the start of the year and I've been spending a lot of time working very closely with Jim McNerney, really side-by-side on oversight of the overall operations of the Company, and really a privilege for me to continue to learn from Jim in that role.

Also spending a lot of time with Ray Conner and his team, our commercial airplane team, and deepening my experience and knowledge base there. Ray and his team continue to do a fantastic job and really enjoying the opportunity to spend time with them both on the production and development side.

Then Jim has also asked me to spend a significant amount of time working on some of our crosscutting initiatives across the enterprise. These include things like our Partnering for Success initiative with our supply chain, our development program excellence, building out our industrial relationships around the globe, working with the investor community. So a lot of external engagement, all with the theme of creating One Boeing leverage and working across the commercial defense and space sectors.

So enjoying the job and looking forward to our time together today.

Joe Nadol - *JPMorgan - Analyst*

Wonderful. Let's dig right into the commercial business since it's new to you in this regard, but you've spent time there historically in your career. But now you are just coming back to it and you have been spending a lot of time really doing a deep dive. What are your impressions? What are you going to bring to the table for BCS?

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

Well, again, it has been really a privilege to team up with Ray Conner and his team; doing a fantastic job in a robust, growing business. Had the chance to spend some time in Seattle throughout the Puget Sound area with our team, a couple of visits to Charleston as well, and have also had the chance to get out with our key supply chain partners, including some recent visits to our partners in Japan and Korea.

If you look across the expanse of what we are doing on ramping up production rates, bringing some of our best practices to bear, some of our lean initiatives, the rate ups that we've done in 787 and the upcoming break to 42 on the 737 line, if we look at the development programs on the 737 Max, the -9 and -10 787 as well as the 777X, those are all opportunities for us to bring the best of Boeing to bear and to create leverage across the enterprise.

I think in particular working closely with Ray on some of the new development programs so that we can bring our best technology and capability, bring our best talent to the table, and just continue to drive performance for the enterprise operations.

Joe Nadol - *JPMorgan - Analyst*

So diving into that, I think what many people are interested in is, of course, 787 performance. One of the key metrics you have given is a peak in deferred production of $25 billion. Maybe after spending the last couple months -- spending a lot of time on that you could give us your confidence in achieving that and how we should think about that target.

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

Well, Joe, we remain very confident in that target and the guidance that we have put out. We expect to have that deferred inventory peak at about $25 billion at the end of this year, roughly.

Again, two principal drivers there as we head to the $25 billion. One is the preparation to introduce the -10, 787-10 model, and also ramping up to a 12-a-month capability. As we have previously guided to, we plan to break to 12 in that 2016 timeframe.

So those are the two things that will drive us to that roughly $25 billion peak level. We expect beyond that it will be flattish, roughly plateau at that level, and then as we get to 12-a-month rate on the 787 line you will see us come down the backside of that inventory curve.

So that's well understood. It's fact based. We know exactly what needs to be done, both in our factories and with our supply chain, and we are just continuing to execute to plan there.

Joe Nadol - *JPMorgan - Analyst*

There has been in the press recently and you guys had mentioned as well, it has been some issues have popped up in Charleston. Can you give us the update on what's happening there?

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

Yes, I've spent a couple of visits in Charleston just over the last two months with Ray and his team. And as you know, in Charleston and across the whole 787 line we have ramped up to 10 a month and now we are operating throughout our factories at 10 a month and will be delivering at that level here this year.

In line with that ramp up, we also introduced the -9, 787-9. One of the changes, one of the efficiency changes there in the -9 was how we do midbody join and that's work that's done at Charleston. So as we implemented that change on midbody join it did cause some interruption factors.

We had some inefficiencies there that we had to overcome. We had to ramp up about 300 additional heads of labor to get on top of those issues and get them back in position. We have done that effectively.

If you take a look at the data now, anyway you want to measure factory operations -- jobs behind schedule, unit cost, part shortages -- all of those are trending in the right direction. So I think we have our arms well around that interruption and we expect to see Charleston operating very efficiently going forward.

Obviously, still work to do to get that completely done, but our ability to flow labor and to move the right talent into some of those hotspots on the production line has been very effective. And, frankly, with the kind of rate up that we've gone through and introducing a new model in parallel, not unusual that we would see some hotspots in the production line. So well under control.

Joe Nadol - *JPMorgan - Analyst*

Is it fair to say that the issue is much more to do with the -9 than it is with disruption breaking to 10 on the -8?

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

It is, Joe. It's principally related to the -9 model introduction and the fact that we have modified the midjoin process to try drive long-term efficiency. So absolutely the right thing to do for that line for the long run and that will pay dividends downstream, but some interruption factor with that process improvement.

Joe Nadol - *JPMorgan - Analyst*

Let's switch over to the 777. One of the things that folks in the investment community are focused on is Boeing being able to bridge to the 777X. Now that you have spent a couple months thinking about this and working with customers, how do you think things stand?

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

Ray and his team are continuing to do a great job there. Really, if we look at the 777 slots, largely sold out through 2016, so as we build a bridge from the current 777 line to the 777X we have already made a lot of headway on that. Largely filled through 2016 and significant slots already filling out through 2018.

Typical buying behavior that we see in that wide-body area. It tends to be about two years of lead time, so the behavior we are seeing here is in line with what we would expect.

We are seeing the economics of the existing 777 continue to be very attractive to our customers, including 777 freighters, and all of that faring smoothly into the new 777X, which will introduce about another 10% to 15% improvement in operating costs. So we are confident that we will be able to build the rest of that bridge. We are midway through that process. Ray and his team have about a dozen very credible campaigns underway to fill out the rest of the bridge and we are confident we will do that.

Joe Nadol - *JPMorgan - Analyst*

One of the things that you did very successfully on the 737 bridge was selling MAXes with NGs, yet when you started to build out the backlog for the 777X it was pretty much large one-off orders. Why are you approaching it differently?

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

Well, where we can those kind of package deals for customers, where it makes sense, we will continue to do that. As you said on the 37, very effective. We have now in essence completed building the bridge from the NG to the MAX, and in many cases those were combination deals where we would have customers taking both MAXes and NGs.

In some cases that may make sense for our wide-body customers as well and we will certainly apply lessons learned from our 737 approach to 777. That said that the buying behavior and fleets tend to be a little bit different on the wide-body side. Many of our launch customers for the 777X already have 300ERs in the order books already inflow for delivery.

So the buying behavior will just a little bit different. Where we can structure package deals leveraging 737 lessons learned, we will. In other cases we will make deals just related to the individual new models or existing models. We do think the attractiveness of the existing 777 as a freighter just adds further strength to that bridge building.

Joe Nadol - *JPMorgan - Analyst*

Then there's been less demand in the market generally speaking at the low end and at the very high end and the 747 has experienced some of that. You trimmed the production rate a couple times last year from 2 down to 1.5 per month net. How do you feel about the campaigns, the opportunity there? Are things getting little bit better with the economy in terms of customer demand, etc.?

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

Yes, we are seeing some modest restraint thing in that large aircraft market especially on the freighter side, beginning to see some of that cargo market come back but still a lot more to do. That view of the market is one of the reasons we stepped back to the 1.5 a month. We are confident that we can produce effectively and keep the line full at that level. We are in essence sold out through 2015. Again, we have a number of campaigns underway. Admittedly that size class is more of a niche market but in that niche market space we see the 747 as continuing to be a very attractive airplane in terms of the economics that it provides for our customers. So given what we see as some strengthening of the cargo market, the value differentiation of the 747 for our customers and taking production line to 1.5, we see that as a sustainable path forward and continue to work the campaigns there.

Joe Nadol - *JPMorgan - Analyst*

Is it fair to save we are thinking -- I hate to think about the glass being half empty but consider that if the orders don't come back for 747, is it fair to say we will make it through 2014 without another rate cut?

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

Yes, we have no plans to change the rate on the 747, so I am not going to speculate on any adjustments you might see in the market. Our fundamental analysis says the market is there. We expect some return in the cargo market and we think 1.5 is the right rate for the longer term.

Joe Nadol - *JPMorgan - Analyst*

Okay, you've noted that you've been spending some time on Partnering for Success. Maybe you could speak about -- and of course as when you were leading BDS you were a big part of Partnering for Success, less talked about but a big part of that as well, maybe you could give some of your thoughts on Partnering for Success program, how you're dealing with the pushback you're getting from some of your suppliers and just your general thoughts on it.

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

Well, Partnering for Success is one of our most important enterprisewide initiatives and as you hinted at, it plays across our commercial defense and space sectors. And really has a one Boeing focus to it and we think in the end that will be good for our supply chain as well as for Boeing and ultimately for our customers. We are still what I would say is very much in the early stages of that process. We've got the majority of our suppliers working very closely with us, some deals that have already been struck and that's flowing into cost reductions that we are already seeing in our commercial airplane lines and in our defense and space product lines.

So encouraging early results but perhaps if you want to use the baseball analogy, second or third inning of the game. So much more opportunity still ahead of us. The key there is we are really looking for a partnership model with our supply chain and we want to do business in a way that creates a healthy supply chain for the long run, allows them to be profitable, well-run businesses and also benefits Boeing and our customers. As we see cost reductions and Partnering for Success, certainly some of that goes to the bottom line and be shared with our shareholders. Some of that goes to giving us pricing flexibility. Some of that goes to allowing us to invest in future product lines. All of those are important uses of that cost reduction.

Overall we anticipate double-digit percentage reductions in our supply chain cost and so it is substantial. And we are also now getting into what I think is a very good rhythm with our suppliers on what I call value engineering and that is our suppliers giving us feedback on these are engineering improvements or changes that Boeing could make that would allow them to be more efficient. That's kind of two-way feedback is really effective.

For those suppliers that work with us in that partnership model, they are gaining business volume advantage, looking at the backlog that is ahead of us. For those where we haven't been able to achieve those results yet, it creates some pressure and we are in some cases building out alternative suppliers and in some cases building our own internal verticals. We think that is the right thing to do for the future, but our primary objective here is a long-term partnership model with our supply chain.

Joe Nadol - *JPMorgan - Analyst*

If we just dig into the numbers a little bit, your goal is double-digit percentage price reductions. Some of those you have already recognized and are now already getting into your P&L but are we in early innings in terms of recognizing the full benefit of double-digit?

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

We certainly are, much more ahead of us than what's behind us. The results achieved to date have been substantial as we've noted before were taken about $4 billion out of the annual cost basis of our defense and space business. A good portion of that has been related to Partnering for Success.

Similarly we've seen significant improvements in unit costs on our commercial airplay lines. Just over the last year, about a 20% unit cost reduction in the 787 line and some of that is related to Partnering for Success. But we are still very much in the early stages, much more opportunity ahead of us than what has been booked so far.

Joe Nadol - *JPMorgan - Analyst*

So stepping back, this is often a business, a company and a business, BCA, that when I speak to investors who are new to aerospace, one of the comments I often get is looking at some of the suppliers, the margins are midteens, high teens, even into the 20% range or more. Why can't Boeing make more? That's clearly what you are trying to do here. When we think about the long-range opportunity here, how do you scope that out?

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

Well, that's certainly one of the objectives, so not only are we seeing strength in terms of topline growth in our sector right now, especially driven by commercial airplanes ramp up, we expect to drive bottomline growth and that's our productivity engine and we look at productivity, what drives the bottom line, a good portion of that is our internal factories and driving lean initiatives into those factories. We continue to make strong strides there as we exchange best practices across the enterprise. We believe Partnering for Success will add to that momentum.

If you think about it, about 60% of our cost base is in our supply chain. So as we drive substantial cost savings in our supply chain, you will see it show up at the bottom line of Boeing as well. And again, we want to do that in a shared manner with our suppliers so that we can grow profitability across the entire network of our supply chain and ultimately this also shows up as affordability advantages for our customers, and that's the space that we seek.

Joe Nadol - *JPMorgan - Analyst*

So if I just do some quick math and take 60% times a double-digit percentage obviously you are getting a mid to high-single-digit percentage number. You mentioned though of course that some of that goes back to your customers. How do you balance that?

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

It's really those three categories that I talked about. So certainly some of it goes back to our customers. In some cases it's pricing pressure in competitive environments. Some of our defense customers, we're on cost agreements that allow our customers to share in any cost reductions. So that's beneficial again from an affordability standpoint. So the reality all of our customers across commercial and defense are in this more for less environment. They're demanding more for less. And this helps us satisfy that demand, as it should.

But the substantial opportunity inside the Company is there as well, as you're pointing out doing the math. That should show up as continuing bottomline performance improvements for both us and our supply chain. We have the partnership model. And it's creating our capacity to invest for the future. When you look at what we are doing on 737 Max, 787-9 and -10, 777X, the new tanker, some new opportunities on the defense and space side of the Company in terms of satellite product lines, new bomber program as examples, all of those are places where we are now able to invest for the future and we think of this in a balanced view. We look through our lens that way in terms of how we share it with the customer, how we drive bottomline performance, and how we invest for the future.

Joe Nadol - *JPMorgan - Analyst*

Now let's step way back for just a minute and look at Boeing as an enterprise. Historically, if you look in historical terms post McDonnell Douglas merger, this has been a pretty balanced company generally speaking between defense and commercial. Now it's becoming definitely more unbalanced with defense pretty flat and commercial growing like gangbusters. How do you think about the right balance? Is that a problem?

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

It is actually not a problem. I actually look at it is a strength. Another sign of the strength of the Boeing strategy is to have that deep capability across our commercial, defense, and space sectors. The reality is we live in a market that does have cycles. You don't have to go back too far into the past, about 10 years ago where the Company was roughly 60/40 split, heavy weighted to the defense and space side. So our ability to weather economic changes, changes in the marketplace, and to maintain critical mass in both sides of the Company is really important.

Right now we see tremendous upgrowth in the commercial airplane business, topline growth, seven years of backlog, a total backlog of about $440 billion at the Company level. To me, that just demonstrates the strength of the Company. We've done that while maintaining strong critical mass in both sectors and our ability to leverage technology and talent as a result is outstanding. I think that's one of the advantages of Boeing in the marketplace is to build work across those sectors and to do it at a global scale and to engage our supply chain across all of those sectors in a very deep and meaningful way.

Joe Nadol - *JPMorgan - Analyst*

The commercial airplane business, one final one on this before we get over to defense, talk a little defense, but the commercial airplane business historically has -- as you have mentioned has been cyclical. We are in year -- depending on how you are counting the close to year 10 if you're taking a real big picture of an upcycle here. It doesn't look -- it looks like you and your major competitor are producing at around 8% of the installed base, which seems -- that doesn't seem overdone. When you -- are you planning though for this to remain a cyclical business? How does that enter into the way you are running the business?

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

When we look at it, there's still some cyclical nature to the commercial airplane business but not as much in the past and I would argue that the position we're in right now is very different than the past cycle. A couple of things there. Previous cycle about two years of backlog, now seven years of backlog. Previous cycle is heavily weighted to US and Europe, European customers. Now 2/3 of our backlog is outside of the US and Europe. So if you look at backlog from a sheer diversification standpoint, if you look at the duration of the backlog across the product lines, that gives us some fundamental strength.

Also our product introduction strategy where we are spiraling technology in on programs like the Max, like the 777X, where we are leveraging the composite wing technology, that also tends to mute the cycles to a degree. Then the market fundamentals looks solid. The market continues to grow at about 5%. We see fleet growth at about 3% to 3.5%, replacement at about 3% as you're saying. Add all of those up, you might see 7% or 8% growth in delivery profiles.

If you take a look at that, the fact that 40% of the airplanes that are in the pipeline are related to replacement, you can see the value proposition. So we are bringing new products to the market now that are 10%, 15%, 20% improvements in operating costs, so the value proposition is very compelling. So take all of those parameters to us gives you a lot of strength in the marketplace. This is not a short-term cyclical situation. This is a long-term growth cycle and one that we think is very sustainable.

To give you a view of you for that, you look at our rate breaks that were planned. We're going to 42 a month on 737 in the second quarter of this year. As we have previously disclosed, going to 47 a month out in the 2017, timeframe. We've ramped 787 to 10 a month. We're going to 12 months in 2016, 14 a month before the end of the decade. All of that should give you a sense of our -- of the long-term sustained growth that we see in the business.

Joe Nadol - *JPMorgan - Analyst*

I said only one more but I lied. I have one more for you on the commercial --.

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

It's okay, Joe.

Joe Nadol - *JPMorgan - Analyst*

-- Which is if you look at the emerging markets, obviously it's a huge part of your growth and of demand in the commercial aerospace industry. There's been some perturbations so to speak the last few months in some of the emerging markets, currency volatility, the Fed is tapering. That apparently is having some impact.

No one can predict the future perfectly with a crystal ball but what do you --? I should mention one more thing, which is that there were some deferrals from Air Asia from your competitor. So what are you hearing and seeing on the ground in terms of your customers?

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

A couple of things. One is the overall exposure to that marketplace is not significant, so we've got about 15% of our backlog is in these emerging markets, so again backlog diversification gives us some confidence. We are also not seeing any substantial change compared to historical levels in terms of deferrals, cancellations, very stable environment.

Frankly, most of the airlines we are working within the emerging markets a well-established. Most are more than a decade old. Many of them have strong connections into their governments. While we do have some exposure to the emerging marketplace, it's limited and our customers in those regions are very stable, very good customers. So we are not seeing anything there that is concerning to us.

Joe Nadol - *JPMorgan - Analyst*

Okay, let's transition over for a few minutes to BDS. You've noted in the past that you expect this business overall generally speaking to be sort of flattish for a few years from a topline standpoint. Now having seen a little bit more of what is in store for us from the US standpoint and knowing what your international customers are saying, what is your update on that outlook?

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

It remains very consistent with that, Joe. We've gotten our first look now at the fiscal year 2015 domestic defense budget. Largely in line with what we anticipated, largely supportive of the majority of our big Boeing programs. As has been in the news, some contemplated production reductions for P-8 and Apache that we are keeping a close eye on. That will be part of the ongoing fiscal year 2015 negotiation. But all in all, I would say the defense budget outcome is about what we had expected.

Longer-term, we still anticipate full sequestration rate. That is the reality that we have to face into and while there are efforts underway to get some relief from sequester, we haven't assumed that in our business plan. So we continue to take costs out of our structure. That deal so the reality of sequestration. We've remained concerned on the long-term impacts, negative impacts that we will have to the industrial base overall. I think that is a very significant national security concern. But that is the business reality that we are faced into with our market-based affordability work. This ties back to Partnering for Success on taking cost structure out.

So are going to maintain that headset. All in all, we expect that to be some downward pressure on topline defense domestically, somewhat offset by a growth in targeted sectors. We do see the P-8 and tanker programs will be ramping up in production here over the next couple of years. Rotorcraft remains very strong. International at about 40% of our defense backlog now is outside of the US. About 30% of our revenue, defense revenue is outside the US, so both of those create some offsetting opportunities.

We do see defense growth in both Asia Pacific and Middle East regions continuing. So topline flattish and then continuing to drive bottomline performance, profitability in the defense business so we can invest for the future and also return to shareholders and to our customers.

Joe Nadol - *JPMorgan - Analyst*

So digging into a couple of the specific platforms, obviously you have laid out what is going to happen with the C-17. The F-18 is another key aircraft platform that is no longer being funded as of this year at least so far in the US budget. Can you give us a sense as to what you are working there and what your plan forward is on the F-18?

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

A couple of things on the F-18 and that continues to be an outstanding production line for us. I think the first fundamental here is if you look at the capability that the F-18 brings to our customers combined with the cost point, there is no other airplane that can match that, can provide that combination of capability and cost.

We are continuing to invest in the capability of the Super Hornet and the Growler. The Growler is unique in terms of its electronic attack capability and with the advanced Super Hornet that we flew for the first time about three or four months ago we continue to inject technology into that airplane. So one is making the right investments for the future. We continue to see strong international opportunities. As noted, Australia put another 12 Growlers on order last year. We have significant campaigns underway in the Middle East, Malaysia, Denmark, consideration in Canada. So I think there's significant international opportunities.

Then domestically, there continues to be interest especially in the Growler. If you look at the total force structure and how the Growler is really an enabler for all other platforms including the F-35, clearly that is high-interest to our customers. So we are midstride in the negotiating process and priorities.

We know the Growler in particular has been identified as a desired capability that is currently unfunded and we are hopeful through the process here that we will see some reconciliation on that. So do everything we can to continue to drive efficiency in the current line and then extend both domestic and international. By the way, the current production line takes us out about third quarter of 2016 with the current multiyear. So while it's urgent, we've got some time to work this.

Joe Nadol - *JPMorgan - Analyst*

Moving to the margin line, the profitability line, you have already spent some time talking about everything you are doing to increase profitability. The network and space business is still a bit of a laggard. What's the margin opportunity there?

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

I think what you seen in the network and space business is some clear progress over the last few years and frankly in the previous portfolio from 5 to 10 years ago we had some challenging programs to work off. Those have now been worked off and delivered. So you're seeing that business return to strong profitability. In fact, it hit double-digit margins in last quarter of last year for the quarter. So we continue to see strength in that business. Chris Chadwick, Roger Krone, and the team are making the right investments there.

The market-based affordability continues to play into the equation there. One of the strongest pieces of that portfolio is our satellite business. Commercial satellites are as strong as they have ever been and over the last two years we've introduced our new 702MP, 702SP and now Phantom Phoenix line, which really gives us a portfolio of different sized satellites that are real value proposition for our customers.

While we've gone through some past challenges in the missile defense business, that has stabilized nicely and we've got opportunities there. The human space exploration business, NASA especially with the space launch system program, also gives us some nice, solid business space. So we see that business stabilizing, driving performance to the bottom line and we expect to see that continued incremental improvement in margins as a result.

Joe Nadol - *JPMorgan - Analyst*

So if you were double-digit for a quarter, you're not going to give new guidance here, not asking for that obviously but is it -- is this business -- could this business be a double-digit business looking forward?

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

Those are the kind of objectives we've set out there, right? So I'm not going to adjust our guidance there because there are some real-world challenges we have to deal. There are pressures in the missile defense budget line, the real world pressures of sequestration. So we have to deal with those head-on and we are and that's why we've got to continue to drive market-based affordability. So we have high expectations for that business. We put guidance out there that we think is executable but we are going to continue to drive to hit and beat that, as we always do.

Joe Nadol - *JPMorgan - Analyst*

One of the things that sets your strategy apart in defense from all of the other companies, frankly, all of your peers is that you invest much more in IRAD into your -- even after you make adjustments for E&P costs then your peers do. Have you started to see -- how many of the fruits I guess of all the investment have already started to come through? Maybe give us a glimpse as to what you are hoping for down the road.

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

Yes, it really goes back to that threefold strategy again on why are we aggressively taking cost out of the business? So we can drive affordability for our customers and win competitions? I think you saw that reflected in our tanker win as a good example of our ability to win good business for the future and to compete and win on affordability.

We've also leveraged that investment into international results and so our international revenue has grown at double-digit CAGRs over the last five years. I think that is the outcome of some of the international investments that we have made. We are also making targeted investments in future product lines, the satellite line that I mentioned, which is bearing results, future competitions like bomber and UCLASS, those are all places where targeted investment we think is turning into winning and growing new business.

So we see tangible results, but the work is not done. We think it's important that we continue to invest for the future and that we reduce all of our cost categories across all overhead sectors so that we can protect our R&D investment for the future. We intend to do that both in terms of defense investment and what you are seeing in the commercial investment.

Joe Nadol - *JPMorgan - Analyst*

This is a big year for the tanker program. Can you update us on how the development process is going?

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

Yes, going exceptionally well. So we have completed every single contractual milestone on schedule, actually most ahead of schedule and on cost. The most recent one was the critical design review that we completed last year. We are now headed into flight test later this summer. We've got four airplanes in flow now in the Everett factory, in line, on the 767 line. In fact I was there last week, just took another look at tanker number one.

So continuing to progress nicely through the build sequence. We will really ramp up build and integration here over the next several months and then get into the flight test program. Still very much on track to deliver in the first 18 tankers by 2017.

Joe Nadol - *JPMorgan - Analyst*

Stepping back and just looking at the defense portfolio, if you look historically post-Cold War during the last downturn, there was a lot of consolidation in the defense industry and this time through obviously starting with a very different looking industrial base than we had in 1991, but we are still getting into the downturn in a couple years, maybe a few still to go for collectively down revenue for the industry. How do you think all of this is going to play out from a big picture standpoint? More importantly, what is going to be Boeing's strategy from an M&A standpoint in defense?

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

We continue to stay very focused on organic investment as our primary growth investment and targeted M&A where it fits with our strategy. Admittedly there are some consolidation pressures, but as you noted, the previous waves of consolidation have really reduced the number of companies to a minimal amount. Our customers now at the prime level in many cases are facing single or at best dual suppliers for capabilities. So there's really not room at that level.

We do see some consolidation pressure with our supply chain that we are keeping a close eye on because we want to make sure we have a healthy supply chain but from our standpoint M&A is an important strategic tool for us. It's not the primary growth tool. We're going to continue to invest organically as our primary tool in and then where we see niche acquisitions that align with our strategy, areas like C4ISR, cyber, unmanned systems, we will continue to make targeted acquisitions. But that balanced headset around how we do it.

Joe Nadol - *JPMorgan - Analyst*

Could you just --? Let's get to the bottom line here with guidance. Could you just speak to the -- I think guidance took some by surprise to start the year. It's my view that it's very conservative from Boeing as usual, but maybe you could give us some of your thoughts on that and also any comments you could make on the profile for the year.

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

A couple of things. One of the guidance, of course we put guidance out that we expect to meet. It accounts for all the environmental factors that we see out there. We do have opportunities for growth as we talked about especially across our commercial sector. With that said, we also have to be mindful of the fact that we are continuing to do rate breaks is we've gone to 10 a month on 787, going to 42 a month on 737, introducing the 787-9 and -10. All of those are things that we way into our analysis, so those are important factors for us.

I think one of the things, Joe, you and others have talked about is on the cash side. Compared to last year we did have some timing that pulled cash into 2013, less 767 deliveries this year than previously as we ramped down to get ready to ramp up for tanker and also cash taxes. Those affect some of the year-to-year comparison on cash so those are some of the things that factor into this year's guidance.

As always, we expect performance in the first quarter will be lower than throughout the year. Historically you will see lower deliveries, lower revenue in the first quarter. We expect about 20% of our annual revenue to be in the first quarter just to give you a feel for the shape of it. That's very much in line with what we would historically see if you look back to 2012 and 2013. So that's kind of locally how we look at guidance for the year.

Longer-term we see this as a steady, growing business. A lot of discussion about is there a cash peak out there? As we've talked about, we see strong cash performance going forward. That includes 2016 and beyond. So this is not a cyclical kind of situation. This is where we expect to see strong growth performance, top line, bottom line, and cash performance, especially driven by the commercial airplane business, so that gives you a sense for long-term and as I said short-term what the shape of the profile will look like this year.

Joe Nadol - *JPMorgan - Analyst*

I'm going to sneak one more in even though the bell just one off I think, which is your view on capital deployment. Boeing just raised the dividend quite materially late last year. Also you are getting into the second year here of significant share repurchase after a number of years off. You can't continue, though, to ramp -- maybe you can if the cash is a great but you probably have to limit the growth of one or the other. So on the margin, what are your priorities for cash deployment?

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

When we think about cash deployment, our first priority is investing in the future of the business so this is where we look at 777X, the Max, the -9, -10. We think those are the strongest ROI on cash, clearly in the long-term interest of our shareholders, so that continues to be our top priority.

Second is returning cash to shareholders. So this is dividends and share repurchase. We take a balanced approach there. We did just recently announce a 50% increase in our dividend, so that conveys the strength that we see there. We also have an additional $10 billion of authorization for share repurchase and we will continue to exercise that. Really a balanced view between both share repurchase and dividend.

Beyond that, we continue to look at targeted M&A, as we have talked about, and then also making sure we continue to do the right thing on the pension side. And I was especially pleased with the recent agreements that we've made where we've moved from about 15% of our employees on direct contribution pension plans to now almost 80%. It's a big shift over just the last six months with the IAM agreements in Seattle, St. Louis as well as where we are headed with our nonunion population. We think we're doing the right thing there for our employees, also the right thing for our company. That's another factor that we consider as we look at cash deployment and funding our pension, so it's in that priority order and we will continue that balanced, well planned approach to cash deployment.

Joe Nadol - *JPMorgan - Analyst*

Okay, Dennis, I would love to sit here and chat all day, but unfortunately our time is over. Thank you so much for joining us.

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

Thanks, Joe. I appreciate it.
